



Federal Accounting Standards Advisory Board

**April 11, 2014**

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

*Wendy M. Payne*

Through: Wendy M. Payne, Executive Director

Subj: **Reporting Entity--Tab C<sup>1</sup>**

**MEETING OBJECTIVES**

- To resolve selected issues based on staff's analysis of the comment letters and public hearing participants' testimony on the *Reporting Entity* exposure draft by approving revisions to the proposed standards.

**BRIEFING MATERIAL**

The transmittal memorandum includes a discussion and analysis of selected issues and recommendations, beginning on page 3 under Staff Analysis and Recommendations. A full list of Questions for the Board appears on the final page.

In addition the following items are attached:

**Appendix 1:** Relevant Board Minutes (by Issue)

**Appendix 2:** *Reporting Entity* Exposure Draft (as exposed, no changes are incorporated.)

**Attachment A:** Implementation Timeline (provided by sponsor agencies in June 2012)

**Attachment B:** Updated Staff Disposition of Comments

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>

## **BACKGROUND**

As you may recall at the August 2013 meeting, we held the public hearing on the *Reporting Entity* exposure draft. There was much feedback received from the participants. The feedback along with 39 comment letters identified areas that warranted additional staff review and potential clarifications to the proposed standards.

Over the past two meetings, the board discussed the following issues:

- In the Budget
- Misleading to Exclude
- Applicability to Judicial and Legislative Branches
- Term for Disclosure Organization
- FASB Based Information
- Temporary
- Component Reporting Issues
- Disclosure Entity Issues
- Organizations Partially in the Budget-Museums, and
- Central Bank Questions

The Board requested staff to do additional work on the Organizations Partially in the Budget-Museums and the Misleading to Include portion of the Component Reporting Entity issues and bring back language for final approval in April.

Therefore, the following issues are presented in this memo along with staff recommendations:

- Organizations Partially in the Budget-Museums
- Component Reporting Entity- Misleading to Include portion only
- Related Parties
- SFFAC 2 Amendments
- Effective Date
- Appendices- Flowchart and Illustrations
- Other Organizations- such as but not limited to, see comments for others:
  - Federally Funded Research and Development Centers (FFRDC)
  - Entities considered sensitive for national security reasons
  - Railroad Retirement Board
  - General Fund

Therefore, the only issue that remains open for the June meeting

- Editorial, structural, or clarified in the Basis for Conclusions

## **NEXT STEPS**

Staff anticipates resolving these issues at this meeting. Staff would then anticipate providing the board with Draft Pre-Ballot at the June meeting. The June meeting would be focused on discussing all changes incorporated into the proposal. Based on the results of this meeting and the June 2014 meeting, the goal would be to deliver a pre-ballot after the June meeting and to finalize a ballot by the August 2014 meeting so that it may be forwarded to the sponsors.

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## **MEMBER FEEDBACK**

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-5976 or by e-mail at [loughanm@fasab.gov](mailto:loughanm@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov).

## STAFF ANALYSIS AND RECOMMENDATIONS

### **1. Issue - Component Reporting Issues (misleading to include) Follow-up on Open Item from March 2014 Meeting**

At the March meeting, staff presented the issue of component reporting entity (misleading to include) and explained that the proposal provided that in rare instances it also may be misleading to include an organization that is administratively assigned to a reporting entity based on the principles provided. In such cases, the organization may be excluded. Based on the responses, a majority supported the proposal but a few suggestions were identified.

As discussed at the last meeting, PBGC (while supporting the provision) had contacted staff in an effort to clarify certain language. Also, while discussing certain items, issues were raised in how the language may affect the offices of inspectors general. Therefore, the board asked staff to research the item and make the necessary revisions to paragraph 62-63 to ensure the PBGC example was covered while also cautioning against unintended consequences that may affect organizations such as the OIG.

Staff suggests the following:

#### ***Staff proposed language***

62. There may be instances where ~~applying~~ the principles in paragraphs 57-60 ~~are met in form but not substance so that consolidation at the component reporting entity level~~ would result in misleading presentation for ~~a~~ the component reporting entity. ~~In such cases, there will be little to no budget approval or oversight of the organization by the component reporting entity head and indicators that accountability has been established in the component reporting entity will be minimal. For example, an organization may have been legally established within a larger organization while authorized to operate independently.~~ While such conditions are expected to be rare, if it would be misleading to consolidate the organization in the component reporting entity GPFFR, the organization may be excluded so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.

63. Determining whether it would be misleading to include a consolidation entity administratively assigned to a component reporting entity requires the application of professional judgment. Examples<sup>2</sup> of indicators that it may be misleading to include an organization are:

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<sup>2</sup> The indicators listed in 63 a. – f. are examples and there may be other indicators not included on this list. Further, no specific number of indicators need be present to determine an organization would be misleading to include. This determination is based on the assessment as a whole after considering all facts and often requires professional judgment in making such decisions.

- a. The budget submission is combined prior to submission but is not jointly developed for procedural purposes, as indicated by:
    - i. the budget request not being approved by component reporting entity management, or
    - ii. the absence of significant involvement by component reporting entity management regarding budget execution, investments, or strategic planning.
  - b. The component reporting entity provides little or no direct oversight of the organization.
  - c. The organization's funding is separate from the component reporting entity's funding.
  - d. ~~Inclusion of the organization's financial information in the~~ The component reporting entity has no shared strategic goals or objectives with the organization such that consolidated cost information would be meaningful. s financial statement could be misleading as to the entity's responsibilities for the organization's liabilities and other obligations.
  - e. The organization has established itself as a stand-alone organization since its inception, ~~and~~ has routinely prepared audited financial statements since that time, ~~and has~~ submitted financial data directly to the Department of the Treasury for the government-wide GPFFR.
- The organization provides financial data directly to the Department of the Treasury for the government-wide GPFFR.

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Basis for Conclusions

### **Component Reporting Entities**

A12. The Board believes there should be consistency in treatment of organizations at the government-wide and the component reporting entity levels. The reasons for including organizations at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFFR. Further, classification as consolidation entities or disclosure organizations/entities should be consistent in government-wide and component reporting entity GPFFRs. The Board believes a single set of principles for inclusion and classification presented from the government-wide perspective provides for the desired consistency. This is

appropriate and necessary because the government-wide reporting entity is the only federal reporting entity that is an independent economic entity.

A13. Nonetheless, implementation of these principles will involve the component reporting entities because the government-wide report is a consolidation of the reports provided by component reporting entities. Therefore, component reporting entities must identify and include in their GPFFR all consolidation entities and disclosure [organizations-entities](#) for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete.

A14. The Board believes that component reporting entities should identify consolidation entities and disclosure [organizations-entities](#) administratively assigned to the component reporting entity. Standards that are based on organization and accountability provide a more realistic view of how component reporting entities become accountable for organizations and how component entity boundaries are likely to be determined. The result will be component reporting entity GPFFRs that include all organizations for which the component reporting entity management (for example, appointed officials) are expected to be accountable.

A15. Administrative assignments to component entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans. Ultimately, component reporting entities would identify and include in their GPFFR all consolidation entities and disclosure [organizations-entities](#) for which they are accountable so that both the component reporting entity and government-wide GPFFRs [would be](#) complete.

A16. Administrative assignments can be identified by evaluating the following three areas:

- a. Scope of the Budget Process
- b. Accountability Established Within a Component Entity
- c. Misleading to Exclude and/or Misleading to Include

[A17.](#) Component reporting entities should develop processes to ensure they identify [and assess any organizations and include those consolidation entities and disclosure entities that are](#) (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. [In rare cases, a component reporting entity may find that it would be misleading to include a consolidation entity that appears to be within the scope of their budget process or to have accountability established within the component reporting entity. While most respondents agreed with the proposal, several indicated a need for implementation guidance and questioned the misleading to include provisions. In addition, there was some confusion about the need to apply the inclusion principles from the government-wide perspective.](#)

A17-A18. The Board does not intend to provide detailed implementation guidance at this time. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency.

A19. Although there may be a one-time review to ensure completeness and consistency, the Board believes this method is reasonably consistent with current practice. Further, a coordinated effort from the central agencies could promote a process to ensure the component reporting entities are performing the necessary procedures to capture the material organizations from their perspectives and also for consideration at the government-wide level. The effective date considered this and allowed sufficient time for a coordination of efforts as well as development of any needed implementation guidance.

A20. Regarding the “misleading to include provisions,” the Board made editorial changes to clarify that they expect this to occur only in rare cases where the substance of relationships between consolidation entities differs from their form. For example, the Pension Benefit Guarantee Corporation (PBGC) is legally established with the Department of Labor. Nonetheless, PBGC has always operated as a separate legal entity with a mandate to fund its operations from premiums and has provided separate audited financial statements since its inception. Some may argue that it would be misleading to consolidate PBGC and Department of Labor financial statements.

A21. Also, some respondents questioned whether the misleading to include provision would be applicable to disclosure entities. It would not because disclosure entities would not be consolidated in the financial statements of the component reporting entity. Use of disclosures to explain the relationship would prevent misleading presentations about disclosure entities.

A22. During due process, a few comments came up regarding the difference between the inclusion principles and administrative assignments. The inclusion principles are to be applied from a government-wide perspective; whereas administrative assignments are determined from the departmental perspective. Presently, under SFFAC 2, component reporting entities apply the conclusive and indicative criteria from their perspective as an individual government agency. In some cases, no individual government agency has direct involvement in the operations of entities that nonetheless are controlled through legislation established by and/or officials appointed by elected officials. Also, some ownership documents identify the federal government as owner rather than a particular government agency. To ensure that all owned or controlled entities are included, the inclusion principles must consider the relationship of the entity and the federal government as a whole.

A23. Another key difference is that administrative assignments are assessed from the component reporting entity perspective. So, component reporting entities will need to adapt to this multi-step process and its varying perspectives. Coordination with the central agencies during the implementation process will be important.

**Does the Board agree with staff's proposed changes to the component reporting entity language to address the concerns with the misleading to include provision?**



## **2. Issue - Organizations Partially in the Budget-Museums Follow-up on Open Item from March 2014 Meeting**

At the March meeting, staff presented the issue of Organizations Partially in the Budget and explained that certain entities, such as museums, are partially on budget--meaning a substantial portion of their funding is from federal appropriations included in the budget and the entity receives private support (such as donations) not included in the budget. Staff explained that examples of these types of entities include the Smithsonian Institution and the US Holocaust Memorial Museum.

Currently, these entities present the budgeted portion as 'federal' or 'appropriated funds' and present the other funding as 'non-appropriated,' or 'trust funds' in their stand-alone reports. However, only the budgeted portion is included in the US Government-wide financial statement.

Generally, the component reporting entity financial statements are presented using the FASB's non-profit formats. The statements present federal funds, donor funds, and total funds (consolidated) in columns. Amounts are identified for restricted and unrestricted funds.

Although staff had met with representative from the US Holocaust Memorial Museum prior to the March meeting to discuss their comment letter and concerns, the board requested that staff also reach out to the Smithsonian Institution prior to finalizing this area. Staff understood that most members continued to support including the organizations as a whole (that is, not "splitting the baby") and approved language in the basis for conclusions to explain that the funds from dedicated collections would prevent misleading presentation of funds not available for general purposes. Thus, the only open issue is whether the standards are sufficiently clear that all funds would be included.

### ***Meeting with Smithsonian Representatives***

Staff met with representatives from the Smithsonian to discuss the status of the Reporting Entity exposure draft and how it relates to the Smithsonian in the government-wide report. The Smithsonian representatives also provided FASAB staff with an overview of the museum's audited financial statements.

The meeting confirmed many of the same notions that were conveyed during the meeting with the US Holocaust. The museum and other similar "trust funds" for donations are viewed as traditional private sector trust funds. Within the budget, there is the general principle that traditional private sector trust funds should not be subjected to the budgetary constraints inherent in being included in the budget. However, it was agreed that the funds are managed by the federal government because generally there is an authorization for the contributions and there are federal officials that have oversight of the private or donated funds.

The Smithsonian representatives understood the proposed standards would not affect the preparation of the Smithsonian stand-alone financial statements. The

representatives were comfortable with the proposal, even with the understanding that they might be a consolidation entity and understanding that GAAP may allow for presentation alternatives that display restrictions on certain funds in the consolidated government-wide financial statements through existing standards.

The only concern cited by the representatives was whether GTAS would be able to accept the information from donor funds as it was their impression the system would not be capable of doing so. Staff believed this to be a system issue and wanted to alert the appropriate personnel at Treasury. Staff communicated this concern with the appropriate Treasury /GTAS specialists. They followed up on the matter and we were informed that GTAS accepts all valid treasury account symbols (TAS). However, we are not certain as to whether the GTAS system can accommodate the account structure used for the trust funds as it has not been required to accept the donor fund balances in the past. FASAB staff wanted to bring awareness that the process may change if it is determined that the Smithsonian (or similar organizations) is a consolidation entity once the standard is implemented.

#### *Board history/ Minutes*

See Appendix 1 for excerpts of relevant Board minutes on this topic.

#### *Staff Analysis and Recommendation*

In summary, after reviewing the history of the project regarding this issue, one consistent view held by the majority of the board has been that an organization that is included in the GPFFR should not be divided. Therefore, the status quo would change for certain entities that presently only submit the federal funds for consolidation in the government-wide report. Also, presently there are no disclosures in the government-wide report regarding such entities' consolidated operations (i.e., non-federal funds are omitted entirely from the government-wide report).

Other funding is considered in the assessment that is performed to determine if an organization is a consolidation or disclosure entity, but in the case of an organization determined to be a consolidation entity, the entity in its entirety should be consolidated. The Board addressed that donations are to be included in the proposal by including footnote 35 to paragraph 64 (in the GPFFR Consolidation and Disclosure section) that states consolidated financial statements should include amounts and balances even if from "different funding sources (e.g., appropriations or donations.)"

Staff does not believe anything further needs to be clarified in the standard regarding these types of situations. Instead, staff believes it is best to be silent because otherwise the language would simply be recognizing that certain entities, such as museums and performing arts organizations, may be in the budget and also receive significant funding from non-federal or other non-budgetary sources, such as donations. In staff's view, this is unnecessary and could be confusing. For example, this is very similar to entities

listed in the budget but operating from non-appropriated funds such as PCAOB. However, staff believes the additional explanatory language offered in the basis for conclusions regarding this matter also clarifies that such entities would be fully consolidated – that is, with all funds included.

### ***Staff proposed language***

#### **Organizations Partially in the Budget**

A19. The Board deliberated the issue of certain organizations being partially in the budget (i.e., some of their operations or accounts are not in the President's Budget), such as a museum receiving substantial donor support. The Board determined the organization should be included in the government-wide GPFFR based on the "in the budget" principle. The Board further decided that such organizations should be presented in the same manner as other consolidation entities or disclosure entities, as discussed later in the Statement. Therefore, the language in the principle ("in the budget") does not provide separate and distinct guidance for organizations partially funded by non-budgetary sources. This means the organization is either a consolidation entity or a disclosure entity and should be reported as one or the other, in its entirety. ~~Further, paragraph 39 provides that organizations listed in the budget are presumed to be consolidation entities.~~

A20. Certain respondents noted concern because donated funds are for specific purposes and are not available for general government use. They believed full consolidation may be misleading. However, entities receiving donations administer and are accountable for both appropriations and donated funds. Presently, the financial statements for museums receiving donations display consolidated totals along with separate columns for federal and donor funds. This presentation provides accountability for all funds under the entity's management while alerting the reader to restrictions. At the government-wide level, concern may be mitigated by similarly presenting donated funds as dedicated collections to the extent they meet this definition. For example, Ssuch reporting would reveal that donor funds are unavailable for general use by the government.

**Does the Board agree with staff's proposed language to the basis for conclusions to explain organizations partially in the budget?**

### **3. Issue- Related Parties**

The Board proposed a definition of related parties and disclosures for related parties where the relationship is of such significance that it would be misleading to exclude disclosures about the relationship. The proposal also provides a list of the types of organizations that generally would or would not be considered related parties.

The Board asked respondents if they agreed or disagreed with the related parties definition and requirements. Nineteen respondents generally agreed with the proposal and one disagreed (19 respondents did not answer the question.)

- Department of Homeland Security (DHS) disagreed with definitions and requirements for related parties that require professional judgment in calculating significance and whether it would be misleading to exclude information.
- National Science Foundation (NSF) and National Science Board (NSB)<sup>3</sup> provided comments related to the definition. They suggested that paragraph 80 be revised so the current reference to policy decisions is narrowed to distinguish between “operational” (day-to-day, transactional level) and “strategic” (high level strategy and direction) policy decisions. They believe that strategic policy decisions do not have a direct influence on financial transactions and operating decisions and should not be determinative of the existence of related party relationships. In the case of the NSB, the Board’s strategic decisions do not directly influence the day to day operational and financial transactions of the Foundation (individual awards to grantees, etc.). NSF suggests adding the language from paragraph 79 to the first sentence of paragraph 80 to clarify the intent: “Significant influence (for the purpose of this Statement) is the power to participate in the ***financial and operating*** policy decisions of an entity, but not control those policies.”

They also believed the definition should make clear that Presidentially appointed or Congressionally confirmed individuals that serve on Agency boards and also have collegial or industry positions do not automatically create a related party relationship between the Agency and the university or corporation. The operation of the National Science Board (NSB) is a good example. *[Paragraph 80 indicates that significant influence may be exercised by representation on the board of directors or equivalent governing body.]* They had concern because the National Science Foundation, by law, must consist of a Director and National Science Board (NSB). The persons nominated for appointment as members of the board are eminent in the fields of the basic sciences, medical science, engineering, agriculture, education, or public affairs and are appointed by the US President. The NSB establishes the policies of NSF within the framework of applicable national policies set forth by the President and Congress. In this capacity, the Board identifies issues that are critical to NSF’s future, approves NSF’s strategic budget, and approves new major programs and awards. The Board also serves as an independent body of advisors to both the President and the Congress on policy matters and education related to science and engineering. Several NSB members may be affiliated with entities to which NSF issues grants or

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<sup>3</sup> NSB submitted a letter indicating they fully supported the comments made by NSF. They also requested clarification that Presidentially appointed or Congressionally confirmed individuals in collegial bodies that head agencies, and the institutions with which those individuals are affiliated, do not automatically have a related party relationship with that agency. The operation of the NSB is illustrative.

contracts. Most often these board members are professors or hold honorary positions at the awardee institution. However, Federal conflict of interest rules prohibit NSB members from participating in matters where they have a conflict of interest or there is an impartiality concern without prior authorization from the designated agency Ethics Official. In addition, Individual NSB members are not involved in the review or approval of any proposed grant awards to their affiliated institutions.

NSF is concerned that the related party definition as currently written will be applied to organizations with which NSB members are affiliated. They suggested that to assume a related party relationship between an NSB member and NSF, or between the NSB members' affiliated institution and NSF, would itself be misleading to the public. For example, NSF is not related to MIT or the University of Maryland. It could imply the existence of factors such as the ability to cause the agency to enter in transactions on different terms or conditions than those available to unrelated parties. This is not the case with the NSB. NSF does not support this view. They explain indicating a related party relationship between the federal government and organizations that receive grants such as not-for-profit entities and collegial institutions would grossly mislead the public. They provided suggestions for clarifications –specific comments are included below with organizations that generally would not be considered related parties.

The Board also asked respondents if they agreed or disagreed with the list of the types of organizations that generally would be considered related parties. Nineteen respondents generally agreed with the proposal and one disagreed (19 respondents did not answer the question.)

- DHS disagreed because they believed the three inclusion principles would cover related parties when the government holds a majority interest or controls an organization with risk of loss or expectation of benefits.
- Treasury CFO agreed but provided one minor exception--The federal government is party to certain multi-lateral development banks where it does not have significant influence. Paragraph 83(b) should therefore be amended to read "(for example, certain multi-lateral development banks)."
- KPMG also questioned the board's intent of Paragraph 83b and stated that it seems to suggest that organizations such as the United Nations, World Bank, IMF, etc. would be considered related parties of the federal government and should therefore be subject to disclosure requirements.
- CCC commented that paragraph 83 is not clear "use of the term generally" allows for substantive judgment by the reporting entity.

The Board asked if there were additional organizations that generally should be considered related parties. Three respondents indicated there were. From the responses, the following organizations were suggested for clarification in the standard:

- non-federal organizations receiving federal financial assistance
- Free trade agreements
- Customs unions
- Common markets

- United Nations
- Foreign financial institutions
- business entities and key individuals residing outside the United States for the purposes of conducting international business
- federal board or commission (such as many of the entities named under the Accountability of Tax Dollars Act of 2002) has members of its board of directors or commissioners who maintain employment outside of the Federal government
- state components such as Unemployment Insurance Fund

The Board also asked respondents if they agreed or disagreed with the list of exclusions. Eighteen respondents generally agreed with the proposal and one disagreed (20 respondents did not answer the question.) The Board asked if there were additional exclusions that should be considered.

- The GSA disagreed stating that they do not agree that it is necessary to provide exclusions for Part 84, Sections' (d) foreign governments, (e) organizations created through treaties or trade agreements, and (f) special interest groups. GSA stated that the guidance provides that regulation or economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship and the guidance states that judgment is required in assessing the impact of regulation and economic dependence on a relationship. They believed there may indeed be instances where foreign governments and special interest groups meet the definitions as provided herein in certain relationships. The power to disclose such related party information should not be taken from the disclosing entity under any general exclusion principle.

NSF and NSB suggested in order to clearly denote that NSB members as individuals, or the entities they are affiliated with, are not in related party relationships with NSF; they suggested that although paragraph 84 c) indicates that "key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families" should be excluded from the related party definition; NSF and NSB suggested that "FASAB explicitly add in 84c ***Presidentially appointed agency board members***" to the list of exclusions. Alternatively, paragraph 84 b) could be expanded to state ***"This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not result in a related party relationship between the federal government and the individual or the federal government and the affiliated institution."*** Furthermore, NSF requests that FASAB add the term "that may or may not" to paragraph 84 b) as: "Organizations with which the federal government transacts a significant volume of business that **may or may not** result in economic dependence such as...."

- Treasury FMS stated the exclusions do not represent factors related to control; (b) relates to concentrations of risk, (c) relates to family members but neither of these exemplifies control.

#### *Board history/ Minutes*

See Appendix 1 for excerpts of relevant Board minutes on this topic.

*Staff Analysis:*

Staff notes the board discussed the universe of entities the federal government may have relationships with and where significant influence may exist as there could be countless relationships considered. The board agreed the best approach would be to develop parameters – certain classes of relationships and specific types of entities that would generally be excluded. The board spent time discussing government sponsored enterprises and multi-lateral development banks and determined these to be types that may be related parties. [Note: Staff believes the word “certain” should be inserted in front of multi-lateral development banks so as not to make the presumption all would be related parties. Though staff believed the word “generally” would cover it, it may be a good idea to add this as well.]

Therefore, staff recommends paragraph 83b. be revised as follows:

83b. Organizations governed by representatives from each of the governments that created the organization, including the United States, wherein the federal government has agreed to ongoing or contingent financial support to accomplish shared objectives (for example, certain multi-lateral development banks)

**3a. Does the Board agree with the revision to par. 83b. to clarify that not all multi-lateral development banks are related parties?**

The examples cited by respondents that should be addressed or clarified appear to be within the parameters of the categories stated in the proposed standards. For example, at least two respondents asked for clarification regarding the United Nations, staff believes this would be addressed by paragraph 84e. as a party that generally would not be considered as it states “84e. Organizations created through treaties or trade agreements that define common goals and means for joint action where the U.S. role in governing and financing the organizations is not significant.” This would also apply to free trade agreements.

Another example cited were non-federal organizations receiving federal financial assistance, but staff believes this would be addressed through 84b. as a party that generally would not be considered as it states “84b. Organizations with which the federal government transacts a significant volume of business resulting in economic dependence such as government contractors, state and local governments, collegial institutions, and non-profit organizations.”

Staff does not believe any other broad categories need to be added to either the list of related parties for possible inclusion or those that should be generally excluded.

One respondent expressed concern with the notion of providing exclusions in related party and did not believe “the power to disclose such related party information should not be taken from the disclosing entity under any general exclusion principle.” While

staff appreciates the views of all respondents, staff believes providing the parameters of generally organizations that would not be considered related parties in the standard to be a much more efficient and helpful approach. It is important to note that paragraph 85 discusses that although paragraph 84 provides exclusions, other factors may create a need for related party disclosures. Information needs described in paragraph 86 should be considered along with judgment in determining the appropriate disclosures. No information is precluded from being disclosed if deemed appropriate. Therefore, staff believes the exclusions should remain, but perhaps additional explanatory language could be added to the basis for conclusion to reiterate that point and paragraphs 84 and 85 can be clarified.

As for NSF's suggestion to adding the language from paragraph 79 to the first sentence of paragraph 80 to clarify the intent: "Significant influence (for the purpose of this Statement) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies." Staff recalls that earlier versions (see June 2012) of the proposal had "financial and operating" in both par. 79 and 80. The change was a staff edit based on internal discussion of the types of policy decisions that would be both "financial **and** operating." Some staff believed capacity to make significant operating policy decisions would almost always be linked to also making financial policy. Others believed the requirement that there be both financial and operating policy decisions would be limiting. That is, a decision maker could be solely involved in operating policy and have "significant influence" but not be considered a related party. Staff concluded that the adjectives were not meaningful given the difficulty in applying them and the potential that the form of decisions may vary but not the substance. (Staff recognizes that conforming changes to paragraph 79 were equally warranted based on this logic, and it will be removed from paragraph 79.) For example, would all entities consider a decision to establish a new program either a strategic, financial or operating policy?

Therefore, staff recommends conforming changes to paragraph 79:

79. Related parties: Organizations are considered to be related parties if the existing relationship<sup>4</sup> or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating policy decisions.

**3b. Does the Board agree with the conforming changes to par. 79 (to drop the adjectives "financial and operating") regarding policy decisions from the related parties language?**

Lastly, NSF requested that the exclusions paragraph be modified so that the standard clearly denotes that NSB members as individuals, or the entities they are affiliated with,

<sup>4</sup> Relationship as used in this context refers to material transactions or events involving both parties.



are not in related party relationships with NSF. [Staff notes paragraph 84 c) indicates that “key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families”] NSF and NSB suggested that “FASAB explicitly add in 84c **“Presidentially appointed agency board members”** to the list of exclusions. Alternatively, paragraph 84 b) could be expanded to state **“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not result in a related party relationship between the federal government and the individual or the federal government and the affiliated institution.”** Furthermore, NSF requests that FASAB add the term “that may or may not” to paragraph 84 b) as: “Organizations with which the federal government transacts a significant volume of business that **may or may not** result in economic dependence such as....”

Staff notes in the public hearing discussion, it appeared the concern was more with the term “related parties” based on private standards and that transactions may not be arms length. The discussion conveyed that the NSF currently discloses information and is very transparent about the award amounts and so forth and describes them as affiliated with board members.

Staff notes that certain FASAB board members noted concern with excluding them all together and some hesitation with the additional language because there could be situations where you have members of your Board receiving material amounts of grants, it would be relevant to disclose that.

Staff review of the NSF FY2013 financial statements found that NSF includes disclosures related to these types of relationships under Note 15: Awards to Affiliated Institutions. The note provides the total amount of the award and a high level description. It also provides a brief description of the conflict of interest rules and other framework. An appendix (not part of the audited financial statements) in the back of their report lists the institutions affiliated with members of the National Science Board and awards obligated. A footnote to the table describes the purpose of the table is to provide open and transparent reporting. It also describes the framework that NSF and NSB operate under.

Staff appreciates the NSF concerns. However, staff does not believe it would be appropriate to add language to fit the specific circumstances identified by NSF. It appears the proposed standard provides the proper exclusions and it may be more of a concern that NSF has with how its presentation may be interpreted. However, FASAB agreed that ‘related parties’ is a generally accepted term and though it does not apply in the same way in the federal government, it was preferred to define it in our context versus developing a new term or making a definitive statement that we do not believe there are related parties in the Federal reporting entity.

Staff believes once the standard is issued, related parties in the federal environment will have its own benchmark and the auditors will audit based on the federal standards. As for other concerns that items listed as related parties may be interpreted by outside parties to lead to other than arms length transactions, the proposed standards do not

prevent an entity such as NSF from labeling the related parties as “Affiliated Institutions” as they have done in the past and explaining the conflict of interest rules.

If members believe that relationships such as the NSB do not warrant consideration for related party disclosures, staff believes the reasoning would be similar to that applied for key executives (par. 84c). That is, conflict of interest and other ethics requirements (such as financial disclosures) address the significant influence concerns associated with related parties. If a broader approach is needed, staff believes par. 84c could be revised to acknowledge that generally those “individuals covered by conflict of interest regulations such as key executives, organizations owned or managed by key executives, other employees of the federal government, or members of their families” would not be related parties.

Therefore, staff believes the board has two options—

***Option A- Address in the Basis for Conclusions***

The option would be if the board believes it would not be appropriate to add additional language to the standard. Instead, the basis for conclusion would include the following additional paragraph:

AXX. During its due process, the Board considered a request that ‘related parties’ language be modified to clearly denote that members appointed on boards as individuals, or the entities they are affiliated with, are not in related party relationships with the departments or agencies. The Board did not believe additional language was necessary for several reasons. Most Board members believed the appropriate broad classes of exclusions were provided. Certain Board members also noted concern with excluding all such members because there may be situations where disclosures would be appropriate. Further, based on current practices it appears much of this type of information is being reported. However, the Board understood the concern with the understanding of the term ‘related party’ as commonly used in financial reports to imply less than arms-length transactions. The Board believes once federal standards are issued, the term ‘related parties’ in the federal environment will have its own implications - that is, a focus on exposures to risk of loss or potential gain as a result of the relationship. The proposed standards do not prevent an entity from labeling the related parties as “Affiliated Institutions” or any other term appropriately descriptive. When doing so, it may be important to explain the relationships by including information such as conflict of interest rules and other frameworks they operate under.

***Option B- Revise paragraph 84c.***

This option would be used if the board believes relationships such as NSB do not warrant consideration for related party disclosures. Staff believes the reasoning would be similar to that applied for key executives (par. 84c). That is, conflict of interest and other ethics requirements (such as financial disclosures) address the significant influence concerns associated with related parties.

c. [Individuals covered by conflict of interest regulations such as k](#)Key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families

**3c. Does the Board prefer Option A (basis for conclusion) or Option B (revision to exclusions) to address relationships such as NSB in related party reporting?**

## Other Comments

### Component Reporting Related Party Information

KPMG noted that paragraph A84 was confusing and they did not understand why this statement should defer to OMB for additional disclosure requirements for related parties. They believed this statement should be all inclusive of the required related party disclosures or the Board should consider a separate standard to address related parties.

#### *Staff Analysis:*

Staff notes that at previous meetings the board discussed in great detail how component reporting entities work together to accomplish goals but are not considered related parties. The board also deliberated the issue of whether component reporting entities should disclose additional information to better recognize the relationship and contextual information that is conveyed about the component reporting entity of a sovereign government. FASAB has not established requirements for a description of the CRE other than the discussion of the organization and mission required in the Management's Discussion and Analysis section (MD&A). Nonetheless, most key points are addressed individually in agency MD&A and notes either as a result of existing standards, OMB form and content requirements, or voluntarily. However, coverage and placement differs among agencies.

This was conveyed in paragraph 82 of the Related Parties language and paragraph A84 of the Basis for Conclusion. Staff believes there should be changes to clarify paragraph A84 regarding the fact that component reporting entities are not related parties under federal standards and that addressing additional disclosures is beyond the scope of this project. Staff believes these points would be clearer without the reference to further guidance from OMB.

A84. Component reporting entities of a single controlling entity are generally subject to related party reporting requirements in other standard-setting domains [but will not be considered related parties under federal standards](#). [In reaching this conclusion,](#) the Board discussed

~~whether jointly~~ how jointly controlled component reporting entities ~~should disclose~~ present information about their relationships. Presently, component reporting entities are required by OMB guidance to state in the management's discussion and analysis section that: "The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity." In addition, existing standards require recognition of inter-entity costs to ensure that cost information is not misstated as a result of relationships between component reporting entities. While members noted that readers may need additional contextual information to understand what these complex relationships imply about component reporting entity information, the decision to exclude such relationships from related party reporting placed such information requirements outside the scope of this Statement. they preferred that OMB explore options for additional guidance through Circular A-136, Financial Reporting Requirements, so that it is integrated with existing disclosure requirements. Addressing additional disclosures in this Statement would likely expand its scope into areas adequately addressed in established practice.

**3d. Does the Board agree with the changes to the basis for conclusions to address component reporting related party information?**

### **Separate Standard**

KPMG noted concerns that led them to suggest a separate standard should be considered for related parties. Reasons provided included:

- They believe that related party disclosures would only be evaluated for an organization that was considered by the reporting entity to be subject to its influence to such an extent that the reporting entity evaluated it under this standard; however the organization failed the control criteria but was considered misleading to exclude. This is based on their observation that the factors in paragraphs 79 and 80 closely parallel those in paragraph 30. If there is an expectation of an evaluation of a separate population, that expectation should be specifically stated and perhaps a separate standard should be considered.
- They believe if a reporting entity currently includes related party disclosures in its financial statements, the reporting entity would be using the guidance provided in the FASB standards as FASAB does not currently contain a standard addressing related party reporting. Once the Reporting Entity statement is issued, it may be difficult for a federal reporting entity to know and understand that embedded within the statement is guidance for related party identification and reporting. They believe that issuing a separate standard addressing all aspects of related parties may be beneficial.

*Staff Analysis:*

FASAB completed the American Institute of Certified Public Accountants (AICPA) Omnibus project to adopt certain accounting and financial reporting guidance that resided in the AICPA statements on auditing standards (SAS). The Board decided to continue research on related parties as part of the Entity project and noted this in the basis for conclusion of SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*. (Excerpt from basis for conclusion)

#### **Related Parties**

A8. AU Section 334, *Related Parties*, attributes the requirement for related party disclosures to the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 850 (Statement of Financial Accounting Standards 57), *Related Party Disclosures*, and provides indicators of related party transactions. The FASAB determined that the related party guidance was not readily adaptable to the federal government and discussed the applicability of related FASAB projects and current federal financial reporting practices to the issue of related party transactions.

A9. The FASAB has an on-going Federal Entity project that is intended to define and characterize federal reporting entities and to establish criteria for including various organizational units in a reporting entity. Also, the project will involve research on the various types of relationships that the federal government has established to carry out its public policy functions. The FASAB believes that it would be premature to incorporate the related party guidance before it completes its Federal Entity project. Consequently, the FASAB decided to conduct research on related parties as part of the Federal Entity project and use the research results to develop related party guidance applicable to the federal government environment.

A10. In addition, the FASAB noted that federal agencies typically purchase goods and services from other federal agencies or organizational units within the same agency and the FASAB has provided guidance to assist in reporting this activity. The guidance includes, but is not limited to:

- a. SFFAS 4, *Managerial Cost Accounting Standards and Concepts*;
- b. SFFAS 5, *Accounting for Liabilities of the Federal Government*;
- c. SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*; and
- d. SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*.

A11. The FASAB expects that this statement will not alter current reporting practices. However, some are concerned that reporting practices may change if the auditing guidance changes before the Federal Entity project is completed. If so, the FASAB would issue a Technical Bulletin to assist the federal financial reporting community.

Staff believes the Board should define 'related party' within the federal reporting entity standard for the reasons discussed during deliberations, some of which included:

- Related party reporting is such a fundamental notion within GAAP and the auditing standards addressing how related party concepts apply in the federal domain are important. Absent a clear articulation of related party concepts and

concerns in the federal domain, we may find the private sector concepts applied by default.

- There is still a need for the related party category to disclose those organizations that are not covered by the inclusion principles where there may still be a relationship of influence. Such organizations do not meet the requirements for inclusion in the GPFFR (ie. Inclusion principles) but significant influences may exist.
- One cannot anticipate all types of relationships the federal government may have or might have in the future that need to be reported.

**Based on the history of this issue and the board voted to incorporate this into the reporting entity project, staff has not identified compelling reasons to recommend any changes.**

#### **Difference between Disclosure Entity and Related Party**

Two respondents noted concern with differences between a disclosure entity and a related party. KPMG noted 'related party' appeared to be similar to a 'disclosure entity' but with limited disclosure requirements and the statement should contrast the disclosure requirements. While Treasury CFO agreed with the related party definition and requirements, they stated the standard does not appear to provide a clear distinction between the characteristics of a related party and those of a disclosure entity meeting the "misleading to exclude" inclusion principle. More specifically, it could be interpreted that a disclosure entity meeting the "misleading to exclude" inclusion principle is a related party. Treasury did not believe the "misleading to exclude" should be placed as a "catch-all" for inclusion. Instead, entities not meeting the "Budget", "Ownership", and "Control" inclusion principles should then be considered for disclosure as a "related party" if misleading to exclude.

#### ***Staff Analysis:***

Staff notes this is consistent with the board discussions held during the deliberations of the central bank. The board discussed the Treasury views and staff also had an opportunity to meet with both Treasury and KPMG. Staff explained the misleading to exclude and also how the inclusion principles are applied at the government-wide level. Staff believes this may have cleared up some misunderstandings, though how to best include something such as a "misleading to exclude" may remain debatable. Staff believes there is a difference between the disclosure entity and related parties –not only in what relationship exists that requires the disclosure but also in the required disclosures as the related party disclosures are not as broad.

**Based on the history of this issue, no changes are recommended.**

#### **Term- 'Related Parties'**

The AGA- FMSB had some concerns about the use of the term 'related parties.' Under GASB, state and local governments are required to disclose certain related party transactions and to recognize the transaction for its economic form rather than its legal form. Thus related party issues are linked to transactions. The FASAB approach is to call an organization a related party if one party has the ability to influence financial and operating decisions and the application is not linked to how any particular transaction is recognized. Thus the use of the term by FASAB seems inconsistent with the use of the term in other professional pronouncements. They encouraged FASAB to utilize another term.

GWSCPA-FISC also commented the definition of a related party appears to differ from the FASB's definition of related parties. For example, the ED differs from FASB literature in the discussions of arms-length transactions, and how arms-length transactions with related parties impact the reporting of those relationships in the entity's GPFFR. They suggested that if differences exist in the two definitions, then the consolidation of reporting entities with FASB-based information may be complicated if two definitions of related parties are applied.

Staff notes that at least one board member suggested that the board discuss the issue of adopting a different term to assure distinction is known among users since there are differences in terms.

*Staff Analysis:*

Staff notes the issue of the term 'related party' has been deliberated by the board on more than one occasion. Most recently at the October 2012 meeting (see Minutes excerpt at Appendix 1) the issue was raised when Mr. Steinberg questioned the use of the term when compared to how it is used by other standard setters. At that meeting, the board discussed the issue again and as the minutes document "the Board had concluded on this once already. Mr. Showalter explained related parties are a concept that is well understood by both preparers and auditors." The concern was if we did not address it, there would be a problem from the auditor's perspective of looking for it because auditors are trained to look for related parties. It is embedded in the auditing standards. The board agreed that 'related parties' is a generally accepted term and though it does not apply in the same way in the federal government, it was preferred to define it in our context versus developing a new term or making a definitive statement that we don't believe there are related parties in the Federal reporting entity. Mr. Dacey had also expressed in a meeting that "as far as concept wise, he believed it was important to retain the title." in reference to AICPA's request that FASAB address related parties.

**Based on the history of this issue and staff has not identified compelling reasons to recommend any proposed changes. However, a board member may request reconsideration.**

**Additional Disclosures**

The AGA- FMSB suggested that the related party disclosures should be expanded. They explained that paragraph 87b. should be expanded to include information that discusses the fiscal interdependency of the related party to the federal funds in addition to information on the risks to the federal government. The AGA-FMSB believed what represents a small risk or exposure to the federal government will generally present a significant risk to the related party and such potential impacts should be disclosed relevant to related parties.

*Staff Analysis:*

While staff appreciates the views of all respondents, staff does not believe the additional language is necessary in the standard. The board adopted an approach that focused on relationships of such significant influence that it would be misleading to exclude information. The disclosures for the related parties provide an understanding of the relationship and the potential financial reporting impact and discusses risk or gain to the federal government. Information needs described in paragraph 86 should be considered along with judgment in determining the appropriate disclosures. However, no information is precluded from being disclosed if deemed appropriate.

**No changes are recommended.**

**3e. Does the Board agree that there are no changes necessary to address the issues of Separate Standard for Related Party, Difference between Disclosure Entity and Related Party, Term Related Parties, or Additional Disclosures?**

**Staff Proposed Language -Related Parties** Staff believed it would be helpful for the Board to review the Related Parties language with changes in its entirety and consider if any other changes may be necessary.

***Related Parties***

78. In addition to organizations for which the Congress and/or the President are accountable,<sup>5</sup> the federal government may have relationships with other parties. Only relationships of such significance that it would be misleading to exclude information about such relationships warrant disclosure.<sup>6</sup> Guidance is provided below but judgment will also be required to identify relationships that warrant disclosure as related parties.

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<sup>5</sup> Entities for which the Congress and President are accountable are in the budget, majority owned, or controlled and would meet the inclusion principles and be reported as either a consolidation entity or disclosure organization and not be subject to related party reporting.

<sup>6</sup> Significance is assessed at the reporting entity and may differ among component reporting entities and the government-wide reporting entity.



79. Related parties: Organizations are considered to be related parties if the existing relationship<sup>7</sup> or one party to the existing relationship has the ability to exercise significant influence over the other party in making [financial and operating policy](#) decisions.
80. Significant influence (for the purpose of this Statement) is the power to participate in the policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, sometimes by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy-making process, interchange of managerial personnel, or dependence on technical information. Significant influence may be gained by a minority ownership interest, statute, or agreement.
81. Significant influence does not arise from regulatory actions or economic dependency alone. However, regulation or economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Judgment is required in assessing the impact of regulation and economic dependence on a relationship.
82. Although component reporting entities of the federal government may significantly influence each other, component reporting entities are subject to the overall control of the federal government and operate together to achieve the policies of the federal government and are not considered related parties. Therefore, component reporting entities need not be disclosed as related parties by other component reporting entities.
83. Related parties *generally* would include (see paragraph 84 for organizations *generally* not included) but are not limited to:
- a. **Government sponsored enterprises** not meeting the Inclusion Principles
  - b. Organizations governed by representatives from each of the governments that created the organization, including the United States, wherein the federal government has agreed to ongoing or contingent financial support to accomplish shared objectives (for example, [certain](#) multi-lateral development banks)
84. In the context of this Statement, the following generally would not be considered related parties<sup>8</sup>:
- a. Organizations meeting the Inclusion Principles
  - b. Organizations with which the federal government transacts a significant volume of business resulting in economic dependence such as government contractors, state and local governments, collegial institutions, and non-profit organizations<sup>9</sup>

<sup>7</sup> Relationship as used in this context refers to material transactions or events involving both parties.

<sup>8</sup> [As described in paragraph 85, paragraph 84 discussed potential exclusions but as a result of the many complex relationships where significant influence is exerted, judgment will be required to determine which significant influences may pose risks that warrant disclosures.](#)

<sup>9</sup> However, economic dependency, together with other factors, may give rise to significant influence and, therefore, a related party relationship.

- c. Individuals covered by conflict of interest regulations such as key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families

**Comment [ML1]:** This is one option, Board members would either chose to incorporate changes into par. 84c or BFC par. A86

- d. Foreign governments
- e. Organizations created through treaties or trade agreements that define common goals and means for joint action where the U.S. role in governing and financing the organizations is not significant
- f. Special interest groups<sup>10</sup>

85. Although paragraph 84 discusses the potential exclusion of certain organizations as related parties, other factors may create a need for related party disclosures for such organizations. The use of judgment will be necessary in identifying those factors consistent with the information needs described in paragraph 86.

86. Certain information regarding significant related party relationships may enable users to better understand the financial statements of the reporting entity because:

- a. Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship;
- b. Related party relationships can influence the way in which the federal government operates with other entities in achieving its individual objectives; or
- c. Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.

87. For related party relationships of such significance to the reporting entity that it would be misleading to exclude information, the following should be disclosed:

- a. Nature of the federal government's relationship with the party, including the name of the party or if aggregated, a description of the related parties. Such information also would include, as appropriate: the percentage of ownership interest.
- b. Other information that would provide an understanding of the relationship and potential financial reporting impact, including financial-related exposures to risk of loss or potential gain to the reporting entity resulting from the relationship.

## Basis for Conclusions

### ***Related Parties***

<sup>10</sup> Special interest groups refers broadly to organizations whose members share common concerns and try to influence government policies. Examples include but are not limited to labor unions, trade associations, religious organizations, membership organizations, and lobbying organizations.

A82. The Board determined it should define “related parties” and address them within this Statement for several reasons. Related party reporting is such a fundamental notion within GAAP and the auditing standards that addressing how related party concepts apply in the federal domain is important. Absent clear related party standards in the federal domain, the Board believes the private sector concepts would be applied by default.

A83. Because of the extent of the federal government’s relationships – whether already established or implied – “related parties” concepts may result in numerous relationships requiring disclosure. Therefore, the Board proposes disclosure of related party relationships of such significance to the reporting entity that it would be misleading to exclude information about them. For clarity of intent, the standards rely heavily on listing parties to be included and excluded.

A84. In addition, the proposal provides room for judgment because one cannot anticipate all types of relationships the federal government may have or might have in the future that should be reported. The standards do not preclude the reporting of a related party if factors deem it appropriate. The related parties category is needed to provide for disclosure of those organizations that are not included under the inclusion principles but where there is an existing relationship of such significance that it would be misleading to exclude.

A85. Component reporting entities of a single controlling entity are generally subject to related party reporting requirements in other standard-setting domains but will not be considered related parties under federal standards. In reaching this conclusion, ~~the Board discussed whether jointly~~ how jointly controlled component reporting entities ~~should disclose~~ present information about their relationships. Presently, component reporting entities are required by OMB guidance to state in the management’s discussion and analysis section that: “The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.” In addition, existing standards require recognition of inter-entity costs to ensure that cost information is not misstated as a result of relationships between component reporting entities. While members noted that readers may need additional contextual information to understand what these complex relationships imply about component reporting entity information, the decision to exclude such relationships from related party reporting placed such information requirements outside the scope of this Statement. they preferred that OMB explore options for additional guidance through Circular A-136, Financial Reporting Requirements, so that it is integrated with existing disclosure requirements. Addressing additional disclosures in this Statement would likely expand its scope into areas adequately addressed in established practice.

A86. During its due process, the Board considered a request that ‘related parties’ language be modified to clearly denote that members appointed on boards as individuals, or the entities they are affiliated with, are not in related party relationships with the departments or agencies. The Board did not believe additional language was necessary for several reasons. Most Board members believed the appropriate broad classes of exclusions were provided. Certain Board members also noted concern with excluding all such members because there may be situations where disclosures would be appropriate. Further, based on current practices it appears much of this type of information is being reported. However, the Board understood the concern with the understanding of the term ‘related party’ as commonly used in financial reports to imply less than arms-length transactions. The Board believes once federal standards are issued, the term ‘related parties’ in the federal environment will have its own implications - that is, a focus on exposures to risk of loss or potential gain as a result of the relationship. The proposed

standards do not prevent an entity from labeling the related parties as “Affiliated Institutions” or any other term appropriately descriptive. When doing so, it may be important to explain the relationships by including information such as conflict of interest rules and other frameworks they operate under.

**Comment [ML2]:** This is one option, Board members would either chose to incorporate changes into par. 84c or BFC par. A86

**3f. Does the Board wish to offer any other revisions to the related party language?**

#### **4. Issue- SFFAC 2 Amendments**

The Board proposed conforming changes to Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display, to rescind or amend language to remove criteria for determining what organizations are required to be included in a federal reporting entity's GPFFR from the concepts statement because criteria will be in a statement of federal financial accounting standards. The Board asked respondents if they agreed or disagreed. 20 respondents agreed and one respondent disagreed. Staff notes the following:

- The SEC CFO disagreed because they believed the proposed standard would rescind paragraph 42 of SFFAC 2 and replace it with what the SEC believed to be a narrower definition of a non-federal entity. Paragraph 42 of SFFAC 2 states that: "This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation."
- While KPMG did not answer the question, they did suggest the Board consider the need to re-evaluate SFFAC 2 in totality and consider a complete revision to SFFAC 2 outside of the required changes resulting from the ED.
- Treasury CFO also suggested due to the significant number of, the Board should give consideration to superseding the provisions of SFFAC 2 in their entirety with this ED, or alternatively completely revising SFFAC 2.
- Treasury OIG suggested if changes are made to the Exposure Draft to implement our response to question 5 above (Staff note- Treasury OIG disagreed with consolidation of FASB based information without conversion), the rescission of paragraph 78 of SFFAC 2, proposed in paragraph 101 of this Exposure Draft, would need to be revisited.
- The Intelligence Community stated FASAB should consider providing more specific guidance related to the material differences before rescinding paragraph 78. (Staff note- Intelligence Community disagreed with consolidation of FASB based information without conversion),

#### **Staff Analysis**

While staff appreciates SEC's concern regarding the rescission of paragraph 42, staff believes the additional research and work to improve the clarity of the language surrounding the In the Budget inclusion principle and the respective basis for conclusions provides a strong basis for applying the principles set forth. These decisions were based on the Board's decision it was more appropriate to rely on existing definitions of federal financial assistance and build from that instead of defining subsidy.

Staff also understands it may be nice to revise SFFAC 2 in its entirety but that would not be feasible at this point. The majority of the remaining sections of SFFAC 2 would be directly impacted by the work in the Reporting Model project. However, updating the portions applicable to this Statement should not be delayed especially those that have now been appropriately addressed in a standard.

Two respondents noted concern with rescinding paragraph 78 of SFFAC 2. Paragraph 78 states:

Some of a reporting entity's components are likely to be required by law or policy to prepare and issue financial statements in accordance with accounting standards other than FASAB's, e.g., accounting standards issued by the Financial Accounting Standards Board or accounting standards established by a regulatory agency. Those components should continue to issue the required reports. The reporting entities of which the components are a part can issue consolidated, consolidating, or combining statements that include the components' financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity's financial statements. If these differences are material, the standards issued by FASAB should be applied. The components would need to provide any additional disclosures required by FASAB and included in the OMB-issued guidance that would not be required by the other standards.

Staff understands the concerns, especially when one considers it was raised by respondents that also disagreed with the Board's position on consolidation of FASB based information without conversion. The main reason for removing this from SFFAC 2 was because it is not conceptual guidance. SFFAS 34, The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board addresses whether federal entities currently applying standards issued by the Financial Accounting Standards Board (FASB) may continue that practice. Further, the Reporting Entity proposal under consideration provides clarification of that and reference in paragraph 66 and addresses that consolidation of FASAB and FASB based information are appropriate. The issues will be appropriately covered in Statements and there would be no need for paragraph 78 to remain.

Therefore, staff does not recommend any specific language changes as a result of the comments in this area.

**4. Does the Board agree that no specific changes are necessary to address comments or concerns in the SFFAC 2 Amendments?**

## **5. Issue- Effective Date**

The Board proposed the Statement and Amendments to SFFAC 2, *Entity and Display*, be effective for periods beginning after September 30, 2016. 18 respondents agreed with the effective date and 4 respondents disagreed.

Two respondents believed the date should be delayed: Commodity Credit Corporation disagreed and stated the change should be further out into the future to allow agencies to complete the necessary analytics and incorporate reporting changes. They suggested agencies complete the information for FY17, with comparative presentation in FY18 financial statements. US RRB disagreed and stated entities should be given additional time, especially if consolidation is necessary. They proposed the change be effective for periods beginning after September 30, 2020.

One citizen respondent that disagreed believed the date should be sooner because political campaigns years should not be influential in these decisions.

KPMG did not agree because they believed early implementation should not be permitted because it would lead to inconsistent reporting across federal reporting entities.

Other comments received on the effective date:

GWSCPA FISC suggested the Standard has the potential for some far-reaching consequences and the Board should take an iterative step before full implementation of this ED. They suggested that the Board consider an expanded comment period for implementation challenges, and/or allow the preparer community additional time to consider whether the consequences of this ED may result in unintended legal or political challenges. Further they believed it was important to allow the preparer community with additional time or an alternative forum to consider the effects on component agencies' GPFFRs and the government-wide GPFFR.

Treasury CFO agreed but commented the proposed effective date seems reasonable as long as changes in reporting entity, if applicable, follow the past practice that these types of changes are not retroactively restated in comparative statements.

## **Staff Analysis**

Staff agrees that early implementation should not be encouraged considering the government-wide guidance will ensure consistency.

Staff believes the draft implementation timeline (see **Attachment A**) was an anchor in determining the appropriate effective date. It provided for approximately 18-24 months implementation period. The board discussed this at the June 2012 board meeting.

Based on anticipated milestones, the proposed standard may be forwarded to the sponsors between September 2014 and December 2014, depending on the board progress at this meeting and agreement of the editorial changes and review of the full draft and pre-ball ballot at the June meeting.

Therefore, the implementation period could still be completed by September 2016. However, that would not be affording any delays. Staff also notes that the proposal has been under consideration for quite some time. However, the fact there is anticipated to be a coordinated effort from the central agencies to ensure consistency—organizations may not be planning to begin implementation until such guidance is provided.

Staff notes the following from the June 2012 board meeting when the board discussed the implementation (Mr. Dacey notes the anticipated 24 month implementation) —

Implementation Timeline (See Attachment A)

Chairman Allen explained there was one other item that needed to be briefly discussed before related party and asked Ms. Payne if she wanted to explain the timetable the sponsor agencies had provided.

Ms. Payne explained that Messrs. Dacey, Dong and Reger had committed to providing a timeline for implementation based on the draft standards under discussion. The timeline was to inform the Board's discussion and assist in determining the proposed effective date. The bottom line is approximately 24 months between issuance and effective date. She noted staff didn't make a specific recommendation, but asked if there were any comments on the timeline at this time.

Mr. Reger wanted to note there were two huge caveats with the timeline—it took a considerable amount of time working with one organization to draft disclosures and that time of release should be considered. He noted some of it could occur before it is sent to the sponsors for review. Therefore, the times are approximate and may not be sequential but can be considered a good estimate for determining implementation. It appeared it would take approximately 24 months. Further, 24 months may be on the low end of an estimate depending on the timing of the release. Mr. Reger explained we may come across certain entities that will require more time as they may not think they need to be included etc.

Mr. Dacey explained the 24 month clock would start when the standard is sent to the principals for their 90 day review.

Chairman Allen thanked the members for the update and appreciated the efforts on developing the timeline.

Therefore, it is may be advisable to delay the effective day by one year to ensure there is a 24 month implementation period afforded.

**5. Does the Board agree to delay the effective date to periods beginning after September 30, 2017 and to not permit early implementation of the standard?**



## **6. Issue - Appendices- Flowchart and Illustrations**

The Statement provided two non-authoritative appendices to assist users in the application of the proposed standards. The Flowchart at Appendix B is a tool that can be used in applying the principles established. The Illustrations at Appendix C offer hypothetical examples that may be useful in understanding the application of the standards.

24 respondents agreed that the appendices were helpful and should remain after the Statement is issued. (14 respondents did not answer the question.) 1 respondent disagreed or noted concern with maintaining Appendix C Illustrations. The SEC CFO explained Appendix C does not provide useful implementation guidance because it does not explain which factors were selected as the deciding factors, and why. The explanations imply that factors not mentioned could have been the deciding factors.

When asked if there should be any changes or additional examples regarding the illustrations that would be useful in understanding the application of the standards, the following comments were provided:

- NSF commented that agencies would benefit from a related party scenario involving agency Board members. They suggested the scenario should involve a federal agency with a board of directors that approves strategic and high level budget decisions. A board member with an administrative or professor role at a collegial institution, or that serves in a management capacity at a not-for-profit organization should be included. They suggested the illustration should indicate that the agency does not have a related party relationship with the board member or the institution/organization with which the board member is affiliated. [NSB also supported this, their comment was consistent with NSF.]
- SSA suggested examples of receivership, conservatorship, and intervention be incorporated as it would be beneficial if FASAB relayed to users how they differentiate among these three categories.
- Treasury CFO suggested an illustration that provides clarity in the application of the "administratively assigned" principles would also be a positive addition to the standard.

### **Staff Analysis**

While staff appreciates the views and opinions of all parties, the overwhelming majority of respondents supported maintaining the appendices and found them useful in understanding the application of the standards. Therefore, staff would believe there is value to the keeping the appendices in the final standards and the SEC views may be isolated.

As for Treasury's request for the application of administrative assignments, staff believes guidance in this area will be accomplished through the anticipated guidance from the sponsor agencies. In reality, there would be much more detailed information

and possibly multiple component reporting entities that have relationships with an organization.

Staff notes there is one intervention example in the illustrations, and if the board would like to add a conservatorship or receivership example illustration, one can be developed and provided with the editorial changes at the next board meeting. However, staff would like to note that providing the example does not differentiate how these categories are to be presented in the financial statement disclosures as the standard provides flexibility among disclosure entity disclosures.

Staff believed it was appropriate to determine the board's final position on the concerns raised by NSF (and NSB) in the related party issue area prior to determining if an additional related party example needs to be developed. The illustrations currently have a related party example that is similar to a GSE.

Therefore, unless the board determines there should be substantial revisions in the related party area that would require an illustration for clarification, the only potential addition would be for a receivership or conservatorship.

**6. a. Does the Board agree both appendices should remain once the Statement is issued?**

**b. Does the Board wish to add an illustration for a conservatorship or a receivership?**

## **7. Issue- Other Organizations-**

The Board asked respondents if there were other unique situations that should be addressed within this Statement. The respondents provided the following:

- NSF requested that FASAB further clarify the inclusion of Federally Funded Research and Development Centers (FFRDCs). In the case of the National Science Foundation, pursuant to the NSF Act (Public Law 81-507, amended by 42 USC (1861 – 1887)), provision 42 USC 1873, “The Foundation shall not, itself, operate any laboratories or pilot plants.” Although NSF legally considers and is noted as the sponsoring agency for four FFRDCs, as it relates to the intent of this ED, the Foundation’s inability to manage or operate the facilities makes them more equitable to contract or grant organizations. NSF requests that FASAB add language to this point in paragraphs 32 – 34.

NASA also requested that FASAB provide clarity regarding the inclusion principles and attributes for consolidation entities versus disclosure entities specifically in relation to Federally Funded Research and Development Centers given the special circumstances that FFRDCs are mandated to operate independently.

The Intelligence Community also suggested the board should consider providing minimum disclosures Federally Funded Research and Development Centers and Venture capital projects.

### ***Staff Analysis-***

The board has discussed the Federally Funded Research and Development Centers (FFRDCs) on several occasions. The board is aware that there are varying types of relationships that exist that may result in different classification and reporting. The board recognized this within the proposed standard when it provided in par. 48 “...example of the types of organizations that could be consolidation entities or could be quasi-governmental and/or financially independent organizations are Federally Funded Research and Development Centers, museums, performing arts organizations, universities, and venture capital funds.” Therefore, the board believed it was more appropriate for the users to make the appropriate determinations based on the standards.

Staff also notes that at the March 2014 meeting, members all agreed that the additional language regarding FFRDCs and the master list produced by NSF should not be added to the basis for conclusions paragraph about the guidance coming out from central agencies.

Staff notes the Board’s approach for the disclosure entities (though FFRDCs may be a consolidation entity or a disclosure entity, this comment is being made in response to the request the board provide minimum disclosures) is to provide flexibility in meeting the stated objectives. This flexibility was viewed as most appropriate due to the different types of disclosure entities that may exist and therefore require broad and different information to meet the reporting objectives.

The factors assist the preparer in determining the nature and extent of information to disclose. The factors are considered in the aggregate.

While staff appreciates the concerns raised by respondents, the board has discussed and deliberated these issues. The ultimate goal is a principles-based standard, one that recognizes the different types of organizations or relationships, even with an example type such as an FFRDC such that some may be consolidation entities and some disclosure entities.

**Therefore, no changes are recommended.**

- The Intelligence Community stated an exception should also be added for the applicability to certain entities if application of this standard will be detrimental to national security.

**Staff Analysis-**

Staff met with the Intelligence Community – both the CFO and IG staff - to discuss this issue and plan for a public discussion sufficient to address concerns. The Intelligence Community participants at the last meeting agreed to continue internal efforts to resolve the matters and to contact FASAB if resolution is not obtained. Staff does not foresee any further action unless requested.

**Therefore, no changes are recommended.**

- The Intelligence Community suggested the board should consider providing minimum disclosures for the Government sponsored enterprises such as the Federal Agricultural Mortgage Corporation, Federal National Mortgage Corporation, and Federal Home Loan Mortgage Corporation due to their impact on political, monetary, and fiscal policy objectives, and the federal government.

**Staff Analysis-**

Staff notes the board considered the issue of these sorts of Government Sponsored Enterprises (GSEs) while developing the proposed standards. The inclusion principles can be applied to GSEs. As for providing minimum disclosures, staff notes the Board's approach for the disclosure entities (though GSEs – if included - may be consolidation entities or a disclosure entities, this comment is being made in response to the request the board provide minimum disclosures) is to provide flexibility in meeting the stated objectives. This flexibility was viewed as most appropriate due to the different types of disclosure entities that may exist and therefore require broad and different information to meet the reporting objectives. The factors assist the preparer in determining the nature and extent of information to disclose. The factors are considered in the aggregate.

Staff also notes the board addressed GSEs in the related parties by providing related parties generally would include GSEs not meeting the inclusion principles. In that case, related party disclosure requirements would apply.

**Therefore, no changes are recommended.**

- DOD CFO suggested that additional guidance be added to distinguish museums consolidated under this proposed standard and museums disclosed under SFFAS 29, *Heritage Assets and Stewardship Land* because they believed there may appear to be some conflicting guidance in reading both standards.

**Staff Analysis-**

SFFAS 29 addresses the classification of information reported for heritage assets and stewardship land. The standard reclassified all heritage assets and stewardship land information as basic except for condition information, which is reclassified as required supplementary information (RSI). SFFAS 29 required that entities reference a note on the balance sheet that discloses information about heritage assets and stewardship land, but no asset dollar amount should be shown. *Those standards relating to heritage assets and stewardship land still apply.* The *Reporting Entity* proposal are principles to guide preparers of financial statements at the government-wide level and component reporting entity level in determining what organizations should be included in the reporting entity's GPFFR for financial accountability purposes.

**Therefore, no changes are recommended.**

- Treasury CFO suggested that some organizations falling outside of the inclusion principles may be viewed by the public as being part of the federal government such as Medicaid and state unemployment programs. Perhaps some level of disclosure explaining the federal government's limited role with regards to organizations such as these would be useful to readers of GPFFRs.

**Staff Analysis-**

The inclusion principles established in the *Reporting Entity* proposal were to ensure organizations for which elected officials are accountable are included in GPFFRs. The inclusion principles proposed would recognize the complex diverse organizations possessing varying legal designations that are used to address public policy challenges. The board determined there were certain exclusions from certain principles-such as a non-federal organization receiving federal financial assistance that is listed in the budget-- but even the exclusions are assessed against other principles for consideration of inclusion in the GPFFR.

The proposal also recognizes the federal government may have relationships with other parties that require disclosures if one party to an established relationship has the ability to exercise significant influence over the other party in making policy decisions, and the relationship is of such significance that it would be misleading to exclude information about it. The parties engaged in these relationships are "related parties." However, in the context for related parties there are certain classes such as state and local governments that are not considered related parties though the use of judgment does not preclude any organization from being reported as a related party if factors warrant such disclosure.

Staff believes the proposed standard is clear in the boundaries of what organizations should be included in the GPFFRs for the reporting entity. Staff believes organizations would have to meet the inclusion principles or be misleading to exclude to be included in the GPFFR or meet the definitions within the limited reporting for related parties. Staff does not believe it has been the intent of the project to name certain organizations or the federal government's limited role in any area—if anything, this may something the risk assumed project could explore.

**Therefore, no changes are recommended.**

- KPMG suggested the proposal should address how an organization should be consolidated if it appears in the budget in multiple locations. For example, the National Railroad Passenger Corporation (Amtrak) is included in the budget of the Department of Transportation and is also included as an Other Independent Agency.

**Staff Analysis-**

Staff reviewed the FY 2015 Analytical Perspectives table and identified the following accounts for Amtrak or the National Railroad Passenger Corporation. All of them were listed under the Department of Transportation, with the exception of the National Railroad Passenger Corporation, Office of Inspector which was listed as an independent agency.

Department of Transportation

- Grants to the National Railroad Passenger Corporation
- Operating Subsidy Grants to the National Railroad Passenger Corporation
- Capital and Debt Service Grants to the National Railroad Passenger Corporation

**National Railroad Passenger Corporation Office of Inspector General** (listed as an Other Independent Agency)

Staff also reviewed Amtrak's financial statements and noted there are several note disclosures involving reimbursements related to the Office of Inspector General. Without additional research, staff could not state with certainty whether the OIG is included in the financial statements. However, it does appear to be a rare instance that the OIG is listed separate in the Analytical Perspectives tables in the budget. Staff has inquired from counsel regarding the legal status and if this is something related to the status of the federal government's intervention. Currently, the Department of Transportation includes Amtrak as a related party in its component report. This may be subject to change once the new standard is issued. However, staff believes the preparer and auditor should be able to work through issues considering materiality and the judgment afforded in the proposed standard.

**Therefore, no changes are recommended.**

- KPMG suggested that the Treasury General Fund should be addressed. They noted the consolidation of the Treasury General Fund would appear to be required based upon the application of the “control” principle, but the entity to which it should be consolidated should be specified within the statement.

***Staff Analysis-***

Staff believes this issue could be compared to the discussions the board had at the March 2014 meeting when discussing the assignment of the Federal Reserve and its classification. As a reminder, the Board believed it was inappropriate to explicitly classify or designate the assignment of any organization in the standard—because it is the role of preparers and auditors to do so based on the principles. The board did recognize it was the role of the central agencies to offer additional detail guidance to ensure consistency where deemed appropriate in the application of the administrative assignments.

However, staff recognizes the longstanding difficulties with implementing a standalone general fund. Staff has been involved with a sub group and working with Treasury when asked on this and reviewed the proposed standard at various points to determine if the issue needed to be addressed explicitly within the proposal. During the development of the standard, it was determined that no specific language needed to be added.

**Therefore, no changes are recommended.**

- The US Railroad Retirement Board suggested they have a unique situation due to reporting of net assets for the National Railroad Retirement Investment Trust, a non-federal government entity. They may not be able to provide the audited figures for consolidation to meet the 45-day time table for submission to the Department of the Treasury due to timing of completing agency's financial statements.

One suggestion they offered was another category which is “modified consolidated entity.” In this instance, an entity would have its net assets combined in the balance sheet and Statement of Social Insurance (if appropriate) of the Federal Report and information about disclosure entities be disclosed in notes. In this instance, the entity would provide its audited net asset figure to the appropriate federal government agency for inclusion in the agency's financial statements and the FR. This separate category would be applicable to the situation that their agency incurs in relation to National Railroad Retirement Investment Trust, a non-federal government entity.

National Railroad Retirement Investment Trust (description provided by RRB and nearly identical to what is listed in their PAR)

The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The sole purpose of the NRRIT is to manage and invest railroad retirement assets. The NRRIT is a tax-exempt entity, independent from the Federal Government and not subject to Title 31, United States Code (USC). The NRRIT is domiciled in and subject to the laws of the District of Columbia.

The NRRIT is comprised of a Board of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six. Members of the Board of Trustees are not considered officers or employees of the Government of the United States.

The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of benefit payments. The NRRIT has no powers or authority over the administration of benefits under the railroad retirement program. Under the RRSIA, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the RRA. The RRSIA does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the RRSIA provides that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the RRSIA or to enforce any provision of the RRSIA.

Under the RRSIA, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a Statement of Financial Position, a Statement of Operations, a Statement of Cash Flows, a Statement on Internal Accounting and Administrative Control Systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of OMB.

### **Staff Analysis**

Staff reviewed RRB's FY2013 Performance and Accountability Report<sup>11</sup>, and noted the NRRIT is disclosed throughout the PAR—in the MD&A, key financial measures, in the financial statements and so forth. The Balance Sheet includes an asset for NRRIT Net Assets for \$25B in 2013 and \$23.6B in 2012, which is considered quite material to the balance sheet of RRB where total assets for the years were \$31.6B for 2013 and \$30.1B for 2012.

As for the financial statement disclosures, the NRRIT is disclosed in the following places:

Note 2: Related Parties

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<sup>11</sup> RRB's FY2013 Performance and Accountability Report is available online at <http://www.rrb.gov/pdf/bfo/2013par.pdf>



Note 5: NRRIT Net Assets  
Note 12: Transfers to/from NRRIT  
Note 14: Explanation of Differences between the Combined Statement of  
Budgetary Resources and the Budget of the United States Government  
Note 15: Social Insurance  
Note 22: Subsequent Events

Based on staff's limited review of the information and research, it appears that NRRIT would meet the inclusion principles and would appear to be a disclosure entity. However, staff has not been privy to all the relevant facts, information and circumstances associated with the RRB-NRRIT issue.

With that said, it appears the disclosures currently provided by RRB are consistent with the objectives of disclosure entities provided in paragraph 72:

- a. Relationship and Organization: The nature of the federal government's relationship with the disclosure organization(s)
- b. Relevant Activity: Nature and magnitude of relevant activity during the period and balances at the end of the period
- c. Future exposures: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure organization

It also appears RRB provides much of the information similar to those provided in the list of examples in paragraph 73:

- a. The name and description of the disclosure organization,<sup>12</sup> including information about how its mission relates to federal policy objectives, actions taken on behalf of the federal government, its organization and any significant involvements with outside parties
- b. The nature of the relationship between the federal government and the disclosure organization including relevant information regarding:
  - i. How any control or influence over the disclosure organization is exercised
  - ii. Key terms of contractual agreements, statutes, or other legal authorities
  - iii. The percentage of ownership interest and/or voting rights
- c. For intervention actions, the primary reasons for the intervention and a brief description of the federal government's plan relative to monitoring, operating and/or disposing of the disclosure organization and/or a statement that the intervention is not expected to be permanent

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<sup>12</sup> For simplicity, information is described in relation to a single disclosure organization. Nonetheless, the information may be presented for an aggregation of similar disclosure organizations.

- d. A description and summary of assets, liabilities, revenues, expenses, gains, and losses recognized in the financial statements of the reporting entity as a consequence of transactions with or interests in the disclosure organization and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)
- e. A discussion of the disclosure organization's key financial indicators and changes in key financial indicators
- f. Information regarding the availability of the disclosure organization's annual financial report and how it can be obtained
- g. In the event that contractual agreements, statutes, or other legal authorities obligate the reporting entity to provide financial support to the disclosure organization in the future, information regarding potential financial impacts (including those terms of the arrangements to provide financial support and liquidity, including events or circumstances that could expose the federal government to a loss)
- h. The nature of, and changes in, the risks and benefits associated with the control of, or other involvement with, the organization during the period
- i. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the disclosure organization, including how the maximum exposure to gain or loss is determined (If this cannot be quantified, a narrative discussion could be offered.)
- j. Other information that would provide an understanding of the potential financial impact, including financial-related exposures to risk of loss or potential gain to the reporting entity, resulting from the disclosure organization's operations including important existing, currently-known demands, risks, uncertainties, events, conditions and trends—both favorable and unfavorable

Staff does not perceive the implementation of the *Reporting Entity* proposal would adversely affect the presentation of RRB financial statements. This guidance is to supplement existing guidance to ensure users are provided comprehensive information about federal reporting entities. All other applicable GAAP accounting standards are still in effect and apply for recording the transactions between the RRB and NRRIT that must be presented and disclosed.

As for RRB's concern that they may not be able to provide the audited figures for consolidation to meet the 45-day time table for submission to the Department of the Treasury due to timing. Staff notes the NRRIT is on a fiscal year end, just as the RRB. The NRRIT also produces quarterly reports that are available.

Note that the timing concern relates also to the NRRIT net assets reported as an asset by RRB. The FY2013 RRB audit report documents challenges encountered in obtaining “sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial position” of the RRB. As noted in other cases, the transactions and balances resulting from relationships between consolidation and disclosure entities would still be recognized in accordance with existing standards. Staff does not believe the entity standards would resolve the underlying timing concern regarding NRRIT net assets reported by RRB.

However, if a timing difference regarding the disclosure organization’s disclosures cannot be avoided, the proposal provides for differences in disclosure entity year ends in paragraphs 75-76:

75. When information is derived from the disclosure organization’s financial report, it is preferable but not mandatory that the report be for the same reporting period as the government-wide reporting entity. If a disclosure organization’s reporting period differs from the government-wide reporting entity’s and it is not cost-beneficial to align the reporting periods, any financial information disclosed from the disclosure organization’s financial report should be for a reporting period ending within the government-wide reporting entity’s reporting period.
76. Significant changes in information occurring from the end of the disclosure organization’s reporting period should be reported consistent with the requirements of SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

While deliberating this issues, the Board discussed this would only be necessary if a disclosure organization’s summarized financial statements or summarized financial information were presented. Otherwise normal transactions would be captured throughout the year so this would be a somewhat narrowed focus.

Staff does not foresee any further action unless requested.

**Therefore, no changes are recommended.**

### **Overall Staff Analysis**

Staff included an individual analysis for each specific example provided by the respondents. The Board’s approach throughout the project has been to develop a principles-based standard that could be applied to all organizations. This includes inclusion principles that could be applied to all organizations to determine if they should be included in the government-wide GPFFR and characteristics for consolidation and disclosure entities that could be applied to those organizations determined to be

included in the GPFFR in assessing whether they are a consolidation entity or disclosure entity.

Staff does not believe a detailed summary of the above examples needs to be included in the basis for conclusions. However, if the board prefers a summary can be included or not. If the board wishes to include a paragraph, staff proposes:

#### Basis for Conclusions

AXX. As part of the exposure draft process, the Board asked respondents if there were other unique situations that should be addressed within Statement. The Board received input from respondents on several example organizations that they believed should be clarified in the Statement. The Board considered the examples along with understanding the goal was to develop principles-based standards that could be applied to all organizations. The Board believes the standards are sufficiently clear and does not intend to name or classify certain organizations. That is not the role of the Board and does not allow for changes in circumstances. Therefore, the Board did not revise the proposed requirements in response to this input.

**7. Does the Board wish to include the above paragraph in the Basis for Conclusion? Alternatively, the Board could be silent regarding the consideration of examples.**

### **QUESTIONS FOR THE BOARD**

- 1. Does the Board agree with staff's proposed changes to the component reporting entity language to address the concerns with the misleading to include provision?**
- 2. Does the Board agree with staff's proposed language to the basis for conclusions to explain organizations partially in the budget?**
- 3.**
  - a. Does the Board agree with the revision to par. 83b. to clarify that not all multi-lateral development banks are related parties?**
  - b. Does the Board agree with the conforming changes to par. 79 (drop the adjectives "financial and operating") regarding policy decisions from the related parties language?**
  - c. Does the Board prefer Option A (basis for conclusion) or Option B (revision to exclusions) to address relationships such as NSB in related party reporting?**
  - d. Does the Board agree with the changes to the basis for conclusions to address component reporting related party information?**
  - e. Does the Board agree that there are no changes necessary to address the issues of Separate Standard for Related Party, Difference between Disclosure Entity and Related Party, Term Related Parties, or Additional Disclosures?**
  - f. Does the Board wish to offer any other revisions to the related party language?**
- 4. Does the Board agree that no specific changes are necessary to address comments or concerns in the SFFAC 2 Amendments?**
- 5. Does the Board agree to delay the effective date to periods beginning after September 30, 2017 and to not permit early implementation of the standard?**
- 6.**
  - a. Does the Board agree both appendices should remain once the Statement is issued?**
  - b. Does the Board wish to add an illustration for a conservatorship or a receivership?**
- 7. Does the Board wish to include the above paragraph in the Basis for Conclusion? Alternatively, the Board could be silent regarding the consideration of examples.**

**Board Minutes Related to Museums**

**March 2014 Draft Minutes**

Ms. Loughan directed the Board to Issue 4 Organizations partially in the budget, museums on page 26. Staff explained this issue relates to entities such as museums that are partially on budget--meaning a substantial portion of their funding is from federal appropriations included in the budget and the entity receives private support (such as donations) not included in the budget. Currently, these entities present the budgeted portion as 'federal' or 'appropriated funds' and present the other funding as 'non-appropriated,' or 'trust funds' in their stand-alone reports. However, only the budgeted portion is included in the US Government-wide financial statement. Staff explained generally the component reporting entity statements are presented using the FASB's non-profit formats. The statements present federal funds, donor funds, and total funds (consolidated) in columns. Amounts are identified for restricted and unrestricted funds consistent with the non-profit standards.

Ms. Loughan explained the Board asked respondents whether the reporting entity should consolidate financial information for all consolidation entities for which it is accountable without regard to funding source (for example, appropriations or donations). For certain organizations, such as museums and performing art organizations, this may lead to consolidating funds from sources such as donations that are presently not consolidated in the government-wide GPFFR. Five respondents disagreed with the proposal. The summary of those responses is included in the staff analysis. Staff also met with a representative from the US Holocaust Museum to discuss concerns.

Staff believes the biggest concern -- that it would be misleading to present funds not available for other purposes as consolidated -- may be resolved by considering how the funds might be displayed in consolidated statements. GAAP applicable to non-governmental entities, state and local governments, and federal governments provide for distinguishing between net assets and revenues whose use is restricted and those available for general use. Such distinctions may clarify the nature of donor amounts while recognizing that the reporting entity is accountable for the funds. The federal standards provide for such presentation as well.

Ms. Loughan explained that staff did not find strong persuasion to change the current proposal and recalled that the Board had been adamant regarding the position of not splitting an entity. The Board had considered whether addressing the requirement would be appropriate, but instead opted to describe in the basis and elaborate with the footnote to paragraph 64 describing consolidation and that amounts and balances from different funding sources should be included. However, staff believes certain language could be added to the basis for conclusion (as presented in the binders) to explain how GAAP standards must still be applied and add clarity for some of the points identified. Staff requested the Board's feedback.

## **TAB C Reporting Entity, APPENDIX 1 – Relevant Board Minutes**

Mr. Reger asked if staff had talked to Smithsonian, because this would affect them. Ms. Loughan explained no, but staff did reach out to them during the exposure draft process. Staff met with staff at the Holocaust. Mr. Reger stated that we have to spend some time with the Smithsonian because they maintain they are two separate organizations and are not part of the federal government.

Mr. Steinberg suggested that perhaps they did not respond because it is not in the standards, it is in the basis of conclusion. He explained that right now the Smithsonian and the Holocaust put out standalone statements that are complete. They put them out with the total financial operations, appropriated funds and donated funds using FASB standards, and they separate the donated funds from the appropriated funds. And then in the back as additional information they put in the four statements required for appropriated funds. He explained that they submit to Treasury only the appropriated funds and Treasury does not include the donor restricted funds. Mr. Steinberg asked do we want that to change that practice and if so, at the component level or government-wide? He explained that he did not think we would see any change at the component level. Mr. Steinberg explained at the government-wide, he expected the museums to be reported as disclosure entities because they have separate Boards. He added that they have tremendous separation between the President and Congress and the organizations themselves. If they are disclosure entities, we would disclose the fact that part of their monies is appropriated, and part of the monies is donations. Mr. Steinberg explained he believed it should be in the standard; not in the basis of conclusion. He believes there should be something in the standard that these donor organizations should submit donor funds as well as appropriated funds, and that the consolidated statement would indicate the nature of the donor funds as dedicated collections.

Mr. Granof questioned why Mr. Steinberg believed they would be disclosure entities versus consolidated entities. He also questioned why we would be stating what information to provide. Mr. Steinberg explained that you need to disclose the fact that the federal government runs museums, expending more than a billion dollars a year, but also that not all of this is appropriated funds. Mr. Granof did not understand what we would be indicating, what special information do we need or would one be breaking out. Mr. Allen agreed and stated that the Board discussed this issue before that it is part of the organization.

Mr. Reger commented that the Smithsonian has in essence systematically created two separate and distinct organizations who work together to be the Smithsonian. They pay for their appropriated expenditures through Treasury and through another agency that does disbursements for Treasury. Mr. Granof questioned how could they possibly distinguish between which money goes to which? All money is green. Mr. Reger noted he was only bringing this up in case there was an issue getting the necessary information from the Smithsonian.

Mr. Dacey explained that the reported Smithsonian dollars are just over a billion dollars in total. He thought when the Board first talked there was some thought these would be consolidated entities. He explained he is not making a determination either way, but if

## **TAB C Reporting Entity, APPENDIX 1 – Relevant Board Minutes**

they are disclosure entities, he is not sure they would rise to the level of materiality to even be disclosed in a consolidated GPFFR. Mr. Reger agreed.

Mr. Dacey explained that right now the federal government portion is directly consolidated into the government-wide financial statements. He did not believe they were naturally affiliated with another federal component entity. Mr. Dacey acknowledged that not all Board members might come to the same conclusion they are disclosure entities or consolidation entities. Mr. Dacey explained it was the Board's job to make sure the criteria are clear, and clarify whether the entire organization should be included.

Mr. Showalter asked Mr. Steinberg if these turn out to be disclosure entities, and we have already defined what we want for disclosure entities—what in that standard (objectives for disclosures entity disclosures) up front is lacking in this situation.

Mr. Steinberg explained there needs to be a paragraph that says donor organizations should be reporting all of their monies and that a government-wide statement should have consolidation or disclosure of the entire organization. Ms. Payne explained that she does not know what the other museums think, but staff contacted the museums repeatedly. We got a response from one museum, Holocaust, and they understood crystal clear that all of their funds-- donated and appropriated-- would have to be presented for inclusion in the CFR. They were concerned about the potential that the readers would think the funds were suddenly free for use for other federal activities. But we have a lot of dedicated collections, and staff consulted with counsel and believe the museum donations meet the criteria for a dedicated collection so that we can resolve that concern about the misleading presentation. And after we met with the Holocaust Museum's CFO, she was satisfied. We have explained that in a draft basis for conclusions.

Mr. McCall noted that the Holocaust was also concerned that if they showed their donations with appropriations in the government wide, people would think they do not need the donations because they are getting the appropriations.

Ms. Payne suggested that an organization like the Smithsonian may assert that they have the two completely separate governing structures, one controlled by the federal government and one not. However, would a preparer and an auditor be able to apply these standards to the two separate pieces and reach conclusions? Mr. Allen asked if the opinion go separately to those financial statements funded by donors and appropriation. Mr. Steinberg noted he thought it was the same opinion and it was a FASB basis statement.

Mr. Allen explained that was Ms. Payne's point, she doubts that the auditors could ever get to the point of giving two separate opinions on this organization saying it is not one organization, it is in fact two separate legal organizations having nothing to do with each other. Mr. Showalter added that the criteria they are using to determine reporting is not FASAB criteria.



## **TAB C Reporting Entity, APPENDIX 1 – Relevant Board Minutes**

Mr. Allen noted that Mr. Steinberg had a valid point and we could extend another invitation, and ask Smithsonian if they have any thoughts or concerns based on this, but the standard is moving forward. Mr. Steinberg offered to provide the staff wording to avoid uncertainty about the organizations partially in the budget. Ms. Payne agreed that staff would make another inquiry of the Smithsonian.

### **October 2012**

Mr. Steinberg explained the next issue is with museums.

Staff explained that museums are addressed most clearly in the basis for conclusion, but also in an illustration and a question was added based upon the discussion last meeting.

Mr. Steinberg explained he believes it must be addressed in the standard. He explained that it is the absence of something that leads to inconsistency in the reporting of the museums and performing arts organizations. Mr. Steinberg explained he is concerned that right now there is inconsistency in reporting among the museums and the fact that some of the museums are reporting only half of their activities to the Treasury Department. The consolidated financial statement report only has the appropriated funds and doesn't report on the activities which are financed by the donated funds.

Mr. Steinberg explained there should be explicit guidance whether organizations are funded with appropriations, but also receive a significant portion of their funding through donations, that states it should be included in the GPFER in their entirety. He believes if we do not address that, inconsistent reporting will continue.

Staff explained they tried to make it clear based on the Board's direction and included a discussion in the basis for conclusion.

Mr. Granof explained he had the same concern and thought it appeared we were setting standards in the basis.

Ms. Payne explained it was drafted this way to explain the outcome of principle-based standards, but if the Board would like a paragraph in the standard that is explicit about museums or entities with other sources of funding, it could be added. She noted there are a lot of entities that are allowed to collect funds.

Mr. Steinberg explained it should be for significant ones -- significant to their operations.

Ms. Payne agreed, but noted that the Smithsonian is approximately 85 percent appropriated funds. Is 15 percent donations considered significant? Staff can spend time on it and draft wording if that is what the board wishes.

Mr. Dacey asked what we were accomplishing, if it meets the definition of a consolidated entity going through the whole process we set up here, then isn't the point though it has to be the entire entity. He explained the extent of other funding should have been considered in the decision about whether it is a consolidation entity. So it

## **TAB C Reporting Entity, APPENDIX 1 – Relevant Board Minutes**

appears what Mr. Steinberg is trying to get is the language similar to A20 that it is the whole entity, not part of the entity—it just sounds as if he wants that into the standard. Mr. Dacey explained that the funding by other sources is not significant because we have already made a decision it is a consolidation entity.

Mr. Showalter agreed the funding source should not matter.

Mr. Steinberg explained you must be explicit.

Mr. Dacey explained if you made a decision that it is a consolidated entity then you need to consolidate the entire entity.

Chairman Allen asked if there was a way to get the concept into the standard within one of the existing paragraphs.

Mr. Showalter suggested in paragraph 61- It says “consolidated entities’ financial statement should be consolidated.... He further suggested adding a footnote there that the consolidated financial statements should include the amounts and operations from all sources, appropriated and donated funds-- wordsmith it. He explained it was to address the point and it seemed like a logical place since this is where we are talking about what consolidated financial statements mean.

Mr. Dacey agreed.

Chairman Allen agreed and asked if any members objected to the proposal. If no members objected, staff could bring back final wording for review at tomorrow’s meeting.

The Board agreed to add the footnote regarding funding by different sources--donations or appropriations to paragraph 61.

### **June 2010**

Mr. Allen noted the issue seemed very similar to the second issue that the Board would be discussing, entities partially in the budget.

FASAB Counsel Mr. Dymond agreed and explained this could be considered a subset of issue 2, which is partially in the budget. Staff’s approach in issue 2 is to simply say if the entity is listed in the schedule; the entity is in whether it has budget accounts, non-budgetary accounts, and so forth. He added to specifically identify financing accounts as part of the entity seems to be inconsistent with the approach of simply saying, the entity is in.

Staff agreed with the Board and explained OMB had brought this up at two meetings so staff thought perhaps there was need based on experience from application but if OMB is comfortable an approach similar to issue 2 can be taken. Staff suggested including an explanation in the basis for conclusion. Ms. Kearney agreed if the Board adopted

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that approach with issue 2 then an explanation in the basis for conclusion would be sufficient.

Mr. Showalter explained he believed the footnote should be included and clear-- if an entity is on the schedule, it is in. He explained he would like to have a footnote included because we want to ensure there is no doubt what we mean as the entity may have other accounts that aren't included on the schedule.

Mr. Jackson agreed that entities should include all accounts associated with the organization. He suggested the footnote for clarity that simply said, "Entity should include all accounts associated with the organization in making a decision with regard to whether they are part of the reporting entity."

Mr. Dacey agreed if the entity is in, the whole entity is in, but the question is what does that include and that is our second tier question.

Mr. Steinberg explained that he didn't have a problem with the footnote. He added he was fine with Mr. Jackson's suggestion in saying, "all accounts" and he believes other issues can be taken care of with the presentation part. He asked if OMB had issue with "all accounts" and how it relates to guidance on the parent and child accounts. Ms. Kearney explained the guidance is in Circular A-136 and it relates to accounts where in practice there was confusion as to which agency was going to report it. The guidance ensured the parent account picked it up to avoid double counting.

Ms. Kearney didn't see a specific reason for this to be addressed in the entity standard. Ms. Kearney explained the parent is in control -- the child is merely executing on behalf of the parent because it is in support of the parent's mission, the parent gets appropriated funds. Ultimately the parent is responsible for that money.

Mr. Allen suggested the Board move on to issue 2 since it was agreed it was similar to the first issue. He asked if the Board agreed with the staff proposal and that language in the conclusive principle should be silent and the exception for these types of organizations (museums and performing arts) should be included in the Draft ED under Government-wide Reporting Entity Presentation and Disclosure Requirements and under the Exceptions and Unique Relationships.

### **April 2010**

Ms. Bond asked for clarification on option 2. She explained that it was her understanding that from the last meeting that some members actually preferred to "split the baby." However, the staff paper notes the Board agreed to not split the baby. Staff explained the staff paper option 2 results in a portion of the entity being consolidated while the other portion of the entity may result in consolidation or some other presentation such as disclosure based on the indicative principles.

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Mr. Allen explained that based on Ms. Bond's comment perhaps there wasn't Board agreement as noted on page 12 of the staff memo which states "As the minutes detail, it appeared there were a few points that most members agreed on: An entity should not be divided; therefore, the status quo should change as presently only the federal portion is consolidated and there are no disclosures in the government-wide report regarding the entity's consolidated operations (i.e., non-federal funds are omitted entirely)." Staff notes the paper also explained "There appeared to be support for looking to the indicative principles for clarification on how the entities should be presented, yet it was uncertain if the Board would want to present a portion of an entity consolidated if the assessment of the indicative principles led to something other than consolidation."

Mr. Dacey added there was a lot of discussion on the issue in February and it may be helpful to see where the Board members stand.

Mr. Allen explained he believes the organization should be assessed against the indicative principles; it would be very difficult to break up funds and assess them against the principles. He added that one looks at who controls the organization, who appoints the board, who is responsible for the debt, who maintains the buildings, etc. even though some other funding may be received, the federal government is ultimately responsible, otherwise the federal government is subsidizing an entity.

Mr. Steinberg explained that although the answer to those questions may be yes, it may still be more appropriate to disclose condensed financial statements for them. Mr. Allen agreed but that is more of a presentation or reporting model question, the answer of how you do it is more of an open question. Right now, the Board should decide if the whole entity is in or out of the federal government reporting entity. He agreed that later we can decide how they will be presented. Based on this, Mr. Steinberg stated he could amend his answer and say yes, include in the federal reporting entity.

Mr. Jackson explained he liked the option that was presented at the previous meeting that allowed for specific disclosures for these types of entities. Staff explained this was option 3 in the staff paper. Staff directed the Board to page 14 *Option 3—Include Separate Section in Draft ED-- Eleemosynary Entities or Jointly Funded Museums and Performing Arts Organizations*. Staff explained the Draft ED would have two sections as the conclusive principle would direct you to separate section that addresses these types of entities and provides for following specific disclosures:

- name, purpose, and description of the entity;
- nature of the federal government's relationship with the entity and the amount of funding or subsidy provided to the entity, and if applicable, the percentage of ownership interest and voting;
- condensed financial information for the entity, e.g. assets, liabilities, fund balances, total expenditures and sources of revenues; and

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- other information that would provide an understanding of the possibility of potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the U.S. government reporting entity.

However, staff explained the disclosures were for those entities the federal government provided less than 80% funding. If the federal government provided over 80% then the entity should be consolidated. The Board members noted concern with jumping straight to consolidation. Ms. Payne explained staff noted entities would be consolidated in this case because these are entities that appear in the federal budget, so it appeared consolidation would be appropriate in those cases. Ms. Payne explained staff did not consider or have a lot of discussion in the staff paper along the lines of included versus excluded with this issue because these types of entities are listed in the budget. Ms. Payne explained with entities appearing in the federal budget there is no question if they are federal, and that is why staff presented option 3 as it is, consolidation for those 80% and over and disclosure for those less than 80%.

Ms. Bond explained after hearing the discussion, she would like to change her vote to option 3 with the 80% as recommended by staff as it appears more in the disclosure realm and it is consistent with what Mr. Steinberg had presented.

Mr. Dacey explained utilizing 80% supports that a substantial portion of the funding had come from the federal government and must be more than a majority to be consolidated.

Mr. Allen explained a challenge with this project is what it means to be a part of a reporting entity. He noted there must be some other way to present other than consolidation and disclosure, and that's what makes the columns as used in GASB a good tool.

Mr. Jackson noted that many of these entities may not even constitute a rounding error and are not material. He added that although they are important, the Board has spent an inordinate amount of time on this. Mr. Allen noted that the materiality box always applies. However, Mr. Allen explained the same issue may apply to material organizations.

Mr. Showalter asked if there were any other entities that were partially in the budget that weren't addressed in option 3, meaning is there anything other than museums and performing art organizations. Mr. Dymond explained there are other funding mechanisms that agencies have other than donations that are not included in the budget-credit reform financing accounts that would apply to this.

Mr. Showalter questioned specifically naming the organizations "Eleemosynary Entities or Jointly Funded Museums and Performing Arts Organizations" when we are addressing the issue of entities partially in the budget. Staff explained when you think of partially in the budget it becomes very difficult to define, because one can not be certain if today or in the future Congress will authorize other organizations. Usually if an organization collects outside money, it still requires an appropriation to use the money.

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Ms. Payne explained it is very difficult from a staff's perspective to anticipate how the budget might be structured. By slicing out the known organizations such as the eleemosynary entities, one avoids creating a big whole of unknowns.

Mr. Jackson noted these types of entities are a Treasury consolidation issue and really don't involve component entity issues. He added that it may be possible to write the standard in such a way that if Treasury determines the entity is not material to the government-wide, then it wouldn't have to be included, especially since these entities are still producing their stand alone financial statements. Mr. Jackson added it was the materiality filter for the preparer. Mr. Allen agreed and said that is the way it ought to be, but that isn't the way the preparer necessarily does it, often preparers will still do it even if it isn't material since the standard requires something.

Mr. Dacey commented that there potentially could be issues at the component level. He explained he wasn't sure how FFRDCs flow through and are picked up and if they are ever listed partially in the budget.

Mr. Dacey's noted concern with Mr. Jackson's point regarding materiality. He stated it is fine for a preparer to use materiality in preparing financial statements, but materiality should not be used in defining the federal entity itself. Mr. Jackson agreed with Mr. Dacey's point.

Ms. Bond noted the Smithsonian is material to the government-wide financial statements. Mr. Strobel explained they have approximately \$1 billion worth of assets.

Staff noted that the Smithsonian is included as one of the significant entities in the CFR and was included in the Accountability for Tax Dollars Act.

Mr. Showalter said in the interest in moving forward it appears what got the Board in a tailspin is that much time has been spent talking about the how (consolidation or disclosure) instead of whether they should include. He suggested the Board vote if there is agreement entities partially in the budget are included in the reporting entity and how it should be presented would be determined later.

Mr. Steinberg suggested the Board agree that jointly funded museums and performing arts organizations that are in the budget and receive funding from an outside source are part of the federal entity; the Board can later determine how they can be displayed and whether the 80% should apply.

Mr. Dacey asked if it was possible to run into this same problem with the entities that meet the indicative principles. He explained it may be possible to have partially federally funded entities where a majority of the funding may be coming from other non-federal sources that meet the indicative principles. Mr. Dacey explained this similar issue will need to be explored as it relates to the indicative principles—the entity meets the criteria but a significant portion of funding is not federal. Ms. Payne added that funding is a factor, but if it is just meeting indicative criteria and it has funding from another source and then management is accountable to that other source to how it used the money. That is the main issue with charitable organizations and what makes them

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unique, there is accountability for how the money is spent to the donors. Staff noted this would be considered in the indicative criteria.

Mr. Allen recognizes this postpones resolving the question. Mr. Showalter suggested it may be premature to answer the consolidation question. Ms. Payne asked how premature is the question, does the Board envision it in this project or is it in the Reporting Model Project. Mr. Showalter suggested the Board should address all of the unusual type questions at the end of the federal entity project at one time.

Ms. Bond asked for clarification if Mr. Allen's question of whether the entity is included means included in total and whether the idea of splitting the entity is still up for discussion.

Mr. Allen noted this would be the appropriate time for reconsideration of what staff noted was the conclusion reached at the last meeting because Board members have the right to do that. Mr. Allen explained that staff thought the majority of the Board agreed the whole entity should be in or out. Ms. Bond agreed she wanted to confirm the Board's position on that matter.

Ms. Bond also wanted to reiterate and ensure the Board doesn't lose sight of the fact the federal government can't use the Smithsonian funds. Mr. Steinberg noted he believed this should be a factor considered in determining the proper presentation.

Mr. Allen confirmed the Board would vote if there was consensus regarding whether the whole entity should either be included in some fashion or excluded.

Mr. Dymond explained this is similar to fiduciary activities, such as the Indian Trust Funds. Indian Trust Funds are included in the note disclosures of the CFR. Mr. Jackson explained the donated funds of the museums could be viewed as similar as they are held in trust and can't be used by the federal government.

Mr. Allen explained conceptually one does not care about an organization that is partially funded because of access to its resources or whether they can be used, the question is whether there is a stated or unstated obligation the federal government is responsible for. If so, it may be very important to include the complete financial statements so users have an understanding of the financial position of that organization and know the potential obligation that controlling organization may be incurring.

Mr. Allen explained the most difficult part is how to present these types of entities. One approach to consider is a note disclosure about the relationship with key financial information and a reference to where the full financial statement information can be found. He recognizes there are creative ways to do this but it appears the majority of the Board just wants to agree on whether it is in or out at this point and determine the how at a later point.

The Board agreed this would make progress, but it would need to be revisited. It would need to be revisited before the reporting model project. Mr. Jackson suggested it would be a good idea to allow interested parties to comment on how to report when the

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proposal is sent for comment. Mr. Allen suggested it would be during the exposure draft process.

Mr. Allen requested the Board members vote on the reconsideration and what should be included--federal funds or both the federal and non-federal funds.

Ms. Bond explained she agreed to include the federal portion only.

Mr. Dacey explained his response continues to be inline with option 2, which would be to include the entity with presentation based on the indicative principles.

Mr. Schumacher explained the whole entity should be included.

Mr. Showalter also agreed the entire entity should be included.

Mr. Granof agreed, the whole entity should be included, and not split.

Mr. Jackson agreed to include the entity, its all or none, the only question that remains is how it is presented because we are dealing with the entity now, not the type of money of funding. If a portion is deemed to be similar to the Indian trust funds, they are still included, just through a note disclosure.

Mr. Steinberg agreed the entity should be included and presentation would be decided later.

Mr. Strobel also agreed the whole entity should be included.

Mr. Allen stated he also believed the entity as a whole should be included.

The majority of the Board agreed for entities partially in the budget, the entity as a whole should be included in the federal reporting entity. The issue of how they would be presented or displayed would be addressed at the end of the federal entity project along with other unique relationships.



**Board Minutes- Relevant to Component Reporting Entity**

**March 2014 Draft Minutes**

Ms. Loughan directed the Board to Issue Number 2, Component Reporting Issues. The Board proposed each component reporting entity report in its GPFFR organizations for which it is accountable; that includes consolidation entities and disclosure entities administratively assigned to it. The proposal provides that administrative assignments can be identified by evaluating: the scope of the budget process, whether accountability is established within a component reporting entity, or rare instances of other significant relationships such that it may be misleading to exclude an organization not administratively assigned based on the previous two principles. Staff explained based on the responses in this area, most respondents agreed with the overall principle that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure entities administratively assigned to it and that administrative assignments can be identified as provided in the guidance.

Based on the responses, a majority supported the proposal and very few identified concerns. The main issue brought up related to the Misleading to Include provision. Staff provided the Board a handout related to this area—staff held a conference call with PBGC, and they had a few wording changes to propose, and some such changes are on the handout. Staff opened the floor for member questions and comments.

Mr. Allen noted in referring to their suggested change—the suggestion to change to “many” and as he recalled there are not many of these situations. Ms. Loughan explained that it was in reference to the budget approval or oversight of the organization.

Ms. Payne suggested that alternatives might be “in most such cases” so limiting it to the cases universe. After discussing the size of the universe of cases, there appeared to be support for adding “certain cases.”

Mr. Dacey explained his concern that the second sentence is basically setting up one of the examples of why it might be misleading. It seems to draw a closer connection between the first and second sentences. Mr. Allen agreed and wondered if one could link those two sentences together. Mr. Dacey explained that we say for example it may be misleading if there is little to no budget approval or oversight. There are two examples of what might be misleading.

Mr. Allen asked if the members object to adding the additional example. And if they do not object to that, he would like to turn it back to staff to work that in. Mr. Showalter stated he was not sure if he objected, but he thinks we need to ask the question about

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providing examples because when we list them, we imply we know some and they become criteria.

Ms. Payne explained that respondents indicate that “misleading to include” can be confusing and there should be some sort of criteria. Staff noted there is one example we are aware of and we have included an example “there will be little to no budget approval or oversight of the organization by the component reporting entity head and indicators that accountability has been established in the component reporting entity will be minimal.” Staff explained those are the overarching themes in the administrative assignment, so it is linking it back to that and you may find factors that lead you to think it has been administratively assigned but in practice it is just form and not substance.

Staff noted that PBGC contacted us because they believed that one of the things that was deleted was an example that should remain--legally established within a larger organization while authorized to operate independently. Staff did not object to putting it back in.

Mr. Allen asked if there was any objection to including both examples.

Ms. Hamilton raised concern because she did not know how “organization” is defined. She explained that she was concerned because if “organization” means an office, this would affect the Offices of Inspectors General because they are legally established within a larger organization. They operate independently, and they submit their budget directly to Congress.

Mr. Allen acknowledged that was an issue that should be considered and a challenge of finessing a document that has already gone through due process.

Mr. Steinberg explained he thought the Inspector General Act explicitly states that the IGs report to the head of the organization. Ms. Hamilton explained it is “generally supervised” by them for purposes of their reports. They report to the head of the Congress, but they do not report to them in the sense of the general reporting of another office within that because of their independence and the safeguards there in the IG Act.

Mr. Steinberg suggested that it would be unconstitutional to have somebody in the Executive Branch report directly to the Congress. Ms. Hamilton explained the IG Act is using reporting for purposes of their reports, not for purposes of civil service laws reporting. There are other parts in the Act that take care of the appointments. Mr. Reger acknowledged this was because a number of agencies started trimming the IG's budgets, so they changed statutory language to say their budgets have to go in directly.

Mr. Steinberg explained he was referring to the IG reports to Congress that goes to the head of the agency, and then the head of the agency transmits it to Congress. Mr. Reger suggested it was similar to performance reports that go to the head of the agency.

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Mr. Dacey stated his personal thought is we do not want to exclude the IGs from any of the agencies reports because they relate to the agency in terms of financial reporting.

Mr. Allen explained he agreed and the standard can get there by providing only one example as suggested in the staff proposed language as an example so that it is not the only example, but somehow that they know that this is not an example of something that could arise to the misleading to exclude. He did not want to provide the second example as suggested by PBGC because of the potential for unintended consequences (such as IGs established within a larger organization) although the Board recognized a similar sentence was included in the exposure draft and PBGC reintroduced that. Mr. Allen believed that counsel had made a very valid point.

It was agreed that staff would revise paragraph 61-63 based on the discussion for misleading to include to reflect the Board's input, ensure it addresses the known PBGC example and also addresses the issue regarding the IGs.

Mr. Dacey asked if the Board ever in the basis for conclusions identify specific commenters and how we addressed their concerns. Ms. Payne explained that we have in the past.

### **Dec 2011**

Ms. Bond replied that she thinks the sentence does go far enough. In looking at the example of PBGC and the Department of Labor (DOL), there are good reasons why they are treated as separate entities, even though someone could argue that, technically, the Employee Retirement Income Security Act (ERISA) put PBGC under DOL. She said to actually show those statements together (PBGC and DOL) would actually cause her a lot of concern and that is what was pointed out in the letter to Linda Combs in the appendix of the briefing materials.

### **Feb 2012**

Mr. Steinberg said he would like to address instances where OMB has provided waivers to entities from being consolidated into component entities (e.g., the Pension Benefit Guaranty Corporation). He would like to determine if they can develop a principle that would provide for such instances. Ms. Loughan responded that staff had developed the paragraph on "Misleading to Include" (par. 8 on page 6 of Tab D) to address those types of situations.

Mr. Steinberg said that OMB had laid out criteria under which they would consider a waiver and asked if the board should include criteria in the standard or just leave the decision open to OMB. Ms. Payne responded that was one of the issues that got

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flagged for discussion at the next meeting so staff provide two options so members can discuss in more detail then.

Mr. Reger asked what other issues have been flagged for discussion. Ms. Payne responded that some of it will be clarity of wording. She noted that staff has plans to meet with some CPA firm representatives next week and hope to do some outreach to the preparer side as well. One issue she saw that they discussed earlier was the potential for non-core entities to be in more than one disclosure. She noted that the “Misleading to Include” paragraph is written the way it is written because it applies only “so long as” the entity is preparing its own GPFFR that would be consolidated at the government-wide level. She said that staff will develop that discussion along with the option to include factors as proposed by Mr. Steinberg.

Ms. Payne stated that, other than those few issues, she thinks most of the items for discussion at the next meeting will involve clarity of wording. She recognized the time that Ms. Loughan has spent developing the draft wording and stated that Option A is pretty well fleshed out and it is a matter of getting into the details at this point.

Mr. Dacey noted that par. 2 in Tab D talks about administrative assignments, which is consistent with what the board discussed at the last meeting. However, he struggled with pars. 3 and 4 and how they then relate back to par. 2. For example, if OMB says that PBGC does not need to be consolidated with the Department of Labor, does that mean you stop after par. 2 and do not go down to pars. 3 and 4. He stated that he struggled with the inter-relationship between pars. 2-4. He asked staff to consider whether this is a decision tree or step approach and how one should consider the paragraphs in relation to each other.

Mr. Dacey also asked staff to consider the significance of materiality for disclosure of non-core entities—should it apply only at the government-wide level or should it apply at the component level. There are certainly a lot of disclosures about non-core entities that would disappear at the consolidated level due to immateriality. Staff explained component entity disclosure requirements have not yet been developed for the component reporting entity, but did not envision having different materiality considerations at the component entity reporting level than would normally be there.

### **April 2012**

#### ***OMB Administratively Assigned Entities***

Mr. Dacey noted that the board had discussed situations where OMB may administratively determine whether a core entity is consolidated under a particular component reporting entity but he was not clear how those situations fit into the criteria that were currently included in the draft ED.

Ms. Loughan responded that staff believed the example they had discussed in the past—Pension Benefit Guaranty Corporation (PBGC)—would be addressed by the

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“misleading to include” principle described in paragraph 59. She stated that staff had reviewed the factors that were considered in the OMB waiver that specifically addressed the decision about PBGC and looked at the criteria in the standard from that perspective. She asked if the board wanted more explicit guidance for situations where OMB administratively determines how an entity should be consolidated.

After a brief discussion by members, Chairman Allen asked staff to consider Mr. Dacey’s concern and come back with a recommendation at the next meeting.

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### **Board Minutes- Relevant to Related Parties**

#### **August 2013 (discussion after the public hearing)**

Mr. Dacey explained that the NSF representative also testified about related parties and situations with members of their Board. Mr. McCall stated that they had also requested an example scenario. Mr. Allen explained that was much less of a concern to him because they have the ethics policies and procedures. He also believes the individual transaction with an individual institute would not rise to a level of materiality. Mr. Dacey explained he had some concern with excluding them all together because there could be situations where you have members of your Board receiving material amounts of grants, it would be relevant to disclose that.

#### **August 2013 (public hearing Q& A)**

MR. STEINBERG: I noticed that in your financial statements, you do have a note called awards to affiliated institutions, in which you describe how some of the board members may be affiliated with institutions that are eligible to receive awards. Then, you actually identify the amount of awards given to those institutions that are affiliated with board members.

Is it that you are concerned with the requirement for disclosure, or is it the concern with the term, related party?

MR. LYNSKEY: The National Science Board attorney would suggest that I indicate that we disclose that for transparency purposes. As an aside, we are getting a lot of pressure from our auditors, based on private sector standards which we don't think are applicable to us.

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To get back to your question how it was, we feel that putting them as affiliated institutions is the correct terminology. To disclose the transparency of awards with National Science Board members is good. When you use the related terminology, the definition and the implication of that is what is concerning, in that it is saying that the transactions are no longer arms' length. We don't have a problem disclosing the transactions. The implication that they are not arms' length, we have a very esteemed merit review process. Any sort of attacks on that merit review process, NSF takes very, very seriously. We fund the best science and education awards, period. We don't want anybody to think that there is any influence on that. That is basically one of the main reasons why I am here today.

MR. STEINBERG: Am I correct then in understanding that your concerns are with the term, related parties?

MR. LYNSKEY: Right, correct.

MR. GRANOF: If we added some language to paragraph 84C, would that solve the problem for you?

MR. LYNSKEY: Yes. I think that the two suggestions that we put in our response for either paragraph, I think would address our concerns.

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MR. GRANOF: It is just a matter of adding a couple of words and dealing with the boards of directors?

MR. DACEY: In terms of the standard, I don't know that we require that you specifically label them related parties, but that the information about them is disclosed. I guess I have not looked at the disclosures as Mr. Steinberg has, but I don't know if effectively we would meet the disclosure requirements currently, other than the terminology.

MR. LYNSKEY: I think we have talked to Ms. Loughan a little bit about that. We think we have disclosed quite a bit. We are being told that we are not meeting the private sector standard in our findings.

We think we are disclosing quite a bit and we think we are being very transparent. To us, it is key, like I said, not to use related party terminology. We think we are being very transparent.

I know one of the questions that was given to me before was, our National Science Board, even if it wasn't required to do it, they would still, report something in some manner related to the affiliate institutions, based on a couple of years of conversations that we have had about it.

MR. MC CALL: Mr. Granof mentioned paragraph 84. In



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your letter that you sent, you had commented that one suggestion was to include another sentence that would say including presidentially-appointed agency individuals. That is one of the alternatives. My question is I thought this might be appropriate for the National Science Foundation. Do you agree that might not be appropriate for other agencies, that particular suggestion?

MR. LYNSKEY: I am not exactly sure how it would impact other agencies, to be truthful.

### **October 2012**

#### ***Related Party Language***

Staff explained that at the August meeting, the Board considered a draft for related party that relied heavily on listing parties to be included and excluded. In addition, the proposal provided room for judgment by incorporating a misleading to exclude provision. While the Board did not have a formal vote on the language at the August meeting, it did appear there was general agreement with the direction.

The Board had provided staff with suggestions—such as to move the notion of misleading to exclude so it was more prominent in the language to guide preparers. The Board also had suggested that the ED provide examples of special interest groups. One member also had suggested that a question to respondents be considered so the Board could gather additional information if there are other organizations that should be excluded from related party reporting to better ensure there are no unintended consequences. Staff incorporated these and other suggestions by members. (See par. 74- 83 in the ED for marked changes.)

Staff explained that several members had provided comments and based on those, staff prepared a revised Related Party language section for the Board's consideration.

After taking a few minutes for the Board to review the revised language, the Chairman opened the discussion for comments and questions on the revised related party language.

Mr. Dacey asked what was the threshold at which organizations would be reported as misleading to exclude because when he was reading the original draft, it was less clear.

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He explained the question is what the filter is for misleading to exclude and deciding what to report as a related party relationship or not.

Ms. Loughan asked if the language in par. 79 helped to make it clearer.

Mr. Dacey explained that it did, but he believed it would be helpful if the whole discussion in deciding when you identify related parties and determine whether or not it is appropriate is also placed up front. He explained it would be helpful to identify upfront that related parties are appropriately based on the concepts of misleading to exclude. He explained a general framework in the beginning of the section of what we are trying to accomplish with the misleading to exclude would be helpful.

Mr. Dacey also noted some repetition of wording that could be eliminated.

Mr. Steinberg explained he had difficulties with how the related party was structured because his understanding is that related parties was a term coined in the for-profit world to evaluate the impact of non-arms length transactions. He explained that state and local government don't focus on related parties but GASB 14 discusses joint ventures, jointly-related organizations, etc. Mr. Steinberg questioned whether we should be using the term related parties. Instead, he suggested that we should say in addition to consolidated entities and disclosure entities; we also have joint ventures, joint-related organizations, etc. He explained that he has an overall problem with the direction.

Mr. Steinberg explained he realized it was late to bring up a problem with the overall approach, but he noted he did say right from the beginning that related parties is a profit-making concept or a concept in the profit-making world.

Mr. Steinberg explained that he provided certain comments to staff. For instance, in par. 79B it appears that it would include the United Nations, but paragraph 80E says no, it is not intended. He noted it appears to be a conflict about which to follow.

Mr. Dacey explained one of the reasons we got here was the AICPA and the other US standards-setters asked us to define related parties because they wanted to take the definition out of the auditing standards. He explained the purpose of the related parties when it came up in the auditing standards was to make sure that there was enough disclosure that it would not be misleading. He explained the AICPA said that should really be in the accounting standards, not in the auditing standards. Mr. Dacey explained that is why he was okay with the threshold of misleading to exclude because it tied into that. Mr. Dacey explained as far as concept wise, he believed it was important to retain the title.

Mr. Showalter explained he was on the losing side of the vote to change to related entities. He explained that the Board had concluded on this once already. Mr. Showalter explained related parties are a concept that is well understood by both preparers and auditors.

Mr. Steinberg asked why GASB didn't adopt it.

## **TAB C Reporting Entity, APPENDIX 1 – Relevant Board Minutes**

Mr. Showalter explained it wasn't in GASB 14 because it was included in the auditing literature at the time GASB 14 was issued.

Mr. Showalter explained the concern was if we did not address it, there would be a problem from the auditor's perspective of looking for it because auditors are trained to look for related parties. It is embedded in the auditing standards. Mr. Showalter explained that was one of our drivers in going down this route was related parties are a generally accepted term and though it does not apply in the same way in the federal government, we were trying to define it in our context.

Chairman Allen explained the challenge with the federal government is that following traditional related party definitions -- the federal government could be considered to have one with everybody because of the scope of the authority and responsibility of the federal government.

Mr. Showalter explained we have a choice--either we have to deal with it this way or we need to make a definitive statement that we don't believe there are related parties in the Federal reporting entity.

Chairman Allen explained the Board voted on that and decided to define it.

Mr. Steinberg asked why can't we say this term does not have meaning to the federal government because the federal government has relationships with everybody.

Mr. Showalter stated as Chairman Allen acknowledged, the Board had previously voted on this issue, and Board agreed to address related parties.

Mr. Granof explained he has difficulty in reading the language because he does not have any framework on how to apply this. He added that he tries to think of an example of what a related party is and he has difficulty.

Staff explained at the June meeting staff offered two potential examples—the remaining GSE, and multi-lateral development banks, but staff made no assessment as to materiality in that context. In looking through and analyzing the relationship, there seemed to be influence and there seemed to be risk.

Staff explained in that context we do not expect there to be a lot of related parties. Staff also noted that questions come in from component reporting entities and the materiality may be lower so there is the potential for others and that is also why guidance may be needed.

Chairman Allen explained that is why he likes the focus on significant because if it is the component entities' financial statements, their significance may change.

Mr. Dacey noted that may be worth adding is that the distinction is made by entity, something that may be a significant related party to a subcomponent is not necessarily significant for the component itself. There are sometimes issues to decide what is significant to the federal government in a number of areas. If it is in the standards, it helps to have language to make it clear.

## **TAB C Reporting Entity, APPENDIX 1 – Relevant Board Minutes**

Mr. Dacey asked why in par. 75 there was the addition of language about one party must be an entity not controlled or a majority owned by the federal government. He questioned with this framework of consolidation and disclosure entities, if it was something that is in relationship with the consolidated entity?

Ms. Payne explained that members had previously asked the staff to find a way to clarify that if you met the inclusion principles, you could not then be reclassified as a related party. Staff explained in the earlier version it said related parties are not controlled or owned by the federal government. A member commented that related parties are inclusive of both sides, so it was reworded. The point is simply that you cannot fall from inclusion principles into related party disclosures.

Mr. Dacey suggested that the question comes up is what happens if it is a related party to a disclosure entity and what we are getting at is semantics here. He explained that it doesn't appear you want to then suddenly talk about the related parties of the disclosure entities.

Ms. Payne suggested that she had a hard time imagining them crossing the significance threshold, but if they did and they were related to a disclosure entity, she would not want to define them out.

Mr. Dacey explained it may have nothing to do with the federal government. What if they have relationships with other parties outside of them? He suggested that maybe we do not need that sentence and it is clear otherwise.

Ms. Payne explained she would be okay dropping the sentence. If no members object, she suggested dropping the sentence.

No members objected.

Mr. Dacey explained that he has editorial changes that he would discuss with staff.

Mr. Smith asked why there was a change to the wording, in the new par. 80. He explained it has 'family-owned business,' and it seems like that would not be that significant. He explained that he preferred it the way it was and noted it wasn't clear why a small business was provided--it could be a family large business.

Staff explained it was added based on a member's question. Mr. Showalter also agreed with Mr. Smith and commented a very large family-owned business would probably be more concerning than the small ones.

The Board agreed, suggested the example wasn't necessary and should be removed.

Staff will make the agreed upon edits and bring the revised related party language for the Board's review at tomorrow's (Thursday) meeting.

Day 2

## **TAB C Reporting Entity, APPENDIX 1 – Relevant Board Minutes**

Mr. Allen asked that discussion move to the next topic. Ms. Loughan indicated related parties revisions on page 29 paragraph 74 would be discussed next. She indicated that Mr. Dacey had some concerns.

Mr. Dacey noted the threshold for reporting on related party relationships is mentioned in five different places with slightly different wording in each. He preferred the wording in paragraph 16 because it focuses on the significance of the relationship.

Members and staff noted that the version that says ‘significant related parties’ may lead to consideration of the size of the related party; whereas ‘significant related party relationships’ may more broadly focus on the context of the federal government. Members also noted the placement of the “misleading to exclude” wording and preferred that phrase be included in paragraph 16. It should be clear that it is misleading to exclude information about the relationship and that is from the perspective of the reporting entity.

Members also decided to delete the first sentence of paragraph 79 since it is redundant. However, the footnote would be retained and placed with the first reference to significance.

Mr. Steinberg questioned the appropriateness of the description of significant influence saying that it may be exercised in several ways, sometimes by representation. He noted that there is an interchange of managerial personnel so federal officials are put into managerial positions in not-for-profit organizations or local governments. Also, many entities are dependent on technical information from the federal government. He asked if we need to exclude these types of relationships. The Board did not believe these involved material transactions or events involving both parties as described in the standards (rather they are broad), nor would these rise to the level of significance envisioned in the standards and did not make any changes.

Mr. Steinberg also asked about a potential conflict between 79B (which would bring in multinational development banks) and 80e. He wondered how the United Nations would be classified. Members and staff noted that 79B addresses financial commitments as well as significant relationships whereas 80e addresses insignificant entities. The Board decided not to change 80e or 79b.

### **August 2012**

The last topic on the Federal Reporting Entity was the discussion of the related party draft language and disclosure requirements. Staff provided a draft that relied heavily on listing parties to be included and excluded. In addition, the staff proposal provided room for judgment by incorporating a misleading to exclude provision.

While the Board did not have a formal vote on the language, it did appear they were in agreement with the direction. The Board requested some minor revisions—such as to move the notion of misleading to exclude (see par. 6 c in Tab C page 5) so it is more

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prominent, perhaps listed first, they also suggested that par. 7h provide examples of special interest groups. Staff will incorporate these and other suggestions by members.

One member also suggested that a question to respondents be considered so the Board can gather additional information if there are other organizations that should be excluded from related party reporting to better ensure there are no unintended consequences.

### **June 2012**

Staff noted the objective for the June Board meeting is to consider options for addressing related party. Staff has proposed a related party definition and disclosures that would be issued as part of the Exposure Draft (ED) *Identifying and Reporting upon Organizations to Include in General Purpose Financial Report*.

Staff explained the Board considered related parties in June 2011 but deferred making a decision at that time. The Board had determined it would make decisions regarding related party at a later date--once the other sections of the federal reporting entity standard were complete. Board concerns from previous discussion included whether we needed the category, if there were examples, and how to prevent those organizations that may meet the inclusion principles from falling to related party. Staff kept these concerns in mind while developing the recommendation.

Staff believes the Board should define 'related party' and address it within the federal reporting entity standard for several reasons:

- Related party reporting is such a fundamental notion within GAAP and the auditing standards that addressing how related party concepts apply in the federal domain is important.
- There is still a need for the related party category to disclose those organizations that aren't covered by the proposed standards where there may still be a relationship of influence.
- One can't anticipate all types of relationships the federal government may have or might have in the future that need to be reported.

Chairman Allen noted the universe of entities the federal government may have relationships with and there could be countless relationships considered and he thought that may be a reason to not have a related party category. It appears when you consider the commercial definition; the federal government does very little true arms length transactions which is what one tries to accomplish with a related party definition. He explained it was a valid point that staff makes that there are organizations where we have relationships that exist where there is some influence but he struggles with the cut-off.

Mr. Dong asked if there were examples of organizations that might fall through without the category. Chairman Allen explained in the staff paper, staff considered two potential relationships—government sponsored enterprises and multilateral development banks

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and provided an overview of the background, relationship/influence, and risks/exposures for the Board's consideration.

Mr. Showalter explained that once you go down the path, he believes there will be organizations that could fall out of core and non-core that should be disclosed so we should provide guidance. He doesn't believe we should be silent. However, he believes the definition as staff proposed is too broad and is not auditable. He believes we need to be clear about the types of related party that we believe may exist. For example, if government sponsored enterprises and multilateral development banks are potential related parties, then say that. Mr. Showalter explained that is how other standard setters approach it, they don't really define related party, they say what they are or what one should consider. However, he agrees with staff in that it needs to be addressed.

Mr. Granof noted that GASB 14 presents a flowchart with broad questions and it brings one down to a related party without actually defining a related party because it is a continuum.

Mr. Dong asked if there was a potential for duplication with related party and the misleading to exclude inclusion principal. Chairman Allen stated that could be another option to say the misleading to exclude includes these relationships where there is significant influence and they should be disclosed. In that case, we wouldn't have to define related party.

Mr. Showalter explained the auditor would have issue because you must have a population that you are looking at, what is the population of all other organizations.

Ms. Payne noted when the project first began (it was before the interventions activities and economic crisis) the CBO member on the Board wanted to find a way to report GSEs. If the interventions activity had not occurred, one question would be - how GSEs would be viewed? Obviously they would also come up in the risk assumed project.

Mr. Reger explained he views non-core as related party and that's why he has difficulty coming up with defining another category.

Mr. Showalter explained he still believes we need it and that we should be specific as to what types of organizations. Ms. Payne suggested we could take that approach and deal with other types of relationships in risk assumed.

Chairman Allen explained he has some concern with using common terminology, then changing it from what the accepted or common definition may be.

Mr. Steinberg explained that he thought the reason GSEs were a related party is because of the implied guarantee and that is something that could be criteria. However, if the federal government steps in and takes action then they move up to non-core.

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Chairman Allen noted that staff suggested one option was to explore in the risk assumed project. He believes related party addresses things that are not true arms length transactions, and because they are not, one needs to disclose the nature of the relationship, etc. to allow a level playing field to help one make an assessment about relationships and they are written for outside investors. Chairman Allen said we don't have investors, but we have citizens. So one must consider what type of information the citizens' care about and that is exposure and risk in these relationships.

Mr. Reger explained he had concern with specifying the types of related party in a principles based statement. We should develop principles, not list organization types. Mr. Steinberg explained he already provided one—implied guarantee. Also it can't be core or non-core.

Mr. Granof explained you could also look to some of the examples in the illustrations that weren't included—organizations that were created, etc. Then you have to consider what information you want, not that much but something needs to be said.

Mr. Dong asked again why the misleading to exclude approach could not be used. He had a hard time seeing the shortcoming with that. He understood someone had stated there was a concern with it being open ended but he sees that concern with this approach as well.

Mr. Reger explained the inclusion principles are considered first and there is the underlying control whereas in this situation, control is not part of it. Also, another distinction in the categories would be less reporting for related party when compared to non-core.

Mr. Showalter suggested another approach would be to take things off the table that aren't considered related party—as staff discussed in the paper, broad categories such as treaties and other things should be removed from consideration. He explained this would help narrow the list down.

Chairman Allen suggested we frame the staff questions more narrowly after hearing the Board input. Ms. Payne explained there appears there is Board consensus we need to say something about the related party category. She would like the Board to confirm that they want to keep the related party reporting category and requirement and whether they would prefer an approach where it is specific by list of organizations that might qualify or where members would like to see the related party focus. Staff will then come back with a few options.

Chairman Allen suggested it could be along the lines of something the federal government created. Ms. Payne noted she is hesitant about the created-by notion because there are many organizations the federal government creates but it no longer has an ongoing relationship with.

Mr. Showalter reiterated his earlier points, but added if there is concern with calling them related parties, one option is to call them related entities. He added that there



## **TAB C Reporting Entity, APPENDIX 1 – Relevant Board Minutes**

should be a series of principles or examples of what to consider or exclude to help narrow the population.

Mr. Shumacher explained it would be beneficial to have the related party with guidance to assist in what should be considered or to narrow down what not to consider.

Mr. Dacey agreed there are probably entities that are related, but he agreed there needs to be a way to narrow it down so only appropriate types are disclosed. He isn't sure how to develop it in a way so that it is similar to the concept of "misleading to exclude," but that is what the Board should be aiming for. Some of the factors might be the ability to significantly influence the other one and perhaps there are other factors. In summary, he believes we need the category but it must be narrowed because some of the things in the past we considered related party are now non-core and there may not be that many left but there should be a door left open for consideration of those that may remain.

Mr. Dong explained the conversations have revolved around several things today -- capturing things that may be on the cracks, whether the misleading to exclude would work, and if there is a subset of non-core.

Chairman Allen agreed more needs to be done, but from the standpoint of understanding the financial position and implied risk and obligations. He wants to know what's missing from the federal government's financial statements. From that, it may be best taken in the risk assumed project—does the note on contingency cover these types of things.

Mr. Reger explained he agrees the concept needs to stay. However, he believes it is a subset of the non-core, those organizations which we don't need to disclose as much information. This is a pretty well defined term for other standard setters.

Mr. Dacey explained the AICPA initially asked us to develop a standard on related parties.

Mr. Steinberg suggested this could still be considered in the construct he is proposing, related parties and GSEs as an example. Mr. Steinberg suggested the book *All the Devils are Here*, which is about the financial meltdown. It has a chapter devoted to GSEs and perhaps criteria could be pulled from that.

Mr. McCall noted he liked the term related entities and may describe how the federal government interacts.

Mr. Granof suggested that we define non-core in such a way that we capture all entities and have flexibility with the disclosures as appropriate. With that, related party wouldn't be required.

Staff will come back with options for the Board to consider.

The Board previously discussed the issue of whether component reporting entities (CRE) should disclose additional information to better recognize the relationship and

## **TAB C Reporting Entity, APPENDIX 1 – Relevant Board Minutes**

contextual information that is conveyed about the component reporting entity of a sovereign government. Staff explained that FASAB has not established requirements for a description of the CRE other than the discussion of the organization and mission required in the Management's Discussion and Analysis section (MD&A).

Staff noted that most key points are addressed individually in agency MD&A and notes either as a result of existing standards, OMB form and content requirements, or voluntarily. However, coverage and placement differs among the agencies.

Staff believes the description of the entity should include, at a minimum, an explanation that the CRE is a component of the U.S. government and a discussion of going concern implications arising from that status.

Ms. Payne asked the Board if they want to pursue requiring certain minimum information regarding the CRE's status as a component of the U.S. government as part of this project. Staff had suggested the following possible disclosures: a. Notice that the CRE is a component of the U. S. government, a sovereign entity; b. Discussion of going concern (need for continued authorizations and appropriations); c. Discussion of costs not included in CRE statements; d. Caution regarding inability to liquidate liabilities not covered by budgetary resources; and e. Explanation regarding non-entity assets. Staff explained that they thought items d and e were not as important as a through c.

Mr. Steinberg explained that he does see most of this information in the footnotes based on his review of the statements, but they must be doing it because of the OMB guidance. He agrees the information should be there and therefore should be part of the standards.

Chairman Allen noted that GASB has requirements for component units that prepare statements outside of the primary unit. He is a supporter of that principle of describing the financial relationship of other organizations to the primary government.

Chairman Allen asked if there were any other comments.

Mr. Dong explained he was trying to get a better understanding of what information was not being disclosed or why this was needed.

Ms. Payne explained it is a current A-136 disclosure requirement that component reporting entities include a statement in MD&A that they part of the US government. Based on the review of reports, the statement is there, but in reading the financial statements it's unclear what may be interpreted from that. The Board discussed previously whether citizens and analysts know what the required statement means and if it should go further to explain. For example, a member previously noted that because a CRE is a component it must get continued authorizations from Congress; assets can't be used for its own purposes; liabilities can't be paid absent an appropriation, and asked if readers are alerted to these facts.

Mr. Dacey explained he is supportive and believes it is important information for the reader and should be in GAAP.

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Mr. Dong explained he isn't convinced of the issue and if there is a problem, he doesn't see why it could not be addressed under A-136.

Chairman Allen stated he supports the requirement and would be prescriptive in Note1.

Mr. Reger suggested that it could be accomplished in A-136.

Messrs. McCall and Granof indicated support for the requirement.

Chairman Allen explained the majority of the Board supported the recommendation and directed staff to determine the best method. Ms. Payne indicated she would work with OMB regarding options.



Federal Accounting Standards Advisory Board

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## REPORTING ENTITY

**Statement of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by July 3, 2013

April 3, 2013

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## 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, 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 to comment, or preliminary views document may be issued before an exposure draft is released 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 the 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](http://www.fasab.gov).

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## Federal Accounting Standards Advisory Board

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April 3, 2013

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

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Reporting Entity*, are requested. Specific questions for your consideration appear on pages 4-9 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 Board if you explain the reasons for your position and any alternative you propose. Responses are requested by July 3, 2013.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB'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](mailto:fasab@fasab.gov). If you are unable to email 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  
Mail Stop 6H19  
441 G Street, NW, Suite 6814  
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.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. A public hearing has been scheduled at 9:00 AM on **August 28, 2013**, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, DC. Please notify Melissa Loughan, FASAB Assistant Director, at [loughanm@fasab.gov](mailto:loughanm@fasab.gov) or (202) 512-5976, by July 29, 2013, if you wish to provide oral comments at the public hearing.

Sincerely,

Tom L. Allen  
Chairman



## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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The Board is proposing principles to ensure organizations for which elected officials are accountable are included in general purpose federal financial reports (GPFFRs). The principles proposed to guide financial reporting recognize the complex diverse organizations possessing varying legal designations (for example, government agencies, not-for-profit organizations, corporations) that are used to address public policy challenges. The principles herein are not intended to establish whether an organization is or should be considered a federal agency for legal or political purposes. Rather, this exposure draft (ED) provides principles to guide preparers of financial statements at the government-wide and component reporting entity levels in determining what organizations should be included in the reporting entity's GPFFR for financial accountability purposes.

The government-wide GPFFR should include all organizations (1) budgeted for by elected officials of the federal government, (2) owned by the federal government, or (3) controlled by the federal government with risk of loss or expectation of benefits. In addition, the Board is proposing that an organization be included in the government-wide GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles. When any of these conditions exists, the Board believes information regarding the organization is necessary to provide accountability.

This ED provides for determining the most appropriate means—consolidated financial statements or disclosures—to include information about these organizations in GPFFRs. Determining the most appropriate means requires an assessment of the degree to which the following characteristics are met: the organization is financed by taxes or other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the federal government, and/or provides goods and services on a non-market basis. Note, however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

Generally, consolidated financial statements presenting the financial position and results of operations are appropriate for those organizations financed by the taxpayer, governed by elected officials, imposing risks and rewards on the federal government, and providing goods and services on a non-market basis. Consolidated financial statements present the financial information as if the organizations were a single economic entity. Such a presentation is needed to show – in the aggregate – the net cost financed by taxpayers, the assets available for use, and the liabilities to be settled in the future. Organizations to be included in the consolidated financial statements within the GPFFR are referred to as “consolidation entities” and are subject to the hierarchy of generally accepted accounting principles established for “federal entities” in Statement of Federal Financial Accounting Standards 34.

Consolidation is not appropriate for organizations operating with a high degree of autonomy. Some organizations that meet the principles for inclusion are insulated from political influence and intended to be non-taxpayer funded. Presenting information about these discrete organizations in consolidated financial statements would obscure the operating results and



financial position of the reporting entity. Instead, information about these types of discrete organizations should be disclosed in notes to the consolidated financial statements of reporting entities applying federal financial accounting standards. The disclosures should reveal the nature of the relationship to the reporting entity, relevant activity during the reporting period, and the reporting entity's future exposures to risks and rewards resulting from the relationship. Organizations to be disclosed in the GPFFR are referred to as "disclosure organizations." While disclosure organizations are not subject to the hierarchy of generally accepted accounting principles established for federal entities, information about such organizations is needed for accountability purposes.

The Board proposes each component reporting entity's GPFFR include all organizations for which it is accountable. This includes all consolidation entities and disclosure organizations administratively assigned to it. The GPFFR for the government-wide reporting entity would be a consolidation of component reporting entity GPFFRs including information regarding disclosure organizations. One member would alter the proposal by not equating organizations in receivership, conservatorship, or owned or controlled as a result of an intervention to other disclosure organizations. This member notes that the Board is undertaking a project on risk assumed and believes that that project should establish the requirements for all receiverships, conservatorships, and interventions, not just those encompassed by these proposed standards. This member's alternative view is presented on page 54.

In addition to the relationships that lead to organizations being included in the GPFFR based on the principles described above, the federal government may have relationships with other parties. The Board also proposes to require disclosures if one party to an established relationship has the ability to exercise significant influence over the other party in making financial and operating decisions, and the relationship is of such significance that it would be misleading to exclude information about it. The parties engaged in these relationships are "related parties." The disclosures would provide information about the nature of the government's relationship with the related party and other information to aid in understanding the relationship and its potential financial reporting impact, including exposures to risk of loss or potential gain as a result of the relationship.

The proposed Statement would be effective for periods beginning after September 30, 2016. Earlier implementation is encouraged.

## HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

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This Statement would improve federal financial reporting by improving guidance for identifying organizations to include in the GPFFRs of the government-wide reporting entity and component reporting entities. When implemented, GPFFRs will provide users with consolidated financial information about federal reporting entities, information about disclosure organizations owned or controlled by the federal government, certain disclosures about the central banking system, and information about significant related party relationships. This information will aid in meeting federal financial reporting objectives.

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## QUESTIONS FOR RESPONDENTS

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The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. The Board plans to hold a public hearing on August 28, 2013, and you are welcome to offer oral comments at that time. Please notify Melissa Loughan, FASAB Assistant Director, at [loughanm@fasab.gov](mailto:loughanm@fasab.gov) or (202) 512-5976, by July 29, 2013, if you wish to provide oral comments at the public hearing.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board 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.

Because the proposal may be modified before a final Statement is issued, it is important that you comment on aspects that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/>. Your responses should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond electronically, please fax your comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mail Stop 6H19  
441 G Street, NW, Suite 6814  
Washington, DC 20548

All comments are requested by July 3, 2013.

Q1. The Board is proposing three inclusion principles for an organization to be included in the government-wide GPFFR:

- An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*” unless the organization is a non-federal organization receiving federal financial assistance
- An organization in which the federal government holds a majority ownership interest
- An organization that is controlled by the federal government with risk of loss or expectation of benefit

In addition, the Board is proposing that an organization be included in the government-wide GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles.

Refer to paragraphs 20-36 of the proposed standards and paragraphs A12- A29 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. Do you agree or disagree with each of the inclusion principles? Please provide the rationale for your answer.**
- b. Do you believe the inclusion principles, and the related definitions and indicators, are helpful and clear? Please provide the rationale for your answer.**
- c. Do you agree or disagree that an organization should be included in the GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles? Please provide the rationale for your answer.**
- d. Do you agree the inclusion principles can be applied to all organizations, such as the Federal Reserve System, Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others, to determine whether such organizations should be included in the government-wide GPFFR? Please provide the rationale for your answer.**

Q2. The Board proposes distinguishing between two types of organizations in GPFFRs and this distinction will ultimately determine how they are reported: consolidation entities and disclosure organizations. Consolidation entities generally are (1) financed by taxes or other non-exchange revenue as evidenced by their inclusion in the budget, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards on the federal government, and/or (4) providing goods and services on a non-market basis. In contrast, disclosure organizations are those that (1) receive limited or no funding from general tax revenues, (2) have less direct involvement, and influence, by the Congress and/or the President, (3) impose limited risks and rewards on the federal government, and/or (4) are more likely to provide goods and services on a market basis.

The Board proposes consolidation entities be consolidated in the government-wide financial statements and the information about disclosure organizations be disclosed in notes. The Board also proposes that certain factors and objectives be considered in determining the information about disclosure organizations to be disclosed in notes. The Statement allows flexibility in the information presented as long as the disclosure objectives are met. The Statement also provides examples of information that may meet objectives.

Refer to paragraphs 37- 53 and 64-77 of the proposed standards and paragraphs A30-A54, A62-A63 and A71-A81 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. Do you agree or disagree with the concept of distinguishing between consolidation entities and disclosure organizations? Please provide the rationale for your answer.**
- b. Do you agree or disagree with the attributes used to make the distinction between consolidation entities and disclosure organizations? Please provide the rationale for your answer and identify additional attributes, if any, that you believe should be considered.**

- c. **Do you agree or disagree that, assuming the organizations are determined to be organizations included in the GPFFRs, the attributes are adequate to make a determination of whether organizations such as the Federal Reserve System, Federally Funded Research and Development Centers, museums, and others are consolidation entities or disclosure organizations? Please provide the rationale for your answer and identify any organizations you believe the attributes could not be adequately applied to, and additional attributes, if any, you believe are needed to address these organizations.**
- d. **Do you agree or disagree with:**
- i. **the factors to be considered in making judgments about the extent of appropriate disclosures (see par. 69),**
  - ii. **the objectives for disclosures (see par. 72), and**
  - iii. **the examples provided (see par. 73)?**

**Please provide the rationale for your answers.**

Q3. The Board proposes each component reporting entity report in its GPFFR organizations for which it is accountable; that includes consolidation entities and disclosure organizations administratively assigned to it. Administrative assignments can be identified by evaluating:

- the scope of the budget process,
- whether accountability is established within a component reporting entity, or
- rare instances of other significant relationships such that it may be misleading to exclude an organization not administratively assigned based on the previous two principles.

The Board recognizes that in rare instances it also may be misleading to include an organization that is administratively assigned to a reporting entity based on the above principles. In such cases, the organization may be excluded.

Refer to paragraphs 54-63 of the proposed standards and paragraphs A55-A61 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it? Please provide the rationale for your answers.**
- b. **Do you agree or disagree that administrative assignments can be identified as provided in paragraphs 54-63? Please provide the rationale for your answers.**

Q4. The Statement provides for each reporting entity (the government-wide and component reporting entities) to consolidate financial information for all consolidation entities for which it is accountable without regard to funding source (for example, appropriations or donations). For certain organizations, such as museums and performing arts organizations, this may lead to consolidating funds from sources such as donations that are presently not consolidated in the government-wide GPFFR.

Refer to paragraphs 54-64 of the proposed standards and paragraph A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree that each component reporting entity (for example, museums) and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations? Please provide the rationale for your answers.**

Q5. For consolidation entities, the Statement proposes that FASAB and Financial Accounting Standards Board (FASB) based information should be consolidated without conversion of FASB-based information to a FASAB basis.

Refer to paragraphs 65- 66 of the proposed standards and paragraphs A66-A70 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate? Please provide the rationale for your answers.**

Q6. Central banking (through the Federal Reserve System) is a unique federal responsibility with distinctive characteristics. The proposed standards do not specify that the central banking system be included in GPFFRs or whether, if included, it would be classified as a consolidation entity or a disclosure organization. Because of the unique nature and magnitude of central banking transactions, and the fact there is only one organization of this type, the Board proposes certain minimum disclosures regarding the central banking system. These disclosures would be required in addition to any other reporting requirements regarding the central banking system. The information should be disclosed in the government-wide GPFFR and the GPFFR of any reporting entity to which it may be primarily associated with or administratively assigned. Depending on the circumstances, some of the minimum disclosures may have been addressed in other requirements. The resultant disclosures should be integrated so that concise, meaningful, and transparent information is provided and information is not repetitive.

Refer to paragraph 77 of the proposed standards and paragraphs A30-A37 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with the minimum disclosures for the central banking system or believe there are additional disclosures that should be considered? Please provide the rationale for your answer.**
- b. **Do you believe there are other significant organizations for which minimum disclosures should be made? Please specify which entities, if any, and the nature of disclosures and provide the rationale for your answer.**

Q7. The Board proposes a definition of related parties and disclosures for related parties where the relationship is of such significance that it would be misleading to exclude disclosures about the relationship. The proposal also provides a list of the types of organizations that generally would or would not be considered related parties.

Refer to paragraphs 78 -87 of the proposed standards and paragraphs A82-A84 in Appendix A – Basis for Conclusions for a discussion and related explanation.

- a. Do you agree or disagree with the related parties definition and requirements? Please provide the rationale for your answer.
- b. Do you agree or disagree with the list of the types of organizations that generally would be considered related parties? Please provide the rationale for your answer.
- c. Are there additional organizations that generally should be considered related parties? Please provide the rationale for your answer.
- d. Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.
- e. Are there additional exclusions that should be considered? Please provide the rationale for your answer.

Q8. The Board proposes conforming changes to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, to rescind or amend language to remove criteria for determining what organizations are required to be included in a federal reporting entity's GPFFR from the concepts statement because criteria will be in a statement of federal financial accounting standards. Refer to paragraphs 88-101 of the proposed standards and paragraphs A85-A88 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Do you agree or disagree with the conforming changes to SFFAC 2? Please provide the rationale for your answer.**

Q9. The Board proposes the Statement and Amendments to SFFAC 2, *Entity and Display*, be effective for periods beginning after September 30, 2016. Refer to paragraph 102 of the proposed standards.

**Do you agree or disagree with this effective date? Please provide the rationale for your answer.**

Q10. The Statement provides two non-authoritative appendices to assist users in the application of the proposed standards. The Flowchart at Appendix B is a tool that can be used in applying the principles established. The Illustrations at Appendix C offer hypothetical examples that may be useful in understanding the application of the standards.

Refer to Appendix B-Flowchart and Appendix C-Illustration.

- a. Do you agree the appendices are helpful in the application of the proposed standards?
- b. Do you believe the appendices should remain after the Statement is issued?
- c. Do you believe there should be any changes or additional examples regarding the illustrations that would be useful in understanding the application of the standards? Please provide rationale to support your answer.



**Q11. Are there other unique situations that should be addressed within this Statement? Please explain fully and also how the situation is not addressed by this Statement when considered in its entirety.**

Q12. One member has an alternative view regarding receiverships, conservatorships, and interventions. The Board member does not believe receiverships, conservatorships, and intervention organizations should be equated with other disclosure organizations. He believes guidance in the proposed standards gives the impression that these organizations are part of the federal government. Further, he believes all types of interventions should be addressed in the Board's project on risk assumed.

The other members believe the proposed standards appropriately distinguish between consolidation entities and disclosure organizations including receiverships, conservatorships, and interventions resulting in ownership or control. The Board deliberated alternatives regarding such organizations, including creating an "exception" similar to the approach taken in SFFAC 2, but determined an exception would be rules-based rather than principles-based. Such an exception would require more detailed guidance, or "rules," to aid in determining whether ownership or control of such organizations is expected or intended to be permanent.

Instead, the proposed standards establish principles for when relationships with organizations create a need for accountability, and how information should be included in GPFFRs. The Board believes it is important to address these relationship matters in a single Statement of Federal Financial Accounting Standards and has not proposed exceptions. The Board also addresses in this proposed Statement whether organizations are required to apply the GAAP hierarchy for federal reporting entities. Disclosure organizations are not required to apply the GAAP hierarchy for federal reporting entities and this should avoid giving the impression that all disclosure organizations included in GPFFRs are federal reporting entities or "part of the federal government." To further avoid giving this impression, the Board clarified that it is not the purpose of this Statement of Federal Financial Accounting Standards to assist in determining what entities are "part of the federal government" for legal or political purposes.

Refer to paragraphs 7, 13-14, 41, 49-53, and 65 of the proposed standards and paragraphs A1-A2, A9-A11, A20-A23, A30-A31, A44-A54, and A89-A93 in Appendix A – Basis for Conclusions for a discussion and related explanation.

- a. Do you agree or disagree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government? Please provide the rationale for your answer.**
- b. Do you agree or disagree with the alternative view that the guidance for all interventions, regardless of type, should be presented in a single Statement of Federal Financial Accounting Standard? Please provide the rationale for your answer.**



# INTRODUCTION

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## PURPOSE

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1. The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, **general purpose federal financial reports**<sup>1</sup> (GPFFR) for the government-wide reporting entity should be broad enough to reflect the Congress and/or the President's accountability for those organizations. In addition, **component reporting entity** GPFFRs should allow the Congress and/or the President to hold management accountable. Although Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, addresses identifying **reporting entities** and criteria for including components in a reporting entity, questions have continued in this area indicating the need for standards.<sup>2</sup> Standards that can be used to identify organizations to include in the GPFFR of the government-wide reporting entity and each component reporting entity are important to meet federal financial reporting objectives.
2. This Statement guides preparers of GPFFRs in determining what organizations to report upon, whether such organizations are considered "consolidation entities" or "disclosure organizations,"<sup>3</sup> and what information should be presented. This guidance, together with existing guidance, will ensure that users of GPFFRs are provided with comprehensive financial information about federal reporting entities and their relationships so that federal financial reporting objectives are met. This Statement requires reporting entities to disclose certain information about disclosure organizations administratively assigned to them. It does not require new **disclosures** regarding consolidation entities administratively assigned to reporting entities. Any existing required disclosures for the consolidated financial statements of the reporting entity, which include the consolidation entities, would continue to apply. While not addressing the inclusion or classification of the components of the central banking system, the Statement does establish certain minimum disclosures regarding the central banking system.
3. This Statement also guides preparers of GPFFRs in identifying **related parties** and in determining what information to provide about related party relationships of such significance that it would be misleading to exclude information. There are specific disclosures regarding related parties that are in addition to those required regarding disclosure organizations.

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<sup>1</sup> Terms defined in the Glossary are shown in **bold-face** the first time they appear.

<sup>2</sup> SFFAC 2 is a Concepts Statement and is considered Other Accounting Literature. See Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles (GAAP), Including the Application of Standards Issued by the FASB* for more information regarding the hierarchy.

<sup>3</sup> "Consolidation entities" and "disclosure organizations" are terms used to distinguish between entities based on the degrees to which the entity is (1) financed by taxes or other non-exchange revenue, (2) governed by elected or appointed officials, (3) imposing or may impose risks and rewards to the federal government and (4) providing goods and services on a market or non-market basis. See par. 36 - 52 for more information.

4. The guidance recognizes an organization's legal form may not reflect the substance of the relationship between the federal government and the organization. As such, the legal form or designation of an organization does not always determine whether it should be reported in the government-wide GPFFR. Even in cases where legislation indicates an organization is "not an agency or instrumentality" of the federal government, the organization should be assessed against the guidance contained in this Statement to determine whether it should be included in the reporting entity's GPFFR. Inclusion results from a need for accountability given the nature of the relationship between the federal government and the organization but inclusion does not change the legal form of the organization.

## MATERIALITY

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5. The provisions of this Statement 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.

## PROPOSED STANDARDS

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### SCOPE AND APPLICABILITY

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6. This Statement applies to federal reporting entities that prepare general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of 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*. Paragraph 66 of this Statement also applies to federal reporting entities that prepare GPFFRs in conformance with GAAP as provided by paragraphs 9 through 12 of SFFAS 34.
7. This Statement does not require any entity to prepare and issue GPFFRs. The purpose of this Statement is to enable federal reporting entities preparing and issuing GPFFRs to determine:
  - a. whether SFFAS 34 is applicable to an organization,
  - b. what organizations should be included in the GPFFR of federal reporting entities applying SFFAS 34,
  - c. the manner in which information should be presented for organizations included in the GPFFR, and
  - d. what disclosures, if any, are needed regarding related parties.

### DEFINITIONS

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Definitions in paragraphs 8 through 12 are presented within the standards because they are new terms intended to have a specific meaning when applying the standards.

8. **Reporting Entity** Reporting entities are organizations that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity (see definitions below).

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.<sup>4</sup> The criteria focus on whether an entity’s:

- a. management is responsible for controlling and deploying resources, producing outputs and outcomes, and executing the budget or a portion thereof (assuming that

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<sup>4</sup> SFFAC 2, par. 29-38, provides a discussion on Identifying the Reporting Entities for General Purpose Financial Reporting.

- the entity is included in the budget), and is held accountable for the entity's performance.
- b. financial statements would provide a meaningful representation of operations and financial condition.
  - c. financial information could be used by interested parties to help them make resource allocation and other decisions and hold the entity accountable.
9. **Government-wide Reporting Entity** The government-wide reporting entity's GPFFR includes all organizations for which the Congress and/or the President are accountable based on principles established in this Statement.
10. **Component Reporting Entity** "Component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity.<sup>5</sup> Examples of component reporting entities include organizations such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger component reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.
11. **Control with risk of loss or expectation of benefit** "Control with risk of loss or expectation of benefit" is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.<sup>6</sup> See paragraphs 25 - 34.
12. **Related Parties** Organizations are considered to be related parties if the existing relationship or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.

## ORGANIZATIONAL APPROACH TO DEFINING BOUNDARIES

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13. The federal government is unique because its constitutionally established powers, motivations, and functions are different from those of all other organizations. It is an extremely complex organization responsible for the common defense and general welfare of the nation. Although there are various perspectives<sup>7</sup> for viewing the federal government, an organizational approach was established in SFFAC 2<sup>8</sup> as the most appropriate perspective for understanding the composition of the federal government. SFFAC 2 established that GPFFRs should include the aggregation of organizations<sup>9</sup> for which the

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<sup>5</sup> The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

<sup>6</sup> For example, a non-financial benefit would be one where the federal government benefits from a service being provided to it or on its behalf.

<sup>7</sup> SFFAC 2, par. 13-28, discusses the organizational, budget and program perspectives of the federal government, as well as the intertwining of the perspectives.

<sup>8</sup> SFFAC 2, par. 29-38.

<sup>9</sup> "Organization" is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components.

federal government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government are such that their exclusion would cause the federal government's financial statements to be misleading or incomplete.

14. Accountability demands comprehensive reporting. To provide comprehensive reporting, the federal government must report on organizations that serve varied purposes and have complex governance structures and finances. In some cases, disclosing financial and other information in the notes about an organization rather than consolidating financial and other information about all organizations may better meet federal financial reporting objectives.
15. This Statement first establishes the principles for identifying organizations to include in the government-wide GPFFR (see Principles for Inclusion in the Government-wide GPFFR beginning with paragraph 20) and then distinguishes between consolidation entities and disclosure organizations (see Reporting on Organizations—Consolidation Entities or Disclosure Organizations beginning with paragraph 37).
16. This Statement also establishes that component reporting entities' GPFFRs must include all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete (see Identifying Organizations Component Reporting Entities Are Accountable For beginning with paragraph 54).
17. The Statement provides guidance for how to report on consolidation entities and disclosure organizations (see GPFFR Consolidation and Disclosure beginning with paragraph 64).
18. The Statement establishes minimum disclosure requirements regarding the central banking system (see paragraph 77).
19. Lastly, the Statement provides for disclosure of related party relationships of such significance that it would be misleading to exclude information about them (see Related Parties beginning with paragraph 78).

## PRINCIPLES FOR INCLUSION IN THE GOVERNMENT-WIDE GPFFR

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20. This Statement provides three principles for determining which organizations should be included<sup>10</sup> in the government-wide GPFFR and also requires inclusion of organizations if excluding them would be misleading (see paragraph 36).
21. An organization meeting any one of the three principles below is included in the government-wide GPFFR:
  - a. In the Budget
  - b. Majority Ownership Interest

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<sup>10</sup> "Included" means the information is either consolidated or disclosed.

c. Control with Risk of Loss or Expectation of Benefit

## IN THE BUDGET

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22. An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” should be included in the government-wide GPFFR unless it is a non-federal organization receiving federal financial assistance.<sup>11</sup> Any listed non-federal organizations receiving federal financial assistance should be assessed against the next two principles (*Majority Ownership Interest* and *Control with Risk of Loss or Expectation of Benefit*) to determine whether they should be included in the government-wide GPFFR.

## MAJORITY OWNERSHIP INTEREST

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23. The federal government (directly or through its components) may have an ownership interest<sup>12</sup> in an organization. An ownership interest is a legal claim on the net residual assets of an organization such as holding shares or other formal equity instruments. The holding of an ownership interest usually but not always entitles the holder to an interest in voting rights.
24. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets<sup>13</sup> of an organization. When the federal government (directly or through its components) holds a majority ownership interest in an organization, it should be included as either a consolidation entity or a disclosure organization in the government-wide GPFFR.<sup>14</sup>

## CONTROL WITH RISK OF LOSS OR EXPECTATION OF BENEFIT

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25. An organization that is controlled by the federal government with risk of loss or expectation of benefit should be included in the government-wide GPFFR. For these purposes, control with risk of loss or expectation of benefit is defined as follows:

**Control with risk of loss or expectation of benefit** is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or obtain financial

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<sup>11</sup> As defined by the Single Audit Act Amendments of 1996, federal financial assistance is assistance that non-federal organizations receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

<sup>12</sup> “Ownership interest” is the possession of substantially all of the benefits and risks incident to ownership. *FASAB Handbook as of June 30, 2012--Glossary*.

<sup>13</sup> For example, the federal government may hold more equity in preferred stock than all other stockholders but the preferred stock may be non-voting.

<sup>14</sup> Ownership interests 50% or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy. However, the organization should still be assessed against the control inclusion principle and the misleading to exclude principle.

resources or non-financial benefits.<sup>15</sup> Both the power and either the risk of loss or expectation of benefits aspects of the definition should be met to justify inclusion of an organization. Hereafter, control with risk of loss or expectation of benefit is referred to as “control.”

26. Control refers to the ability to control, whether or not that ability is actively exercised, and should be assessed at the reporting date regardless of the federal government’s ability to change it in the future. In determining whether control exists, it is necessary to determine the substance of the relationship between the federal government and the organization as it may not be completely reflected by the legal form of the relationship.
27. Control does not necessarily mean the federal government has responsibility for the management of the day-to-day operations of an organization. Rather, it is the federal government’s authority to determine or influence the policies governing those activities that indicates control.
28. Determining whether control exists requires the application of professional judgment. The federal government achieves its objectives through a wide range of organizations which individually will fall on a continuum. At one end of the continuum, it is clear that an organization does not have the power to act independently and is controlled by the federal government—such as an executive department. At the other end, the organization has the power to act independently and, while the federal government may have a level of influence, it is clear that the federal government does not have control—such as a foreign government.

### ***Indicators of Control***

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29. As discussed in the following paragraphs, there are indicators that should be considered in determining whether the federal government controls an organization. As noted above, consideration needs to be given to the nature of the relationship between the federal government and the organization and judgment applied to determine whether control exists.
30. Certain individual indicators provide persuasive evidence that control exists. Because each indicator provides strong evidence of control, meeting any one indicator would generally mean control is present. These indicators are when the federal government has the unilateral authority to:
  - a. establish or amend the fundamental purpose and mission of the organization,<sup>16</sup> which may include authorizing the organization to exercise sovereign powers of the federal government and requiring the organization to carry out federal missions and objectives;

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<sup>15</sup> For example, a non-financial benefit would arise when the federal government receives a service or a service is provided to others on its behalf.

<sup>16</sup> Congressionally chartered nonprofit organizations identified under United States Code (U.S.C.) Title 36, Subtitle II and III, should not be considered controlled solely because amendments to their federal charter must be enacted through legislation. Instead, such organizations should be considered controlled only if they meet the indicators in paragraph 31 or another indicator in this paragraph.

- b. appoint or remove a majority of the governing board members;
  - c. direct the governing body regarding the establishment and subsequent revision of financial and operating policies of the organization; or
  - d. dissolve the organization thereby having access to the assets and responsibility for the obligations.
31. Other indicators provide evidence that control may exist, but must be considered in the aggregate and often require the application of professional judgment in assessing. These indicators are when the federal government has the ability to or is obligated to:
- a. provide significant input into the appointment of members of the governing body of the organization or being involved in the appointment or removal of a significant number of members;
  - b. direct the ongoing use of the organization's assets;
  - c. direct investment decisions including the liquidation of investments;
  - d. appoint or remove key executives or personnel;
  - e. approve the budgets or business plans for the organization;
  - f. require audits;
  - g. veto, overrule, or modify governing board decisions or otherwise significantly influence normal operations;
  - h. finance the deficits of, provide financial support to, or settle liabilities of the organization;
  - i. direct the organization to work with the government to provide services to taxpayers which may include determining the outcome or disposition of matters affecting the recipients of services;
  - j. establish, rescind, or amend the organization's governance framework;
  - k. establish limits or restrictions on borrowing and investments of the organization; or
  - l. restrict the capacity to generate revenue of the organization, especially the sources of revenue.

### ***Situations Where Control Does Not Exist***

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32. Because of the federal government's broad powers and economic influence, control should not be inferred from either:
- a. authority to exercise regulatory powers over an organization; or
  - b. economic dependency of the organization on the federal government.



33. The federal government has the power to regulate many organizations by use of its sovereign and legislative powers. For example, the federal government has the power to regulate the behavior of organizations by imposing conditions or sanctions on their operations. However, the governing bodies of the regulated organizations make decisions within the regulatory framework. Regulatory powers do not constitute control for purposes of this Statement because the federal government's interest in these organizations extends only to the regulatory aspects of the operations.
34. Certain organizations may be economically dependent on the federal government but ultimately retain discretion as to whether to accept funding or do business with the federal government. For example, many nonprofit organizations rely on federal government funding but that does not mean they are controlled by the federal government. Although the federal government may be able to influence organizations dependent on federal funding or business through purchasing power, the federal government typically does not govern their financial and operating policies.

### MISLEADING TO EXCLUDE

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35. There may be instances when an organization does not meet the inclusion principles in paragraphs 20 through 31 yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.<sup>17</sup>
36. Organizations should be included in the government-wide GPFFR if it would be misleading to exclude them.

### REPORTING ON ORGANIZATIONS—CONSOLIDATION ENTITIES OR DISCLOSURE ORGANIZATIONS

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37. The principles above should be used to assess what organizations to include in the GPFFR. Next, a distinction should be made between “consolidation entities” and “disclosure organizations” as that distinction determines how the organizations will be reported. This distinction is based on an assessment of the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis.<sup>18</sup> Note, however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

### CONSOLIDATION ENTITIES

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38. The organizations that should be consolidated in the financial statements in the GPFFR are referred to as “consolidation entities.” Generally, an organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the organization is:

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<sup>17</sup> Although such situations would be rare, this Statement provides for situations that may arise.

<sup>18</sup> Goods and services are provided on a non-market basis when they are provided free of charge or at charges that bear little relationship to the cost of providing such goods or services.

- a. financed through taxes, and other non-exchange revenues.
  - b. governed by the Congress and/or the President.
  - c. imposing or may impose risks and rewards to the federal government.
  - d. providing goods and services on a non-market basis.
39. Organizations listed in the budget, except for non-federal organizations receiving federal assistance (see par 22), are presumed to qualify as consolidation entities while greater judgment will be needed to classify other organizations.
40. For consolidation entities, the governance structure is vertically integrated, such that the chain of command and manner of decision-making leads directly to elected officials. Vertical integration may include the establishment of organizational authorities, development and/or approval of budgets, and the appointment of organizational leaders by the Congress and/or the President.

## DISCLOSURE ORGANIZATIONS

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41. The federal government has relationships with organizations afforded a greater degree of autonomy than consolidation entities. Some organizations may exercise powers that are reserved to the federal government as sovereign. Other organizations may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory actions, such as organizations in **receivership**. To avoid obscuring information about these more autonomous organizations while still providing accountability, such organizations are to be disclosed rather than consolidated in GPFFRs. Hereafter, these organizations are referred to as “disclosure organizations.”
42. Disclosure organizations may maintain a separate legal identity, have a governance structure that vests most decision-making authorities in a governing body to insulate the organization from political influence, and/or have relative financial independence.
43. Disclosure organizations receive limited or no funding from general tax revenues. The Congress and/or the President have less direct involvement in decision-making (governance) than in consolidation entities. Limited risks and rewards fall to the federal government. Disclosure organizations may provide the same or similar goods and services that consolidation entities do, but are more likely to provide them on a market basis.<sup>19</sup>
44. Disclosure organizations may include but are not limited to: quasi-governmental and/or financially independent organizations, organizations in receiverships and **conservatorships**, and organizations owned or controlled through federal government intervention actions. In some cases, the relationship with the federal government is not expected to be permanent. The following disclosure organization types are presented to

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<sup>19</sup> Goods and services are provided on a market basis when prices are based on the prices charged in a competitive marketplace between willing buyers and sellers.

assist in identifying organizations that are disclosure organizations. The accompanying Appendix C—Illustrations offers non-authoritative hypothetical examples that may be useful in understanding the application of the standards.

### ***Quasi-Governmental and/or Financially Independent Organizations***

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45. Quasi-Governmental and/or Financially Independent Organizations have relationships with the federal government that are not temporary but differ from consolidation entities with regard to governance and/or financial arrangements. Such disclosure organizations are on a continuum that considers such factors as whether the governance is through appointed officials versus a structure that vests most decision-making authorities in a governing body to insulate the organization from political influence; whether the organization is financed primarily through taxes and other non-exchange revenues versus limited or no such financing; and whether it provides goods and services on a non-market basis versus provide goods and services on a market basis.
46. Governance differences typically lead to greater independence. Characteristics may include the following:
  - a. Longer appointments of key executives or governing boards to allow these appointees a degree of independence from the Congress and/or the President
  - b. Delegated operational authority to provide a service or execute a program in a manner similar to private business enterprises
  - c. Private sector legal characteristics, such as not-for-profit status under the Internal Revenue Code
  - d. Exemption by statute from laws or regulations dealing with the federal budget, funds, personnel, ethics, acquisition, property, or works
  - e. Voluntary association with the federal government and shared purposes to implement government policies
47. Financial differences typically lead to greater fiscal autonomy. Characteristics may include the following:
  - a. Primarily funded from a source other than appropriations
  - b. Delegated financial authority to provide a service or execute a program in a manner similar to private business enterprises
  - c. Principally engaged in selling goods and/or services to organizations outside of the federal government
  - d. Intended, in the normal course of its operations, to maintain its operations and meet its liabilities from revenues received from sources outside of the federal government
48. Not all organizations of a given type will meet the characteristics above. Examples of the types of organizations that could be consolidation entities or could be quasi-governmental

and/or financially independent organizations are **Federally Funded Research and Development Centers**, museums, performing arts organizations, universities, and venture capital funds. Each organization should be assessed objectively since there are likely to be differences among the organizations within these example types such that some should be consolidation entities and others disclosure organizations.

### *Receiverships and Conservatorships<sup>20</sup>*

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49. The federal government may take control or ownership of failed financial institutions, such as banks, with no goal to maintain control or ownership. Receiverships or conservatorships are established to liquidate failing financial institutions or to guide such institutions back to safe and sound conditions.<sup>21</sup> Organizations controlled or owned through receiverships or conservatorships are likely to be disclosure organizations.

### *Federal Government Intervention Actions Resulting in Control or Ownership*

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50. In exceptional circumstances such as economic instability or a national security crisis, the federal government may intervene in organizations not previously meeting the inclusion principles. Interventions arise because of the federal government's broad responsibility for the well-being of the country. Some, but not all, interventions establish ownership or control such that the organization then meets the inclusion principles. Although intervention actions are not expected to be permanent, they may not include a specific time limit.
51. Typically federal government intervention actions are not routine activities. Strategic planning documents are unlikely to include objectives to routinely initiate such interventions or to permanently operate organizations acquired through interventions.
52. Examples of intervention actions resulting in control or ownership include:
- a. The federal government provides financial support and, in doing so, obtains control of an established organization but expects to relinquish or cede control.
  - b. The federal government acquires an ownership interest in an organization but expects to end its interest as soon as practicable.
53. Intervention actions that exist at fiscal year-end must be assessed to confirm the resulting control or ownership is not expected to be permanent. If the intervention activities are not expected to be permanent or other characteristics of disclosure organizations exist, organizations controlled or owned as a result of intervention actions would be disclosure organizations.

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<sup>20</sup> This type differs slightly from federal interventions. Receivership and conservatorship activities are considered part of the mission of the federal reporting entities that perform them.

<sup>21</sup> For example, the Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress with the mission "to maintain stability and public confidence in the nation's financial system by: insuring deposits; examining and supervising financial institutions for safety and soundness and consumer protection; and, managing receiverships."

## IDENTIFYING ORGANIZATIONS COMPONENT REPORTING ENTITIES ARE ACCOUNTABLE FOR

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54. The government-wide reporting entity is the only federal reporting entity that is an independent economic entity<sup>22</sup> and the inclusion principles are expressed from the perspective of the federal government. However, GPFFRs for the government-wide reporting entity represent a consolidation of component reporting entity GPFFRs. Therefore, component reporting entities must identify and include in their GPFFRs all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity GPFFRs and government-wide GPFFR are complete.
55. A component reporting entity's GPFFR should include all organizations that would allow the Congress and/or the President to hold the component reporting entity's management (appointed officials or other agency heads) accountable for implementation of public policy decisions. Inclusion would also reveal the risks inherent in component reporting entity operations, and enhance accountability to the public. Each component reporting entity is accountable for all consolidation entities<sup>23</sup> and disclosure organizations administratively assigned to it.
56. Administrative assignments to component reporting entities are typically made in laws and policy documents such as statutes, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating:<sup>24</sup>
  - a. Scope of the Budget Process
  - b. Accountability Established Within a Component Reporting Entity
  - c. Misleading to Exclude and/or Misleading to Include

### SCOPE OF THE BUDGET PROCESS

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57. Consolidation entities and disclosure organizations subject to the budget approval and oversight process of the component reporting entity head should be included in the component reporting entity GPFFR. Each component reporting entity should include:
  - a. all consolidation entities listed within its section of the *Budget of the United States Government: Analytical Perspectives--Supplemental Materials* schedule entitled "Federal Programs by Agency and Account" and
  - b. all disclosure organizations included within its congressional budget justification.<sup>25</sup>

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<sup>22</sup> SFFAC 2, par. 38.

<sup>23</sup> A component reporting entity comprises all consolidation entities administratively assigned to it and should present information about disclosure organizations assigned to it.

<sup>24</sup> Component reporting entities should develop processes to ensure they identify and assess any organizations (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. It is anticipated that central agencies will determine if there is a need for coordinated guidance to ensure government-wide consistency.

## ACCOUNTABILITY ESTABLISHED WITHIN A COMPONENT REPORTING ENTITY

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58. Consolidation entities and disclosure organizations for which a component reporting entity has been assigned accountability responsibilities should be included in the GPFFR of that entity. Determining whether accountability was established or assigned to a component reporting entity requires the consideration of certain indicators and the application of professional judgment. Indicators<sup>26</sup> that accountability has been established in the component reporting entity include:
- a. Statutes or regulations establishing an organization state that it is assigned to or part of a larger federal organization.<sup>27</sup>
  - b. An organization is included in the component reporting entity's published organization chart.
  - c. The component reporting entity acquires and/or monitors<sup>28</sup> ownership interests in organizations where there are ongoing responsibilities<sup>29</sup> such as:
    - i. coordinating and/or conveying input on strategic plans,
    - ii. providing appropriated funds to the organization and receiving requests for funding in the current and/or future years,
    - iii. administering any federal grants or contracts awarded to the organization,
    - iv. monitoring activities and/or reporting on outcomes, or
    - v. monitoring the value of the ownership interest.
  - d. A controlled organization<sup>30</sup> was established by statute or by action of the component reporting entity to support the mission of the component reporting entity, and a continuing relationship exists. Examples of continuing relationships include those in which the component reporting entity:
    - i. approves bylaws including any amendments,
    - ii. is represented on the governing board (for example, as an ex-officio member),
    - iii. appoints members of the governing board,

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<sup>25</sup> A congressional budget justification is a document submitted annually to Congress to justify an organization's budget request.

<sup>26</sup> These indicators provide evidence that accountability was established or was assigned to a component reporting entity. Meeting any one would typically mean accountability was established.

<sup>27</sup> For example, the U.S. Census Bureau (officially the Bureau of the Census, as defined in Title 13 U.S.C. § 11) is part of the U.S. Department of Commerce.

<sup>28</sup> Such responsibilities may be assigned to a program office.

<sup>29</sup> These responsibilities are examples of actions or activities performed by the component reporting entity that are indicative of monitoring an ownership interest in an organization, which is an indicator of accountability.

<sup>30</sup> Where control exists at the government-wide level based on paragraphs 25-34.

- iv. coordinates and/or conveys input on strategic plans,
  - v. monitors organizational performance,
  - vi. approves budgets, operating plans, or contracts with others,
  - vii. establishes and executes cooperative agreements with the organization,
  - viii. administers federal grants to or contracts with the organization,
  - ix. testifies before Congress regarding organization performance and objectives, or
  - x. has significant financial transactions or balances that indicate ongoing managerial involvement.
59. If more than one component reporting entity is assigned responsibilities as described above, the following guidance applies:
- a. Disclosure organizations should be included in the GPFFR of each component reporting entity assigned such responsibilities.
  - b. Consolidation entities should be administratively assigned to only one component reporting entity.<sup>31</sup> The component reporting entity assigned the largest share<sup>32</sup> of responsibilities described in paragraph 58 generally should include the consolidation entity.
60. If a disclosure organization has not been administratively assigned to a consolidation entity, the disclosure organization should be reported by a component reporting entity (a) assigned responsibility for transferring funds to the disclosure organization or (b) with which its mission most closely aligns.

#### MISLEADING TO EXCLUDE AND / OR MISLEADING TO INCLUDE

61. There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs 57-60 yet the component reporting entity GPFFR would be misleading or incomplete if the organization were excluded. If so, such organizations should be included in the component reporting entity's GPFFR.<sup>33</sup>
62. There may be instances where applying the principles in paragraphs 57-60 to consolidation entities would result in misleading presentation for the component reporting entity. For example, an organization may have been legally established within a larger organization while authorized to operate independently. While such conditions are expected to be rare, if it would be misleading to consolidate the organization in the

<sup>31</sup> Note that the component reporting entity to which a consolidation entity is administratively assigned may also be administratively assigned to a higher-level component reporting entity.

<sup>32</sup> Largest share as used here is based on the most significant administrative role.

<sup>33</sup> Although such situations would be rare, this Statement provides for situations that may arise.



component reporting entity GPFFR, the organization may be excluded so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.

63. Determining whether it would be misleading to include a consolidation entity administratively assigned to a component reporting entity requires the application of professional judgment. Examples<sup>34</sup> of indicators that it may be misleading to include an organization are:
- a. The budget submission is combined for procedural purposes only, as indicated by:
    - i. the budget request not being approved by component reporting entity management, or
    - ii. the absence of involvement by component reporting entity management regarding budget execution, investments, or strategic planning.
  - b. The component reporting entity provides no direct oversight of the organization.
  - c. The organization's funding is separate from the component reporting entity's funding.
  - d. Inclusion of the organization's financial information in the component reporting entity's financial statement could be misleading as to the entity's responsibilities for the organization's liabilities and other obligations.
  - e. The organization has established itself as a stand-alone organization since its inception and has routinely prepared audited financial statements since that time.
  - f. The organization provides financial data directly to the Department of the Treasury for the government-wide GPFFR.

## GPFFR CONSOLIDATION AND DISCLOSURE

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### CONSOLIDATION ENTITIES

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64. Consolidation entities' financial statements should be consolidated for the government as a whole to facilitate an assessment of the financial position<sup>35</sup> of the federal government and the cost of operations financed by taxes and other non-exchange revenue. Component reporting entities should consolidate the financial information for all

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<sup>34</sup> The indicators listed in 63 a. – f. are examples and there may be other indicators not included on this list. Further, no specific number of indicators need be present to determine an organization would be misleading to include. This determination is based on the assessment as a whole after considering all facts and often requires professional judgment in making such decisions.

<sup>35</sup> The consolidated financial statements should include amounts and balances, consistent with applicable accounting standards, even if the amounts and balances arise from or are supported by different funding sources (e.g., appropriations or donations).



consolidation entities administratively assigned to them. Consolidation<sup>36</sup> aggregates the individual financial amounts of organizations that constitute a reporting entity and results in presentation of information for a single economic entity representing taxpayer-supported activities, resources, and obligations.

65. Consolidation entities as defined herein are considered federal reporting entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This Statement does not establish new disclosure requirements regarding consolidation entities but acknowledges existing standards require disclosures.
66. SFFAS 34 recognizes that a limited number of federal reporting entities prepare and publish financial reports pursuant to the accounting and reporting standards issued by the Financial Accounting Standards Board (FASB). SFFAS 34 provides that GPFFRs prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP. Consolidation entities (i.e. the consolidated government-wide reporting entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for consolidation entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the organizations. Nonetheless, any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements.

## REPORTING ON DISCLOSURE ORGANIZATIONS

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67. Maintaining a distinction between the finances of consolidation entities and disclosure organizations will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about disclosure organizations rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although disclosure organizations are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.
68. For those organizations classified as disclosure organizations, the preparer should exercise judgment in determining the appropriate disclosures based on the factors and principles provided herein. Information regarding disclosure organizations should be disclosed in accordance with **Disclosure Requirements** as detailed in par. 70 to 73 below after considering the factors listed in par. 69.

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<sup>36</sup> Consolidation is a method of accounting that combines the accounts of those entities line by line on a uniform basis of accounting and eliminates balances and transactions among the entities. For selected financial statements such as the statement of budgetary resources, a combined financial statement which does not eliminate balances and transactions among the entities is acceptable.

## Factors in Determining Disclosures

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69. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining the information that should be presented regarding disclosure organizations. Beyond materiality, the following factors<sup>37</sup> should be considered in making judgments about the extent of appropriate disclosures:
- a. **Relevance to reporting objectives** – Significance of the disclosure organization to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*, with regard to the reporting entity. In particular, this would include the significance of the information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives.
  - b. **Nature and magnitude of the potential risks/exposures or benefits associated with the relationship** – Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to risk of loss and potential gain, to the consolidation entity resulting from the disclosure organization's operations.
  - c. **Disclosure organization views/perspective** – Information about how the disclosure organization views its relationship with the federal government. For example, whether the disclosure organization views itself as an extension of the federal government or operationally independent of the Congress and/or the President may influence the type and extent of information that is disclosed.
  - d. **Complexity of the relationship** – More complex relationships would involve additional detailed disclosures to ensure the relationship is understood by the readers.
  - e. **Extent to which the information interests, or may be expected to interest, a wide audience** – Due to the sensitivity of the relationship, materiality of the transactions, media attention, or other reasons, interested parties may expect more extensive information regarding the disclosure organization or its relationship with the federal government.
  - f. **Extent to which there are no alternative sources of reliable information** – An objective of GPFFRs is to meet the needs of users who may have limited access to information or statements and lack the ability to demand the desired information.

## Disclosure Requirements

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70. In addition to the factors presented in par. 69 regarding the extent of disclosures, both qualitative and quantitative factors should be considered in determining whether information regarding a disclosure organization should be presented separately due to its

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<sup>37</sup> The factors are presented in a list for consideration in the aggregate; no individual weights should be assigned or interpreted.

significance or aggregated with the information regarding other disclosure organizations. If information is aggregated, aggregation may be based on disclosure organization type, class, investment type, or a particular event deemed significant to the reporting entity.

71. Disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive note regarding the disclosure organization and related balances or by incorporating references to relevant notes elsewhere in the GPFFR but relating to the disclosure organization. For example, a reference may be made to a note regarding investments in the disclosure organization.
72. For each significant disclosure organization and aggregation of disclosure organizations, information should be disclosed to meet the following objectives:<sup>38</sup>
  - a. **Relationship and Organization**: The nature of the federal government's relationship with the disclosure organization(s)
  - b. **Relevant Activity**: Nature and magnitude of relevant activity during the period and balances at the end of the period
  - c. **Future exposures**: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure organization
73. Examples of information that may meet the above objectives and provide the necessary understanding of the disclosure organization's relationship and organization, relevant activities, and future exposures specific to the federal government are provided below.<sup>39</sup> In determining what information is needed to meet the objectives in paragraph 72, the factors in paragraph 69, including the complexity and nature and magnitude of the relationship, should be considered. The list of examples below may not be exhaustive and additional items of information necessary to meet the objectives should be disclosed even if not specifically identified in the list below.
  - a. The name and description of the disclosure organization,<sup>40</sup> including information about how its mission relates to federal policy objectives, actions taken on behalf of the federal government, its organization and any significant involvements with outside parties
  - b. The nature of the relationship between the federal government and the disclosure organization including relevant information regarding:
    - i. How any control or influence over the disclosure organization is exercised

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<sup>38</sup> The objectives are not listed in any order of preference.

<sup>39</sup> No individual example is itself a required disclosure. Nor are the examples required in the aggregate. Therefore, the examples are not alternatives or substitutes one for another. Rather, a disclosure that meets the objectives in paragraph 72 should be provided.

<sup>40</sup> For simplicity, information is described in relation to a single disclosure organization. Nonetheless, the information may be presented for an aggregation of similar disclosure organizations.

- ii. Key terms of contractual agreements, statutes, or other legal authorities
  - iii. The percentage of ownership interest and/or voting rights
  - c. For intervention actions, the primary reasons for the intervention and a brief description of the federal government's plan relative to monitoring, operating and/or disposing of the disclosure organization and/or a statement that the intervention is not expected to be permanent
  - d. A description and summary of assets, liabilities, revenues, expenses, gains, and losses recognized in the financial statements of the reporting entity as a consequence of transactions with or interests in the disclosure organization and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)
  - e. A discussion of the disclosure organization's key financial indicators and changes in key financial indicators
  - f. Information regarding the availability of the disclosure organization's annual financial report and how it can be obtained
  - g. In the event that contractual agreements, statutes, or other legal authorities obligate the reporting entity to provide financial support to the disclosure organization in the future, information regarding potential financial impacts (including those terms of the arrangements to provide financial support and liquidity, including events or circumstances that could expose the federal government to a loss)
  - h. The nature of, and changes in, the risks and benefits associated with the control of, or other involvement with, the organization during the period
  - i. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the disclosure organization, including how the maximum exposure to gain or loss is determined (If this cannot be quantified, a narrative discussion could be offered.)
  - j. Other information that would provide an understanding of the potential financial impact, including financial-related exposures to risk of loss or potential gain to the reporting entity, resulting from the disclosure organization's operations including important existing, currently-known demands, risks, uncertainties, events, conditions and trends—both favorable and unfavorable
74. Any disclosure organization's financial information presented in the reporting entity's GPFFR should be based on accrual-basis standards provided in generally accepted accounting principles or an other comprehensive basis of accounting developed for its

specific type of entity.<sup>41</sup> This includes generally accepted accounting principles for the relevant domain (FASAB, Governmental Accounting Standards Board, or FASB).

75. When information is derived from the disclosure organization's financial report, it is preferable but not mandatory that the report be for the same reporting period as the government-wide reporting entity. If a disclosure organization's reporting period differs from the government-wide reporting entity's and it is not cost-beneficial to align the reporting periods, any financial information disclosed from the disclosure organization's financial report should be for a reporting period ending within the government-wide reporting entity's reporting period.
76. Significant changes in information occurring from the end of the disclosure organization's reporting period should be reported consistent with the requirements of SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

## MINIMUM DISCLOSURES REGARDING THE CENTRAL BANKING SYSTEM<sup>42</sup>

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77. The following information regarding the central banking system should be disclosed<sup>43</sup> in the government-wide GPFFR and the GPFFR of any reporting entity to which it may be primarily associated or administratively assigned:
  - a. Governance structure with particular emphasis on matters affecting its independence and insulation from political influence
  - b. Significant roles and responsibilities (and how these relate to federal policy objectives)
  - c. A discussion of the significant financial actions, and changes in those actions, undertaken by the central banking system to achieve monetary and fiscal policy objectives, such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking central bank liquidity swaps
  - d. Amounts of significant types of transactions and balances between the central banking system and the reporting entity

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<sup>41</sup> Consolidation entities should apply the GAAP hierarchy established in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

<sup>42</sup> Central banking system functions are currently carried out by the Federal Reserve System (FRS). The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection (established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act).

<sup>43</sup> Depending on the circumstances, some of the listed information may be disclosed due to other requirements. The resulting disclosures should be integrated so that concise, meaningful and transparent information is provided and information is not repetitive.

- e. A description of any significant financial risks or benefits to the federal government (including significant changes) and, if possible, the amount of the federal government's exposure to gains and losses from operations
- f. The availability of annual financial reports and how they can be obtained

## RELATED PARTIES

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- 78. In addition to organizations for which the Congress and/or the President are accountable,<sup>44</sup> the federal government may have relationships with other parties. Only relationships of such significance that it would be misleading to exclude information about such relationships warrant disclosure.<sup>45</sup> Guidance is provided below but judgment will also be required to identify relationships that warrant disclosure as related parties.
- 79. Related parties: Organizations are considered to be related parties if the existing relationship<sup>46</sup> or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.
- 80. Significant influence (for the purpose of this Statement) is the power to participate in the policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, sometimes by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy-making process, interchange of managerial personnel, or dependence on technical information. Significant influence may be gained by a minority ownership interest, statute, or agreement.
- 81. Significant influence does not arise from regulatory actions or economic dependency alone. However, regulation or economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Judgment is required in assessing the impact of regulation and economic dependence on a relationship.
- 82. Although component reporting entities of the federal government may significantly influence each other, component reporting entities are subject to the overall control of the federal government and operate together to achieve the policies of the federal government and are not considered related parties. Therefore, component reporting entities need not be disclosed as related parties by other component reporting entities.
- 83. Related parties *generally* would include (see paragraph 84 for organizations *generally* not included) but are not limited to:
  - a. **Government sponsored enterprises** not meeting the Inclusion Principles

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<sup>44</sup> Entities for which the Congress and President are accountable are in the budget, majority owned, or controlled and would meet the inclusion principles and be reported as either a consolidation entity or disclosure organization and not be subject to related party reporting.

<sup>45</sup> Significance is assessed at the reporting entity and may differ among component reporting entities and the government-wide reporting entity.

<sup>46</sup> Relationship as used in this context refers to material transactions or events involving both parties.

- b. Organizations governed by representatives from each of the governments that created the organization, including the United States, wherein the federal government has agreed to ongoing or contingent financial support to accomplish shared objectives (for example, multi-lateral development banks)
- 84. In the context of this Statement, the following generally would not be considered related parties:
  - a. Organizations meeting the Inclusion Principles
  - b. Organizations with which the federal government transacts a significant volume of business resulting in economic dependence such as government contractors, state and local governments, collegial institutions, and non-profit organizations<sup>47</sup>
  - c. Key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families
  - d. Foreign governments
  - e. Organizations created through treaties or trade agreements that define common goals and means for joint action where the U.S. role in governing and financing the organizations is not significant
  - f. Special interest groups<sup>48</sup>
- 85. Although paragraph 84 discusses the potential exclusion of certain organizations as related parties, other factors may create a need for related party disclosures for such organizations. The use of judgment will be necessary in identifying those factors consistent with the information needs described in paragraph 86.
- 86. Certain information regarding significant related party relationships may enable users to better understand the financial statements of the reporting entity because:
  - a. Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship;
  - b. Related party relationships can influence the way in which the federal government operates with other entities in achieving its individual objectives; or
  - c. Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.

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<sup>47</sup> However, economic dependency, together with other factors, may give rise to significant influence and, therefore, a related party relationship.

<sup>48</sup> Special interest groups refers broadly to organizations whose members share common concerns and try to influence government policies. Examples include but are not limited to labor unions, trade associations, religious organizations, membership organizations, and lobbying organizations.



87. For related party relationships of such significance to the reporting entity that it would be misleading to exclude information, the following should be disclosed:
- a. Nature of the federal government's relationship with the party, including the name of the party or if aggregated, a description of the related parties. Such information also would include, as appropriate: the percentage of ownership interest.
  - b. Other information that would provide an understanding of the relationship and potential financial reporting impact, including financial-related exposures to risk of loss or potential gain to the reporting entity resulting from the relationship.

## EFFECT ON EXISTING CONCEPTS—PROPOSED AMENDMENTS TO SFFAC 2, *ENTITY AND DISPLAY*

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88. The purpose of this section of the Statement is to propose conforming amendments to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, as described in the following paragraphs. Conforming changes were not needed in paragraphs 11- 37 and these paragraphs were retained in SFFAC 2 as they provide concepts regarding reporting entity. Conforming changes were not considered regarding paragraphs 54 – 77 and paragraphs 79 – 112 because they address concepts outside the scope of this Statement.

89. Paragraph 2 is replaced with the following paragraph which describes the amended purpose and contents of the Statement.

The purpose of this statement is to establish concepts regarding what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there should be financial reports (hereinafter called "reporting entities"), establishes an organizational perspective for considering the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, suggests the types of information each type of report would convey, and identifies the process and factors the Board may consider in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI).

90. Paragraphs 3 - 5 are rescinded because the preamble applicable to all concepts statements, which was adopted at the time SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements* was issued, addresses the topics covered.

91. Paragraph 6a below is inserted following paragraph 6 to recognize the importance of accountability in determining organizations to be included in the reporting entity GPFFR:

6a. SFFAC 1 also discusses accountability and users' information needs as the foundation for the objectives of federal financial reporting. Specifically, par. 71 states "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability." Based on the concepts established



in SFFAC 1, it is clear that accountability is a fundamental goal of financial reporting to be considered in establishing the boundaries of general purpose federal financial reports.

92. Paragraph 7 is rescinded because the preamble applicable to all concepts statements addresses the topics covered.
93. Paragraph 10, first bulleted item is amended by replacing it with the following bulleted item addressing an understanding of what the reporting entity entails:
- ensure information at each reporting level includes information about all relevant organizations to support accountability by including organizations that are in the budget, owned, or controlled with risk of loss or expectation of benefit;

94. Paragraph 38 is amended to exclude references to other paragraphs amended by this Statement. Paragraph 38 is replaced with the following:

The ultimate aggregation of organizations is into the Federal Government which, in reality, is the only independent economic entity. The Federal Government encompasses all of the resources and responsibilities existing within the component reporting entities. The aggregation would include organizations for which the Federal Government is financially accountable as well as other organizations for which the nature and significance of their relationship with the Federal government are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

95. Paragraphs 39 -50 are rescinded because the standards herein provide guidance on the same matters. It is not necessary or appropriate to retain the guidance in SFFAC 2.
96. The sub-heading before paragraph 51 - "Other Aspects Concerning Completeness of the Entity" - is revised to read "Other Aspects Concerning Completeness of the Component Reporting Entity."
97. Paragraph 51 is replaced with the following:

Identifying the organizations to include in the reporting entity is one aspect of ensuring that the users of a reporting entity's financial reports are provided with all the information relevant to the reporting entity. However, because the only independent economic entity is the entire Federal Government, financial resources or free services are often provided from one component in the government to another component without a quid pro quo. For example, a portion of the retirement costs of Federal employees is reported by the Office of Personnel Management rather than the organizational entities employing the persons. Thus, within parameters more appropriately established in accounting standards, it is important to ensure that the reporting entity's financial reports include amounts that are attributable to the reporting entity's activities, even though they are recorded elsewhere. This is particularly important for costs associated with the use of human resources; personnel services are such a major part of most government activities. It is also important for the costs of services provided by other reporting entities, such as computer services provided by another unit.

98. Paragraphs 52 – 53 are rescinded because these paragraphs relate to issues covered in standards and are not necessary for understanding the notion of the reporting entity.
99. A new sub-heading "Need to Distinguish between Consolidation Entities and Disclosure Organizations" is inserted at paragraph 53A.

100. Insert Paragraphs 53A – 53 E under the sub-heading: “Need to Distinguish between Consolidation Entities and Disclosure Organizations” - The proposed language provides a high level explanation of consolidation entities and disclosure organizations. These are new terms introduced in the proposed Statement and critical to understanding the reporting entity concept in the federal government. More importantly, the proposed language describes the need to distinguish them and the reason for this distinction in terms of financial statement presentation.

53A. The Federal Government is a large and complex organization. In order to fulfill public policy objectives, the Federal Government may use both consolidation entities (such as departments and agencies) and organizations that are distinct from consolidation entities to fulfill public policy objectives (such as financially independent organizations). These distinct organizations are referred to collectively as “disclosure organizations.”

53B. Disclosure organizations may maintain a separate legal identity, have a governance structure designed to insulate the organization from political influence, and/or be granted relative financial independence. Despite disclosure organizations’ relative operational and financial independence, accountability for all organizations owned or controlled by the Federal Government rests with the Congress and/or the President. So, both consolidation entities and disclosure organizations should be included in financial reports to provide accountability.

53C. It may be difficult to provide accountability, by meeting financial reporting objectives, through consolidated financial statements because they blur the distinction between consolidation entities and disclosure organizations. Consolidated financial statements may obscure the fact that resources and resource allocation decisions for disclosure organizations are more independent than similar decisions for consolidation entities. While consolidation entities are financed by taxpayers and governed by elected officials, disclosure organizations often do not rely on taxpayers for financing or elected officials for spending authority. For example, a single-column presentation of information for all organizations likely would create a risk of incorrect inferences. Such inferences may include the amount of assets and revenues available for consolidation entities to use in general government activities, and the extent to which taxpayers stand ready to liquidate liabilities and meet expenses of disclosure organizations.

53D. Maintaining a distinction between consolidation entities and disclosure organizations may more effectively meet federal financial reporting objectives. Such a distinction may be maintained through discrete presentation of information regarding disclosure organizations. Nonetheless, disclosures are not a substitute for consolidation entities recognizing the financial effects of transactions with disclosure organizations.

53E. Consolidated financial statements for only consolidation entities will facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxpayers. Consolidation aggregates the individual financial statements of organizations that constitute a reporting entity and results in presentation of information for a single economic entity representing consolidated taxpayer supported activities, resources, and obligations. Consolidation entities are considered federal entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The following sections discuss display of information in consolidation entity financial reports.

101. Paragraph 78 is rescinded because it is not conceptual guidance. It identifies an expectation that material differences between the recognition and measurement requirements under the Financial Accounting Standards Board and the FASAB standards will be adjusted before consolidation.

## EFFECTIVE DATE

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102. This Statement is effective for periods beginning after September 30, 2016. Earlier implementation is encouraged.

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

## APPENDIX A: BASIS FOR CONCLUSIONS

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

### ***Introduction***

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- A1. The federal government and its relationships with other organizations have become increasingly complex. These complex relationships make it difficult to identify federal entities for financial accountability purposes. In addition, some organizations may be viewed as “non-federal” and yet be owned or controlled by the federal government. Identifying the organizations to be included in the government-wide and component reporting entity general purpose federal financial reports (GPFFRs) is necessary to ensure the completeness of GPFFRs.
- A2. GPFFRs should include the varied organizations for which the Congress and/or the President are accountable regardless of their form. Therefore, the primary reason for developing standards for the government-wide and component reporting entity GPFFRs is to ensure that users will be provided with complete financial information about the federal government. While SFFAC 2, *Entity and Display*, provides criteria for determining if an organization should be included in the entity, questions have continued in this area that resulted in the need for standards.

### ***Project History /Task Force***

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- A3. In 2008, the Board formed a task force to support the project. The objective of the task force was “to assist in developing the proposed standards on the boundaries of the reporting entity and specific criteria for determining whether an organization should be included.”
- A4. The task force met several times over the course of the project and also exchanged numerous ideas and recommendations electronically. The task force views and recommendations were presented to the Board for its consideration during the development of these proposed standards. The task force’s assistance was essential and its views carefully considered by members during deliberations. (See Appendix E for a list of task force members.)

### ***Organizational Approach to Defining Boundaries***

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#### ***Underlying Concepts***

- A5. The federal government is complex and therefore defining the boundary of GPFFRs may be difficult. Its constitutionally established powers and often its motivations and functions are different from other organizations. Despite these complexities, difficulties, and differences, accountability is a fundamental goal of financial reporting. As noted in SFFAC 1:

The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. These reports must accurately reflect the distinctive nature of the federal government and

must provide information useful to the citizens, their elected representatives, federal executives, and program managers. Providing this information to the public, the news media, and elected officials is an essential part of accountability in government.<sup>49</sup>

- A6. SFFAC 1 discusses accountability and users' information needs as the foundation of governmental financial reporting. Specifically, paragraphs 71 and 72 state "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability."
- A7. SFFAC 1 explains that the federal government has a special responsibility to report on its actions and the results of those actions. SFFAC 1 discusses the information needs of both internal and external users including the citizens, their elected representatives, federal executives, and program managers because meeting user information needs is an essential part of accountability in government.
- A8. An organizationally based approach to defining boundaries supports accountability to all users but particularly to external users who may be unaware of the nature of organizational relationships. Focusing on organizations helps to identify who is accountable and for what. In addition, an organizational approach provides meaningful financial statements by aligning boundaries with defined organizations for which there would likely be users of GPFFRs.<sup>50</sup>

### ***Identifying and Classifying Organizations***

- A9. The Board considered several alternative approaches to identifying organizations for which elected officials – the Congress and/or the President – are accountable. This Statement provides that reporting entities should first identify what organizations<sup>51</sup> are to be included<sup>52</sup> in the reports. The three principles for including organizations in the government-wide GPFFR are: In the Budget, Majority Ownership Interest, and Control with Risk of Loss or Expectation of Benefit. The Statement also includes a provision requiring inclusion of an organization if it would be misleading to exclude it.
- A10. Next, for those organizations to be included, a distinction is made between consolidation entities and disclosure organizations. This distinction determines how financial information is to be presented in the GPFFR. Consolidation entity financial information is to be presented in consolidated financial statements and related notes. Disclosure organization financial information is to be disclosed in notes to the financial statements.
- A11. Professional judgment is required in the application of the standards proposed in this Statement. This Statement presents a principles-based approach to determining which

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<sup>49</sup> SFFAC 1, paragraph 8.

<sup>50</sup> See SFFAC 2, paragraphs 29-38, for a discussion of the organizational approach.

<sup>51</sup> "Organization" is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components. In certain instances, a specific program or "fund" may be subject to certain reporting requirements or have characteristics such that a GPFFR for the program or fund is needed. Examples may include the Highway Trust Fund or the General Fund. See SFFAC 2, par. 25 – 28.

<sup>52</sup> "Included" means an organization's information is either consolidated or disclosed.

organizations should be included<sup>53</sup> in the government-wide GPFFR because of the wide and varying relationships of the federal government. General purpose federal financial reports for the government-wide reporting entity should be broad enough to report the Congress' and the President's accountability for organizations. This ensures that the financial reports contain all the information essential for fair presentation of the government's financial position and results of operations.

## ***Principles for Inclusion in the Government-wide GPFFR***

### ***In the Budget***

- A12. Identification of an organization in the President's Budget is the clearest evidence that an organization should be included in the government-wide report. Absent budgetary actions – originating with the President's Budget and leading to appropriations – federal organizations would be unable to conduct operations. Financial reporting objectives – budgetary integrity, operating performance, stewardship, and systems and controls – could not be met if organizations identified in the budget were not included in the financial reports. Therefore, the most efficient means to identify organizations for inclusion in the GPFFR is by their participation in the budget process as evidenced by being listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.”
- A13. Although the legislative and judicial branches (and most organizations within those branches) are not currently required to prepare financial statements, based on this principle (*In the Budget*) those organizations would be reported upon in the government-wide report.<sup>54</sup>
- A14. Organizations should include any financing accounts associated with the organization although such accounts may not be specifically identified in the schedule. For example, the schedule entitled “Federal Programs by Agency and Account” may not identify federal credit reform financing accounts, but those accounts should be included in the GPFFR for the organization.

### ***Organizations Receiving Federal Financial Assistance***

- A15. The schedule entitled “Federal Programs by Agency and Account” also sometimes identifies specific recipients of federal financial assistance. SFFAC 2 acknowledges that the “Federal Programs by Agency and Account” schedule sometimes names an organization to receive a “subsidy” and states “This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation.” Thus, “subsidy” is the term used in SFFAC 2 to distinguish such “non-federal” organizations from the organizations intended to be included in the GPFFR.
- A16. While the provision in SFFAC 2 was correct, the Board is proposing standards, and believes terms used in this Statement should be defined. The Board considered ways to

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<sup>53</sup> Note that this Statement does not specify which organizations must prepare and issue financial statements.

<sup>54</sup> As the source of GAAP for federal reporting entities, FASAB GAAP would be the appropriate accounting standards for these entities to adopt to the extent they prepare GAAP-based financial statements.

define “subsidy” but concluded it was more appropriate to rely on the existing definition of “federal financial assistance.”

- A17. The proposed language ensures organizations that receive federal financial assistance<sup>55</sup> as defined by the Single Audit Act Amendments of 1996 but listed under an appropriation in the schedule entitled “*Federal Programs by Agency and Account*” aren’t automatically included in the GPFFR. Most grants are provided through programs and the recipient organizations are not necessarily listed in the budget. However, in some cases, an organization may be listed. The Board believes a means to confirm whether specifically identified recipient organizations are “non-federal organizations receiving federal financial assistance” is needed. When such organizations are listed in the budget, they should be assessed against the “majority ownership interest” and “control with risk of loss or expectation of benefit” principles before being excluded from the government-wide GPFFR.
- A18. Generally, the Board believes preparers can identify organizations that are in fact receiving “subsidies” as described by SFFAC 2. The Statement provides that, although these may be listed in the budget, they are neither automatically included based on the first inclusion principle nor automatically excluded based on the assumption or perception that they would not be owned or controlled. The Board does not believe it would be appropriate to articulate how subsidies are presented in the “*Federal Programs by Agency and Account*” schedule or refer to other budget documents because such treatments may change.

### **Organizations Partially in the Budget**

- A19. The Board deliberated the issue of certain organizations being partially in the budget (i.e., some of their operations or accounts are not in the President’s Budget), such as a museum receiving substantial donor support. The Board determined the organization should be included in the government-wide GPFFR based on the “in the budget” principle. The Board further decided that such organizations should be presented in the same manner as other consolidation entities or disclosure organizations, as discussed later in the Statement. Therefore, the language in the principle (“in the budget”) does not provide separate and distinct guidance for organizations partially funded by non-budgetary sources. This means the organization is either a consolidation entity or a disclosure organization and should be reported as one or the other, in its entirety. Further, paragraph 39 provides that organizations listed in the budget are presumed to be consolidation entities.

### **Need for Additional Principles**

- A20. While the principle “in the budget” is the most efficient means to identify organizations for inclusion, there are additional principles to be considered to identify other organizations that should be included in the government-wide GPFFR. The budget principle represents a starting point in analysis but accountability goals could not be met solely through that principle. Because the budget’s purposes differ from financial reporting objectives in many respects (such as the focus on the allocation of budgetary resource flows versus costs of operations), it is possible that organizations or activities might be excluded from the budget for reasons that do not justify exclusion from financial reports. For example, some organizations may be established to operate in a manner similar to businesses and

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<sup>55</sup> “Federal financial assistance” is assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.



excluded from the budgetary process. Therefore, additional inclusion principles are necessary to ensure completeness in the context of the federal financial reporting objectives.

### Majority Ownership Interest

A21. Ownership interests typically provide owners access to resources and exposure to risks while supporting their desired goals. Federal financial reporting objectives require that information about service efforts, costs, and accomplishments be made available. To ensure such information is included, when the federal government holds a majority ownership in an organization, it should be included in the GPFFR. As described in the Statement, majority ownership interest exists with over 50 percent of the voting rights or the net residual assets of an organization.

A22. The Board noted that some may question how to account for minority ownership interests (less than 50 percent). The Board agreed addressing minority interests through the project is likely to be less effective than allowing the GAAP hierarchy to fill any void. To address the potential question, the Board included within the Statement a footnote stating ownership interests 50 percent or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy.

### Control with Risk of Loss or Expectation of Benefit

A23. When the federal government controls an organization with risk of loss or expectation of benefit, the organization should be included in the government-wide GPFFR to provide accountability. As detailed in the Statement, control involves the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to obtain financial resources or non-financial benefits or be obligated to provide financial support or assume financial obligations as a result of those actions. Both the power and the risk of loss or expectation of benefit aspects of the control definition should be present to justify inclusion of the organization in the GPFFR.

A24. For example, the Statement provides for situations where the risk of loss or expectation of benefit does not exist—in the instance of the federal government exercising regulatory powers over an organization. In these cases, the federal government is unable to exercise that power for its own benefit and rarely explicitly assumes risk of loss. Therefore, including such an organization in the GPFFR would misrepresent the financial position and results of operation of the government. This would not support achievement of the objectives of financial reporting.

A25. For financial reporting purposes, assessment of control is made at the reporting date and based on current legislation, rather than legislation that may or may not be enacted in the future.

A26. Determining control requires judgment, and the Statement provides indicators to assist in making determinations. The first set of indicators is “persuasive” as the federal government has the authority to control and any one of the listed items would generally mean control is present. The second set of indicators requires more judgment because the set of indicators is considered in the aggregate to assess whether the federal government has the ability to control the organization.



A27. Because the government does not usually seek only financial benefits, the expected benefit associated with control does not have to be a financial benefit. Instead, it may be non-financial. For example, it may be in the form of a service provided on the federal government's behalf or the ability to direct the work of the other organization to deliver goods and services.

### Misleading to Exclude

A28. The Statement includes a general provision requiring inclusion of an organization if it would be misleading to exclude it. Certain Board members believed this may be problematic because no criteria are offered. However the Board ultimately agreed the general provision could accommodate rare situations that may arise in the future. This is consistent with provisions of SFFAC 2.

A29. The Board also believes the provision is consistent with the Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*. It provides for those unique situations where the preparer and auditor agree an organization should be included that was not otherwise incorporated as a result of the three principles. Judgment would be required in this area. Therefore, the Board provides for judgment rather than attempting to anticipate these types of situations and develop criteria.

### Reporting on Organizations—Consolidation or Disclosure

A30. Differences in purposes and governance structures by organizations may require different presentation of related financial information. This Statement provides that the reporting entity should first determine which organizations are to be included in the reports. Next the reporting entity should classify each included organization as a consolidation entity or a disclosure organization. Consolidation entities are subject to the hierarchy of GAAP established for “federal entities” in Statement of Federal Financial Accounting Standards (SFFAS) 34. While disclosure organizations are not subject to the hierarchy of GAAP established for federal entities, information about such organizations is needed for accountability purposes.

A31. Different means of presenting relevant information are provided for consolidation entities and disclosure organizations.<sup>56</sup> The distinction between consolidation entities and disclosure organizations is based on the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis. Maintaining a distinction between consolidation entities where financial and operational decisions are more directly governed by the Congress and/or the President, and disclosure organizations that are more financially (or operationally) independent will provide information to users that is more understandable and relevant. In some cases, disclosure of information regarding an individual organization is more useful than consolidation of the individual organization's financial statements in the government-wide financial statements. In other instances, consolidation of individual organizations' financial statements is needed to provide fair

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<sup>56</sup> Consolidated financial statements provided for “consolidation entities” will include all disclosures and required supplementary information required by existing standards. Existing standards will ensure that adequate information is provided regarding the nature and organizational structure of consolidation entities as well as the activities and future exposures.

presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.

A32. While principle-based standards do not explicitly classify specific organizations as consolidation entities or disclosure organizations, the Board considered the need to illustrate how the inclusion principles and the criteria for classification as a consolidation entity or disclosure organization might be applied to certain significant individual organizations or classes of organizations. For many classes of organizations, illustrations are provided in Appendix C of this exposure draft. With respect to certain significant organizations with particularly unique characteristics, such as the central banking system (Federal Reserve System (FRS)),<sup>57</sup> a majority of the Board did not believe illustrations would be appropriate because the illustrations might become de facto requirements regarding that entity's classification.

A33. The role of preparers and auditors is to assess each organization against the principles in paragraphs 20 – 53 and reach their own conclusions. In contrast, the role of standards-setters is to set accounting standards and consider the potential implications. In doing so, the Board acknowledges some members believe the Board should explicitly address inclusion and classification (as a consolidation entity or disclosure organization) of the FRS in GPFFRs because of the magnitude of its operations. While different individuals could reach different conclusions due to the unique and changing role of the central banking system, most members believe explicitly classifying the FRS, or any entity, at a point in time would be inappropriate and result in the Statement becoming outdated as circumstances change.

A34. Despite the decision not to explicitly classify the FRS, the Board considered each possible classification of the FRS. This consideration did not take into account all the facts and circumstances that would be considered by the preparer and auditor. Instead, like the illustrations in Appendix C, high-level facts were considered in sufficient detail to provide reasonable assurance to the Board that preparers and auditors would consider the appropriate matters in making decisions. The majority of the Board believes the proposed principles are sufficient to aid preparers and auditors in assessing any organization, including the FRS, and in making decisions regarding inclusion and classification as a consolidation entity or disclosure organization.

A35. If the assessment of the FRS resulted in its classification as a consolidation entity, the government-wide consolidated financial statements and related notes would present information as if the FRS and other consolidation entities operate together as a single economic entity. Any balances and transactions among the consolidation entities would be eliminated. For example, all Treasury securities held as investments by the FRS and reported as liabilities by the Department of the Treasury would be eliminated. Significant additions to the government-wide balance sheet as a result of consolidating the FRS would be liabilities for deposits of depository institutions and Federal Reserve notes outstanding as

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<sup>57</sup> The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection (established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act). For simplicity, the basis for conclusions discusses the system as a whole rather than its individual components.

well as assets for investments in non-federal organizations. Consolidation would also affect the reported operating results of the government; interest expense would be reduced by the amount paid by the U.S. Treasury to the FRS and revenue would be reduced by the amount paid by the FRS to the U.S. Treasury.

A36. If the assessment of the FRS resulted in its classification as a disclosure organization, disclosures regarding the FRS would aid users in understanding the FRS, its relationship with the federal government, any significant activities, and any risks posed to the federal government. Such disclosures would allow the reader to consider monetary policy and fiscal policy as distinct activities. The government-wide consolidated financial statements would present the results of fiscal policy. Consolidation of fiscal and monetary policy financial information, as described above, would result in elimination of some Treasury securities. Thus, the use of Treasury securities to conduct monetary policy and their elimination upon consolidation could obscure the Treasury securities (debt) that result from the fiscal policies of the federal government. Further, liabilities for Federal Reserve notes outstanding and deposits by depository institutions differ in character from liabilities arising from fiscal policy. In contrast, disclosures may provide an understanding of the relationship between monetary and fiscal policy and support consideration of these distinct activities.

A37. The Board recognizes the FRS performs a unique federal function—central banking—and there is only one organization of this type. The FRS is unique not only in its mission, but also in its governance, structure, activities and the need to maintain independence in practices. Its responsibilities are broad reaching because of the impact of monetary policy on the country (government, businesses, and citizens) thereby leading to great interest in its activities. The magnitude of its role and transactions led the Board to propose certain minimum disclosures about the FRS. The minimum disclosures recognize that there is special interest in the activity of the central banking system. The minimum disclosures are in addition to any other reporting requirements in the government-wide financial report and any reporting entity to which it may have been administratively assigned. The minimum disclosures focus on governance, significant roles and responsibilities, actions to achieve monetary and fiscal policy objectives, transactions with the reporting entity, risks to the federal government and future exposures to gains and losses. The disclosures should be integrated, and depending on the circumstances, also may be required by other provisions in this Statement or other GAAP requirements.

#### Consolidation entities

A38. Consolidation entities generally provide goods and services on a non-market basis. That is, prices are not established solely through market transactions where supply and demand determine price. Goods and services provided on a non-market basis may be free of charge or provided at prices that are either not economically significant or bear little relationship to the cost of the goods or services.

A39. Consolidation entities are financed through taxes and other non-exchange revenue as evidenced by inclusion in the budget. Significant risks and rewards fall to the federal government for consolidation entities. Inclusion in the budget is the clearest evidence an organization is relying on the taxpayer and that elected officials are key decision makers.

A40. The budget is a political document serving many purposes. The 1967 *Report of the President's Commission on Budget Concepts* indicates that “the budget must serve simultaneously as an aid in decisions about both the efficient allocation of resources among competing claims and economic stabilization and growth.” On the topic of coverage of the budget, the Commission recommended that “the budget should, as a general rule, be comprehensive of the full range of Federal activities.” Because the budget includes “federal activities,” entities listed in the budget, except those receiving federal financial assistance, are presumed to qualify as consolidation entities.

A41. The assessment of whether an organization meets the attributes for a consolidation entity is based on the assessment of all the attributes and the degree to which each is met. As such, not all attributes are required to be met; classification is based on the assessment as a whole.

#### Disclosure organizations

A42. Disclosure organizations receive limited or no funding from general tax revenues. Disclosure organizations, in contrast to consolidation entities, are often structured so there is a clear barrier or limit on taxpayer financing of the entity. Disclosure organizations have relative financial independence and often provide goods and services on a market basis. This may be an effort to shield the federal government from risk.

A43. Another contrast with consolidation entities is that with disclosure organizations, the Congress and/or the President have much less direct involvement in decision-making. Decision-making may rest with a governing board insulated from political influence and there may be situations where disclosure organizations have a separate legal identity.

A44. It is important to recognize the continuum that exists among disclosure organizations. For example, despite a greater degree of autonomy, some disclosure organizations may still exercise powers that are reserved to the federal government as sovereign. Other disclosure organizations may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory or intervention actions.

A45. The Statement provides categories of disclosure organizations primarily as a way to help identify disclosure organizations. However, the Statement does not require presentation by any specific class or category and allows flexibility in presenting information about disclosure organizations. The categories of disclosure organizations include quasi-governmental and/or financially independent organizations, receiverships and conservatorships, and federal government intervention actions.

#### *Quasi-Governmental and/or Financially Independent Organizations*

A46. The Statement describes quasi-governmental and/or financially independent organizations as those disclosure organizations where governance and/or financial differences lead to greater independence. The Statement identifies both governance and financial characteristics that would be found in this type of disclosure organization.

A47. Quasi-governmental and/or financially independent organizations may include certain FFRDCs, museums, performing arts organizations and universities, and venture capital funds. Because details may differ among organizations in each example type, an objective

assessment may classify some individual organizations as consolidation entities rather than disclosure organizations. Appendix C- Illustrations offers examples that may be useful in application.

### ***Receiverships and Conservatorships***

A48. The Statement describes receiverships and conservatorships as disclosure organizations. This includes those failed financial institutions and banks the federal government takes control or ownership of with no goal to maintain the relationship. Absent a decision to make control permanent, such controlled or owned organizations would be disclosure organizations and are not subject to the GAAP hierarchy for federal entities included in the GPFFR.

### ***Federal Government Intervention Actions***

A49. The Statement describes federal government intervention actions as disclosure organization involvements resulting from exceptional circumstances where the involvements are not expected to be permanent. SFFAC 1 acknowledges the unique nature of federal government activity and its broad responsibilities. Paragraph 50 explains “The federal government is unique, when compared with any other entity in the country, because it is the vehicle through which the citizens of the United States exercise their sovereign power. The federal government has the power through law, regulation, and taxation to exercise ultimate control over many facets of the national economy and society...” SFFAC 1 describes the federal government’s responsibility for the general welfare of the nation in paragraph 53-54 as “a broad responsibility that involves multiple goals.”

A50. With these broad responsibilities, the federal government may decide to take certain actions or intervene in certain situations. Examples may include actions to provide stability to the financial markets, key industries, states, cities, counties, or military occupation of another country.<sup>58</sup> These types of federal government interventions are considered rare.<sup>59</sup> Historically the federal government has been involved in few commercial enterprises on an equity basis or shared ownership basis.<sup>60</sup> Although the federal government may not act to maximize profits, the federal government may intervene and act in capacities to protect citizens. This may ultimately lead to taking control of organizations or acquiring some form of ownership.

A51. The federal government may also intervene by providing assistance through extending loans or debt guarantees that do not meet the inclusion principles established in this Statement. Such transactions should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy. This Statement does not include additional disclosures for such intervention actions.

A52. Currently SFFAC 2 provides an exception for situations where the criteria leading to consolidation are met temporarily. Specifically, paragraph 45 of SFFAC 2 states “The entity

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<sup>58</sup> After the signing of the Japanese Instrument of Surrender in 1945, Japan was supervised for 6 years by the Allied (primarily American) forces and subject to military control, with General MacArthur at the head of the Occupation administration. (Takemae, Eiji; 2002, p. xxvi)

<sup>59</sup> The financial crisis that began in 2007 is considered to be the most severe since the Great Depression. (White Paper on Changes to Financial Regulations)

<sup>60</sup> Congressional Research Service (CRS) Report for Congress RL30533, *The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics*

or any of the above criteria are likely to remain in existence for a time, i.e., the interest in the entity and its governmental characteristics are more than fleeting.” “Fleeting” may imply periods of one year or less to some and the Board considered how to clarify the term “fleeting.” Ultimately, the Board decided terms such as “fleeting” and “temporary” imply a time limit.

A53. However, there may be instances where an intervention is longer than one year due to the extreme factors of the national crisis. In most instances, it is difficult to establish and meet a timeline for ending an intervention. In these instances, the focus continues to be on governance and protection, rather than maximizing profits or establishing new federal government lines of business. Although the actions may be longer than one year, the interventions are “not expected to be permanent.” The Board established this “non-permanent” expectation as a characteristic of disclosure organizations rather than relying on “temporary” or “fleeting” to avoid the implication that a time limit could be established.

A54. A further implication the Board wishes to avoid is that organizations owned or controlled as a result of interventions are considered “federal entities.” The Statement recognizes that such interventions create a need for accountability but they do not make the disclosure organizations arising from intervention actions “federal entities.” Hence, the Statement proposes that disclosure organizations not be subject to the GAAP hierarchy for federal entities.

### ***Component Reporting Entities***

A55. The Board believes there should be consistency in treatment of organizations at the government-wide and the component reporting entity levels. The reasons for including organizations at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFFR. Further, classification as consolidation entities or disclosure organizations would be consistent in government-wide and component reporting entity GPFFRs. The Board believes a single set of principles for inclusion and classification presented from the government-wide perspective provides for the desired consistency. This is appropriate and necessary because the government-wide reporting entity is the only federal reporting entity that is an independent economic entity.

A56. Nonetheless, implementation of these principles will involve the component reporting entities because the government-wide report is a consolidation of the reports provided by component reporting entities. Therefore, component reporting entities must identify and include in their GPFFR all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete.

A57. The Board believes that component reporting entities should identify consolidation entities and disclosure organizations administratively assigned to the component reporting entity. Standards that are based on organization and accountability provide a more realistic view of how component reporting entities become accountable for organizations and how component entity boundaries are likely to be determined. The result will be component reporting entity GPFFRs that include all organizations for which the component reporting entity management (for example, appointed officials) are expected to be accountable.



A58. Administrative assignments to component entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans. Ultimately, component reporting entities would identify and include in their GPFFR all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity and government-wide GPFFRs would be complete.

A59. Administrative assignments can be identified by evaluating the following three areas:

- a. Scope of the Budget Process
- b. Accountability Established Within a Component Entity
- c. Misleading to Exclude and/or Misleading to Include

A60. Component reporting entities should develop processes to ensure they identify and assess any organizations (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency.

A61. Although there may be a one-time review to ensure completeness and consistency, the Board believes this method is reasonably consistent with current practice. Further, a coordinated effort from the central agencies could promote a process to ensure the component reporting entities are performing the necessary procedures to capture the material organizations from their perspectives and also for consideration at the government-wide level. The effective date considered this and allowed sufficient time for a coordination of efforts.

### ***GPFFR Consolidation and Disclosure***

A62. As noted above, decisions about the government-wide GPFFR require determining what organizations are to be included in the reports and identifying appropriate means to present relevant information about organizations. The final determination of the presentation of financial information through consolidation or disclosure is based upon the results of two assessments—first if the organization is included and second, if those included organizations are classified as consolidation entities or disclosure organizations.

A63. The Flowchart at Appendix B is a useful tool in applying the principles established. It is helpful in the assessment and applying the standards in order. It includes paragraph references to underlying principles and major decision points.

### ***Consolidation Entities***

A64. The Statement provides that consolidation entities should apply SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. In addition, it provides for the consolidation of the financial statements of consolidation entities so citizens may assess the financial position and the cost of operations of the federal government. Consolidation of financial information regarding the activities financed by taxes and other non-exchange revenue, resources, and obligations where governance rests with the Congress and/or the President ensures that the reporting objectives of SFFAC 1 are met.

A65. Existing guidance may also require additional information—either through disclosures or required supplementary information—regarding consolidation entities. While the term “disclosure organizations” is used to refer to organizations included in GPFFRs through disclosures, readers should not infer that disclosures would not also be provided regarding consolidation entities and related activities and transactions consistent with existing standards.

### *Consolidation of FASB-based and FASAB-based Information*

A66. The Board has considered the potential ramifications when some federal entities follow GAAP for nongovernmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP) and their information is consolidated with information based on FASAB standards. For example, federal government corporations, the U.S. Postal Service, certain component reporting entities of the U.S. Department of the Treasury, and some other organizations in the executive and legislative branches have historically applied FASB GAAP and continue to do so. SFFAS 34 recognizes that “general purpose financial reports prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP for those entities that have in the past issued such reports.” SFFAS 34 also provides that a federal reporting entity preparing audited financial statements for the first time may adopt FASB standards in the rare case that the needs of its primary users would be best met through the application of FASB standards. The acceptance of these practices raises the question of whether the information prepared under FASB standards may be consolidated with information prepared under FASAB standards in consolidated reports prepared by other component reporting entities and in the consolidated government-wide reporting entity.

A67. The Board has considered such issues on several occasions and provided concepts as follows:

The reporting entities of which the components [preparing reports under FASB or regulatory accounting standards] are a part can issue consolidated, consolidating, or combining statements that include the components’ financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity’s financial statements. If these differences are material, the standards recommended by FASAB and issued by OMB and GAO should be applied. The components would need to provide any additional disclosures recommended by FASAB and included in the OMB issued standards that would not be required by the other standards.<sup>61</sup> (SFFAC 2, *Entity and Display*, par. 78 (excerpt from section on “Financial Reporting For An Organizational Entity”))

A68. The Board determined in SFFAS 34 that FASB-based statements are acceptable in certain circumstances. While there are significant differences between FASB and FASAB standards, both standards result in accrual-basis information and disclosures that aid users in understanding the information. Converting FASB-based information to FASAB-based information for consolidated financial reports of larger organizations may not be justifiable since conversion may not aid users.

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<sup>61</sup> In October 1999, FASAB was recognized as the Rule 203 standards-setting body for the federal government. As such, FASAB now issues the standards, rather than issuing recommendations to OMB and GAO for issuance of the standards.



A69. Users may be confused by the presentation of different amounts for a component in its own financial report and in the consolidated financial reports of larger organizations; particularly when both amounts would be in accordance with GAAP for federal entities per SFFAS 34. In addition, conversion imposes a cost and it is not clear that the cost is justifiable based on benefits to the user. Therefore, this Statement proposes that amounts derived for component reporting entities in compliance with SFFAS 34 be consolidated without adjustment.

A70. However, if this leads to consolidation in a single line item of amounts measured differently due to differences between FASB and FASAB principles, then one would anticipate disclosures of the different accounting policies and the related amounts to aid the reader in understanding the information provided. The Board considered adopting requirements for such disclosures but believes that existing requirements and long-standing professional practices are sufficient.

### Disclosure Organizations

A71. The Board believes consolidation of disclosure organizations would not result in information meeting the basic qualitative characteristics of information in financial reports because it would not provide the most relevant, understandable, or consistent information. The Board believes consolidation of disclosure organizations may obscure the boundaries of the risks and rewards intended to be assumed or gained. Further, assets that are not available for purposes other than the specific business operation of the non-consolidated organization might be commingled with federal assets, and liabilities not fully guaranteed by the federal government might be added to federal liabilities. Instead, financial balances and amounts for organizations having the characteristics of disclosure organizations should be kept separate from balances and amounts for those organizations having the characteristics of consolidation entities to prevent distortions to the consolidated financial statements.

A72. The Board believes SFFAC 1 recognizes the challenges that may arise in applying traditional approaches to financial reporting. SFFAC 1 par. 49 states "...Federal accounting and financial reporting are shaped by, and need to respond to, the unique characteristics and environment of the federal government." SFFAC 1 par. 105 further explains "reports must accurately reflect the distinctive nature of the federal government and must provide information useful to the people, their elected representatives, and federal executives..." SFFAC 1 also provides the qualitative characteristics of information in financial reports, by identifying these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.<sup>62</sup>

A73. The Statement provides flexibility in identifying needed information regarding disclosure organizations because the range of disclosure organizations is broad and different information may need to be disclosed to meet the reporting objectives. Providing this flexibility allows the preparer to present information judged most necessary to meet reporting objectives while also providing an understanding of the potential effect of the relationship on the consolidation entity's financial statements.

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<sup>62</sup> SFFAC 1, par. 156.

### *Factors in Determining Disclosures*

- A74. Because of the flexibility needed regarding disclosures, preparers are provided a list of factors to assist in determining what disclosures to include. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining disclosure organization presentation and disclosure. Beyond materiality, the factors provided in the Statement assist in determining the nature and extent of information regarding a disclosure organization to be provided.
- A75. The factors are to be considered in the aggregate; no individual weight should be assigned or interpreted. The assessment of the appropriate disclosures should be made after considering all the factors.

### *Disclosure Requirements*

- A76. The Board recognizes that although the Statement provides flexibility in meeting the disclosure objectives, there is a wide variety of information listed as examples that may be disclosed to meet the intended objectives and there are not requirements for how information must be aggregated. Qualitative and quantitative factors are considered in determining whether information regarding a disclosure organization is presented separately due to its significance or aggregated with the information regarding other disclosure organizations. If information is aggregated, aggregation may be based on disclosure organization type, class, investment type, or a particular event deemed significant to the reporting entity. For example, one reporting entity may determine it appropriate to aggregate by investment types, such as equity or loan, another by disclosure organization type, such as receiverships, and yet another by class, such as museum.
- A77. Further, disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive note regarding the disclosure. Care should be taken to ensure the objectives are met, without producing unintended consequences. Preparers should keep in mind there are associated costs and potential audit implications with any information included in a GPFFR. Incorporating by reference or including summary financial statements or summary financial information generally would result in an auditor being required to gain audit assurance on that information and thereby may result in additional audit costs.
- A78. The Board believes any financial information about disclosure organizations in the reporting entity's GPFFR should be based on accrual basis standards specific to the type of organization while minimizing additional costs on the disclosure organization. There will be instances where information about disclosure organizations is produced for reporting periods that differ from the reporting entity's reporting period. To minimize additional costs, the Board agreed that if disclosure organizations have a different reporting period than the reporting entity's GPFFR, disclosure of information from a reporting period ending within the reporting entity's reporting period is acceptable. The Board performed outreach on this issue to the audit community and to the federal entity task force. Generally, the feedback supported this approach.
- A79. However, due to the fact there could be a large time lag, there should be a provision for disclosing significant changes in the information as a result of events occurring after the issuance of the disclosure organization's audited financial statements and before the issuance of the reporting entity's audited financial statements for a later fiscal year-end. The

Board notes this would only be necessary if a disclosure organization's summarized financial statements or summarized financial information were presented. Otherwise normal transactions would be captured throughout the year so this would be a somewhat narrowed focus.

A80. The Board is especially concerned with the interpretation by the users and preparers regarding the requirements for disclosure organizations and ultimately how they would affect the display and disclosures. The Board believed this would be an important consideration during deliberations and invited the assistance of the Department of the Treasury and a potential included organization in preparing a draft Illustration of a disclosure based on the draft requirements.

A81. Although the Board believed some enhancement of the draft standards was in order to encourage concise and transparent disclosures, the Board agreed the inclusion principles were appropriate. Further, the flexibility provided within the disclosure requirements, along with the factors to consider, were preferable to prescribing information required regarding specific disclosure organizations.<sup>63</sup> The Board noted the need to emphasize the aggregation of information, referencing other disclosures when possible, additional focus on risk and other enhancements to the draft disclosures. This need arose because of the complexity of the relationships being described, transactions affecting multiple assets and liabilities being reported, and the desirability of an integrated set of disclosures. The Board subsequently modified the draft disclosure requirements to emphasize integration of disclosures.

### ***Related Parties***

A82. The Board determined it should define "related parties" and address them within this Statement for several reasons. Related party reporting is such a fundamental notion within GAAP and the auditing standards that addressing how related party concepts apply in the federal domain is important. Absent clear related party standards in the federal domain, the Board believes the private sector concepts would be applied by default.

A83. Because of the extent of the federal government's relationships – whether already established or implied – "related parties" concepts may result in numerous relationships requiring disclosure. Therefore, the Board proposes disclosure of related party relationships of such significance to the reporting entity that it would be misleading to exclude information about them. For clarity of intent, the standards rely heavily on listing parties to be included and excluded. In addition, the proposal provides room for judgment because one cannot anticipate all types of relationships the federal government may have or might have in the future that should be reported. The related parties category is needed to provide for disclosure of those organizations that are not included under the inclusion principles but where there is an existing relationship of such significance that it would be misleading to exclude.

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<sup>63</sup> As discussed in paragraph A37 about the Federal Reserve System, the magnitude of its role and transactions led the Board to propose certain minimum disclosures about the central banking system in paragraph 77 of the Statement. However, these are minimum disclosures and depending on the circumstances, some of the listed information may need to be disclosed due to other requirements. The disclosures should be integrated so that concise, meaningful and transparent information is provided and Information is not repetitive

A84. Component reporting entities of a single controlling entity are generally subject to related party reporting requirements in other standard-setting domains. The Board discussed whether jointly controlled component reporting entities should disclose information about their relationships. Presently, component reporting entities are required by OMB guidance to state in the management's discussion and analysis section that: "The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity." In addition, existing standards require recognition of inter-entity costs to ensure that cost information is not misstated as a result of relationships between component reporting entities. While members noted that readers may need additional contextual information to understand what these complex relationships imply about component reporting entity information, they preferred that OMB explore options for additional guidance through Circular A-136, *Financial Reporting Requirements*, so that it is integrated with existing disclosure requirements. Addressing additional disclosures in this Statement would likely expand its scope into areas adequately addressed in established practice.

### ***Proposed Amendments to SFFAC 2, Entity and Display***

A85. The Statement proposes amendments to SFFAC 2, *Entity and Display*. The Statement provides a description of the change to SFFAC 2 and an explanation as to why the change is being made. Most of the conforming changes are rescissions that result from movement of criteria for determining what organizations are required to be included in the federal reporting entity's GPFFR from a concepts statement to standards statement.

A86. Paragraphs 54—77 and 79 – 112 of SFFAC address concepts outside the scope of this Statement and are not amended.

A87. In addition, no changes are proposed to paragraphs 11-37 of SFFAC 2 because the Board believes these paragraphs provide the conceptual underpinning for understanding the structure of the federal government and how this relates to reporting entities for general purpose federal financial reporting. Although there may be some small differences in terminology in those paragraphs, the Board did not believe they were significant enough to warrant amendments.

A88. Paragraphs 47-50 of SFFAC 2 identify certain organizations or types of organizations (the Federal Reserve System, Government Sponsored Enterprises, and Bailout Entities) that could be included in the government-wide reporting entity based on the SFFAC 2 concepts but that should not be included. This Statement establishes principles to ensure users of GPFFRs are provided comprehensive financial information while recognizing the complexity of the federal government and its relationships with varied organizations. The principles can be applied to the organizations previously excluded and conclusions reached to include the organizations—either as consolidation entities or disclosure organizations—or to continue to exclude the organizations. SFFAC 2 is being amended to ensure that concepts provide a framework for standards-setting but do not themselves establish standards by listing specific exclusions.

### ***Alternative View***

A89. Individual members sometimes choose to express an alternative view when they disagree with the Board's majority position on one or more points in a Statement. The alternative view discusses the precise point or points of disagreement with the majority position and

the reasons therefore. The ideas, opinions, and statements presented in the alternative view are those of the individual member. However, the individual member's view may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The following material was prepared by Mr. Steinberg and is presented as an alternative view.

A90. Mr. Steinberg believes that in the case of receiverships, conservatorships, and interventions, which Statement of Federal Financial Accounting Concepts (SFFAC) 2 *Entity and Display* determined to be “bail-out entities,” there is a conflict with the Concepts statement. He also believes that using the ownership and control principles to explicitly equate the receiverships, conservatorships, and interventions with the other disclosure organizations gives the impression that the receiverships, conservatorships, and interventions are part of the federal government.

A91. The reason Mr. Steinberg does not believe receiverships, conservatorships, and interventions should be equated with other disclosure organizations is actually presented in the proposed Statement. They represent less than permanent arrangements resulting from Federal government actions to avoid adverse impacts on the nation's economy, commerce, national security, etc. (paragraphs 49, 50, 51, A53). Permanence of a relationship is a fundamental concept when defining parts of an organization. Furthermore, these organizations were established in the private sector, and they carry out activities not intended to be performed by the federal government (paragraphs A48, A50). Equating them with the other disclosure organizations could be viewed as a broadening of the reach of the federal government into the private sector.

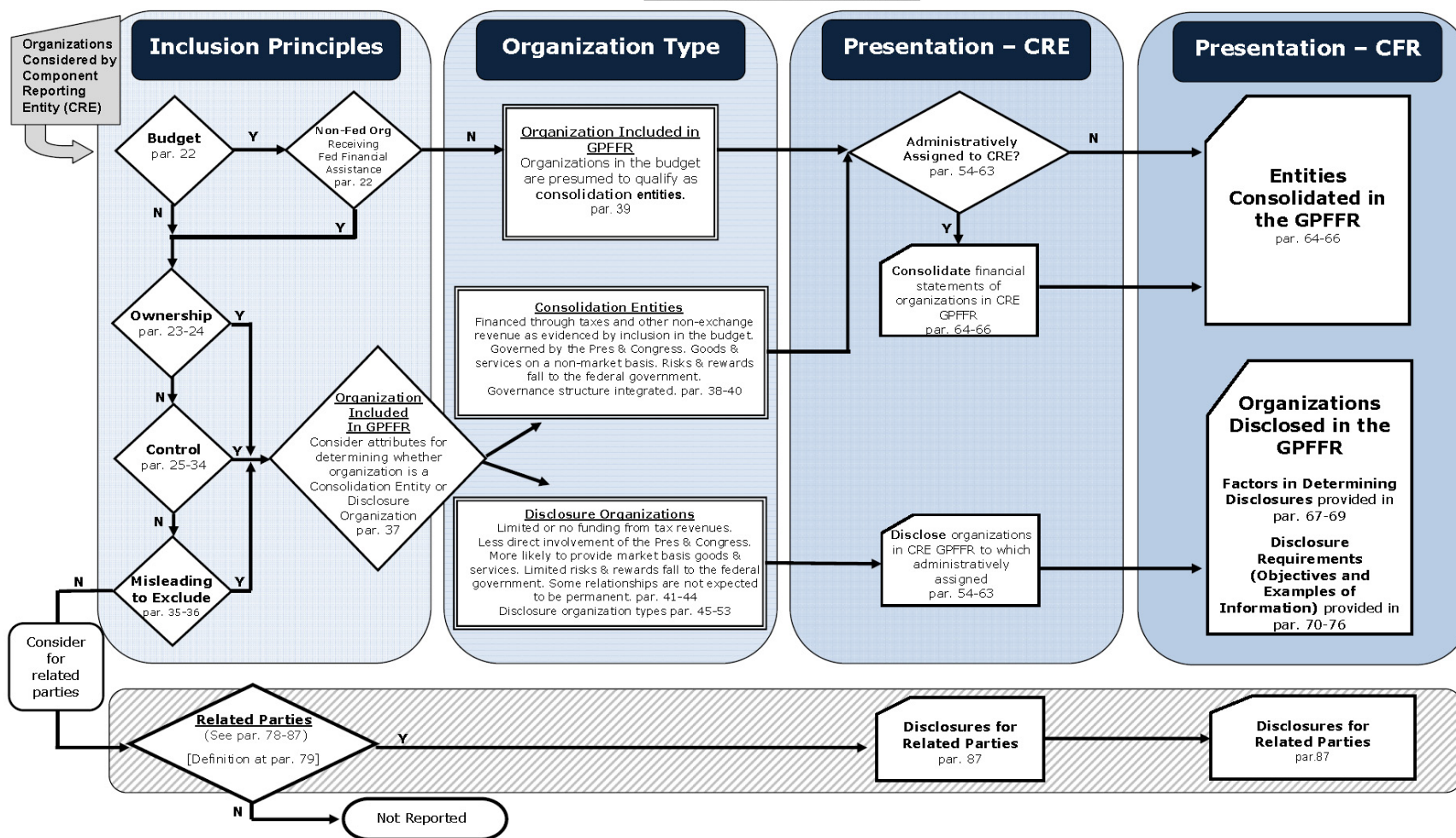
A92. Mr. Steinberg points out that eliminating receiverships, conservatorships, and interventions as a defined class of disclosure organization within the proposed standard does not mean there should or would not be disclosure of the financial risks and expectations of benefits associated with these organizations. There are extensive disclosures now, required by both existing accounting standards and the GAAP hierarchy. These disclosures would continue.

A93. Moreover, not all interventions entail ownership or control. An example is an intervention using loan guarantees. Mr. Steinberg believes that a single standard that address all types of interventions and the manner in which they should be reported would be significantly more effective than the proposed standard which addresses only interventions in which there is temporary ownership and/or control. He points out that the Board has started a Risk Assumed project that is likely to encompass interventions. The project could ensure that the disclosures for interventions would address not only the types of disclosures expected for all disclosure organizations in this proposed standard, but also the additional disclosures appropriate for interventions. Examples of the latter are key transactions, financial assistance provided by the central banking system, costs incurred to date, the extent of contingent liabilities associated with the interventions, etc.



## APPENDIX B: FLOWCHART

**FLOW CHART (Appendix B)**



## APPENDIX C: ILLUSTRATIONS

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### *Preamble*

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These illustrations demonstrate how the provisions of the standards could be applied to organizations given simplified hypothetical circumstances. They are for illustrative purposes only and are nonauthoritative. They do not:

1. represent actual organizations.
2. provide a thorough analysis of all the facts and circumstances that are needed to reach a conclusion in practice.
3. indicate a preferred method of analyzing facts and circumstances.
4. substitute for the application of professional judgment to actual facts and circumstances.

These illustrations follow the sequence presented in the decision flowchart in Appendix B. All tentative conclusions are based primarily on the hypothetical circumstances presented. In most illustrations, the tentative conclusions refer to consideration of other factors by management and the auditor. This reference is included to emphasize that, in practice, consideration of all relevant facts and circumstances would be needed to reach conclusions. The reader should assume that the general reference to “other factors” means that such factors, in aggregate, supported the conclusions implied by the necessarily limited assumed facts and circumstances presented in each illustration.

Application of the proposed standards to actual organizations requires consideration of the circumstances specific to each organization and the exercise of professional judgment. Although the limited assumed facts and circumstances presented in the illustrations may be similar to situations at a particular reporting entity, they should not be used in practice as a substitute for a complete and thorough consideration of all of the relevant facts and circumstances, which may lead to a conclusion different from the tentative conclusions in these illustrations. For example, the illustrations make certain assumptions that, in practice, require judgment of the specific facts and circumstances to make appropriate determinations.

All of the illustrations discuss administrative assignments to component reporting entities where there is only one component reporting entity relationship described. In reality, more than one component reporting entity may have a relationship with the illustrative organization. In such cases, additional information would need to be considered to determine whether other administrative assignments exist.

## **ABC Department**

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(In the Budget—Consolidation Entity)

### **Assumed Facts and Circumstances**

Congress established ABC Department (ABC), a federal organization, to promote entrepreneurship and innovation as a means to address national economic and environmental challenges. Provisions that govern ABC are generally prescribed in legislation and ABC accomplishes its mission through the activities of various bureaus, grants to research institutions, and contracts with universities and not-for-profit organizations.

The executive leadership of ABC consists of a secretary, deputy secretary, and three assistant secretaries. The President nominates and the Senate confirms each of these officials. These officials serve at the pleasure of the President. ABC is subject to all laws and regulations applicable to executive branch agencies.

ABC relies on appropriated public funds to conduct its mission and is listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.” The President and the Congress consider ABC’s requests for resources and determine the amount that should be budgeted to provide services. Furthermore, ABC is not considered to be a non-federal organization receiving federal financial assistance.

### **Tentative Conclusions**

Based on the assumed facts and circumstances, management determined and the auditor concurred that ABC should be included in the government-wide GPFFR because it (1) meets the first of the three inclusion principles (being listed in the budget) and (2) is not a non-federal organization receiving federal financial assistance.

### **Classification as a Consolidation Entity or Disclosure Organization**

Further, because it is listed in the budget, ABC is presumed to qualify as a consolidation entity assuming no information to the contrary. In this example, management determined and the auditor concurred that there were no facts contradicting the assumption that ABC is a consolidation entity. As a consolidation entity, ABC’s financial statements should be consolidated in the government-wide GPFFR.

### **Administrative Assignments**

The assumed facts and circumstances do not indicate ABC should be consolidated with another component reporting entity. Further consideration of ABC’s relationships with other consolidation entities would be needed to determine if ABC has been administratively assigned to another component reporting entity. Further consideration would also be needed to identify any consolidation entities or disclosure organizations administratively assigned to ABC.



## ***Epsilon Corporation***

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(In the Budget – Consolidation Entity)

### ***Assumed Facts and Circumstances***

The Congress and the President established Epsilon Corporation as an independent government corporation to insure consumer funds placed in trust with certain types of institutions. Federal legislation established provisions that govern Epsilon's activities. Epsilon is governed by a seven member board of directors and each board member is appointed by the President and confirmed by the Senate. The Congress monitors Epsilon's activities by conducting hearings on Epsilon's programs and requesting Government Accountability Office (GAO) and Office of Inspector General (OIG) audits.

Epsilon is listed in the in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.” Epsilon receives its funding based on legislation permitting it to receive and spend premiums from the institutions it insures. Legislation limits how Epsilon can invest proceeds from premiums and, to help ensure that Epsilon remains financially viable, legislation requires Epsilon to have a reserve fund. The board of directors determines the level of the reserve fund. If Epsilon encounters a shortfall, the organization may borrow a limited amount from the U.S. Department of the Treasury, but any additional funding requirements must be obtained from premium assessments.

Epsilon is required to periodically report to the Congress and the President on matters such as:

- Program performance results
- Financial position, results of operations, and cash flows
- Adequacy of internal controls and systems

Furthermore, Epsilon is not considered to be a non-federal organization receiving federal financial assistance.

### ***Tentative Conclusions***

Based on the assumed facts and circumstances, management determined and the auditor concurred that Epsilon Corporation should be included in the government-wide GPFFR because it meets the first of the three inclusion principles (being listed in the budget) and is not a non-federal organization receiving federal financial assistance.

### ***Classification as a Consolidation Entity or Disclosure Organization***

Further, because it is listed in the budget, Epsilon is presumed to qualify as a consolidation entity assuming no information to the contrary. In this example, management determined and the auditor concurred that there were no facts rebutting or contradicting the assumption that Epsilon is a consolidation entity. As a consolidation entity, Epsilon's financial statements should be consolidated in the government-wide GPFFR.

### Administrative Assignments

There is no information included in the assumed facts and circumstances indicating that Epsilon should be consolidated with another component reporting entity. Further consideration of Epsilon's relationships with other consolidation entities would be needed to determine if Epsilon has been administratively assigned to another component reporting entity or has had consolidation entities administratively assigned to it. Also, further consideration would be needed to identify any disclosure organizations administratively assigned to Epsilon for which disclosures are needed.

## ***Sigma Association***

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(Control based on Persuasive Indicator - Disclosure Organization (Financially Independent))

### ***Assumed Facts and Circumstances***

The Congress and the President established Sigma Association (Sigma) as a not-for-profit, non-taxpayer funded organization to market innovative U.S. agricultural technology worldwide and to respond to any claims of damage arising from new technology. The fundamental purpose of the corporation is specified in legislation and its mission statement is “to open new markets for U.S. agricultural technology through a cooperative marketing strategy and risk-sharing approach for market participants.”

Sigma is governed by a ten-member board of directors. Five members are appointed by the President and confirmed by the Senate. Four members are elected by industry members. The Secretary of Agriculture (or his/her designee) serves as a voting ex-officio member of the board. No more than three of the appointed members may be from the same political party. Board members serve seven-year terms and can only be removed for cause (meaning they may not be removed for policy decisions). Also, Congress monitors Sigma’s activities by conducting hearings on Sigma’s programs and requesting GAO audits.

Sigma is financed by fees imposed on industry members. Sigma’s board of directors must establish an annual budget and legislation limits how Sigma can invest proceeds from fees and, to help ensure that Sigma remains financially viable, legislation requires Sigma to have a reserve fund. The board of directors determines the level of the reserve fund after considering input from industry members. If Sigma encounters a shortfall, it may borrow a limited amount from the U.S. Department of the Treasury (Treasury), but any additional funding requirements must be obtained from future fee assessments on industry members.

### ***Tentative Conclusions***

Based on the assumed facts and circumstances, and other considerations, management determined and the auditor concurred that Sigma should be included in the government-wide GPFFR because Sigma meets the third inclusion principle (control with expected benefits or risk of loss). Indicators that the federal government can control Sigma are that the Congress and/or the President (1) established its fundamental purpose and mission through legislation and (2) appoint a majority of the members of its board of directors (its governing body). Each of these facts individually would be sufficient to indicate control such that Sigma would be included.

### ***Classification as a Consolidation Entity or Disclosure Organization***

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Sigma should be reported as a disclosure organization because it is a financially independent organization. Management and the auditor considered the assumed facts and circumstances presented below in the aggregate, weighed them against other considerations, and used professional judgment.

### ***Evidence suggesting that it is a disclosure organization includes:***

1. Tax revenue is not appropriated for ongoing operations.

2. The corporation is relatively financially independent because it is primarily funded from a source other than appropriations. Its budget and fees are not subject to Congressional or Presidential approval.
3. Having seven-year terms for directors who are not subject to removal for policy decisions indicate a higher degree of autonomy than executive branch appointees. This governance structure vests greater decision-making authority with the board while insulating it from political influence. As a result, Congressional and Presidential oversight is less direct since they are not involved in decisions such as the level of reserves needed.
4. While Sigma is permitted to borrow from the Treasury, such borrowing is limited. This means risks to the federal government are limited. Instead, Sigma is expected to maintain its operations and meet its liabilities with revenues received from sources outside of the federal government.

*Evidence suggesting that Sigma may be a consolidation entity includes:*

1. The President and the Senate, who appoint and confirm, respectively, members of the board of directors as well as establish organizational authorities in legislation, have a governance role.
2. Sigma provides a service that is not available from market participants. Its fees are adjusted to recover losses rather than to respond to market influences. Hence, its fees are not market-based.

*Administrative Assignment*

Because each disclosure organization must be reported by at least one consolidation entity, management considered whether Sigma has been administratively assigned to the Department of Agriculture. Evidence suggesting administrative assignment to the Department of Agriculture includes that the secretary serves as an ex-officio member of the board.

As a result, management determined and the auditor concurred that the Department of Agriculture should disclose information regarding Sigma in its GPFFR. If Sigma is also administratively assigned to other component reporting entities, then those component reporting entities should also consider the need to disclose information in their GPFFRs.

## Scholars University

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(Not Included)

### Assumed Facts and Circumstances

The Congress and the President chartered Scholars University as a small, private, independent, not-for-profit educational institution and legislation describes the mission of the university. The legislation also indicates that the university is not an instrumentality of the federal government and that the federal government does not assume any liabilities of the university.

Scholars University is governed by a 29-member board of trustees. The Secretary of Education is an ex-officio member of the board and the remaining members are elected by the board for three-year terms. The board controls and directs the university's affairs such as determining the university's tuition and fee structure, adding or removing colleges within the university, and establishing new research institutions.

To support its mission, Scholars University receives most of its revenue from student tuitions and fees, and private contributions. The university receives appropriations to support some of its academic programs. The university is listed in the in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” under a Department of Education program because an amount is appropriated for Scholars University each year. Although the appropriations discuss limitations on how the funds may be used, the university generally has discretion over how it chooses to allocate funds for its academic programs and construction activities.

### Tentative Conclusions

Based on the assumed facts and circumstances and other information, management determined and the auditor concurred that Scholars University should not be included in the government-wide GPFFR. Although listed in the Budget, management asserts that Scholars University is a non-federal organization receiving federal financial assistance in the form of a grant. Any non-federal organization listed in the budget should be assessed against the other two principles. So, management must determine if the other inclusion principles are met or if it would be misleading to exclude the university.

The initial analysis is summarized below:

- **Ownership** – The Congress and the President chartered Scholars University as a private, independent organization. There is no evidence that the federal government has an ownership interest in the university.
- **Control** – Based on the assumptions presented, the persuasive indicators of control have not been met. While the federal government chartered Scholars University, the standards provide that further indicators of control must be present to conclude that the organization is controlled. The remaining persuasive indicators—appointing or removing a majority of the governing board members, establishing financial and operating policies, and dissolving the university and having access to its assets—are not met. The available facts and circumstances suggest that Scholars is not controlled. [Note, however, for brevity this illustration does not present an analysis of indicators of control that in the

aggregate may reveal that Scholars is controlled. Such an analysis may be needed in practice.]

- Misleading to exclude – Scholars University is a small not-for-profit that is listed in the Budget solely as a program within the Department of Education. Management determined and the auditors concurred that it is both quantitatively and qualitatively immaterial. Also, there were no other facts and circumstances that would suggest that Scholars University should be included in the GPFFR. As a result, it would not be misleading to exclude.

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that Scholars University should not be included in the government-wide GPFFR.

## ***Education Research Institute (ERI)***

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(Control based on Persuasive Indicator – Consolidation Entity)

### ***Assumed Facts and Circumstances***

The purpose of the Education Research Institute (ERI) is to assist state and local officials in making informed decisions regarding effective education methods. ERI was established by the Congress and the President through a public law specifying the organization's:

- status as a tax exempt not-for-profit,
- purpose and duties,
- governance structure,
- sources of financing, and
- reporting requirements.

The public law establishing ERI requires reauthorization of its operations every five years. If the Congress and the President do not authorize continued operation, ERI must cease operations and distribute its net assets to a successor organization designated by the federal government. If ERI is unable to satisfy its liabilities prior to dissolution, the federal government will assume its liabilities.

ERI is governed by a seven-member board of directors; five of whom are voting. Two members are specific federal officials within the Department of Education who serve part-time and do not have voting rights. The remaining five serve full-time, are appointed by the Association of Local School Boards, and serve six-year terms. One of these five members is elected by the board to serve as chairperson.

The legislation creating ERI designates funding of \$1 per elementary school student per year to be made available from the general fund of the U.S. Treasury to the ERI trust fund. An annual transfer to ERI is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” but is included in the Department of Education’s Congressional Budget Justification. The board of directors is authorized to establish an annual budget not to exceed the amounts available in the trust fund. ERI may fund up to 25% of its annual budget through donations but may not use federal funds to solicit donations.

The Department of Education approves the ERI annual budget. The department also reports information related to ERI activities in its annual performance report and Congressional Budget Justification.

ERI must provide annually an audited financial report to the Department of Education and relevant Congressional committees.

### ***Tentative Conclusions***

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that ERI should be included in the government-wide

GPFFR because the third inclusion principle (control) is met. A persuasive indicator of control exists because the federal government can unilaterally dissolve the organization and have access to its assets and responsibility for its liabilities.

### Classification as a Consolidation Entity or Disclosure Organization

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, ERI should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that ERI is a consolidation entity.

#### *Evidence suggesting that ERI is a consolidation entity includes:*

1. It is primarily financed by taxes.
2. Federal government has assumed the risks associated with ERI's liabilities.
3. The purpose of ERI is to assist state and local officials by providing consultation services on a non-market basis.
4. ERI's annual budget is approved by the Department of Education and the Department also provides information related to ERI activities in its annual performance report and Congressional Budget Justification. These activities show that elected officials, acting with and through politically appointed officials, make decisions regarding ERI's budget.

#### *Evidence suggesting that ERI is a disclosure organization includes:*

1. A majority of the members of the board of directors is appointed by non-federal officials.
2. ERI is able to access donations to sustain some of its operations.

### Administrative Assignment

The Department of Education should consider whether or not ERI is administratively assigned to it. Evidence that indicates ERI is administratively assigned includes Education's participation in ERI's budgetary process and inclusion of information regarding ERI in its own Congressional Budget Justification. Having considered the above information and other available evidence, the Department of Education determined and its auditor concurred that it should consolidate ERI's financial statements in its GPFFR.



## **Mediation Corporation**

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(Control based on Indicators in the Aggregate –Disclosure Organization)

### **Assumed Facts and Circumstances**

Mediation Corporation (Mediation) was established as a 501(c)(3) non-member not-for-profit organization through a public law specifying the organization's:

- status and operating location,
- purpose and duties,
- governance structure,
- sources of financing, and
- reporting requirements.

The purpose of Mediation is to ensure that low-income individuals have access to mediation services to resolve non-criminal legal disputes. An assigned duty is to develop and maintain a network of state and local government organizations to deliver services financed by grants. Network members may raise funds to finance delivery of services through taxes, donations, and other grants without limitation.

The governing board comprises 13 members including Mediation's executive secretary. The President nominates candidates to fill the board member positions. A panel of local government officials participating in the network selects new members of the governing board from among the nominees. No more than seven members may be affiliated with the same political party. The members elect their chairperson from among the members. The President appoints the executive secretary and the Senate confirms the appointment. The executive secretary's term is fifteen years during which the President may only remove the appointee for cause.

Mediation is financed by an annual appropriation, interest earnings, and grants from any public or private grant-making organization. Grants must not finance more than 20 percent of its annual budget. The U.S. Attorney General approves the annual budget. Any liabilities incurred by Mediation must be settled from its assets and are not backed by the full faith and credit of the U.S. Government.

An annual appropriation is provided in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled "Federal Programs by Agency and Account" for "Grants to the Mediation Corporation." The appropriation is made to the Department of Justice which transfers budget authority to Mediation. Mediation manages its cash balances similar to other not-for-profits and may retain any interest earned on unspent funds. In addition, it may apply for and receive grants from any grant making organization—public or private—subject to the 20 percent limitation.

The public law creating Mediation requires it to make annual audited financial reports publicly available. Mediation also files annual tax returns with the Internal Revenue Service. Furthermore, Mediation is considered to be a non-federal organization receiving federal financial assistance.

### ***Tentative Conclusions***

Although Mediation is listed in the Budget, it is a non-federal organization receiving federal financial assistance. To determine if Mediation should be included in the government-wide GPFFR, management considered the remaining inclusion principles—ownership and control. It is unclear, based on the assumed facts and circumstances, whether Mediation is owned by the federal government. Therefore, management must consider the control indicators to determine if the third inclusion principle is met. None of the persuasive indicators of control are present based on the assumed facts and circumstances so considerable professional judgment is required to determine whether – in the aggregate – the indicators provide evidence of control. The indicators suggesting federal government control over Mediation include:

1. The federal government provides significant input regarding selection of the organization's governing board members since a selection can only be made from among candidates identified by the President.
2. The President appoints a key executive – the executive secretary – and may remove him or her for cause.
3. Federal law restricts Mediation's capacity to generate revenues since only appropriations, interest earned, and grants may be used. In addition, only 20 percent of its annual needs may be met through grants.
4. The U.S. Attorney General approves the annual budget.
5. Federal law requires annual audited financial reports.
6. Federal law directs Mediation to work through a network of government agencies to provide services.

Based on the assumed facts and circumstances and other considerations, and using professional judgment, management determined and the auditor concurred that Mediation should be included in the government-wide GPFFR.

### ***Classification as a Consolidation Entity or Disclosure Organization***

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Mediation should be reported as a disclosure organization. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Mediation is a disclosure organization.

### ***Evidence suggesting that Mediation is a consolidation entity includes:***

1. It is primarily funded by taxes.
2. Elected officials determine Mediation's budget, because at least 80 percent of its funding is appropriated to Justice. In addition, an appointed federal official, the U.S. Attorney General, approves Mediation's annual budget.

*Evidence suggesting that Mediation is a disclosure organization includes:*

1. Members of its governing body are selected by non-federal officials, serve longer terms than political appointees, must include members from different political parties, and may only be removed for cause. These conditions insulate the governing body from political influence.
2. Mediation has some access to non-federal funding through grants and its network of service providers is free to access non-federal funding for service delivery (subject to the 20 percent limitation).
3. Federal government has not assumed risks related to Mediation's liabilities.

*Administrative Assignments*

The Department of Justice should consider whether or not Mediation is administratively assigned to it. Evidence that indicates it is administratively assigned includes the Department of Justice's participation in Mediation's budgetary process. After considering the above and other factors, and using professional judgment, management at the Department of Justice determined and the auditor concurred that disclosures regarding Mediation should be presented in its GPFFR.

## ***Bicycle America, Inc. (Scenario A)***

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(Not Included)

### ***Assumed Facts and Circumstances***

Individual bicycle shop owners determined that a nation-wide network of shops and trails was needed to encourage greater reliance on bicycles for transportation and invested in a new corporation, Bicycle America (BA). BA's mission was to create a coast-to-coast network and ensure wide access to bicycling. Shares in the venture are held by local bicycle shops in all major cities.

BA is governed by a board of directors. The board controls and directs the organization's affairs and interests. Board members are elected by the shareholders to serve three-year terms.

Until recently, BA was able to finance its operations from user fees. A recent lawsuit led to serious financial challenges and cash was unavailable to meet pressing needs. Absent a cash inflow, BA was considering closing the trails. Due to exceptional citizen reliance on the trails for transportation and recreation, the federal government intervened and enacted legislation to provide funding.

The federal government provided a short-term loan to BA. The federal financial intervention to preserve BA was not separately identified in the Budget, but was part of a larger federal program within the Department of Transportation.

The funding legislation also established a temporary advisory committee to monitor BA's financial condition and inform Congress of potential issues that may warrant additional actions. In addition, the advisory committee will develop a plan to aid BA in returning to financial solvency and refinancing the short-term loan.

### ***Tentative Conclusions***

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BA should not be included in the government-wide GPFFR. Specifically, BA is not listed in the Budget. Further, based on the available information and other considerations, management determined and the auditor concurred BA does not meet either the remaining ownership or control inclusion principle because BA continues to be owned by common shareholders and governed by the existing board of directors. The advisory committee offers advice to the Congress and does not have authority to direct BA to act. Management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to exclude BA.

## ***Bicycle America, Inc. (Scenario B)***

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(Ownership – Disclosure Organization (Intervention))

### ***Assumed Facts and Circumstances***

Same as above except that in addition to the actions in Scenario A above, the federal government received shares that carry 51 percent of the voting rights of BA common stock and the advisory committee will develop a plan to sell the shares.

### ***Tentative Conclusions***

Based on the changed assumptions and no information to the contrary, and using professional judgment, management determined and the auditor concurred that BA should be included in the government-wide GPFFR. When the federal government holds a majority ownership interest, albeit temporary, the owned organization should be included in the government-wide GPFFR.

### ***Classification as a Consolidation Entity or Disclosure Organization***

The available facts and circumstances indicate that the federal government's involvement with BA is an intervention not expected to be permanent. Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BA should be reported as a disclosure organization because ownership resulted from an intervention. The initial determination would need to be evaluated periodically to determine if the intervention continues to be intended to be temporary.

### ***Administrative Assignments***

Department of Transportation was assigned responsibility for transferring funds to BA which indicates an administrative assignment. As a result, management determined and their auditor concurred that the department should disclose information regarding BA in its GPFFR. If BA is also administratively assigned to other component reporting entities, then those component reporting entities should also disclose information in their GPFFRs.

## **Chatham Laboratory**

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(Control based on Persuasive Indicator – Consolidation Entity (FFRDC))

### **Assumed Facts and Circumstances**

Federal Department of ABC (ABC) organized Chatham Laboratory as a federally funded research and development center (FFRDC) to conduct specialized engineering research that supports ABC's mission related to infrastructure and leads to improved services. As specified in the agreement, ABC provides the physical capital and ongoing funding for the FFRDC and sets research goals for Chatham.

ABC selects a contractor to operate Chatham and conduct research consistent with the established goals. ABC is not involved in the day-to-day operations of Chatham. ABC routinely evaluates Chatham's performance and maintains a research office to review strategic plans, consider progress, and serve as a liaison to other federal institutions. ABC reports on Chatham's efforts in its own performance reports.

Chatham operations are funded entirely through appropriations provided to ABC. ABC identifies Chatham in its Congressional Budget Justification but Chatham is not specifically identified in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled "*Federal Programs by Agency and Account*." Instead, amounts for Chatham are included in a larger research program which makes payments to the contractor consistent with the terms of the contract. Chatham's contract operator must submit financial and performance reports to ABC periodically. All Chatham assets belong to the federal government and the results of Chatham research are the property of the federal government. In addition, ABC would be responsible for liabilities arising from use of the facilities to conduct research such as environmental cleanup liabilities. ABC is also responsible for employee benefits in the event Chatham operations are terminated.

### **Tentative Conclusions**

Based on the assumptions and other considerations, management determined and the auditor concurred that Chatham should be included in the government-wide GPFFR. While contracting for the operation of Chatham, officials at ABC also act as the governing body by establishing the purpose and mission of Chatham. Further, ABC continues in this role through its involvement in Chatham's strategic planning and monitoring of performance. Establishing the purpose and mission of an organization is a persuasive indicator that control exists.

### **Classification as a Consolidation Entity or Disclosure Organization**

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Chatham should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Chatham is a consolidation entity.

### **Evidence suggesting that Chatham is a consolidation entity includes:**

1. It is primarily financed by taxes.

2. The federal government has assumed the risks associated with Chatham's liabilities.
3. Chatham's annual budget is developed by ABC officials and information related to Chatham activities is provided in ABC's performance report and Congressional Budget Justification. This indicates that decision-making regarding the budget is exercised by elected officials through politically appointed officials and the budget process.

***Evidence suggesting that Chatham is a disclosure organization includes:***

1. Day-to-day operating decisions are made by a contractor.

After considering the above analysis and other factors, management determined and the auditor concurred that Chatham is a consolidation entity.

**Administrative Assignment**

ABC should consider whether or not Chatham is administratively assigned to it. In the example, evidence suggesting Chatham is administratively assigned includes ABC's role in Chatham's strategic planning, budgeting, and administration. Having considered the assumed facts and circumstances and other available evidence, the Department of ABC determined and its auditor concurred that it should consolidate Chatham's financial statements in its GPFFR.

## ***Gotham Laboratory***

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(Not included – Economic Dependency Insufficient to Show Control)

### ***Assumed Facts and Circumstances***

The Department of XYZ (XYZ), a department within the executive branch of the federal government, contracted with Gotham Laboratory (Gotham) to conduct specialized engineering research that fulfills a federal mission related to infrastructure and leads to improved services of XYZ. As specified in the agreement, XYZ provides funding to Gotham and Gotham's management team plans, manages, and executes the assigned research program.

XYZ serves on a panel providing input on the appointment of the board of directors for Gotham. However, the board of directors elects new members and the board manages Gotham's research. Gotham also may engage in any outside research activities approved by its board of directors.

Gotham performs services for various federal and non-federal organizations but receives 90 percent of its funding from XYZ. XYZ receives appropriated funds to support the Gotham research program. The remaining 10 percent of Gotham funding is derived from contracts with other federal agencies and private industry as well as donations. Gotham's budget is not reviewed or approved by any federal officials. Gotham is subject to the usual federal contract oversight and reporting requirements.

### ***Tentative Conclusions***

Based on the assumptions and other considerations, management determined and the auditor concurred that Gotham should not be included in the government-wide GPFFR. Gotham is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*.” Further, based on the assumed facts and circumstances and other considerations, Gotham does not meet the inclusion principles of either majority ownership or control with risk of loss or expectation of benefit. Although Gotham appears to be economically dependent on the federal government, it ultimately retains discretion as to whether to accept funding or do business with the federal government. Despite the influence resulting from this dependency, the federal government does not govern Gotham's financial and operating policies. Further, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to exclude Gotham.



## ***Andromeda Prime Power Systems***

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(Related Party- GSE)

### ***Assumed Facts and Circumstances***

The federal government created Andromeda Prime Power Systems (APPS) as a government sponsored enterprise (GSE) to facilitate commercial space travel. APPS controls interplanetary travel among a network of commercial space stations and is subject to federal regulations regarding safety and technology transfers to other nations.

APPS is governed by a nine-member board of directors elected by common stock shareholders. Board members serve three-year terms.

APPS issued common stock and received a federal government grant to finance its initial capital and startup costs. The APPS is under no obligation to return the grant funds but is expected to promote U.S. competitive interests in the emerging space travel industry.

During the reporting period, APPS' board approved a strategic plan to expand its systems to accommodate increased commercial demands and APPS issued bonds to finance the initiative. The interest rate required by lenders indicates that the market assumes the federal government has implicitly guaranteed the payment of principal and interest. In its regulatory capacity, the federal government required APPS to establish a capital reserve and created a five-member APPS Advisory Board to monitor and advise Congress on APPS' fiscal operations.

APPS derives its revenues from fees charged to commercial organizations and receives no ongoing federal support through the Budget.

### ***Tentative Conclusions***

Based on the assumptions and other considerations, management determined and the auditor concurred that APPS should not be reported in the government-wide GPFFR as a consolidation entity or disclosure organization. APPS is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*” and the federal government does not have a majority ownership interest in the company.

Further, management conducted a thorough assessment of control indicators and determined the federal government does not exercise control of APPS. Regulation of APPS does not, by itself, establish control.

However, based on the assumptions and other considerations, management determined and the auditor concurred that APPS should be disclosed as a related party. Related parties generally include GSEs not meeting the inclusion principles, especially those organizations for which the relationship is of such significance that it would be misleading to exclude information about it.

## ***U.S. Museum (Scenario A)***

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(In the Budget – Consolidation Entity)

### ***Assumed Facts and Circumstances***

The U.S. Museum (the Museum) was organized to bring history and lessons about the United States to individuals through educational outreach, teacher training, traveling exhibitions, and scholarship.

The Museum is an independent establishment of the federal government and is governed by a board of trustees, known as the Museum Council. The Council has 13 voting members and 2 nonvoting members. Of the voting members, 11 are appointed by the President and serve 10-year terms (appointments are staggered) and the other 2 are appointed from among members of Congress to serve during their term. The non-voting members are selected by the Council.

The Museum receives an annual appropriation as well as private donations. Annual appropriations account for approximately 90 percent of operations and activities, with the remaining 10 percent coming from donor activities and museum sales. The museum is listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account.*” All donations are considered to be available for use unless specifically restricted by the donor or by time. Furthermore, the Museum is not considered to be a non-federal organization receiving federal financial assistance.

### ***Tentative Conclusions***

Based on the assumptions and other considerations, management determined and the auditor concurred that the Museum should be included in the government-wide GPFFR because the Museum is listed in the Budget (the first inclusion principle). Further, the President and the Congress appoint the Museum Council which indicates the federal government controls the Museum (the third inclusion principle).

### ***Classification as a Consolidation Entity or Disclosure Organization***

Because it is listed in the budget, the Museum is presumed to qualify as a consolidation entity assuming no information to the contrary. In this example, management determined and the auditor concurred that there were no facts rebutting or contradicting the assumption that the Museum is a consolidation entity. As a consolidation entity, its financial statements should be consolidated in the government-wide GPFFR. The financial statements included should be for the entire organization and thus include the sources and uses for both the appropriations and the donated funds.

### ***Administrative Assignment***

Based on a review by management, no other component reporting entity has been assigned administrative responsibilities for the Museum. Therefore, the Museum is consolidated only directly into the government-wide GPFFR.

## ***U.S. Museum (Scenario B)***

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(Control based on Persuasive Indicator –Disclosure Organization (Financially Independent))

### ***Assumed Facts and Circumstances***

The U.S. Museum (the Museum) was organized by volunteers to bring history and lessons about the United States to individuals through educational outreach, teacher training, traveling exhibitions, and scholarship. The Museum is intended to be a self supporting operation. Shortly after its founding, it entered into a cooperative relationship with the Department of Federal Museums, a department within the executive branch.

The Museum is incorporated as a not-for-profit organization governed by the Museum Council. The Council has 15 voting members referred to as trustees. The presidentially-appointed head of the Department of Federal Museums serves as the Council chairperson. Of the remaining voting trustees, nine are appointed by the President and five are selected and approved by the Council. Except for the chairperson, all trustees serve ten-year terms which are staggered. The Council selects a Board of Directors for the Museum and appoints the Chief Executive Officer.

The Museum is a public-private partnership which receives an annual appropriation as well as private donations, rental income, and sales revenue. No fees are charged for educational events or museum tours. Rental income from the Museum facilities is derived from rates competitive with other venues for similar events. Rental of the facilities is intended to support museum activities such that the museum can eventually be self supporting. Presently, annual appropriations account for approximately 15 percent of operations and activities, with the remaining 85 percent coming from donor activities, rental income, and museum sales. The museum is listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.” The funding received from donations is restricted to use by the Museum and the trustees approve the annual budget including rental income and fundraising goals.

The Museum’s employees are not federal employees. The Museum is required to fully fund any deferred compensation programs and to advise its employees that the federal government has not guaranteed their deferred compensation.

### ***Tentative Conclusions***

Based on the assumed facts and circumstances and other consideration, management determined and the auditor concurred the Museum should be included in the government-wide GPFFR because it is controlled by the federal government. Although the Museum is listed in the Budget, it is a non-federal organization receiving federal financial assistance. An assessment of the remaining inclusion principles shows that the Museum is controlled by the federal government since a majority of the trustees are appointed by the President; a persuasive indicator of control.

### ***Classification as a Consolidation Entity or Disclosure Organization***

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, the Museum should be reported as a disclosure organization. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances

presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that the Museum is a disclosure organization.

***Evidence suggesting that U. S. Museum is a consolidation entity includes:***

1. Appointments to the Council are made by elected officials.
2. Museum services, educational events and tours, are provided on a non-market basis to the general public.

***Evidence suggesting that U.S. Museum is a disclosure organization includes:***

1. The Museum is a separate legal organization – a not-for-profit – and terms for a majority of Council members are ten-years. This insulates the organization from political influence. Further, day-to-day operations are governed by a board of directors whose members are not directly appointed by elected officials.
2. The Museum is intended to receive limited financing from taxes and market rates are charged for facility rentals.
3. The Museum is required to make explicit that any liability for deferred compensation of its employees is not guaranteed by the federal government. This indicates that limited risks are imposed on the federal government.

Disclosure organizations should be presented by the component reporting entity to which they are administratively assigned and, if material, by the government-wide entity.

***Administrative Assignment***

Management determined and the auditor concurred the Department of Federal Museums should present the Museum as a disclosure organization in its GPFFR because the department is assigned administrative responsibility for the Museum based on appointment of its head to serve as chairperson of the Council.

## ***Firefighters' Housing Limited Partnership***

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(Owned and Controlled - Consolidation Entity)

### ***Assumed Facts and Circumstances***

Agency 123 has been authorized to establish pre-positioned housing and equipment storage facilities on federal land to ensure immediate and efficient deployment of firefighting resources in response to wildfires in remote areas. The enabling legislation allows Agency 123 to enter into a wide range of financial agreements with private-sector participants to provide housing and equipment storage for the firefighters.

The agency and a private developer formed a limited partnership—Firefighters' Housing Limited Partnership (FHLP)—to develop, operate, maintain, and own all housing and storage units and facilities within a designated area for 25 years. Agency 123 leased land to FHLP under a 25-year ground lease. At the end of the 25-year ground lease, the agency has the option to renew the partnership for another 25 years. If it does not renew, all structures and land revert back to Agency 123, in accordance with the agency's residual ownership interest. During the 25-year ground lease, Agency 123 will provide an annual payment to FHLP from its appropriated funds for management services, use of the housing by Agency 123 employees during the fire season, and equipment storage year-round.

The private sector partner is guaranteed a minimum payment from FHLP and has no ownership interest in FHLP properties. The private sector partner also is entitled to a share of profits from non-fire season vacation rentals of the housing so long as the facilities meet established condition requirements. Profits not distributed to the private sector partner are retained by FHLP and can be used for capital improvements including development of new housing in adjacent parks under similar terms.

As part of the partnership agreement, Agency 123 has significant authority to determine the policies governing FHLP's activities and to affect day-to-day decisions such as design and construction. Any debt incurred by FHLP must be authorized by the agency. Furthermore, capital and operating budgets require agency approval and financial transactions are monitored on a monthly basis by the agency's contract administration office. The partnership is required to produce audited financial statements annually.

### ***Tentative Conclusions***

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that FHLP should be included in the government-wide GPFFR. A substantial ownership interest is present via the agency's continuing ownership interest. In addition, several control indicators are met as summarized in the following analysis of available information.

1. Agency 123 may be able to direct the partnership regarding the establishment and subsequent revision of financial and operating policies through its review and approval of operating budgets, designs, and condition of the facilities. If so, this would be a persuasive indicator of control. Management should weigh the impact of its role in directing the FHLP's financial and operating policies and consider how much discretion falls to the private sector partner.

2. Other indicators in the aggregate may indicate control. Agency 123 has significant authority to:
  - a. direct the ongoing use of assets.
  - b. approve the budgets and business plans for FHLP.
  - c. require audits.
  - d. limit borrowing and investment by FHLP.

### Classification as a Consolidation Entity or Disclosure Organization

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, FHLP should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that FHLP is a consolidation entity.

#### *Evidence suggesting that FHLP is a consolidation entity includes the following:*

1. FHLP provides housing to firefighters as its primary function on a non-market basis.
2. It is financed by tax revenues supplemented by any retained profits from non-fire season rentals.
3. Decisions are made by organizational leaders at Agency 123 who are appointed by the President and confirmed by the Senate.
4. Funds transferred to FHLP will be approved through the usual budgetary process so that FHLP funding will be included in the budget approved by the Congress and the President.

#### *Evidence suggesting that FHLP is a disclosure organization includes the following:*

1. FHLP has a legal identity separate from Agency 123.
2. FHLP is authorized to provide vacation housing services to customers on a market basis and use the proceeds to first compensate the private sector partner and then reduce the cost of firefighter housing borne by the taxpayer.

As a consolidation entity, FHLP's financial statements should be consolidated by the component reporting entity to which it is administratively assigned.

### Administrative Assignment

Management determined and the auditor concurred Agency 123 should consolidate FHLP's financial statements because it is assigned administrative responsibility for FHLP based on its inclusion of FHLP funding in its budget request and its coordination and monitoring of FHLP's plans and performance.

## ***The Blue Mountain Observatory***

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(Control based on Indicators in the Aggregate – Disclosure Organization (FFRDC))

### ***Assumed Facts and Circumstances***

Agency XYZ created a federally funded research and development center (FFRDC), the Blue Mountain Observatory (BMO), to provide facilities and leadership needed to conduct scientific research in a wide range of fields, including the study of black holes. Agency XYZ is BMO's primary sponsor. University Cooperative (UC) is a non-profit membership corporation created by 50 universities conducting research that would benefit from use of BMO facilities. UC was created to seek the role of managing, operating, and maintaining BMO under a cooperative agreement with Agency XYZ. UC subsequently entered into a cooperative agreement with Agency XYZ.

UC is governed by a board of trustees appointed to represent each of the 50 member universities. UC trustees appoint an individual to serve as president of BMO. The trustees also oversee BMO operations including providing input on strategic plans, approving the annual program plan before its submission to Agency XYZ for approval, responding to Agency XYZ input, and monitoring financial activities including establishing investment policies. UC employs staff to perform all BMO activities and these individuals are referred to as 'BMO employees.' Member universities fund any non-BMO activities of UC.

The cooperative agreement between UC and Agency XYZ ensures close coordination between Agency XYZ and BMO employees. The agreement contains requirements necessary for Agency XYZ's oversight of both BMO's programs and UC's management activities, including the following provisions:

1. Provide input to a strategic plan developed by BMO employees in collaboration with UC trustees. The strategic plan sets the overall direction and priorities for BMO.
2. Agency XYZ must approve the annual program plan and budget for use of resources.
3. UC must provide to Agency XYZ an annual scientific report and audited financial statements.
4. Agency XYZ participates in developing a five-year strategic plan.
5. BMO and Agency XYZ must meet annually to review progress and ensure that scientific and facility priorities remain consistent with those of Agency XYZ.

UC works cooperatively with Agency XYZ to ensure the effective implementation of the strategic mission of BMO to the benefit of the research community. Mid-way through the current cooperative agreement, Agency XYZ will conduct comprehensive reviews of science, facilities, and management to inform future decisions regarding recompetition of the cooperative agreement for the facility. UC is under no obligation to continue in its role in managing, operating, and maintaining BMO.

In the most recent fiscal year, BMO received \$100 million in funding from Agency XYZ through its cooperative agreement with UC. Agency XYZ proposed the \$100 million in funding in its Congressional Budget Justification and described how the funds would be used to support the



research programs at BMO. In administering the funds provided by Agency XYZ for BMO programs, UC may:

1. expend funds to meet ongoing operational needs.
2. make annual cash contributions to employee benefits programs (accrued leave and pension plans).
3. make annual payments due under long-term leases.
4. construct or purchase new assets so long as all resulting property is titled to BMO.

In the event the cooperative agreement with UC is terminated, Agency XYZ would assume management responsibility for the facility. Further, Agency XYZ would seek appropriations for termination expenses such as post-retirement benefit liabilities for BMO employees. However, Agency XYZ would be obligated to pay termination benefits only if funds were appropriated for that purpose.

### ***Tentative Conclusions***

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BMO should be included in the government-wide GPFFR. BMO is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” so other inclusion principles must be considered. BMO facilities are owned by the federal government and new assets are titled to the federal government. With respect to the control inclusion principle, Agency XYZ establishes the fundamental purpose and mission of BMO through its participation in strategic planning and the overall effort to ensure BMO goals are consistent with Agency XYZ research goals. This effort includes annual actions to approve BMO’s annual program plan and operating budget. These actions are persuasive indicators of control.

### **Classification as a Consolidation Entity or Disclosure Organization**

#### ***Evidence suggesting that BMO is a consolidation entity includes the following:***

1. BMO provides, as its primary function, research facilities and leadership to university members of UC on a non-market basis. It is financed by taxpayer funds supplemented by non-government donors.
2. Key operational decisions are made by organizational leaders at Agency XYZ who are appointed by the President and confirmed by the Senate.
3. Funds transferred to BMO will be approved through the usual budgetary process so that use of tax revenues to support BMO is ultimately decided by the Congress and the President.

#### ***Evidence suggesting that BMO is a disclosure organization includes the following:***

1. BMO has a legal identity separate from Agency XYZ.



2. The governance structure ensures that universities have substantial input regarding BMO's strategic plans and annual program plan. The significant involvement of non-governmental organizations lessens political influence.
3. BMO's liabilities are not obligations of the U.S. government.
4. BMO is authorized to accept donations from non-government organizations.

Based on the assumed facts and circumstances and other information, management determined and the auditor concurred that BMO should be reported as a disclosure organization. As a disclosure organization, BMO should be presented by the component reporting entity to which it is administratively assigned.

#### Administrative Assignment

Management determined and the auditor concurred that Agency XYZ should disclose information about BMO because it is assigned administrative responsibility for BMO based on its inclusion of BMO funding in its budget request and its coordination and monitoring of BMO's plans and performance.

**Table 1: Summary Application of Proposed Standard**

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
<b>ABC Department</b>	Yes				Yes	Organizations listed in the Budget are presumed to be consolidation entities.	
<b>Epsilon Corporation</b>	Yes				Yes	Organizations listed in the Budget are presumed to be consolidation entities.	
<b>Sigma Association</b>	No	No	Yes. A majority of the governing board members is appointed by the President and confirmed by the Senate and they established its fundamental purpose and mission through legislation.		Yes		Financially independent organization
<b>Scholars University</b>	Yes but as a non-federal organization receiving federal financial assistance.	No	No. Scholars' board of trustees elects its respective board members. Scholars' board of trustees primarily directs the university's affairs and the university seeks sources of revenue to operate virtually in a self-sustaining manner.	Management and auditor agreement based on facts and circumstances it was not misleading to exclude.	No		
<b>Education Research Institute</b>	No	No	Yes, the federal government can unilaterally dissolve ERI and have access to its assets and responsibility for its liabilities.		Yes	The ERI Trust Fund is primarily funded through taxes, elected officials establish ERI's budget, services are provided on a non-market basis, and federal government assume risk.	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
<b>Mediation Corporation</b>	Yes but as a non-federal organization receiving federal financial assistance. Therefore, must assess against other principles.	No	Yes. Considering the control indicators in the aggregate, the federal government controls Mediation. It provides significant input on the selection of governing board members, appoints a key executive, limits Mediation's capacity to generate revenue, approves the annual budget, requires audited financial statements, and directs Mediation to work with other governments.		Yes		Mediation's governing body is insulated from political influence and risks are not assumed by the federal government.
<b>Bicycle America, Inc. (Scenario A)</b>	No	No. BA is owned by shareholders.	No, governing board members are elected by shareholders rather than subject to political appointment	No, Management and auditor agreement based on facts and circumstances it was not misleading to exclude.	No. Advisory committee offers advice but does not have the authority to direct BA to act.		
<b>Bicycle America, Inc. (Scenario B)</b>	No	Yes, the federal government acquired 51% of the voting rights in BA.			Yes		Intervention intended to be temporary
<b>Chatham Laboratory (FFRDC)</b>	No	The assets and research results are owned.	Yes. The federal government establishes the purpose and mission of Chatham.		Yes	Yes, Chatham is primarily funded by taxes, and governance rests with the President and Congress.	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
<b>Gotham Laboratory</b>	No	No	No	No, Management and auditor agreement based on facts and circumstances it was not material to exclude.	No. Although it may be economically dependent, Gotham has discretion as to whether to accept funding from the government.		
<b>Andromeda Prime Power Systems (GSE)</b>	No	No	No, APPS' governing body is elected by common shareholders. The APPS Advisory Board advises Congress and does not direct APPS' operations.		No, Management determined and the auditor concurred APPS should be disclosed as a related party.		
<b>U.S. Museum (Scenario A)</b>	Yes				Yes	Yes. The Museum is in the budget and primarily funded by taxes and governance rests with the President and Congress.	
<b>U.S. Museum (Scenario B)</b>	Yes but as a non-federal organization receiving federal financial assistance	No	Yes. The President appoints a majority of the governing body's members.		Yes		The museum is a financially independent organization.
<b>Firefighters' Housing Limited</b>	No	Ownership of property is	Yes. Agency 123 has significant authority to direct the limited partnership's activities and to		Yes	Yes. Taxes fund the housing and risks have	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
Partnership		retained.	affect day-to-day activities such as in design and construction and the partnership's purpose is to carry out federal missions and objectives.			been assumed	
Blue Mountain Observatory (FFRDC)	No	Property is owned by the federal government.	Yes. The federal government establishes the purpose and mission of BMO.		Yes		BMO is a separate legal entity and UC plays a significant role in its governance without political influence.

## APPENDIX D: ABBREVIATIONS

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AICPA	American Institute of Certified Public Accountants
C.F.R.	Code of Federal Regulations
CFR	Consolidated Financial Report of the U.S. Government
CRE	Component Reporting Entity
CRS	Congressional Research Service
ED	Exposure Draft
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FFRDC	Federally Funded Research and Development Center
FRS	Federal Reserve System
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPFFR	General Purpose Federal Financial Report
OAI	Other Accompanying Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States
U.S.C.	United States Code

## APPENDIX E: TASK FORCE MEMBERS

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Owen Barwell, (formerly of) Department of Energy

Lieutenant Colonel Richard Brady, USMC DOD

Terry Bowie, (formerly of) NASA

James L. Chan, University of Illinois at Chicago

Naresh Chopra, Department of Labor

Wendy Calvin, DOT

Tom Daxon, Former Oklahoma State Auditor

Ann Davis, U.S. Department of Treasury

Lynda Downing, GAO

Abe Dymond, GAO

Joel Grover, U.S. Department of Treasury, OIG

Mark Hadley, CBO

Regina Kearney, OMB

Karen Kelbly, NCUA

Dan Kovlak, KPMG

Andrew Lewis, KPMG

Rick Loyd, Department of Energy

Ned Maguire, (formerly of) Office of the Dir. of National Intelligence, OIG

Sam Papenfuss, CBO

Reginald Royster, HUD

Fred Selby, U.S. Department of Treasury, OFS

Gary Solamon, (formerly of) Department of Commerce, Bureau of Economic Analysis

Sandy Van Booven, National Reconnaissance Office (CIA)

Denise Williams, U.S. Department of Treasury, FMS

Adrienne E. Young, (formerly of) National Science Foundation

## APPENDIX F: GLOSSARY

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**Component Reporting Entity** “Component reporting entity” is used broadly to refer to a reporting entity within a larger reporting entity.<sup>64</sup> Examples of component reporting entities include organizations such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

**Conservatorship** A conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a company to put it in a sound and solvent condition. In a conservatorship, the powers of the company’s directors, officers, and shareholders are transferred to the designated conservator.<sup>65</sup>

**Control with risk of loss or expectation of benefit** Control with risk of loss or expectation of benefit is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.<sup>66</sup>

**Disclosures** Information in notes or narrative regarded as an integral part of the basic financial statement.

**Federally Funded Research and Development Center** Federally Funded Research and Development Center (FFRDC) is a government-funded entity that has a long-term contractual relationship with one or more federal agencies.<sup>67</sup> FFRDCs can be privately owned or government-owned, and they serve to meet the long-term research and development needs of federal agencies that could not otherwise be met as effectively in-house or through existing contractors. 49 Fed. Reg. at 14,464; 48 C.F.R. § 35.017(a). FFRDCs are established either specifically in statute or under the statutory authority of agencies to enter into contracts, which can be inherent or specific authority, and are used to perform research and development and related tasks.

**General Purpose Federal Financial Reports** General purpose federal financial reports (GPFFRs) is used throughout this Statement as a generic term to refer to the report that contains the reporting entity’s financial statements that are prepared pursuant to generally accepted accounting principles. In the federal government, the report for the U.S. government-wide reporting entity is known as the consolidated financial report of the U.S. Government

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<sup>64</sup> The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

<sup>65</sup> Federal Housing Finance Agency Fact Sheet, Questions and Answers on Conservatorship

<sup>66</sup> For example, a non-financial benefit would be one where the federal government benefits from a service being provided to it or on its behalf.

<sup>67</sup> The Office of Federal Procurement Policy (OFPP) and Federal Acquisition Regulation (FAR) policies for FFRDCs apply to executive agencies, which includes “an executive department, a military department, or any independent establishment within the meaning of 5 U.S.C. 101, 102, and 104(1), respectively, and any wholly owned Government corporation within the meaning of 31 U.S.C. § 9101.” 48 C.F.R. § 2.101; see also 5 U.S.C. § 403.



(CFR) and for component reporting entities it is usually included in the performance and accountability report, the agency financial report, or the annual management report.

**Government Sponsored Enterprise** Government Sponsored Enterprise (GSE) is created by Congress with its particular attributes defined in its enabling legislation and charter. Despite this diversity, there are at least four readily observable characteristics of GSEs: (1) private sector ownership, (2) limited competition, (3) activities limited by congressional charter, and (4) chartered privileges that create an inferred federal guarantee of obligations.<sup>68</sup>

**Receivership** Receivership is the legal procedure for winding down the affairs of an insolvent institution.<sup>69</sup>

**Related Parties** Organizations are considered to be related parties if the existing relationship or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.

**Reporting Entity** Reporting entities are organizations that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity.

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.<sup>70</sup> The criteria focus on whether an entity’s:

- a. management is responsible for controlling and deploying resources, producing outputs and outcomes, and executing the budget or a portion thereof (assuming that the entity is included in the budget), and is held accountable for the entity’s performance.
- b. financial statements would provide a meaningful representation of operations and financial condition.
- c. financial information could be used by interested parties to help them make resource allocation and other decisions and hold the entity accountable.

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<sup>68</sup> CRS Report for Congress *Government-Sponsored Enterprises (GSEs): An Institutional Overview*

<sup>69</sup> *Managing the Crisis: The FDIC and RTC Experience*, Appendix B - List of Abbreviations and Glossary of Terms; available online at <http://www.fdic.gov/bank/historical/managing/>; last accessed October 11, 2012.

<sup>70</sup> SFFAC 2, par. 29-37, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

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Robert F. Dacey

Norman Dong

Michael H. Granof

Sam M. McCall

Mark Reger

D. Scott Showalter

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## **Reporting Entity TAB C- Attachment A**

### **Entity Implementation Timeline**

062512

#### Purpose:

This is a preliminary list of the implementation steps created for the sole purpose of estimating the amount of time required between the final issuance of the new Entity Standard and the effective date.

#### Phase 1 - Formulate Guidance and Reporting Tools (8 months):

- Formation of a Steering Committee
- Draft guidance, policies, reporting templates, and determine documentation requirements
- Agency/GAO review guidance and policies (also, share draft guidance and policies with potential CORE and NON-CORE entities that were either self-identified or identified through outreach by OMB and Treasury during the comment period on the exposure draft)
- FMS develops procedures/process for integrating CORE and NON-CORE information collection into yearend collection systems (Government-wide Financial Reporting System)
- FMS develops plans for consolidation and publication of NON-CORE disclosure data
- Treasury publishes the final guidance and reporting tools

#### Phase 2 - Educating the Community on the Implementation Steps (2 months):

- Treasury communicates final guidance and reporting tools to potential CORE and NON-Core entities identified in Phase I
- OMB/Treasury educates agencies about the new guidance
- OMB/Treasury and GAO educate IG/audit community about the new guidance, the annual reporting tools, and audit requirements for CORE and NON-CORE information

#### Phase 3 - Entity Determinations (8 months):

- Agencies/Entities, in coordination with their auditors, conduct preliminarily determination of CORE and NON-CORE entities
- Treasury/Agencies notify all the affected entities of the preliminary determinations
- Treasury, OMB, and GAO review preliminary determinations by agencies/entities and OMB assists with administrative assignments of CORE entities to a CORE entity for reporting purposes as necessary and within the boundaries of OMB Authority
- Dispute resolution is used to clarify CORE and NON-CORE designations
- The list of CORE and NON –CORE entities is finalized and published

#### Phase 4 - First Reporting Cycle:

- Agencies submit documentation of annual determinations of applicability

## **Reporting Entity TAB C- Attachment A**

- CORE entities submit agency information and reports in accordance with guidance
- NON-CORE entities provide information for inclusion in agency financial statements
- Treasury consolidates information and issues new NON-CORE disclosures

### **Other Timing Considerations**

- The implementation steps outlined above begin when FASAB provides the Principals with a final copy of the standard for their 90 day review
- In addition to the 18 months schedule detailed above, it is anticipated that there would need to be an additional 3 months (September-December) added for each year-end included in the implementation period (as limited work on this project would occur during that time).
- Timing would be affected if:
  - identified CORE or NON CORE entities are not already compiling sufficient information to satisfy reporting requirements
  - Disputes concerning an entity designated CORE or NON CORE are not resolved timely by Treasury/OMB
  - An entity fails to report required information timely



April 11, 2014

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director  
*Wendy M. Payne*

Through: Wendy M. Payne, Executive Director

Subj: ***Reporting Entity*<sup>1</sup> –Tab C Attachment B Updated Staff Disposition of Comments**

**MEETING OBJECTIVE**

To provide a status of the disposition of comments and member comments received on the ***Reporting Entity*** exposure draft.

**BRIEFING MATERIAL**

This memorandum includes **Attachment B Staff Disposition of Comments**. The schedule provides an updated status and disposition of comments received on the ***Reporting Entity*** exposure draft.

**NEXT STEPS**

While these materials complement Tab C briefing materials for the meeting (and there isn't agenda time devoted for the review of the schedule), staff would like to request members to forward the following as soon as possible or feel free to bring up at the Board meeting:

- 1. Any issues to be added to the list.**

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

2. Any concerns with the staff assessment of issues on the schedule, especially with those shaded grey as those are considered closed and do not require any further Board action.

### **Remaining Open Issues**

- Editorial, structural, or clarified in Basis for Conclusions

\*\*\*\*\*

### **MEMBER FEEDBACK**

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-5976 or by e-mail at [loughanm@fasab.gov](mailto:loughanm@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov).

## Attachment B-STAFF DISPOSITION OF COMMENTS

### STAFF DISPOSITION OF COMMENTS -*Full Text of Answers and Comments by Question and by Respondent*

#### KEY FOR DISPOSITION OF COMMENTS:

Areas shaded GREY: **ITEM CLOSED, NO ACTION REQUIRED.** An item is shaded grey based on if the Respondent Agreed or No Comment.

In addition, once the Board finalizes a comment or issue it becomes closed and is shaded grey.

**Areas Shaded Green – Will be Deliberated at April 2014 Board Meeting, Number Corresponds to Issue in Briefing Material Package. [Once the Board votes on the recommendation, the Issue will be considered closed/Grey at next meeting.]**

1. Organizations Partially in the Budget-Museums
2. Component Reporting Issues- Misleading to Include
3. Related Parties
4. SFFAC 2 Amendments
5. Effective Date
6. Appendices- Flowchart and Illustrations
7. Other Organizations- such as but not limited to, see comments for others:
  - o Federally Funded Research and Development Centers (FFRDC)
  - o Entities considered sensitive for national security reasons
  - o Railroad Retirement Board
  - o General Fund

**Attachment B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**April 2014 Issues**

**Open**

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**Areas shaded blue - OPEN ISSUES for June Board meetings:**

- Editorial, structural, or clarified in BfC



QUESTION 1	
<p>a. Do you agree or disagree with each of the inclusion principles? Please provide the rationale for your answer.</p> <p>b. Do you believe the inclusion principles, and the related definitions and indicators, are helpful and clear? Please provide the rationale for your answer.</p> <p>c. Do you agree or disagree that an organization should be included in the GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles? Please provide the rationale for your answer.</p> <p>d. Do you agree the inclusion principles can be applied to all organizations, such as the Federal Reserve System, Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others, to determine whether such organizations should be included in the government-wide GPFFR? Please provide the rationale for your answer.</p>	
#1 PBGC -Joint Response CFO & OIG	No response
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	<p>a. Agree. Each of the inclusion principles provides a basis for an organization to be included in the government-wide GPFFR.</p> <p>b. Yes, we believe the inclusion principles, and the related definitions and indicators, are helpful and clear. They cover the key scenarios.</p> <p>c. Agree, in that the GPFFR would not be reliable if excluded. Completeness is important.</p> <p>d. Agree. Each of the inclusion principles provides guidance for determining whether an organization should be included in the government-wide GPFFR. The inclusion principles are comprehensive.</p>
#4 Postal Service- OIG	No response
#5 Securities Investor Protection Corporation ("SIPC")  <b><u>1. In the Budget- Dec 2013</u></b>  <b><u>1. a. In the Budget- March 2014</u></b>	<p>a. Disagree. SIPC believes that its inclusion in the Budget should not be used as a factor to determine whether SIPC should be included in the government-wide general purpose federal financial report ("GPFFR").</p> <p>Congress enacted the Securities Investor Protection Act, 15 U.S.C. § 78aaa et seq. ("SIPA"), in 1970 in reaction to a crisis of confidence in the securities industry. SIPA established SIPC as a non-governmental and non-profit corporation whose membership would consist of registered securities broker-dealers. See SIPA § 78ccc(a)(2)(A). SIPC's main function is the protection of customers of failed securities broker-dealers that are members of SIPC and that are in liquidation under SIPA. Among other things, SIPC oversees the administration of the liquidation proceeding and provides funding, as needed, for the administrative expenses of the proceedings and, within limits, for the satisfaction of customer claims. SIPC's funding derives from a Fund that SIPC administers and that is comprised of assessments paid to it by its members and amounts generated from investment of the Fund. SIPA § 78ddd(c). The amount of the assessments that broker-dealers pay is based on rates that are set under SIPC bylaw and that have varied over time as a result of the amount of the Fund and the applicable target limit of the Fund, also set by</p>

<p><b>1. In the Budget- Dec 2013</b></p> <p><b>1.a. In the Budget- March 2014</b></p>	<p>SIPC bylaw. SIPA § 78ddd(c)(2).</p> <p>At present, the SIPC Fund stands at approximately \$1.85 billion. The SIPC Fund is not held at the Department of the Treasury ("Treasury"), and the Treasury has no control over or access to the SIPC Fund. The Fund is used solely for SIPA liquidation proceedings and to support SIPC's operational costs. See SIPA § 78ddd(a)(1). Should the Fund become insufficient to carry out the purposes of SIPA, the SEC may make a loan to SIPC through notes issued to the Treasury of up to \$2.5 billion. See SIPA § 78ddd(g), (h). In SIPC's 43 year history, the Fund level has never dropped so low as to require a borrowing from the Treasury. As stated in the Budget, "the Budget does not project that SIPC will require use of these loans over the next ten years." See Office of Mgmt. &amp; Budget, Exec. Office of the President, Budget of the United States Government, Fiscal Year 2013 (2012) ("Budget") at 1407.</p> <p>Throughout SIPC's history, SIPC has been both excluded and included in the Appendix of the Budget. For example, in FY 2007, SIPC's line of credit with Treasury had an account in the Budget. In FY 2008, the line of credit was removed from the Budget and replaced with a paragraph explaining the role of SIPC. In FY 2011, the SIPC Fund was included as an account in the Budget, with adjustments going back to FY 2009. As far as SIPC is aware, no legislative changes in those years led to these changes of treatment.</p> <p>b. Disagree. Consolidation of a non-governmental private sector entity's financial statements into an agency's financial statements would be difficult when (1) the non-governmental entity's financial statements are issued on a calendar year basis and not on the government's fiscal year; and (2) the non-governmental entity's financial statements are subject to an independent audit in accordance with private sector GAAP. For example, Congress expressly granted to SIPC the power to establish its fiscal year, which, by SIPC bylaw, is the calendar year in accordance with private-sector GAAP. SIPA § 78ccc(b)(9). SIPC's standalone financial statements are audited in accordance with private sector GAAP by an independent auditor. The SEC is not involved in the day-to-day operation of SIPC. Thus, it would create a high burden on the SEC and its auditor to include SIPC's financial statements within its own. Among other things, the SEC would have to reconcile any issues arising from the SIPC fiscal year difference. As the SEC points out in its comments, it is unlikely that the Commission's auditor (the General Accountability Office) would be willing to rely on the work of SIPC's independent auditor, adding work for its auditor and subjecting SIPC to another layer of audit.</p>
<p>#6 DOC CFO</p>	<p>a. The Department of Commerce agrees with the inclusion principles. We believe they enhance transparency because they are inclusive, logical, and cover the entire population of entities that should be included for federal reporting. However, for the third inclusion principle, we would like clarification on the definition of "control" as to whether it includes organizations under temporary control or only those that are permanently controlled.</p> <p>b. The Department of Commerce believes the inclusion principles and related content are helpful and clear. These principles alleviate</p>

**Attachment B STAFF DISPOSITION OF COMMENTS (Key:**

**Closed**

**April 2014 Issues**

**Open**

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	<p>ambiguity in existing principles, including SFFAC 2.</p> <p>c. The Department of Commerce agrees that an organization should be included in the GPFFR, if it would be misleading to exclude it, despite it not meeting any of the three inclusion principles.</p> <p>d. The Department of Commerce agrees that the inclusion principles can be applied to all organizations to determine if they should be included in the government-wide GPFFR. Since the inclusion principles are based on indicators of control, they should be applicable to all organizations.</p>
#7 SSA CFO	<p>a. We agree with the inclusion principles as these principles provide a basis to decide which organization to include in the government-wide General Purpose Federal Financial Report (GPFFR) for financial accountability purposes. The "Federal Programs by Agency and Account" is a starting point for agencies to determine if an organization should or should not be included in the government-wide GPFFR. For organizations not listed in the "Federal Programs by Agency and Account," financial statement preparers can use the other inclusion principles (majority ownership interest, control with risk of loss or expectation of benefit, misleading to exclude, and related parties) as a test to determine inclusion in the GPFFR.</p> <p>b. We believe the inclusion principles, and the related definitions and indicators, are helpful and clear. The inclusion principles provide a framework for decision-making and the related definitions and indicators provide additional information to aid preparers in rendering a decision for inclusion in the GPFFR. For instance, the "indicators of control" provides numerous indicators of whether or not the Federal Government controls an organization. The Appendix also provides helpful information that aids preparers in understanding the concepts of this Standard.</p> <p>c. We agree that an organization should be included in the GPFFR if it would be misleading to exclude it, even though it does not meet the inclusion principles. The inclusion principles are the framework to begin the process to decide if we should or should not include an entity in the GPFFR. We cannot expect these principles to cover every situation that could conceivably occur, especially given the complexities of our Federal Government. Adding the extra requirement to include an organization if it would be misleading to exclude, even if not meeting the inclusion principles, provides an extra dimension for consideration to ensure the GPFFR will include all pertinent and applicable entities.</p> <p>d. We agree that the inclusion principles can be applied to all organizations to determine whether the organization should be included in the government-wide GPFFR. The added information of related definitions and indicators helps further clarify if the entity belongs in the government-wide GPFFR. Financial statement preparers can apply the inclusion principles test to previously excluded organizations, such as the central banking system and Government Sponsored Enterprises. According to Statement of Federal Financial Accounting Concepts (SFFAC) 2, the central banking system was kept separate and independent of the other government functions and therefore was never included in the government-wide GPFFR. However, this Standard requires the comprehensive disclosure of financial information. If an organization is budgeted, owned, or controlled by the Federal Government, it should be included in the government-wide GPFFR.</p>
#8 NSF CFO	<p>a.-c. NO NSF COMMENT</p>

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<p>#8 NSF CFO</p> <p><b>7. Other Organizations – April 2014</b></p>	<p>d. NSF requests that FASAB further clarify the inclusion of Federally Funded Research and Development Centers (FFRDCs). In the case of the National Science Foundation, pursuant to the NSF Act (Public Law 81-507, amended by 42 USC (1861 – 1887)), provision 42 USC 1873, “The Foundation shall not, itself, operate any laboratories or pilot plants.” Although NSF legally considers and is noted as the sponsoring agency for four FFRDCs, as it relates to the intent of this ED, the Foundation’s inability to manage or operate the facilities makes them more equitable to contract or grant organizations. NSF requests that FASAB add language to this point in paragraphs 32 – 34.</p>
<p># 9 KPMG</p> <p>Appears preference to maintain ownership principle. Board directed staff to consider implications with combining “in the Budget” with control. Staff also notes the Board considered the pros and cons of combining ownership and control in the early stages of the project.</p>	<p><u>General Structure Comments</u></p> <p>The three principles in paragraph 21 should be reduced to two principles: (1) In the Budget and (2) Control with risk of loss or expectation of benefit. Based on the definition in paragraph 24 and footnote 12, the majority ownership interest should be considered a presumptive indicator of control instead of a stand-alone principle.</p>
<p># 9 KPMG</p> <p><b>1. In the Budget- Dec 2013</b></p> <p><b>1.a. In the Budget- March 2014</b></p>	<p><i>In the Budget</i></p> <p>i. The statement should indicate that this is a presumptive principle for consolidation. If an organization is included in the budget, it should be consolidated at the government-wide or component reporting entity level.</p> <p>ii. The exception related to federal financial assistance should be if the organization is included in the budget ONLY as a recipient of federal financial assistance. The standards should clarify whether these organizations require further evaluation against the second principle (Control) if the exception is met.</p> <p>iii. This section should include relevant information for the component reporting entities as well as the government-wide entity. Information from paragraphs 57 and 57 (a) should be included.</p>
<p># 9 KPMG</p> <p><b>Open - Editorial, structural, or</b></p>	<p><i>Control with risk of loss or expectation of benefit (Control)</i></p> <p>i. The statement should indicate that this is a presumptive principle for an organization to be either consolidated or disclosed.</p> <p>ii. This section should include relevant information for the component reporting entities as well as the</p>

clarified in BfC	<p>government-wide entity. Information from paragraph 58 would be included related to the component reporting entities.</p> <p>iii. This section should include the concept of exclusivity of control. We believe that control involves decision-making ability that is not shared with others. Therefore, we believe that consolidated and disclosure organizations would only be controlled by one entity. The ED currently indicates that disclosure organizations could be reported by multiple component reporting entities.</p> <p>iv. The indicators of control should be reordered for ease of application:</p> <ol style="list-style-type: none"> <li>1. Paragraph 29;</li> <li>2. Paragraphs 32-34 (situations where control does not exist);</li> <li>3. Paragraphs 30-31 (persuasive indicators and other indicators), which would also include adding "Majority Ownership," paragraphs 23 and 24, as a persuasive indicator of control.</li> </ol> <p>v. For those organizations that meet the definition of control, this section should reference to the paragraphs that provide the characteristics of a consolidated and disclosure organization.</p> <p>vi. For those organizations that do not meet the definition of control, this section should reference to the paragraphs that provide the characteristics of a misleading to exclude organization. We believe that an organization that meets these characteristics would be subject to related party disclosures.</p> <p><u>Detailed Comments</u></p> <p>We suggest the following revision to paragraph 20:</p> <p>"This Statement provides two principles for determining which organizations should be consolidated or disclosed in the government-wide and/or component reporting entity GPFFR. The statement also provides characteristics of a consolidated and disclosure organization, which should be applied in conjunction with the principles to distinguish between consolidated and disclosure organizations."</p> <p><i>In the Budget</i></p> <p>i. We believe that for consolidation to be required control should exist. In keeping with the Board's approach, we have maintained in the budget as a separate principle from control, on the basis that if an organization is in the budget (at the component reporting level or government-wide level) it is considered to be controlled by that reporting entity.</p> <p>ii. The statement should state which year's budget document to consider when applying the principle.</p> <p>iii. Information from paragraph 57a related to the component reporting entity should be moved to this section.</p> <p>iv. Paragraph 57b provides another definition of in the budget by its reference to a congressional budget justification document. We believe references to this document should be removed for simplicity and consistency in the application of this statement.</p>
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	<p><i>Control with risk of loss or expectation of benefit</i></p> <p>i. We believe that the principles should include the concept of exclusivity for purposes of identifying and reporting on consolidated and disclosure organizations. We recommend the following sentence be added to the end of paragraph 25 to incorporate the exclusivity concept:</p> <p>Control involves decision-making ability that should not be shared with others and, therefore, an organization can only be identified and reported as a consolidated or disclosure organization by one reporting entity.</p> <p>ii. Footnote 14 would not be needed based on the changes in our suggested structure.</p> <p>iii. Footnote 16 appears to contradict paragraph 30a. Please clarify.</p> <p>iv. Footnote 27 should be deleted because it is confusing. The Bureau of Census is included in the budget of the Department of Commerce; therefore, it would not be subject to the evaluation of control.</p>
<p># 9 KPMG</p> <p><b><u>2. Misleading to Exclude- Dec 2013</u></b></p>	<p><i>Misleading to exclude</i></p> <p>i. Based on our belief that an organization that is misleading to exclude should only result in a related party disclosure, we suggest combining paragraphs 35-36 as follows:</p> <p>There may be instances when an organization does not meet the principles in paragraphs ____ yet the government-wide or component reporting entity GPFFR would be incomplete if information about the organization were excluded. Organizations should be subject to the disclosure requirements for related parties in the government-wide or component reporting entity GPFFR if the omission would be considered material to the reporting entity's financial statements.</p> <p>ii. We believe that the concept of misleading to include should be deleted from the statement because it undermines the overall principles stated.</p>
#10 Treasury OIG	No Response
#11 HUD CFO	<p>a. HUD agrees with the first inclusion for an organization to be included in the government-wide GPFFR with an account or accounts listed in the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled "Federal Programs by Agency and Account" unless the organization is a non-federal organization receiving federal financial assistance. Identification of an organization in the President's Budget is the clearest evidence that an organization should be included in the government-wide report.</p> <p>HUD agrees with the concept that an organization in which the federal government holds a majority ownership interest typically provides owners access to resources and exposure to risks while supporting their desired goals. Federal financial reporting objectives require that information about service efforts, costs, and accomplishments be made available. To ensure such information is included, when the federal government holds a majority ownership in an organization, it should be included in the GPFFR.</p> <p>HUD agrees with the concept that an organization that is controlled by the federal government with risk of loss or expectation should be included in the government-wide GPFFR to provide accountability. As detailed in the Statement, control involves the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to obtain financial resources or non-financial benefits or be obligated to provide financial support or assume financial obligations as a result of those actions. Both the power and the risk of loss or expectation of benefit aspects of the control definition should be present to justify inclusion of the organization in</p>

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	<p>the GPFFR.</p> <p>b. HUD agrees that the inclusion principles, and the related definitions and indicators, are helpful and clear. Determining control requires judgment, and the Statement provides indicators to assist in making determinations. The first set of indicators is “persuasive” as the federal government has the authority to control and any one of the listed items would generally mean control is present. The second set of indicators requires more judgment because the set of indicators is considered in the aggregate to assess whether the federal government has the ability to control the organization. Because the government does not usually seek only financial benefits, the expected benefit associated with control does not have to be a financial benefit. Instead, it may be non-financial. For example, it may be in the form of a service provided on the federal government’s behalf or the ability to direct the work of the other organization to deliver goods and services.</p> <p>d. HUD agrees that the inclusion principles can be applied to all organizations, to determine whether such organizations should be included in the government-wide GPFFR. Differences in purposes and governance structures by organizations may require different presentation of related financial information. This Statement provides that the reporting entity should first determine which organizations are to be included in the reports. Next the reporting entity should classify each included organization as a consolidation entity or a disclosure organization.</p>
<p>#11 HUD CFO</p> <p><b>2. Misleading to Exclude- Dec 2013</b></p>	<p>c. HUD believes that the exposure draft does not provide enough information in paragraphs 35 – 36 and 61 – 62 to be able to agree or disagree that an organization should be included in the GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles. It would be helpful to provide examples of unique situations to enhance the preparers’ judgment so that the preparer and auditor can mutually agree that an organization should be included that was not otherwise incorporated as a result of the three principles.</p>
#12 TVA CFO	No response
#13 NASA CFO	<p>a. NASA agrees with the understanding that meeting any one of the 3 principles require that an organization is included in an agency’s financial statements and inclusion allows for disclosure or consolidation. The inclusion principles are reasonable criteria to determine the significance of the federal government’s relationship and involvement with an organization. The inclusion principles are consistent with the concepts of conclusive criterion and indicative criteria in SFFAC 2, paragraphs 41-46 that should be considered in the aggregate for defining a financial reporting entity in the Federal Government.</p> <p>b. Overall, NASA agrees that the inclusion principles and related definitions and indicators are helpful and provide guidelines by which to evaluate which organizations should be included in the GPFFR. The section titled, In The Budget, should include acknowledgement of the difference between an organization listed in an agency’s budget and one that is included in the budget but not specifically listed. Consideration may also be given to including a reference to the sections titled, Reporting On Organization – Consolidation Entities Or Disclosure Organizations and/or Principles for Inclusion in the Government-wide GPFFR, to point to more detailed discussion.</p> <p>c. NASA agrees with the concept that an organization should be included in the GPFFR if excluding it would be misleading. The concept of providing information that is not misleading is also applicable to the method used to present the organization’s financial information, disclosure or consolidation. Our rationale is based on SFFAC 2, Entity and Display, as provided in paragraph 38.</p>
<p>#13 NASA CFO</p> <p><b>2. Misleading to Exclude- Dec 2013</b></p>	<p>Paragraphs 35-36 of the Statement discuss the concept of “Misleading to Exclude” for organizations that do not meet the inclusion principles. We recommend enhancing the Statement to provide more guidance that may include the criteria to determine “misleading to exclude” and the rationale for this consideration as it pertains to different types of organization</p>



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<p>#13 NASA CFO</p> <p><b>7. Other Organizations – April 2014</b></p>	<p>and specifically Federally Funded Research and Development Centers. (Organization types may include FFRDCs, museums, performing arts organizations, universities, or venture capital funds and/or include distinction by method of financing, management agreement, level of autonomy, or applicable regulations.)</p> <p>d. NASA agrees given that flexibility is allowed for different and distinct types of organizations and more guidance is provided related to the inclusion principles and how they relate to different types of organization.</p> <p>NASA requests that FASAB provide clarity regarding the inclusion principles specifically in relation to Federally Funded Research and Development Centers given the special circumstances that FFRDCs are mandated to operate independently.</p>
<p>#14 Department of Homeland Security CFO</p>	<p>a. Agree these principles are objective and could be consistently applied across government agencies.</p> <p>b. Agree, however some real life examples would be helpful and would deter subjectivity.</p>
<p>#14 Department of Homeland Security CFO</p> <p><b>2. Misleading to Exclude- Dec 2013</b></p>	<p>c. Disagree, this catch all could be too subjective. We believe that the term “misleading” would need to be quantified.</p> <p>d. Agree, as long as the “misleading to exclude” is either removed or better defined with some objective measures.</p>
<p>#15 Nuclear Regulatory Commission OIG</p>	<p>a. I agree with each of the inclusion principles. I believe that comprehensive accountability should be assessed through inclusion in the GPFFR in all cases where a federal entity exercises both financial and/or management control of another entity.</p>
<p>#15 Nuclear Regulatory Commission OIG</p> <p><b>2. Misleading to Exclude- Dec 2013</b></p>	<p>b. I think the definitions and indicators are mostly helpful. However, the guidance around the “Misleading to Exclude” standard is missing clarity. I think more discussion with some examples around what it would mean to be misleading would, at a minimum, provide the practitioner with the intent of the standard.</p> <p>c. I agree with the standard in that the GPFFR should not be misleading. However, without more clarification, I am not sure how I would apply the standard. Maybe some examples or more discussion would be helpful.</p> <p>d. I agree that all organizations should be subject to the inclusion principles. Allow the inclusion tests to determine if the entity should be excluded, not just categorically exclude them. I think to do otherwise would increase the risk that the GPFFR could be misleading and not reflect comprehensive accountability.</p>
<p>#16 Federal Reserve System</p>	<p>No Response</p>
<p>#17 TVA OIG</p>	<p>No Response</p>
<p>#18 DOD CFO</p>	<p>a. Agree. The inclusion principles conform to the conclusive and indicative criteria for including components in a reporting entity described in Statement of Federal Financial Concepts 2, Entity and Display. Control also discussed as a primary criteria within the Financial Accounting Standards Board Proposed Statement of Financing Accounting Concepts, The Reporting Entity.</p> <p>b. Agree. The inclusion principles, along with the illustrations in Appendix C, are understandable. Appendix C is especially helpful in</p>



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	<p>demonstrating the nuances of the criteria.</p> <p>c. Agree. It would be misleading to exclude the organization if it does not meet the inclusion principles, as the consolidated financial statements would not be complete, accurate, or presented fairly.</p>
<p>#18 DOD CFO</p> <p><b>7. Other Organizations – April 2014</b></p>	<p>d. Agree. The inclusion principles are comprehensive and include all potential organizations that the government may be responsible for consolidating whether by budget authority, ownership, or control. It is suggested, however, that some additional guidance be added to distinguish museums consolidated under this proposed standard and museums disclosed under Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards (SSFAS) 29, Heritage Assets and Stewardship Land. There may appear to be some conflicting guidance in reading both standards.</p>
<p>#19 Commodity Credit Corporation CFO</p>	<p>a. Agree with the inclusion principles outlined in the exposure draft. All of the principles follow GAAP.</p> <p>b. The inclusion principles are stated in a clear manner which allows the determining official to make determination and document the reasoning.</p> <p>c. Yes the definition provided in the misleading to exclude does not provide enough determining factors to allow decision makers to clearly make the decision to include or exclude. The lack of criteria would leave this open for audit disagreements. Paragraph 63 provides further criteria of the misleading to exclude—this would appear to be similar to the Parent/Child reporting outlined in the OMB Circular A-136.</p> <p>d. Yes the inclusion principles should be applied across the Government. Exclusions for the “other” Federal entities could lead to misstatements. It is possible that some Government entities may qualify for the disclosure reporting rather than full inclusion for consolidated statements.</p>
<p>#20 Joseph H. Marren</p> <p><b><u>7. Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2- March 2014</u></b></p>	<p>The proposed rules will largely continue current unconstitutional reporting practices with respect to the Federal Reserve System and Government Sponsored Enterprises such as Fannie Mae and Freddie Mac. They will not be consolidated in the Financial Report and hence, the government’s consolidated financial statements will remain substantially misleading.</p>
<p>#21 HUD OIG</p>	<p>We support the Board’s position on questions 1 – 4 and 6-11</p>
<p>#22 HHS OIG</p>	<p>a. The inclusion principles as presented provide a good basis for an organization to be included in the government-wide General Purpose Federal Financial Report (GPFFR). While the Budget of the United States is a good starting point, financial statement preparers and auditors can use the other inclusion principles to determine if an organization controlled or managed by the Federal government, but not necessarily noted in the budget, should be included in GPFFR.</p> <p>b. The definitions and indicators for the inclusion principles seem to be very clear and helpful. They provide very good explanations and give the appropriate guidance for preparers and the auditors to determine if organizations should be included in government-wide GPFFR.</p> <p>c. All organizations should be included in the government-wide GPFFR if it would be misleading not to include them even though they do not meet one of the three inclusion principles. Some organizations that do not necessarily fall under the inclusion principles could put the overall Federal government at risk. The decision to include or not include an organization should be decided in consultation between the</p>

	<p>preparer of the government-wide GPFFR (Treasury's Fiscal Service) and the auditor (Government Accountability Office (GAO)).</p> <p>d. The inclusion principles should be applied to all organizations to determine if they should be included in GPFFR. As indicated in the response to number Q1.c, organizations that can put the Federal government at risk should be disclosed and included in the GPFFR.</p>
<p><b>#23 SEC CFO</b>  <b><u>1.In the Budget –</u></b>  <b><u>December 2013</u></b></p> <p><b><u>1.a. In the Budget-</u></b>  <b><u>March 2014</u></b></p>	<p>a. Disagree. The SEC believes that the first proposed inclusion principle, "included in the Budget ... schedule entitled "Federal Programs by Agency and Account" ("in the Budget"), appears to have more characteristics of a rule than a principle.</p> <p>The proposed standard would rescind paragraph 42 of SFFAC 2 and replace it with what the SEC believes to be a narrower definition of a non-federal entity, with the result that it would appear to become a rule rather than a factor to consider.</p> <p>Inclusion or exclusion from the Budget is subject to change and based upon decisions over which FASAB has little or no control and which may be unrelated to the principles upon which FASAB's reporting requirements are based.</p> <p>In previous issuances the Board has explicitly not permitted the applicability of reporting requirements to be based upon classifications that are solely under the jurisdiction of other organizations, such as the Treasury Department and/or the Office of Management and Budget (OMB), without regard to FASAB's intent for principle-based reporting requirements.</p> <p>For example, the provisions of SFFAS 27 Identifying and Reporting Funds from Dedicated Collections, and SFFAS 31, Reporting on Fiduciary Activities, support the Board's principle-based requirements by explaining that federal reporting entities should not base their classification and reporting for either (a) funds from dedicated collections or (b) fiduciary activities, respectively, based upon the fund type that is assigned and used for reporting funds to Treasury and/or OMB.</p> <p>Paragraph 7 of SFFAS 27, (bold added) states that:</p> <p>The following chart shows fund types used in reporting to the Treasury Financial Management Service (FMS) and the Office of Management and Budget (OMB). It is intended only to show the general relationship between fund groups and [funds from dedicated collections] as classified in this statement. Regardless of classification for reporting to the Treasury FMS or the OMB, funds meeting the definition of [funds from dedicated collections] promulgated in this standard should be so classified and funds not meeting the definition should not be so classified.</p> <p>Similarly, paragraph 7 of SFFAS 31 (bold added) states that:</p> <p>Numerous "fund groups" are used in reporting to the Treasury FMS and the OMB. For example, "deposit funds" may be used for monies that do not belong to the Federal Government. Regardless of how a fund group may be classified in reporting to the Treasury FMS or to the OMB, only those activities that meet the definition of fiduciary activity promulgated in this standard are subject to the reporting requirements of this standard. Activities that do not meet the definition of fiduciary activities promulgated in this standard are not subject to the reporting requirements of this standard. Deposit funds that do not meet the definition of fiduciary activities, and therefore are not disclosed in the fiduciary note disclosure, should be recognized in the principal financial statements.</p>

An example of how the classification of “in the Budget” is subject to change is the status of the Tribal Trust Funds. The Tribal Trust Funds were included in the Budget of the U.S. Government and the Department of the Interior from fiscal year (FY) 1969 through FY 1999, but excluded in fiscal years subsequent to FY 1999. Although the Tribal Trust Funds consist of assets that are owned by private individuals and not by the federal government, the Tribal Trust Funds were nevertheless included in the Budget for a period of 30 years. As noted in the FY 2000 Budget, approximately \$2.1 billion in trust funds assets were reclassified in FY 2000 from “on-budget” to “non-budgetary.” This change illustrates the risk of using “in the Budget” as a primary principle/rule for FASAB reporting requirements that are intended to be principle-based.

Another example is the Securities Investor Protection Corporation (SIPC), which is currently listed in the SEC’s section of the Budget. Throughout SIPC’s history, SIPC has been both included and excluded from the Budget. For example, in FY 2007, SIPC’s line of credit with Treasury had an account in the Budget. In FY 2008, the line of credit was removed from the Budget and replaced with a paragraph explaining the role of SIPC. In FY 2011, SIPC was included in the Budget, with adjustments going back to FY 2009. We are aware of no substantive legislative changes that might explain these changes.

Accordingly, the SEC believes that “in the Budget” is insufficiently aligned with the other two inclusion principles to be put forth as a primary “principle” but rather should be considered as an indicator of control, and taken into consideration together with other factors.

SEC Recommendation 1(a): In order to provide for a principle-based standard by which the intent of the Board would be consistently applied in the future, regardless of future classification decisions by organizations other than FASAB, the SEC recommends that:

- paragraph 39 should be deleted
- being “in the Budget” should be included as an “indicator of control” rather than a primary principle. This would be similar to the way SFFASs 27 and 31 provide that federal reporting entities may consider the “fund type” (such as special fund, trust fund, or deposit fund) when evaluating funds, but the decisive factor for classification should be the application of the principles established by SFFAS 27 and 31. In addition, the SEC believes that this change would be more consistent with existing guidance in SFFAC 2.

- Paragraph 22 should be amended as follows:

An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” should be ~~included in the government-wide GPFFR unless it is a non-federal organization receiving federal financial assistance.~~<sup>11</sup> Any listed ~~non-federal organizations receiving federal financial assistance~~ should be assessed against the ~~next following~~ two principles (Majority Ownership Interest and Control with Risk of Loss or Expectation of Benefit) to determine whether they should be included in the government-wide GPFFR.

Finally, a definition of “non-federal organization” is necessary for evaluating an organization regarding the “in the

Budget” provision, which provides that an organization that is in the Budget should be included, “unless the organization is a non-federal organization receiving federal financial assistance.” However, the proposed definitions do not include a definition of the term “non-federal organization.”

SEC Recommendation 1(b):

As noted in SEC Recommendation 1(a), the SEC believes that “in the budget” should be an indicator of control rather than a rule. The SEC also believes the following indicators should be added after paragraph 32 in the section “Situations Where Control Does Not Exist.:

Examples of characteristics that may indicate a lack of control include but are not limited to:

- The organization’s assets do not meet the definition of federal “assets” in FASAB Statement of Federal Financial Accounting Concepts (SFFAC) 5 because they are not available for use or sale by any components of the federal government.
- The organizations assets, if consolidated or combined with the assets of a federal component entity, could not be classified as either “entity assets” or “non-entity assets” as defined in Statement of Federal Financial Accounting Standards (SFFAS) 1, because the organization’s assets are neither “available for use” by nor “held by” the federal entity that would be required to consolidate the other organization’s assets.
- The organization’s liabilities do not meet the definition of “liabilities” in SFFAC 2 because the organization’s liabilities are not guaranteed by the full faith and credit of the federal government and must be liquidated by external revenue sources that are separate and distinct from the federal government’s general tax revenues.
- The organization is funded by exchange revenues that may be augmented at the discretion of the organization without any Congressional action or approval needed.
- The organization is not required to follow the hierarchy of federal GAAP in paragraphs 5-7 of SFFAS 34 and is not currently audited by the Inspector General of any federal entity.
- The organization’s employees are private-sector employees who are not subject to civil service rules or eligible for federal employee retirement programs such as CSRS or FERS. The organization’s employees cannot incur liabilities on behalf of the federal government because legislation provides that they are not authorized to act as employees or agents of the federal government.
- The organization issues audited financial statements prepared in accordance with private-sector generally accepted accounting principles (GAAP) that are publicly available.
- The organization has a fiscal year that is different from the federal government’s fiscal year and does not report either September 30 information or transactions that would be considered “intragovernmental” if the organization was to be considered part of the federal government.

b. No. The proposed standards include numerous “pro” and “con” indicators, but neither the proposed standards nor the illustrations in the Appendix provide a clear indication of which factors are or should be selected to be the deciding

factor(s) or how to go about making this selection. The only factor given priority (“in the Budget”) is a factor that, as mentioned in the response to Q1a, has characteristics of a rule rather than a principle.

The SEC is concerned about being required to include in its financial statements, as basic information subject to audit, financial data for organizations that do not report to the Treasury Department, and which the SEC’s auditor (the Government Accountability Office (GAO)) does not currently audit. For example, in the SEC’s section of the Budget, there are three organizations, the Public Company Accounting Oversight Board (PCAOB), the “Payment to Standard Setting Body” (currently the Financial Accounting Standards Board (FASB)) and the Securities Investor Protection Corporation (SIPC). Each of these organizations is incorporated as a non-profit organization and issues calendar-year financial statements in accordance with private-sector GAAP.

Because none of these three organizations currently report budgetary data to the Treasury Department or to the Office of Management and Budget (OMB), the Budget includes the following footnote for each of these three organizations: “Because [this organization] does not report budgetary data to the Treasury, budget estimates were derived from [this organization’s] financial data.”

Using “in the budget” as a primary indicator/rule for inclusion would likely create the presumption that all three organizations should be included, even though other factors would indicate against inclusion, such as the fact that these organizations:

- have assets that do not appear to meet the definition of “assets” in FASAB Statement of Federal Financial Accounting Concepts (SFFAC) 5 because they are not available for use or sale by the federal government (except for the quasi-federal organization that is holding the assets);
- (if consolidated by a federal component reporting entity), have assets that would not appear to meet the definition of either “entity assets” or “non-entity assets” in Statement of Federal Financial Accounting Standards (SFFAS) 1, relative to the federal component entity, because the assets are neither “available for use” by nor “held by” the federal component entity that would be required to consolidate the quasi-federal entity;
- have liabilities that do not appear to meet the definition of “liabilities” in SFFAC 2 because the liabilities are not guaranteed by the full faith and credit of the federal government and must be liquidated by external revenue sources that are separate and distinct from the federal government’s general tax revenues;
- are funded by exchange revenues that in some cases may be augmented at the discretion of the organization without any Congressional action or approval needed;
- issue audited financial statements prepared in accordance with private-sector generally accepted accounting principles (GAAP) that are publicly available;
- have a fiscal year that is different from the federal government’s fiscal year and are not required to report either September 30 information or transactions that would be considered “intragovernmental” if these organizations were to be considered part of the federal government; and
- have employees that are private-sector employees, not subject to civil service rules or eligible for federal

	employee retirement programs such as CSRS or FERS.
#23 SEC CFO <b>4. Term for Disclosure Organization-- Dec 2013</b>	<p>The proposed standard also does not clearly define “disclosure organization” and “consolidation entity” – in particular, the distinction between the terms “entity” and “organization” (within these phrases, as well as throughout the document). The distinction between the two terms is not explained, and there is no explanation as to why a different term is used for the two types of organizations. Throughout the document, the term “organization” is used most often, but paragraph 38 indicates that some organizations are referred to as “[consolidation] entities,” but paragraphs 38-39 still use the word “organization” but clearly are referring to “consolidation entities.” There is no explanation of why some “organizations” are also “entities,” but others (“disclosure organizations”) apparently are not. The term “organization” should be used consistently throughout the document for everything except for references to a primary federal reporting entity (government-wide or component level).</p> <p>In addition, to address inconsistent use of the terms “entity” and “organization,” that the term “organization” should be used consistently throughout the document for everything except for references to a primary federal reporting entity (government-wide or component level) that would be considering whether to include an “organization” in its financial statements. This would include changing “consolidation entity” to “consolidation organization.”</p>
#23 SEC CFO <b>3. Disclosure Entity Issues- March 2014</b>	<p>Finally, in situations where the other organization issues stand-alone audited financial statements in accordance with private-sector GAAP, and may also have a different fiscal year, the federal component entity’s auditor may not be willing to rely on the work of the other organization’s auditor. In such cases, it would not be cost-beneficial for the component federal entity to engage its auditor to audit or review the other organization’s financial records in order to include the required information in its audit opinion. In addition, in situations where the federal reporting entity is not involved in the other organization’s day-to-day operations, the federal reporting entity often has no way of knowing whether there may be significant changes in information in the intervening period between the issuance date of the other organization’s financial statements and the issuance date of the federal component entity’s financial statements. For this reason, the federal component entity’s management should only be required to report significant changes that it is aware of. The SEC recommends the following:</p> <ul style="list-style-type: none"> <li>• Add the following additional language to Paragraph 73e, (list of required disclosures): <ul style="list-style-type: none"> <li>(e) a discussion of the disclosure organization’s key financial indicators and changes in key financial indicators <u>or information, such as a website link, to the disclosure organization’s most recent audited financial statements.</u></li> </ul> </li> <li>• Add the following additional language to paragraph 76: <p><u>If the component entity is aware of</u> significant changes in information occurring from the end of the disclosure organization’s reporting period, <u>such changes</u> should be reported consistent with the requirements of SFFAS 39, <i>Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards.</i></p> </li> </ul>
#23 SEC CFO	c. Disagree. The ED appears to be somewhat biased towards inclusion. Paragraphs 35-36 of the ED and the



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<p><b>2. Component Reporting Issues- March 2014</b></p>	<p>decision tree in Appendix B provide for “misleading to exclude” but do not provide for “misleading to include.” A bias toward inclusion may result in the inclusion (by either consolidation or disclosure) of revenues and assets that are not revenues or assets of the federal government.</p> <p>SEC Recommendations 1(c): Add paragraphs on “misleading to include” that are parallel to paragraphs 35-36 on “misleading to exclude.”. If the decision tree in Appendix B is retained in the final SFFAS, it should be edited to reflect this recommendation.</p> <p>d. Disagree. See SEC comments and recommendations in response to Q1a, b, and c.</p>
<p>#24 DOL OIG</p>	<p>a. We agree with each of the inclusion principles.</p> <p>b. We agree that the inclusion principles and related definitions and indicators are helpful and clear.</p> <p>c. We agree that an organization not meeting one of the inclusion indicators should none the less be included if it would be misleading to exclude it. This is necessary to ensure the full viability of this standard, as every situation cannot be anticipated.</p> <p>d. We agree that the inclusion principles can be applied to all organizations.</p>
<p>#25 Administrative Office of the US Courts</p> <p><b><u>3.Applicability to Judicial and Legislative Branches- Dec 2013</u></b></p>	<p>In several places the Federal Accounting Standards Advisory Board (FASAB) exposure draft proposes that the Judicial Branch should be included in the government-wide General Purpose Federal Financial Report (GPFFR) and required to submit financial statements prepared using FASAB standards. We strongly disagree.</p> <p>The exposure draft represents a laudatory effort by the FASAB to further full reporting on the federal government's budget. However, there are valid, substantial, and vitally important reasons why the Judiciary has not been included in the GPFFR. Like the Legislative Branch, the Judiciary's financial operations and structure are based on different statutory authorities than the Executive Branch, and consistent with these authorities, the Judiciary has developed its own policies and processes for financial management and accountability. The Judiciary has established accounting and financial reporting systems based on these policies and processes, and the Judiciary prepares financial reports in accordance with an Other Comprehensive Basis of Accounting.</p> <p>Furthermore, the GPFFR was created specifically for the particular business operations of the Executive Branch. Attempting to apply the GPFFR to the Judiciary would be a nearly impossible undertaking due to the significant differences between the branches. The proposed standard identifies the Judiciary for inclusion in the government-wide GPFFR under the (in the Budget) inclusion principle. When considering the concept of "misleading to exclude," the Judiciary continues to represent an immaterial line in the Budget. Therefore, excluding the Judiciary from the GPFFR would not result in a material misstatement of the GPFFR.</p> <p>In conclusion, the required additional budgetary resources needed to convert the Judiciary's existing accounting and financial reporting structure to comply with FASAB standards would result in substantial costs with no material benefit to the primary intended users of the GPFFR. We therefore ask that the Judiciary be excluded from the proposal.</p>
<p>#26 GSA CFO</p>	<p>a. GSA agrees that Federal agencies should include information in their financial statements so that readers of the financial statements are not misled. However, it seems this ED is addressing symptoms of much larger government wide epidemic. The government continues to expand its financial reach and control outside of federal entities. We need to focus on a cure for the "disease" instead of</p>

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	adding band aids to the symptoms.
#26 GSA CFO Staff notes there is an active project on PPP.	b. GSA does not think the inclusion principles, definitions and indicators are completely clear. Please clarify how Public Private Partnerships fit.
#26 GSA CFO <b><u>2.Misleading to Exclude- Dec 2013</u></b>	c. This concept is too vague. Please provide examples of something that might be misleading to exclude even though it does not meet one of the three inclusion principles.
#27 GWSCPA FISC <b><u>5. "Temporary" -- Dec 2013</u></b> <b><u>1b. "Temporary"- March 2014</u></b>	<p>The FISC agrees with the three inclusion principles listed in the ED, but suggests that the second and third inclusion principles be expanded to indicate that relationship must be other than temporary in nature between the federal government and the organization when the ownership interest or risk of loss or expectation of benefit principles are met. Therefore, we suggest that the second and third inclusion principles be modified to state:</p> <ul style="list-style-type: none"> <li>• An organization in which the federal government holds a majority ownership interest, and the federal government's majority ownership interest is other than temporary in nature.</li> <li>• An organization that is controlled by the federal government with risk of loss or expectation of benefit, and the federal government's control of the organization is other than temporary in nature.</li> </ul> <p>In instances in which the relationship is temporary in nature, we suggest that the federal government's relationship with the federal government's ownership interest and/or estimated risk of loss or expectation of benefit as of the balance sheet date be disclosed in the notes to the financial statements in the GPFFR.</p> <p>The FISC agrees that the inclusion principles should be applied to the entities identified in the Board's question for comment.</p>
#28 Joyce Dillard Staff notes there is an active project on PPP. The inclusion principles otherwise should be applied to all organizations.	<p>We agree with each of the inclusion principles.</p> <p>The principle:</p> <ul style="list-style-type: none"> <li>• An organization in which the federal government holds a majority ownership interest</li> </ul> <p>may need further explanation. Public Private Partnerships may be formed. How is that defined under this principle? Are Memorandums of Understanding MOUs included as ownership interest as participation is a controlling interest factor.</p> <p>The principle:</p> <ul style="list-style-type: none"> <li>• An organization that is controlled by the federal government with risk of loss or expectation of benefit</li> </ul> <p>Are Memorandums of Understanding MOUs included in this category?</p>



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	<p>Do you consider non-profit organizations requiring Federal approval for that tax-exempt status as being controlled by the federal government and approve the Mission Statement?</p> <p>We are trying to ascertain the use of the non-profit corporation as a substitute for a government agency. Would the non-profit substitute be misleading because of the dependence of tax funding to operate that government-substituted function?</p> <p>We believe the Inclusion Principles should apply all organizations. The People deserve to know who their representatives are, and through these organizations, that representation is masked.</p> <p>The People must be able to petition their government, and these financial mazes make it extremely difficult.</p>
#29 DOL CFO	No Comment
#30 Intelligence Community	<p>a. We agree the inclusion principles adequately encompass the characteristics of most organizations that should be included in the government-wide GPFFR based upon their financial, organizational, and operational impact on the federal government. We agree with each of the inclusion principles. Two of the three principles relate to majority ownership and control, which are concepts commonly applied in the public sector to define the reporting entity. The third concept, budget inclusion, is a reasonable test since the US Budget approval passes through Congress and the President, which implies some level of government involvement with the entity and should be considered.</p> <p>b. We believe the inclusion principles, and the related definitions and indicators, are helpful and clear. The definitions promote a thorough understanding of each concept, while the indicators serve as examples to further assist the practitioner in the determination process.</p> <p>c. We agree an organization should be included in the GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles. Generically speaking, the objective of financial reporting is to provide stakeholders with information that is useful in the decision-making process. Therefore, it is reasonable to conclude that misleading financial reports would hamper that objective.</p> <p>d. We agree the inclusion principles can be applied to all entities and should be.</p>
#31 AGA FMSB	<p>a. The FMSB agrees with the inclusion principles proposed by the FASAB. We agree that a principles based approach is superior to a rules based approach. This provides a longer lasting solution to the issues under consideration and aligns with the use of professional judgment. Regarding the three inclusion principles, we find that the three principles align well with the GASB principles.</p> <p>b. We believe that the inclusion principles and the related definitions are helpful and clear. In our response we have offered some areas where we believe improvements can be made, however the definitions and indicators are clear and understandable.</p> <p>d. The FMSB agrees that the inclusion principles can be applied for such determinations.</p>
#31 AGA FMSB <b><u>2. Misleading to Exclude- Dec 2013</u></b>	<p>c. Yes, we agree that an organization should be included in the GPFFR if it would be misleading to exclude it. This provides a safe haven for significant exceptions to the principles should they arise. However, as stated in our comments, we believe that additional guidance should be included in the final document.</p>
#32 NSB	No Response
#33 Treasury Bureau of	<p>a. Agree – with each of the 3 inclusion principles</p>

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Fiscal Service (FMS)	<p>b. Yes – definitions/indicators are helpful and clear</p> <p>d. Agree – apply on the basis of the 3 inclusion criteria and misleading to exclude principle</p>
<p>#33 Treasury Bureau of Fiscal Service (FMS)</p> <p><b><u>2.Misleading to Exclude- Dec 2013</u></b></p>	<p>c. Agree – include if it would be misleading to exclude, even if qualifying criteria to include are not met (providing examples of instances where it would be “misleading to exclude” would be helpful in guiding applicable primary reporting entities)</p>
#34 NRC CFO	<p>a. Agree with reporting/consolidation entities and ownership interest or control should be disclosure only.</p> <p>b. Yes</p>
<p>#34 NRC CFO</p> <p><b><u>2.Misleading to Exclude- Dec 2013</u></b></p>	<p>c. Yes, but only as a disclosure and not as a consolidation entity.</p>
<p>#34 NRC CFO</p> <p><b><u>7. Central Bank- Dec. 2013</u></b></p> <p><b><u>March 2014</u></b></p>	<p>d. Disagree, as the Federal Reserve System is independent from control by the President and Congress.</p>
<p>#35 FAF</p> <p><b><u>1. In the Budget- Dec 2013</u></b></p> <p><b><u>1a. In the Budget – March 2014</u></b></p>	<p>The Exposure Draft sets forth three basic inclusion principles for determining whether an organization should be included in the government-wide GPFFR.<sup>2</sup> As described in greater detail below, we recommend that the inclusion principles be revised to either eliminate or modify the scope of the inclusion principle relating to an organization that is “in the Budget” – that is, an organization with an account or accounts listed in the <i>Budget of the United States Government: Analytical Perspectives – Supplemental Materials</i> schedule entitled “<i>Federal Programs by Agency and Account.</i>” Our view with respect to this matter is based on the particular circumstances of the Financial Accounting Standards Board (the “FASB”), one of the standard-setting bodies within the Financial Accounting Foundation (the “FAF”), and similarly situated organizations.</p> <p>Although the FASB has an account listed in the Budget, we believe that the inclusion principle requiring the FASB to be included in the government-wide GPFFR solely because it is in the Budget would be inconsistent with the general concepts relating to inclusion set forth in the Exposure Draft, and would potentially undermine the integrity and utility of the GPFFRs. We do not believe that the objectives of the Exposure Draft would be met if organizations that do not receive taxpayer funds, and are not owned or operationally controlled by the federal government, are included in the GPFFR.</p>

<sup>2</sup> The Exposure Draft would also require certain other organizations to be included in the government-wide GPFFR if excluding them would be misleading.

Background

The FAF is a Delaware nonprofit non-stock corporation, incorporated in 1972, which was created for the purpose of providing a corporate structure for the FASB, the body whose financial accounting and reporting standards for nongovernmental entities have been recognized as authoritative by the American Institute of CPAs (“AICPA”) and the U.S. Securities and Exchange Commission (“SEC”). The structure of the FAF and the FASB reflects the view that a standard-setter should be independent from preparers of financial statements, from accounting and auditing firms, and from political or governmental influence. This independence is necessary to assure that the interests of the users of financial statements remain paramount, and has been critical to the integrity of our financial and capital markets.

Prior to the passage of the Sarbanes-Oxley Act of 2002 (“SOX”), concern was expressed that the objectivity and independence of the FAF and the FASB could be affected if their funding was dependent upon groups having interests in the standard-setting process. Although the FAF derived some revenues from sales and licensing of its publication, the FAF’s principal revenues resulted from voluntary contributions. This concern was addressed in Section 109 of SOX, which provided that, going forward, the FASB would receive its funding from mandatory accounting support fees assessed on public companies.<sup>3</sup> Section 109 of SOX states that “[a]ccounting support fees and other receipts of ... such standard-setting body shall not be considered public monies of the United States.” Moreover, the Rules of Construction set forth in Section 109 provide that “[n]othing in this section shall be construed to render [the FASB] subject to procedures in Congress to authorize or appropriate public funds....”<sup>4</sup>

In addition to not being dependent upon governmental appropriations, neither the FAF nor the FASB is subject to the operational control of the federal government. The FAF is governed by a Board of Trustees consisting of from 14 to 18 members, none of whom is a federal government employee. A Trustee’s term is generally five years, and new FAF Trustees are appointed by the FAF’s Board of Trustees. The Board of Trustees, in turn, appoints the members of the FASB. Although the FASB has a cooperative working relationship with the SEC and with other federal governmental organizations, and governmental representatives regularly attend meetings of the FASB’s advisory committees and consult with the FASB with respect to standards and initiatives, the SEC does not operationally control the FAF or the FASB.<sup>5</sup>

For reasons the FAF does not fully understand, the Office of Management and Budget (the “OMB”) has included the FASB in the Budget.<sup>6</sup> The line item in the Budget with respect to the FASB refers to mandatory appropriations and

<sup>3</sup> These fees are not assessed and collected by the federal government, but are assessed and collected by the Public Company Accounting Oversight Board (“PCAOB”) pursuant to a contractual arrangement between the FAF and the PCAOB.

<sup>4</sup> The independence of the FASB budget was critical to Congress. See 148 CONG. REC. S7355 (Jul. 25, 2002) (statement of Sen. Enzi): “We did something marvelous for the FASB. We made sure of its independence. One way we made sure of its independence, besides citing in the law, was to make sure FASB has independent funding. They will not have to come to Congress with a budget. And they will not have to go to corporate America for funding. They will get independent funding to be able to do the job they need to do. That will inhibit us from trying to change what they are doing in setting accounting standards.”

<sup>5</sup> Although pursuant to Section 109 of SOX, the SEC is required to determine annually that the FASB accounting support fee is within the parameters prescribed by Congress, the SEC does not have authority, and is not required, to approve the FASB budget.

<sup>6</sup> The *Budget of the U.S. Government: Analytical Perspectives-Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” (Schedule 32-1); referring to the FASB as the “Standard Setting Body” (Account 527-00-5377)).

	<p>mandatory outlays; as we believe is clear from the language in Section 109 of SOX, however, the FASB does not receive any appropriations or any outlays from the federal budget.<sup>7</sup></p> <p><u>The Exposure Draft</u></p> <p>As noted above, the FASAB issued the Exposure Draft to provide principles to guide preparers of financial statements at the government-wide and component reporting entity levels in determining what organizations should be included in the reporting entity's GPFFR for financial accountability purposes. The Executive Summary of the Exposure Draft sets forth the principal conceptual underpinning of the Exposure Draft, stating that the government-wide GPFFR should include all organizations:</p> <ol style="list-style-type: none"> <li>1. budgeted for by elected officials of the federal government,</li> <li>2. owned by the federal government, or</li> <li>3. controlled by the federal government with risk of loss or expectation of benefits.<sup>8</sup></li> </ol> <p>When any of these conditions exists, the FASAB believes that information regarding the organization is necessary to provide accountability.</p> <p>Having stated the above three conditions, the Exposure Draft goes on to set forth (in paragraph 21) three principles for inclusion in the government-wide GPFFR. The first inclusion principle refers to an organization that is "in the Budget," which is defined in paragraph 22 as an organization with an account or accounts listed in the Budget.<sup>9</sup> The Exposure Draft creates an exception with respect to a non-federal organization receiving federal financial assistance. Any non-federal organization receiving federal financial assistance is to be evaluated on the basis of the two additional inclusion principles (the "majority ownership interest" principle and the "control with risk of loss or expectation of benefit" principle). However, the Exposure Draft does not define the term "non-federal organization," and the term "federal financial assistance" is tied to the definition of the term in the Single Audit Act Amendments of 1996, such as grants, loans, etc., which the FASB does not receive.<sup>10</sup></p> <p>In discussing the basis for its conclusion that an organization with an account included in the Budget should be included in the government-wide GPFFR, the Exposure Draft states (in paragraph A12) that the:</p> <p style="padding-left: 40px;">"Identification of an organization in the President's Budget is the clearest evidence that an organization should be included in the government-wide report. Absent budgetary actions – originating with the President's Budget and leading to appropriations – federal organizations would be unable to conduct operations.</p>
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<sup>7</sup> It should be noted that notwithstanding the explicit statutory language providing that the accounting support fees do not constitute public monies or public funds, the OMB has determined that the FASB is subject to sequestration.

<sup>8</sup> The Exposure Draft also provides guidance regarding the circumstances when consolidated financial statements would be appropriate for an organization in the GPFFRs ("consolidation entities"), or when disclosure would be appropriate ("disclosure organizations").

<sup>9</sup> Although the Exposure Draft refers to inclusion in the Budget as a "principle," it appears to us to be more in the nature of a rule, requiring an entity to be included in the GPFFR if it is in the Budget.

<sup>10</sup> It seems anomalous to us that the FASB may not be entitled to rely on this exception (and therefore may be required to be included in the GPFFRs) precisely because it does not receive any form of federal financial assistance.

	<p>Financial reporting objectives – budgetary integrity, operating performance, stewardship, and systems and controls – could not be met if organizations identified in the budget were not included in the financial reports. Therefore, the most efficient means to identify organizations for inclusion in the GPFFR is by their participation in the budget process as evidenced by being listed in the [Budget].”</p> <p>The Exposure Draft appears to take the view that inclusion in the Budget is equivalent to the first condition referred to above, that an organization is “budgeted for by elected officials of the federal government.” However, as the circumstances of the FASB indicate, there may be accounts included in the Budget which do not receive federal appropriations, for which elected officials are not accountable, and in which the federal government has no ownership interest and little or no operational control. Accordingly, a rule that inclusion in the Budget requires an organization’s financial information to be included in the GPFFRs may not reflect an appropriate consideration of the nature of organizations included in the Budget.<sup>11</sup> An inclusion principle that would require an entity in the Budget to be included in the GPFFRs therefore appears to be at odds with the concepts underlying the Exposure Draft, including the acknowledgement that an absence of federal funding, operational control or supervision should not result in an entity being within the scope of the GPFFRs.</p> <p>We therefore recommend that the FASAB revise the proposed statement to eliminate the principle that inclusion of an organization in the Budget results in the organization being included in the GPFFRs.<sup>12</sup> As an alternative, the FASAB could expand the proposed exception to the Budget criterion beyond the scope of entities that receive federal financial assistance under the Single Audit Act Amendments of 1996 to refer as well to organizations that are not under federal governmental operational control or supervision, and which do not receive federal funds. Either such revision would avoid an anomalous result of including wholly independent entities within the GPFFRs, undermining their integrity and utility.</p>
<p>#36 Treasury CFO</p> <p><b><u>5. “Temporary” -- Dec 2013</u></b></p> <p><b><u>1b. “Temporary” March 2014</u></b></p>	<p>a. Agree. While we generally agree with the concept of these inclusion principles, we believe the ownership and control principles described in paragraphs 23-28 should be expanded to indicate that the relationship must be other than temporary in nature between the federal government and the organization in order for an organization to be included in the GPFFR. Therefore, we suggest that the second and third inclusion principles be modified to state:</p> <ul style="list-style-type: none"> <li>• An organization in which the federal government holds a majority ownership interest and the federal government’s majority ownership interest is other than temporary in nature.</li> </ul>

<sup>11</sup> We assume that, even were the FASB to be included in the GPFFRs, it would not be deemed to be a consolidation entity. As the Exposure Draft states, “Consolidation is not appropriate for organizations operating with a high degree of autonomy. Some organizations that meet the principles for inclusion are insulated from political influence and intended to be non-taxpayer funded. Presenting information about these discrete organizations in consolidated financial statements would obscure the operating results and financial position of the reporting entity.” We also believe, though, that the FASB should not be considered to be a “disclosure organization,” on the basis that the absence of any governmental ownership, or any operational governmental control, should not result in the FASB being within the scope of the GPFFRs in any manner. As the Exposure Draft states, “The Board recognizes that in rare instances it also may be misleading to include an organization that is administratively assigned to a reporting entity based on the [inclusion] principles. In such cases, the organization may be excluded.” If there is no federal governmental ownership or operational control of an entity, and the entity does not receive federal funds, there would be no justification for including the entity within the scope of the GPFFRs; indeed, to do so would be misleading. The proposed “misleading to include” criteria do not clearly reflect this consideration, and the Exposure Draft states without support that instances when organizations can be excluded are “rare.”

<sup>12</sup> We defer to the FASAB as to how an elimination of the “in the Budget” principle should be reflected. For example, the FASAB may determine that inclusion in the Budget is merely one of several factors to be considered in evaluating whether an organization should be included in the GPFFRs.

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	<ul style="list-style-type: none"> <li>An organization that is controlled by the federal government with risk of loss or expectation of benefit, and the federal government's control of the organization is other than temporary in nature.</li> </ul>
<p>#36 Treasury CFO</p> <p>Appears preference to maintain ownership principle. Board directed staff to consider implications with combining "in the Budget" with control. Staff also notes the Board considered the pros and cons of combining ownership and control in the early stages of the project.</p>	<p>Additionally, we do not believe that the "majority ownership interest" should be a separate principle, given that federal government entities generally do not hold majority ownership interests in other organizations. Though Treasury currently possesses a majority ownership interest with certain organizations as a result of federal interventions, such relationships are considered temporary in nature and therefore are not consolidated in Treasury's consolidated financial statements. Accordingly, we believe consideration should be given to deleting "majority ownership interest" as a separate principle and, instead, incorporating it as part of the "control with risk of loss or expectation of benefit" principle.</p>
#36 Treasury CFO	b. Yes. We believe the inclusion principles, and related definitions and indicators, are helpful and clear.
<p>#36 Treasury CFO</p> <p><b><u>2.Misleading to Exclude- Dec 2013</u></b></p>	<p>c. Agree. We believe that an organization not meeting the criteria for inclusion based upon the three inclusion principles specified in paragraph 21 should still be considered for inclusion in the GPFFR if it would be misleading to exclude. Such inclusion, however, should be based on the premise that the organization is a related party (rather than a consolidation or disclosure entity) and therefore should be included as a footnote disclosure based on the disclosure requirements of a related party as discussed in paragraphs 78-87. As such, we recommend that paragraphs 35 and 36 be deleted. In the Appendix B: Flowchart, we further recommend deleting the "Misleading to Exclude" decision box located after the "Control" decision box and prior to the "Related Parties" decision box. (See Addendum A at the end of this document).</p>
#36 Treasury CFO	d. Agree. The examples in Appendix C demonstrate how the principles can be theoretically applied to various types of organizations such as the Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others.
#37 Smithsonian Institute CFO	No response
#38 FDIC	No response
#39 US Railroad Retirement Board	<p>a. Agree</p> <p>b. Agree</p> <p>c. Agree</p>

	d. No comment
<b>QUESTION 2</b>	
<p>a. Do you agree or disagree with the concept of distinguishing between consolidation entities and disclosure organizations? Please provide the rationale for your answer.</p> <p>b. Do you agree or disagree with the attributes used to make the distinction between consolidation entities and disclosure organizations? Please provide the rationale for your answer and identify additional attributes, if any, that you believe should be considered.</p> <p>c. Do you agree or disagree that, assuming the organizations are determined to be organizations included in the GPFFRs, the attributes are adequate to make a determination of whether organizations such as the Federal Reserve System, Federally Funded Research and Development Centers, museums, and others are consolidation entities or disclosure organizations? Please provide the rationale for your answer and identify any organizations you believe the attributes could not be adequately applied to, and additional attributes, if any, you believe are needed to address these organizations.</p> <p>d. Do you agree or disagree with:</p> <ul style="list-style-type: none"> <li>i. the factors to be considered in making judgments about the extent of appropriate disclosures (see par. 69),</li> <li>ii. the objectives for disclosures (see par. 72), and</li> <li>iii. the examples provided (see par. 73)?</li> </ul> <p>Please provide the rationale for your answers.</p>	
#1 PBGC -Joint Response CFO & OIG	No response
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	<p>a. Agree with the concept of distinguishing between consolidation entities and disclosure organizations. Disclosure organizations enable complete or full disclosure of information to be provided in federal financial reports.</p> <p>b. Agree with the attributes used to make the distinction between consolidation entities and disclosure organizations.</p> <p>c. Agree that, assuming the organizations are determined to be organizations included in the GPFFRs, the attributes are adequate to make a determination of whether organizations are consolidation entities or disclosure organizations. The attributes for consolidation entities: (1) financed by taxes or other non-exchange revenue as evidenced by their inclusion in the budget, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards on the federal government, and/or (4) providing goods and services on a non-market basis are all keys for federal government entities.</p> <p>d. i. Agree</p> <p>ii. Agree</p> <p>iii. Agree</p> <p>The factors in determining disclosures are comprehensive and appear to support SFFAC 1.</p>



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#4 Postal Service- OIG	No response
#5 SIPC	No response
#6 DOC CFO	<p>a. The Department of Commerce agrees with the concept of distinguishing between consolidation entities and disclosure organizations because they are two separate groups and should have different accounting treatment. The consolidation entities behave more like government entities and should be included in the financial statements, while the disclosure organizations are mostly quasi-government entities that are financially independent and better detailed in the note disclosures.</p> <p>b. The Department of Commerce agrees with the attributes for distinguishing between consolidation entities and disclosure organizations. The attributes are practical, logical, and can be linked back to whether the organization needs taxpayer funds. A higher level of funding and influence on an organization demand a higher level of reporting in the statements, and lower levels of funding and influence demand a lower degree of reporting (e.g. disclosure, omission).</p> <p>c. The Department of Commerce agrees that the attributes are adequate to make a sound determination of whether an organization should be included in the GPFFR, because they are logical, practical, and clearly defined.</p> <p>d. The Department of Commerce agrees with the factors, objectives, and examples of disclosure provided to discern between consolidation entities and disclosure organizations. We believe all three should be considered to maintain objectivity.</p>
#7 SSA CFO	<p>a. We agree with the concept of distinguishing between consolidation entities and disclosure organizations. The distinction will help in meeting Federal financial reporting objectives, as well as provide users with comprehensive disclosure about Federal reporting entities. This distinction will also allow for separate presentation of financial information for organizations with differences in purpose, governance structure, and financial relationships.</p> <p>b. We agree the attributes provide clarity towards making the distinction between consolidation entities and disclosure organizations. As discussed in this Standard, it is important to make a distinction between consolidation entities and disclosure organizations to prevent distortions to the consolidated financial statements and to meet reporting objectives.</p> <p>c. We believe providing the attributes aids in making a more informed decision in correctly categorizing the organization as a consolidation entity or disclosure organization. The attributes discussed in paragraphs 37-53 and 64-77 illustrate how an organization can be classified as either a consolidation entity or a disclosure organization.</p> <p>d. i. We agree with the factors to be considered in making judgments about the extent of appropriate disclosures. The factors appear suitable and reflect the key aspects needed for appropriate disclosures. Beyond materiality, it is important to consider the guidelines set forth in SFFAC 1 regarding relevance to reporting objectives; potential exposure to risks and benefits associated with the relationship; and understanding the organization's relationships to the Federal Government and others.</p> <p>ii. We agree with the objectives for disclosures. The objectives appear in-line with the desired goals and results of full disclosure as the objectives emphasize relationship and organization, relevant activity, and future risks and exposures.</p> <p>iii. We agree with the examples provided. They are representative of the disclosures needed for full transparency and accountability and are helpful in understanding the reporting required of disclosure organizations.</p>
#8 NSF CFO	<p>a. NO NSF COMMENT</p> <p>b. NO NSF COMMENT</p> <p>d. NO NSF COMMENT</p>



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<p>#8 NSF CFO</p> <p><b>Open Issue-Editorial, structural, or clarified in BfC</b></p>	<p>c. The definition of consolidation entities to include “financed through taxes, and other non-exchange revenues”, and the requirement that disclosure organizations “receive limited or no funding from general tax revenues” should be reconsidered. In several illustrative scenarios, and in practice, the fact that federal funds may be the primary source of funding for an organization does not determine whether it is part of the GPFFR or its status as a disclosure entity or consolidation entities. Furthermore, paragraphs 32 – 34 of the ED indicate that economic dependency does not equate to control. Since economic dependency can be a characteristic of entities that are excluded from the GPFFR, and both consolidation entities and disclosure organizations, removing it from the definition of both should be considered.</p>
<p># 9 KPMG</p> <p><b>Open Issue-Editorial, structural, or clarified in BfC</b></p>	<p><u>General Structure Comments</u></p> <p>Characteristics of a consolidated organization</p> <p>i. This section should state that the characteristics should be applied to those organizations having met the definition of control in the 2nd principle outlined above. These characteristics would not be evaluated for organizations having met the 1st principle as it is considered a presumptive principle for consolidation.</p>
<p># 9 KPMG</p> <p><b>5. “Temporary”- Dec 2013</b></p> <p><b>1b “Temporary” March 2014</b></p>	<p>ii. These characteristics would come from paragraph 38. The standard should be clear about whether all characteristics must be met to trigger the consolidation requirement. We do not understand the characteristic in item 38d; therefore, we suggest deleting it. Further, consistent with the approach related to receiverships/conservatorships in paragraph 49 and interventions in paragraph 50 whereby the concept of temporary control is introduced, we believe that the characteristic, other than temporary control, should be added to this section.</p>
<p># 9 KPMG</p> <p><b>Open Issue-Editorial, structural, or clarified in BfC</b></p>	<p>Remove paragraphs 39-40 from the statement. Consider including this information within the Basis for Conclusion.</p> <p>Characteristics of a disclosure organization</p> <p>i. This section should state that the characteristics should be applied to those organizations having met the definition of control in the 2nd principle.</p> <p>ii. This section should clearly contrast with the characteristics of a consolidated organization. While judgment will be needed to distinguish between consolidation and disclosure, having the basic characteristics parallel will facilitate the evaluation. These characteristics would come from paragraphs 41-44 presented in the following order – 41, 43, 42, and 44.</p> <p><u>Detailed Comments</u></p> <p>Characteristics of a consolidated organization</p> <p>i. Remove paragraphs 39-40 from the statement. Consider including this information within the Basis for Conclusion.</p> <p>Characteristics of a disclosure organization</p> <p>i. The information presented in paragraph 44 should clarify that the types of disclosure organizations presented in paragraphs 45-53 (quasi-governmental and/or financially independent organizations, organizations in receiverships</p>

	<p>and conservatorships, and organizations owned or controlled through federal government intervention actions) are examples of types of organizations that meet the characteristics of a disclosure organization, but do not include all types of disclosure organizations. To clarify this, we suggest the following revision to paragraph 44.</p> <p>Disclosure organizations may include but are not limited to: quasi-governmental and/or financially independent organizations, organizations in receiverships and conservatorships, and organizations owned or controlled through federal government intervention actions. In some cases, the relationship with the federal government is not expected to be permanent. The following disclosure organization types, while not inclusive of all of the types of disclosure organizations, are presented to assist in identifying organizations that are disclosure organizations.</p> <p>ii. Paragraph A45 of the Basis for Conclusion implies that the examples of disclosure organizations are inclusive of all the types of disclosure organizations and as a result conflicts with paragraph 44. This should be clarified.</p>
<p>#9 KPMG</p> <p><b><u>3. Disclosure Entity Issues- March 2014</u></b></p>	<p>Presentation-Disclosure Organizations</p> <p>The examples provided in paragraphs 45-53 could be moved to an appendix for readability.</p> <p>i. We believe that paragraph 67 serves as a good introduction to the disclosure requirements and can remain as the introduction to this section.</p> <p>ii. We suggest the following revision to paragraph 68:</p> <p>For those organizations classified as disclosure organizations, the reporting entity should exercise judgment in determining the appropriate disclosures based on the guidance provided in paragraphs 70-73.</p> <p>iii. We believe the information provided in paragraph 69 can be removed based on the following:</p> <p>a. 69a (Relevance to reporting objectives) – The concepts presented within paragraph 69a are included within paragraph 72a and the related examples included within paragraph 73 (specifically 73a-c).</p> <p>b. 69b (Nature and magnitude of the potential risks/exposures or benefits associated with the relationship) – The concepts presented within paragraph 69b are included within paragraph 72b and the related examples included within paragraph 73 (specifically 73d).</p> <p>c. 69c (Disclosure organization views/perspectives) – We do not believe that the federal reporting entity would know the disclosure organizations' views/perspectives of its relationship with the federal reporting entity, nor should this influence the level of disclosures included within the reporting entity's financial statements.</p> <p>d. 69d (Complexity of relationship) – This paragraph implies that a more complex relationship would require additional disclosures. If this is true, we believe the additional required disclosures for a complex relationship should be included within the requirements of paragraph 72.</p> <p>e. 69e and 69f – We believe the concepts presented in paragraphs 69e and 69f are too subjective and should not be considered to influence the level of disclosures included in the reporting entity's financial statements.</p> <p>iv. We suggest the following revision to paragraph 70:</p>

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	<p>Both qualitative and quantitative factors should be considered in determining whether information about a disclosure organization should be presented separately due to its significance or aggregated with the information for other disclosure organizations. If information is aggregated, aggregation may be based on disclosure organization type, class, investment type, or a particular event deemed significant to the reporting entity.</p> <p>v. As noted in our suggested general outline, we believe that paragraphs 72 and 73 should be combined and paragraphs 74-76 should be moved to consolidated organizations as they do not apply to a disclosure organization.</p>
#10 Treasury OIG	No Response
#11 HUD CFO	<p>a. HUD agrees with the concept of distinguishing between consolidation entities and disclosure organizations. In some cases, disclosure of information regarding an individual organization is more appropriate than consolidation of the individual organization's financial statements in the government-wide financial statements. In other instances, consolidation of individual organizations' financial statements is needed to provide fair presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.</p> <p>b. HUD agrees with the attributes used to make the distinction between consolidation entities and disclosure organizations. The distinction between consolidation entities and disclosure organizations is based on the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis. The examples in Appendix C are helpful to explain these distinctions.</p>
<p>#11 HUD CFO</p> <p><b><u>2.Misleading to Exclude- Dec 2013 and .7 Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2 Central Bank- March 2014</u></b></p>	<p>c-d. HUD agrees with the factors to be considered in making judgments about the extent of appropriate disclosures, the objectives for disclosures, and the examples provided, except in the case where an organization is excluded as a result of the three principles, in which exclusion would be misleading. We believe that examples are needed to enhance the judgment of the preparer and the auditor. In addition, HUD believes that the factors are not sufficient to determine whether the Federal Reserve System should be a consolidation entity or a disclosure organization, even with the discussions of the Board in paragraphs A32 – A37 in Appendix A.</p>
#12 TVA CFO	<p>a. TVA agrees with the concept of distinguishing between consolidation entities and disclosure organizations to ensure that general purpose financial reports issued by federal entities are meeting the needs of its primary users. As described in paragraph 67, there is a difference in purpose, governance structure, and financial relationships within organizations of the federal government. These differences are based in part on differing business models arising from purpose, governance structure, and financial relationships.</p> <p>b. TVA agrees with the attributes to distinguish between consolidation entities and disclosure organizations as described in paragraph 37, whereby a distinction is made based on an assessment of the degree to which certain characteristics such as financing source, risks and rewards to the federal government, and non-market goods and services are provided.</p>

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	Governmental activities are different from business-type activities which more nearly parallel private-sector counterparts. Accountability of consolidation entities (utilizing a non-market model) is primarily to (a) citizens, (b) Congress, (c) federal executives, and (d) federal program managers. Disclosure organizations are often identified with for-profit business models which report to financial institutions, bondholders, investors, banking trade groups, and customers.
#13 NASA CFO	<p>a. NASA agrees with the concept of distinguishing between consolidation entities and disclosure organizations. In order to improve upon the information reported on activities financed by taxpayers, it is important to indicate circumstances where financial statement disclosure is more appropriate than consolidation of the results of each organization's financial activities.</p> <p>Our rationale is based on the reality that there are varying degrees of the federal government's relationship with organizations – i.e. government ownership, control, or significant influence. The related degree of financial reporting and disclosure should mirror the relationship between the federal entity and an organization.</p>
#13 NASA CFO <b>Open Issue- Editorial, structural, or clarified in BfC</b>	<p>b. NASA requests that FASAB provide clarity regarding the disposition of the attributes individually and in the aggregate in order to distinguish between consolidation entities versus disclosure organizations. Clarity may be promoted by providing more detail. An example may be:</p> <p>“Financed through taxes, and other non-exchange revenues”, means the entity receiving funds is specified in an appropriation or that are not a result of goods or services provided to the federal agency/government.</p> <p>An entity is considered to be “governed by the Congress and/or the President” when its direction is specified in appropriation language.</p>
#13 NASA CFO <b>7. Other Organizations – April 2014</b>	c. NASA requests that FASAB provide additional clarity and guidance regarding the reporting attributes as they relate to each type of organization and specifically to Federally Funded Research and Development Centers.
#13 NASA CFO <b><u>3. Disclosure Entity Issues- March 2014</u></b>	<p>d. i. Overall, NASA agrees with the factors in determining disclosures and the objectives for disclosure however, this is another area where consideration should be given to the specific types of organization. As an example, information required in item C – Disclosure organization views/perspective, may be provided by a reporting entity as documented in the current FFRDC sponsoring agreement.</p> <p>ii. NASA agrees with the objectives for disclosures in paragraph 72 to provide relevant information to financial report users regarding the impact of the activity with the disclosure organization on the government's financial condition.</p> <p>iii. Overall, NASA agrees with the examples of information that would be disclosed, as long as the degree of financial reporting and disclosure takes into consideration the relationship between the federal entity and an organization. In other words, information in response to Item #D could include a summary describing the portion of the reporting entity's assets, liabilities, revenues, expenses, gains, and losses that are applicable to the disclosure organization identifying the types of assets/transactions that make up the majority of the balances. To provide further detail would be more consistent with consolidation versus disclosure. Item #E should provide clarity on the objective</p>

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	of this disclosure and how it relates to the reporting entity's financial reports. In addition, for clarity, we recommend the Statement identify each example to the relevant disclosure objective in paragraph 72.
#14 Department of Homeland Security CFO	a. Agree, we also believe that an agency should be required to consistently report either consolidation or disclosure.
#14 Department of Homeland Security CFO  Board chose attributes to describe each because of the varying types of relationships with different organizations and there wasn't a hard line test.	b. Disagree, with the more "flexible" attributes. For example the phrase: "imposing or may impose risks and rewards on the federal government," will mean different things to different reasonable people, and therefore will result in different agencies consolidating and/or disclosing some entities while sister agencies under similar circumstances decide to do the exact opposite. Similarly the phrase, "less direct involvement and influence," is again too subjective and will garner different treatment for similar situations. Also in this complex financial world several entities could provide a mix of goods and services both on a market basis and a non-market basis. So using this attribute and scenario alone an agency could argue for either consolidation or disclosure. This raises the question; Are these attributes equally weighted? Paragraph #37 states that "not all characteristics are required to be met to the same degree." This is not helpful direction if the goal is to have comparable and consistent GPFFRs.  c. Disagree, we believe a hard line test should be developed when choosing between consolidation and disclosure.
#14 Department of Homeland Security CFO  <b><u>3. Disclosure Entity Issues- March 2014</u></b>	d. i. Disagree with subjective judgments about disclosures involving things like the "nature and magnitude of potential risks/exposures and benefits" or "complexity of relationships" etc. Instead we strongly agree that after an objective measure—such as materiality (x% of appropriated dollars for example)—determines that we should disclose, then all entities disclosed in the GPFFRs should disclose comparable data and those disclosure requirements should be developed here as shown in paragraph 72-73.
#14 Department of Homeland Security CFO	ii. Agree.  iii. Agree
#15 Nuclear Regulatory Commission OIG	a. I agree with the concept. I think disclosure organizations would provide the GPFFR users with necessary information to fully understand the operations of the reporting entity. Without the disclosure organization's business relationship with the reporting entity, the GPFFR users would not be able to assess the financial risks and would not be able to make informed decisions concerning the reporting entity.  b. I agree with the attributes used to make the distinction between consolidation entities and disclosure organizations. I think the attributes capture the intent of consolidations. It provides the proper combination of assets, liabilities, and operations to allow the GPFFR users to trace the financial accountability to the controlling decision makers.  c. I agree. The attributes are well defined and specific enough to provide for the proper determination of the named organizations as

	<p>consolidation entities or disclosure organizations,</p> <p>d. i I agree with the factors because they provide specific guidance for preparers to follow, and the factors are relevant to the information that GPFFR users would need.</p> <p>ii I agree with the objectives because they are concise and clear and easy to follow.</p> <p>iii I agree with the examples because they provide a lot of guidance to preparers to help them understand the nature and intent of what should be included in order to satisfy the objectives identified in par. 69.</p>
<p># 16 Federal Reserve System</p> <p><b><u>7 Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2. Central Bank- March 2014</u></b></p>	<p>II. Classifying the Reserve Banks and the Board as disclosure organizations provides the most transparent information to the public.</p> <p>Disclosure of financial information in the GPFFR footnotes, as opposed to consolidation in the federal government's financials, will provide relevant financial information while avoiding misleading perceptions about the relationship between the federal government and the Federal Reserve System. In particular, classifying the Board and the Reserve Banks as disclosure organizations recognizes the Federal Reserve System's independence as a central bank under the Federal Reserve Act, while including focused and relevant financial information in the GPFFR.</p> <p>Although we understand that the proposed standard intends to provide a broader definition of the federal reporting entity, we believe that the evaluation of each entity should give appropriate weight to those functions and activities that most significantly affect the financial operations of the entity.</p> <p>The Reporting Entity exposure draft recognizes that the federal government achieves its objectives through a wide range of organizations, which fall at different points on the control continuum. The Federal Reserve System performs many functions that fall at different points on the continuum described in the exposure draft. For example, the Reserve Banks interact closely with the federal government in their role as fiscal agents and depositories for the federal government. In that role, the Reserve Banks auction Treasury securities; process electronic and check payments for the Treasury; collect funds owed to the federal government; maintain the Treasury's bank account; and develop, operate, and maintain a number of automated systems to support the Treasury's mission. The Treasury Department pays the Reserve Banks for these services from appropriated funds that are reflected in Treasury's financial statements. That role, however, accounts for a relatively small portion of the financial operations of the Reserve Banks.</p> <p>At the other end of the continuum, by statute, the Federal Reserve operates independently with respect to determining and implementing monetary policy, and that function has a much more significant effect on its financial condition and operating results. The Federal Reserve Act provides the Board, the Reserve Banks, and the Federal Open Market Committee with specific separate authorities and responsibilities and is designed to preserve the independence of the Federal Reserve System entities from other government departments and agencies, including the U.S Treasury. The current FASAB Statement of Federal Financial Accounting Concepts 2: Entity and Display recognizes the independence of the monetary policy authority, stating that the Federal Reserve System's "organization and functions pertaining to monetary policy are traditionally separated from and independent of the other central government organizations and functions in order to achieve more effective monetary and fiscal policies</p>



	<p>and economic results. Therefore, the Federal Reserve System would not be considered part of the government-wide reporting entity.” Further, Reserve Banks are not government agencies, and the treatment in the GPFFR should be consistent with their character.</p> <p>III. Consolidation of the Federal Reserve System would reduce transparency in the GPFFR.</p> <p>Consolidation of the Federal Reserve System’s financial information in the GPFFR would partially eliminate assets and liabilities stemming from both fiscal and monetary policy in a way that would reduce the transparency of the government’s fiscal operations. For example, the Reserve Bank’s holdings of Treasury securities acquired in the conduct of monetary policy would be eliminated along with the U.S. Treasury’s debt liabilities after consolidation, obscuring the federal debt resulting from the federal government’s fiscal operations. The portion of interest expense paid on the Reserve Bank’s holdings of U.S. Treasury securities would also be eliminated. Consolidation would also result in presenting deposits of private financial institutions held at the Reserve Banks as obligations of the federal government, which they are not.</p> <p>IV. Consolidation of the Federal Reserve System would increase the cost and administrative effort associated with producing the GPFFR.</p> <p>Because the Federal Reserve System reports financial information on a calendar-year basis, its audited financial information would be stale by the time it was included in the fiscal year based GPFFR dated as of September 30. Although the information could be updated by performing a nine-month “walk-forward” of Federal Reserve System financial information, the cost to the federal government of auditing this information would be significant.</p> <p>In addition, the U.S. government, the Board, and the Reserve Banks apply different sets of accounting principles (FASAB, U.S GAAP for public companies, and Board of Governors established principles, respectively). Reconciling these principles for reporting purposes would involve additional cost to both the federal government and the Federal Reserve System and could potentially increase financial reporting risk without any material benefit. These costs and efforts may also exist to a lesser extent if the Board and the Reserve Banks were to be classified as disclosure organizations under the standard.</p>
#17 TVA OIG	No Response
#18 DOD CFO	<p>a. Agree. The federal government has relationships with organizations which have a greater degree of autonomy than those considered consolidation entities. Entities receiving limited or no funding from tax revenues and providing only rewards or risks to the federal government should not be reported the same as consolidated entities. In order for the GPFFR to be complete, disclosure entities must be included.</p> <p>b. Agree. Attributes used to make the distinction between consolidation and disclosure organization entities fall in line with the inclusion principles. No additional attributes are noted, at this time.</p> <p>c. Agree. Assuming that an organization is to be included in the GPFFR, the attributes are adequate to make the distinction between consolidation and disclosure organization. The attributes provide a principle based exercise to determine whether an entity should or should not be included in the GPFFR and how they should be reported, as consolidated entities or disclosure entities. No additional attributes are noted, at this time.</p>

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	<p>d. i. Agree. The factors seem to assure that disclosures made to the financial statements are presented fairly and without any material misstatements.</p> <p>ii. Agree. The objectives seem adequate to assure that disclosures made to the financial statements are objective and present any potential risks.</p> <p>iii. Agree. The examples provided should provide complete and accurate disclosures to the financial statements.</p>
#19 Commodity Credit Corporation CFO	<p>a. Yes agree with the concept of reporting some entities as disclosure organizations rather than as consolidating entities. The types of organizations which should be disclosed rather than consolidated might skew the reporting of a consolidated entity.</p> <p>b. Agree. The Document provides clear decision making criteria.</p> <p>c. Agree. The attributes are clear and provide adequate criteria to allow for determination of consolidation vs. disclosure.</p> <p>d. i. Agree.</p>
<p>#19 Commodity Credit Corporation CFO</p> <p><b><u>3. Disclosure Entity Issues- March 2014</u></b></p>	<p>d. ii. Agree, however 72(c) can be open for interpretation within the audit community and reporting projected future exposure financially may be difficult.</p> <p>iii. Agree. Examples help provide clarity to the disclosure objectives.</p>
<p>#20 Joseph H. Marren</p> <p><b><u>#7 Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2. Central Bank- March 2014</u></b></p>	<p>The concept of “consolidation entities” and “disclosure entities” is directly at odds with the Statement and Account Clause’s “all public Money” requirement.</p> <p>The proposed rules will largely continue current unconstitutional reporting practices with respect to the Federal Reserve System and Government Sponsored Enterprises such as Fannie Mae and Freddie Mac. They will not be consolidated in the Financial Report and hence, the government’s consolidated financial statements will remain substantially misleading.</p>
#21 HUD OIG	We support the Board’s position on questions 1 – 4 and 6-11
#22 HHS OIG	<p>a. There should be some differentiation between consolidation entities and disclosure organizations. For the most part, HHS is a consolidation entity and this portion would not affect its financial reporting. HHS really does not have any disclosure organizations. The determination between consolidation entities and disclosure organizations should made in consultation between the preparers for agency GPFFR and their auditors.</p> <p>b. The attributes properly distinguish between consolidation and disclosure organizations. They are logical and appear to follow what one would expect to find in proper Federal financial reporting. No additional attributes appear to be needed in the proposed standard.</p> <p>c. As indicated above, the attributes are adequate to make a determination whether the organizations included in number Q2 c. are consolidation entities or disclosure entities. These attributes, if properly applied by preparers and auditors of GPFFRs, define both consolidation entities and disclosure organizations.</p> <p>d. The factors to be considered, the objectives and the examples provided show very clear concepts on how disclosure organizations</p>



	should be reported in the GPFFRs. These items follow what one would expect to see in normal Federal financial reporting. Again, if applied properly, the use of the areas described in paragraphs 69, 72 and 73 will help preparers and auditors of GPFFRS provide adequate disclosures for organizations where the Federal government has a financial, material and/or managerial interest.
#23 SEC CFO <b><u>4. Term for Disclosure Organization-- Dec 2013</u></b>	<p>a. Agree with the concept of distinguishing consolidation versus disclosure organizations. However, as noted in the response to Q1 (b), the terms “consolidation <u>entities</u>” and “disclosure <u>organizations</u>” are somewhat confusing. The terms “entity” and “organization” appear to be used inconsistently throughout the ED. The term “organization” is used most often, but paragraph 38 indicates that some organizations are referred to as “[consolidation] entities,” but paragraphs 38-39 still use the word “organization” but clearly are referring to “consolidation entities.” There is no explanation of why some “organizations” are also “entities,” but others (“disclosure organizations”) apparently are not.</p> <p><u>SEC Recommendation:</u> that the term “organization” be used consistently throughout the document for everything except for references to a <i>primary federal reporting entity</i> (government-wide or component level). This would include changing the term “consolidation entity” to “consolidation organization.”</p>
#23 SEC CFO <b><u>3. Component Reporting Issues- March 2014</u></b>	<p>b. Disagree. The inclusion principles, in particular for component reporting entities, are confusing and appear to be inconsistent. For example, it is unclear what the standard means by a component entity being “assigned accountability” for another organization. The requirements appear to allow for a category of “disclosure organizations” that are included in a component entity’s section of the Budget, and even included within the component entity’s congressional budget justification (paragraph 57b). However, paragraph 39 and the decision tree in Appendix B appear to indicate that all organizations in the budget must be consolidated, either by a component entity or in the government-wide financial statements.</p> <p><u>SEC Recommendation:</u> The requirements in the Standards section should be clarified to distinguish between consolidation and disclosure organizations. A clear summary of this distinction is provided in Q2 of the ED, but not in the Proposed Standards section of the ED. The following recommended additional language is adapted from Q2:</p> <p><u>There are</u> two types of organizations in GPFFRs and this distinction <del>will ultimately</del> <u>should</u> determine how they are reported: consolidation entities and disclosure organizations. Consolidation entities generally are (1) financed by taxes or other non-exchange revenue as evidenced by their inclusion in the budget, <u>including a component entity’s congressional budget justification</u>, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards on the federal government, and/or (4) providing goods and services on a non-market basis. In contrast, disclosure organizations are those that (1) receive limited or no funding from general tax revenues, (2) have less direct involvement, and influence, by the Congress and/or the President, (3) impose limited risks and rewards on the federal government, and/or (4) are more likely to provide goods and services on a market basis.</p> <p>In addition, if the decision tree in Appendix B is retained, it should be edited to show that organizations in a component entity’s budget may be a disclosure organization (and not automatically a consolidation entity, with no exceptions).</p>

<p>#23 SEC CFO</p> <p><b>6. FASB Based Information- Dec 2013</b></p>	<p>This would create implementation problems if component entities were required to consolidate organizations that do not report in accordance with FASAB requirements, and do not produce a Statement of Budgetary Resources or data in accordance with the United States Standard General Ledger. FASAB requirements for component entities include a reconciliation between budgetary and proprietary account balances; those would be forced out of balance if a federal component entity were to be consolidated with a FASB-GAAP organization. Examples of such FASB-GAAP organizations are the PCAOB and the SIPC, neither of which is included in the SEC's congressional budget justification but both of which are included in the SEC's section of the Budget. It does not appear to be the Board's intent to require the consolidation of such entities. For example, the PCAOB and SIPC receive no funding from general tax revenues, and they impose limited (or no) risks on the federal government because their liabilities are not backed by the full faith and credit of the federal government and must be liquidated by external revenue sources that are separate and distinct from the federal government's general tax revenues. In addition, the reconciliation of budgetary and proprietary balances (originally titled the "Statement of Financing") required by SFFAS 7 would not be possible if a FASB-GAAP organization were to be fully consolidated into a FASAB-GAAP reporting entity.</p>
<p>#23 SEC CFO</p> <p>The Board agreed to maintain the inclusion principles.</p>	<p>Also, the SEC recommends that the Board should consider simplifying the requirements by addressing consolidation versus disclosure separately from the outset, rather than using the overarching "inclusion" concept which combines two quite dissimilar categories.</p> <p>In addition, the proposed standard would be less cumbersome without the overarching concept of "inclusion" that combines consolidation with disclosure entities. "Consolidation" and "disclosure" are such different reporting treatments that it is hard to see what is gained by combining them into a single category ("apples-oranges") and then separating them out.</p>
<p>#23 SEC CFO</p> <p>Staff notes par. 46 relates to Quasi-Governmental organizations and will consider this an editorial suggestion and not as an indicator for a consolidated entity. However, the indicators provided in</p>	<p>Also, two important attributes should be added as indicators that an organization should be disclosed rather than consolidated when the organization's assets and liabilities are not assets or liabilities of the federal government. The SEC recommends that the following two attributes should be added to paragraph 46:</p> <ul style="list-style-type: none"> <li>• The organization's assets do not meet the definition of federal "assets" in Statement of Federal Financial Accounting Concepts (SFFAC) 5<sup>13</sup> because they are not available for use or sale by any components of the federal government.</li> <li>• The organization's liabilities do not meet the definition of "liabilities" in SFFAC 5<sup>14</sup> because the organization's liabilities are not guaranteed by the full faith and credit of the federal government and must be liquidated by the quasi-federal organization's own assets, which are derived from external revenue sources that are separate and distinct from the federal government's general tax revenues. The organization's employees cannot incur liabilities</li> </ul>

<sup>13</sup> SFFAC 5, paragraph 18 states that: "An asset is a resource that embodies economic benefits or services that the federal government controls."

<sup>14</sup> SFFAC 5, paragraph 39 states that: "A liability is a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand."

par. 46 and 47 appear to cover these in a more general way as intended by the Board.	on behalf of the federal government because legislation provides that they are not authorized to act as employees or agents of the federal government.
#23 SEC CFO <b><u>3. Disclosure Entity Issues- March 2014</u></b>	<p>c. Disagree. See recommended additional attributes in response to Q2b above.</p> <p>d. i. Disagree. Factor 69(c) states that:</p> <p>Disclosure organization views/perspective – Information about how the disclosure organization views its relationship with the federal government. For example, whether the disclosure organization views itself as an extension of the federal government or operationally independent of the Congress and/or the President may influence the type and extent of information that is disclosed.</p> <p>However, the nature of this “influence” upon the type and extent of information disclosed is not specified. An example would greatly assist federal preparers to determine appropriate reporting for such situations. Recommend that this be clarified by adding additional language to provide an example; see SEC recommendation below.</p> <p>SEC Recommendation: Consider adding the following additional language to paragraph 69c:</p> <p><u>For example, in situations where the organization views itself as operationally independent of Congress and/or the President, and issues stand-alone audited financial statements available to the public, information on how to obtain the organization’s audited financial statements may be provided in lieu of disclosures of quantitative financial data relating to the organization.</u></p> <p>ii. Agree. The objectives would provide information useful to financial statement readers.</p> <p>iii. Disagree with one of the examples. Example 73e provides this example:</p> <p>e. A discussion of the disclosure organization’s key financial indicators and changes in key financial indicators</p> <p>Example 73d clarifies that the disclosure should focus on the impact of transactions with the disclosure organization and how those transactions impacted the assets, liabilities, expenses, gains and losses of the federal reporting entity.</p> <p>In contrast, example 73e appears to focus on the assets, liabilities, expenses, gains and losses of the disclosure organization, and does not appear to support any of the three objectives listed in paragraph 72. This problem also applies to paragraphs 74, 75, and 76, which discuss the presentation of financial information for the disclosure entity.</p> <p>Also, in situations where the federal reporting entity is not involved in the other organization’s day-to-day operations, the federal reporting entity’s management may not have direct knowledge of whether there may be significant changes in information in the intervening period between the issuance date of the other organization’s financial statements and the issuance date of the federal component entity’s financial statements. For this reason, the federal</p>

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	<p>component entity's management should only be required to report significant changes that it is aware of.</p> <p>SEC Recommendation:</p> <p>a. delete the requirement to report financial data for disclosure organizations, by deleting example 73e as well as paragraphs 74-76 (recommended).</p> <p>b. Add the following additional language to paragraph 76: <u>If the component entity is aware of significant changes in information occurring from the end of the disclosure organization's reporting period, such changes</u> should be reported consistent with the requirements of SFFAS 39, <i>Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards</i>.</p>
#24 DOL OIG	<p>a. We agree with the concept of distinguishing between consolidation entities and disclosure organizations. Not all entities should be considered part of the federal government entity itself, but there is a significant enough relationship to the federal government that at least there should be disclosure of information of such entity.</p>
<p>#24 DOL OIG</p> <p>Staff notes the assessment is based on the consideration of the "characteristics" as a whole and not one is a deciding factor. Therefore, staff does not see a problem with it remaining as it is may be helpful.</p>	<p>b. We generally agree with the attributes in determining the difference between consolidating entities and disclosure organizations. However, we do not believe that whether or not an entity provides goods or services on a non-market basis should be a deciding factor—individually or aggregated with other factors.</p>
#24 DOL OIG	<p>c. We do not have any additional attributes to add to those already enumerated in the draft standard.</p> <p>d. We agree with i. through iii., above.</p>
#25 Administrative Office of the US Courts	No response
#26 GSA CFO	<p>a. GSA agrees with the concept of distinguishing between consolidation entities and disclosure organizations. However, in practice, GSA is not sure how well this will work.</p> <p>b. The attributes seem appropriate.</p> <p>c. No comments</p>

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<p>#26 GSA CFO</p> <p><b><u>3. Disclosure Entity Issues- March 2014</u></b></p>	<p>d. The guidelines regarding factors in determining disclosures seem rather subjective. GSA does agree with the objectives of disclosure and thinks the examples provided are useful in this instance. However, Part 73.b.i, the amount that best represents the federal government's maximum exposure to gain or loss with the disclosure organization remains a significant concern, in keeping with the other comments provided in response to Question 1 above. It is just unknown how maximum exposure could be quantified without some rules defining what the true limits to liability are.</p>
<p>#27 GWSCPA FISC</p> <p><b><u>5. "Temporary" -- Dec 2013</u></b></p> <p><b><u>1b. "Temporary"- March 2014</u></b></p>	<p>The FISC agrees with the concepts of consolidation and disclosure entities, and the attributes used to make the distinction between these types of entities. However, we suggest that the Board include a criterion in the determination of the consolidation entities that the organization's relationship with the federal government is other than temporary in nature. Therefore, we suggest that a 5th criterion be added for consolidation entities that states, "(5) connected to the federal government in an other than temporary nature."</p>
<p>#27 GWSCPA FISC</p> <p><b><u>5. Effective Date- April 2014</u></b></p>	<p>In addition, we suggest that the Board consider allowing the preparer community with additional time or an alternative forum to consider the effects on component agencies' GPFFRs and the government-wide GPFFR.</p>
<p>#27 GWSCPA FISC</p> <p><b><u>1. In the Budget- Dec 2013</u></b></p> <p><b><u>1a. In the Budget- March 2014</u></b></p>	<p>The ED could be interpreted to require entities not currently envisioned within today's view of the Federal Government's reporting entity to be required as a consolidation or disclosure entity, such as the Government of the District of Columbia. (The Government of the District of Columbia is included in the Budget and receives funding through Congressional appropriations other than federal financial assistance (criterion 1), and the U.S. Congress exercises control through legislative review of key laws passed by the City Council (criterion 3)). There are additional entities that are named in the U.S. Budget that we do not believe are currently considered part of the Federal reporting entity, such as the U.S. Virgin Islands, Puerto Rico, Guam, American Samoa, several major universities that hold Federal charters and are included in the U.S. Budget (such as Gallaudet University and Howard University), along with numerous "friends of" entities of U.S. National Service Parks and other units. In addition, would the scenario of a state bankruptcy – an unlikely event but not unheard of in discussions of the past five years – cause the entire state government to be included if the government-wide and/or a component agency GPFFR (e.g., the Department of Treasury's GPFFR) since the Federal Government would potentially have administrative control with risk of loss (criterion 3)? The FISC suggests that additional time to consider the potential implications of this ED, in its final form, would be worthwhile to prevent unintended reporting impacts when implementation is required.</p>
<p>#27 GWSCPA FISC</p> <p><b><u>6. FASB Based Information- Dec</u></b></p>	<p>Finally, we suggest that the Board remove the requirement in paragraph 66 that requires FASB-based organizations to disclose intragovernmental amounts measured in accordance with federal financial accounting standards. Such a requirement for disclosure in the FASB-based organization's GPFFR does not appear to meet the requirement for general-purpose reporting since the disclosure is needed solely to facilitate elimination entries in the preparation of</p>

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<b>2013</b>	the government-wide financial statements. In addition, reporting in accordance with two bases of GAAP (i.e., FASB and FASAB) may lead to unnecessary confusion among the users of the FASB-based organization's financial statements. Such intragovernmental information could continue to be reported to the U.S. Department of Treasury through the Closing Package process.
#28 Joyce Dillard  Staff notes there is an active project on PPP. The principles and characteristics should be applied to all organizations.	As you have stated:  Materiality is an overarching consideration in financial reporting  How are you approaching a Non-Profit Corporation acting as a Program Manager on a project partially funded by Federal funds?  Who determines the definition limited funding from general tax revenues?  If Disclosure Entities are privately owned, what are the liability tests?
#29 DOL CFO	No Comment
#30 Intelligence Community	a. We agree distinguishing between consolidation entities and disclosure organizations enhances the usefulness of the financial reports as stated in Paragraph 67, and enables the GPFFR of the reporting entity to more accurately reflect relevant information that faithfully represents the financial position and organizational structure of the entity. There should be a distinction between the reporting of consolidation entities and disclosure organizations. The underlying tests to define organizations in this manner are designed to assess the level of financial and operational autonomy an organization holds. The reporting entity is held to a higher standard of reporting on organizations with greater operational and financial dependency upon it (consolidation) than those with less dependency (disclosure).  b. We agree with the attributes used to make the distinction between consolidation entities and disclosure organizations because the principles applied are consistent with those used in the public sector for determining such treatment, and can, and should also, be applied to entities that have a relationship with the federal government.  c. We agree there is adequate guidance in order to determine disclosure versus consolidation entities.  d. i. We agree both qualitative and quantitative factors should be considered in determining whether information regarding a disclosure should be presented separately due to its significance, or aggregated with the information regarding other disclosure organizations. This concept is widely applied in the commercial sector and is a logical way to present information with varying levels of significance to the organization  ii. We agree the disclosure objectives in paragraph 72 provide the reader the appropriate type of information to assess the potential current/future impact the disclosure organization has/could have on the reporting entity.  iii. We agree the examples included in paragraph 73 adequately assist the reader in understanding the specific types of information necessary to meet the disclosure objectives in paragraph 72.
#31 AGA FMSB  {FASAB staff note,	a. The FMSB agrees with this approach. The FMSB agrees that beyond the factors of being in the budget and majority owned by the Federal government, control is the principle factor that must be considered in determining if an entity is classified as a consolidating entity or a disclosing organization. The principle behind the consolidated presentation is one of control.  b. The FMSB agrees with the attributes used to make the distinction between consolidating entities and disclosing organizations. However we have concerns about some of the "Indicators" provided in the exposure draft that will be used for deciding if an organization is to be consolidated or disclosed. As stated in our comments above, we believe that some of the indicators in paragraph 31 are too wide

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comment in b refers to par. 31- this relates to the indicators of control and is included in general comments.}	<p>ranging and can be applied to organizations not within the federal entity. We suggest that these be clearly labeled as some form of lesser indicator for the preparer and auditor to consider in reaching their conclusion.</p> <p>c. The FMSB agrees with the FASAB on this matter. The attributes are generally sound and can be applied to reach a reasonable conclusion.</p> <p>d. The FMSB agrees with the factors to be considered in making judgments about the extent of appropriate disclosures, the objectives for the disclosure and the examples provided. In particular we believe the issue of future loss exposures is especially significant and we applaud the FASAB for requiring this information in 73.i.</p>
#32 NSB	No Response
#33 Treasury Bureau of Fiscal Service (FMS)	<p>a. Agree – different levels of Federal government responsibility/control should determine whether or not the entity would be consolidated with the primary agency or if a lesser role exists, it would be more appropriate to disclose the relationship and disclose the financial impact</p> <p>b. Agree – The Federal government’s responsibility to fund and ability to exercise control over an agency with a risk of loss/opportunity to benefit are substantive criteria for consolidating, while a reduced role in determining the overall health of an organization would substantiate a disclosure of the relationship and the resulting financial impact</p> <p>c. Paragraph 45-48 attempt to address the specific nuances that call out these organizations</p> <p>d. Reasonableness of disclosures</p> <p>ii. Agree – includes the relevant factors that should be addressed for any related party disclosure</p> <p>iii. Agree – represents all the relevant disclosure characteristics</p>
#33 Treasury Bureau of Fiscal Service (FMS) <b><u>3. Disclosure Entity Issues- March 2014</u></b>	<p>d. Reasonableness of disclosures-</p> <p>i. Disagree – I don’t understand why ‘how the agency views its relationship with the government’ should have a bearing on what gets disclosed</p>
#34 NRC CFO	<p>a. Agree</p> <p>b. Agree</p> <p>d. Agree</p>
#34 NRC CFO <b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b>	<p>c. Disagree, also need to include all 3 branches of the Federal government. The Judicial and Legislative branches should be included in the consolidated report. It should be stated that this standards applies to all 3 branches of the Federal government.</p>



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#35 FAF	No Response
#36 Treasury CFO	a. Agree. How an organization is included in an agency financial report (either as a "consolidation entity" or "disclosure entity") should be distinguished based upon the nature of the relationship and the characteristics as listed beginning with paragraph 37.
#36 Treasury CFO  <b><u>1. In the Budget- Dec 2013</u></b>  and  <b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b>	b. Agree. We identified no additional attributes. However, we believe clarification is needed regarding paragraph 39 which states that "Organizations listed in the budget, except for non-federal organizations receiving federal assistance, are presumed to qualify as consolidation entities..." The phrase "presumed to qualify as consolidation entities" is very misleading, especially since there are a number of organizations, beyond those that are non-Federal entities receiving federal assistance, which are currently not consolidated within the government-wide financial report (FR). Specifically, organizations that are listed in the budget under the judicial or legislative branch are not consolidated nor are they required to be consolidated since they are not subject to the periodic financial reporting requirements of Office of Management and Budget's Circular No. A-136, Financial Reporting Requirements. Currently, cash-related activity and balances of legislative and judicial branch organizations that are not consolidated within the FR are nevertheless included in the FR using receipt and outlay data from the central accounting system. This is necessary to account for the changes in government-wide cash balances that result from their operating activities. This accounting policy is disclosed in Note 1A of the FR. However, this current accounting and reporting practice differs significantly from the concept of consolidation of accounts which is "presumed" for all entities included in the budget, as proposed by this ED. If the ED is finalized as written without modifying current financial accounting and reporting practices for legislative and judicial branch organizations, the FR could receive an audit finding for not complying with the finalized accounting standard. It would seem that the only possible means for the FR to overcome such an audit finding without undergoing significant modifications to its current financial account and reporting practices would be to provide evidence that all account balances and related activity other than cash, both by individual entity and collectively for all legislative and judicial branch organizations, would not be material to the FR's consolidated financial statements. Such evidence may need to be provided on an annual basis. The Board should therefore consider whether the potentially significant burden of complying with this new requirement outweighs the intended benefits to be derived.
#36 Treasury CFO	c. Agree. The attributes seem adequate to make a determination regarding the listed organizations and others that are similarly situated
#36 Treasury CFO  <b><u>3. Disclosure Entity Issues- March 2014</u></b>	d. We generally agree with the following exceptions. With regards to factors for determining disclosures, how a disclosure organization views its relationship with the federal government should not have a significant bearing on a federal agency's determination of what should be disclosed in its agency financial report regarding this disclosure organization. Accordingly, we recommend that paragraph 69(c) be removed.  Disclosure of the amount of the federal government's exposure to gains and losses from future operations of the disclosure organization appears to be "forward looking" and should be avoided in audited notes to the financial statements. We therefore recommend removing the phrase "or future operations" from paragraph 72(c).  We do not believe disclosure should be made of a disclosure organization's key financial indicators and changes in key financial indicators as proposed in paragraph 73(e). Audit assurance of key financial indicators of a disclosure organization, even if they could be readily identified, could be difficult and costly to obtain especially given its relative



	informational value. It would be better to point the reader to the disclosure organization's annual financial report, as required by paragraph 73(f), rather than disclosing such information in the audited notes to the financial statements of a federal agency financial report. Accordingly, we suggest removing paragraph 73(e).
#37 Smithsonian Institute CFO	No response
#38 FDIC	No response
#39 US Railroad Retirement Board  <b>7. Other Organizations – April 2014</b>	<p>a. and b. Modification: We suggest another category which is <i>"modified consolidated entity"</i>. In this instance, an entity would have its net assets combined in the balance sheet and Statement of Social Insurance (if appropriate) of the Federal Report and information about disclosure organizations be disclosed in notes. In this instance, the entity would provide its audited net asset figure to the appropriate federal government agency for inclusion in the agency's financial statements and the FR. This separate category would be applicable to the situation that our agency incurs in relation to NRRIT (non-federal govt entity).</p> <p>National Railroad Retirement Investment Trust</p> <p>The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The sole purpose of the NRRIT is to manage and invest railroad retirement assets. The NRRIT is a tax-exempt entity, independent from the Federal Government and not subject to Title 31, United States Code (USC). The NRRIT is domiciled in and subject to the laws of the District of Columbia.</p> <p>The NRRIT is comprised of a Board of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six. Members of the Board of Trustees are not considered officers or employees of the Government of the United States.</p> <p>The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.</p> <p>The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of benefit payments. The NRRIT has no powers or authority over the administration of benefits under the railroad retirement program. Under the RRSIA, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the RRA. The RRSIA does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the RRSIA provides that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the RRSIA or to enforce any provision of the RRSIA.</p> <p>Under the RRSIA, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a Statement of Financial Position, a Statement of Operations, a Statement of Cash Flows, a Statement on</p>

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	Internal Accounting and Administrative Control Systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of OMB.
#39 US Railroad Retirement Board	c. No comment d. Agree

QUESTION 3	
<p>a. Do you agree or disagree that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it? Please provide the rationale for your answers.</p> <p>b. Do you agree or disagree that administrative assignments can be identified as provided in paragraphs 54-63? Please provide the rationale for your answers.</p>	
#1 PBGC -Joint Response CFO & OIG	Since PBGC is not a component reporting entity, we have no comment for the first question included in Q3. For the second question in Q3, we agree with the proposed standards' provision to exclude consolidation entities from component reporting entity reports when inclusion would be misleading, as discussed in Paragraphs 62 - 63. PBGC is an example for this exclusion provision. PBGC was legally established as a United States Government owned and self-financed Corporation, and administratively assigned to the Department of Labor (DOL). PBGC was authorized to operate independently, i.e., administered by a Director appointed by the President and confirmed by the Senate. In addition, PBGC has a Board of Directors consisting of the Secretary of Labor, the Secretary of the Treasury, and the Secretary of Commerce. PBGC prepares its own audited financial statements under the Government Corporation Control Act (59 Stat. 597, codified at 31 U.S.C. § 9101 et. seq.), and also submits financial data directly to the Department of the Treasury for the Financial Report of the United States Government. Accordingly, the consolidation of PBGC's financial results and operations with the DOL's General Purpose Federal Financial Reports would not be useful and would only mislead users of the DOL and PBGC financial statements.
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	a. Agree, as each GPFFR will be reliable. b. Agree, administrative assignments can be identified per the guidance provided in paragraphs 54-63. The criteria appear to be appropriate and comprehensive.
#4 Postal Service- OIG	No response
#5 SIPC	No response
#6 DOC CFO	a. The Department of Commerce agrees that each component reporting entity should report in its GPFFR the organizations for which it is accountable, including consolidation entities and disclosure organizations administratively assigned to it. Not including these entities may be materially misleading, since the federal government has substantial control over these entities. b. The Department of Commerce agrees that administrative assignments can be identified as provided in paragraphs 54-63.

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#7 SSA CFO	<p>a. We agree that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it, so that both the component reporting entity GPFFR and government-wide GPFFR are complete.</p> <p>b. We agree that administrative assignments typically can be identified in laws and policy documents as noted in paragraphs 54-63 (i.e. statutes, budget documents, regulations, or strategic plans). Furthermore, evaluation of these documents by the component entity will provide insight if reporting of an organization is required.</p>
#8 NSF CFO	a. NO NSF COMMENT
#8 NSF CFO <b><u>2. Component Reporting Issues- March 2014</u></b>	b. In the case of FFRDC's, FASAB should consider adding reference to the "Master Government List of Federally Funded Research and Development Centers (FFRDCs)", published annually by NSF. This list could aid in determining FFRDC administrative assignment. The 2013 list can be found at <a href="http://www.nsf.gov/statistics/ffrdclist/">http://www.nsf.gov/statistics/ffrdclist/</a> .
# 9 KPMG Staff notes the term "inclusion entity" was not used in the proposed standard. However, the term disclosure organization is up for Board discussion. Staff has also been directed to make other clarifying edits as appropriate but the Board did not direct staff to revamp or restructure the document.	<p>(from their cover letter) In addition, we found the use of the term "inclusion entity" unnecessary and confusing as it is used to refer to organizations whose financial statements were consolidated in those of the reporting entity as well as to describe those organizations for which the reporting entity provides only certain disclosures. We also found it confusing to present guidance related to component reporting entities apart from the guidance related to the government-wide entity. Therefore, we suggest simplifying the statement by providing the principles for identifying consolidated or disclosure organizations based on the characteristics of such organizations at the government-wide and component reporting entity level concurrently within the statement. In doing so, the statement will provide a clear distinction between consolidated and disclosure organizations that will enable consistent implementation and ongoing application of the principles both at the government-wide and component reporting entity level. To illustrate this approach, we provide a suggested general structure for the statement with broad comments in Appendix 1.</p> <p>Detailed comments:</p> <p>Identifying organizations component reporting entities are accountable for</p> <p>i. As a result of the comments above, this information is no longer necessary as its own section. Paragraphs 54-56 and 59-63 should be deleted. The concepts included within paragraph 57 (except for item 57b, which we suggest deleting) should be incorporated into the "In the Budget" principle and the concepts included in paragraph 58 should be incorporated into the "control" principle.</p>
#10 Treasury OIG	No Response
#11 HUD CFO	<p>a. HUD agrees that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it. The reasons for including organizations at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFFR. Further, classification as consolidation entities or disclosure organizations would be consistent in government-wide and component reporting entity GPFFRs. FHA agrees that component reporting entities must identify and include in their GPFFR all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete.</p>

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#11 HUD CFO <b><u>2. Component Reporting Issues- March 2014</u></b>	b. HUD agrees that administrative assignments can be identified as provided in paragraphs 54-63, except in the case where an organization is excluded as a result of the three principles, in which exclusion would be misleading. We believe that examples are needed to enhance the judgment of the preparer and the auditor. Administrative assignments to component entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans.
#12 TVA CFO	No response
#13 NASA CFO	a. NASA agrees that the component reporting entity financial reports should be consistent with data reporting in the GPFFR. It is reasonable to expect the inclusion principles and reporting attributes to be applicable at the component reporting entity level.
#13 NASA CFO <b><u>2. Component Reporting Issues- March 2014</u></b>	b. NASA agrees that administrative assignments can be identified using the criteria in paragraphs 54-63. In particular our interpretation of paragraph 58 a., Statutes or regulations establishing an organization states that it is assigned to or part of a larger federal organization would include the FAR 35.017 that establishes Federally Funded Research and Development Centers (FFRDC) and references the Master List of FFRDCs maintained by the National Science Foundation (NSF).
#14 Department of Homeland Security CFO	a. Agree, this will be beneficial to stakeholders.
#14 Department of Homeland Security CFO <b><u>2. Component Reporting Issues- March 2014</u></b>	b. Disagree, assignments should be codified in statutes or regulations and supported by budgetary appropriations. Professional judgment should play a role not a "pivotal" role. The fact that a federal agency administers federal grants or contracts awarded to an organization should not be a heavily weighted factor in determining consolidation or exclusion.
#15 Nuclear Regulatory Commission OIG	a. I agree that each component reporting entity should report organizations for which it is accountable. This is the same principle that's applied in rolling up and consolidating GAAP financial statements. Without a full consolidation of the component reporting entity including disclosure organizations, it's GPFFR would not be complete making the government wide reporting entity's GPFFR also incomplete. In order to get the full financial picture of the government wide reporting entity, all entities that make up that picture must be complete.  b. I agree that administrative assignments can be identified as explained in paragraphs 54-63. The factors provided mostly in par. 58 and 59 provide specific indicators to consider to identify accountability assignments within component reporting entities. Preparers are identified with detailed guidance to follow.
# 16 Federal Reserve System	No Response
#17 TVA OIG	No Response
#18 DOD CFO	a. Agree. In order to fulfill the completeness assertion, component entities need to report all organizations for which they are accountable, including consolidation and disclosure organizations.  This is likely the most challenging aspect for DoD. Each DoD reporting entity would need to determine who is receiving the funds and

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	<p>how DoD influences the organization, including any reporting requirements that DoD has implemented. Once the entities are identified, they would need to implement a process and/or policy to modify their financial reporting requirements to include the "consolidated" and/or "disclosure" entities. Due to the nature of the relationships (e.g., entities may be funded by more than one DoD reporting entity) they may need to determine who will consolidate and/or disclose the information within the DoD. The newly identified entities would likely need to be audit ready -- although, they may already have a clean opinion as they may be commercial entities and may have covenants / requirements for clean opinions. The DoD would need to determine some modified Financial Improvement and Audit Readiness requirements specific to these entities.</p> <p>Additionally, auditors would have to expand their procedures to address these requirements. Office of Management and Budget Bulletin 07-04, Audit Requirements for Federal Financial Statements, would be revised. There will likely be new financial reporting requirements as well.</p> <p>b. Agree. The administrative assignments can be identified and are consistent with the three inclusion principles. The criteria appear to be appropriate and comprehensive, especially with the inclusion of the "Misleading to Exclude/or Misleading to Include" paragraphs. Certain entities, although administratively assigned to another entity should be reported separately. Financial information for certain entities needs to be masked within a consolidated entity.</p>
#19 Commodity Credit Corporation CFO	<p>a. Agree. The reporting of all organizations which a reporting entity is responsible for fully discloses the breadth and scope of a Federal reporting entity. All organizations within the control should be reported.</p> <p>b. Agree. The evaluation items listed in Para 56 provide very clear criteria, especially items a) and b).</p>
#20 Joseph H. Marren	No response
#21 HUD OIG	We support the Board's position on questions 1 – 4 and 6-11
#22 HHS OIG	<p>a. The component entity should report in its GPFFR all organizations for which it is accountable. This would include consolidation entities and disclosure organizations for which it has administrative responsibilities. Including all consolidation entities and disclosure organizations ensures completeness of the entity's GPFFR.</p> <p>b. Paragraphs 54-63 adequately identify administrative assignments. No additional administrative assignments need to be identified in the proposed standard at this time.</p>
<p>#23 SEC CFO</p> <p><b><u>2. Component Reporting Issues- March 2014</u></b></p> <p><b><u>Misleading to Include portion</u></b></p> <p><b><u>April 2014</u></b></p>	<p>a. Disagree, because there may be instances where an organization does meet one or more inclusion principles but would be misleading to include.</p> <p>Paragraphs 61 and 62 state that there may be instances where the component entity's financial statements would be "misleading" if the principles in this proposed standard were followed. Although the desire to cover unanticipated future situations is understandable, the purpose of a principle-based standard is to provide principles that should be followed in all known instances. Providing an exception for a broad and undefined reason ("misleading") with no supporting principles or examples would primarily have the effect of creating long-term controversy between preparers and auditors about whether or not the principles in the proposed standard should actually be followed. If there are future unanticipated situations, they should be addressed as such situations have been in the past - by implementation guidance and/or amending the standards.</p> <p>SEC Recommendation: Recommend that paragraph 56 be edited to delete 56c ("misleading to exclude and/or</p>

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	<p>misleading to exclude”), and that paragraphs 61 and 62 be deleted.</p> <p>b. Disagree, because of the broad exception on “misleading to exclude/misleading to include” with no supporting principles or examples in paragraphs 62-63. See response to Q3a above for rationale.</p> <p>SEC Recommendation: Recommend that paragraph 56 be edited to delete 56c (“misleading to exclude and/or misleading to exclude”), and that paragraphs 61 and 62 be deleted.</p>
<p>#24 DOL OIG</p> <p><b><u>2. Component Reporting Issues- March 2014</u></b></p> <p><b><u>Misleading to Include portion</u></b></p> <p><b><u>April 2014</u></b></p>	<p>a. We agree that each component reporting entity should report on all organizations for which it is responsible in order for the component reporting entity’s financial reporting to be complete.</p> <p>In reference to paragraph 59, if an entity is disclosed in more than one component entity’s GPFFR or a consolidation entity has a relationship with other reporting entities, such other entities and their relationship should be disclosed in each applicable component entity’s GPFFR.</p>
#24 DOL OIG	b. We agree that administrative assignments can be identified as proposed in the exposure draft detail.
#25 Administrative Office of the US Courts	No response
#26 GSA CFO	<p>a. GSA agree that each component reporting entity should report in its GPFFR organizations for which it is accountable, so as to not mislead readers of financial statements.</p> <p>b. GSA agrees. The guidelines seem appropriate.</p>
<p>#27 GWSCPA FISC</p> <p><b><u>2. Component Reporting Issues- March 2014 but also closely relates to temporary</u></b></p>	<p>The FISC generally agrees with the proposed standards and paragraphs related to the identification and inclusion of administrative entities in the GPFFR. However, we suggest that:</p> <p>1. The evaluation of administrative assignments include a criterion that the administrative assignment has been made on an other than temporary basis.</p>
Misleading – December 2013	<p>2. The ED further defines the circumstances or framework in which the “misleading to include” or “misleading to exclude” situations would occur, as has been suggested by certain Board members in paragraph A28. More information from the Board would be important to allow preparers to form an objective basis of opinion to support the position that an entity would be “misleading to include” or “misleading to exclude.”</p>
#28 Joyce Dillard	<p>Under</p> <p>56. Administrative assignments to component reporting entities are typically made in laws and policy documents such</p>



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	<p>as statutes, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating:24</p> <p>24 Component reporting entities should develop processes to ensure they identify and assess any organizations</p> <p>(1) within the scope of their budget process,</p> <p>(2) for which accountability is established within their component reporting entity, or</p> <p>(3) which are misleading to exclude. It is anticipated that central agencies will determine if there is a need for coordinated guidance to ensure government-wide consistency.</p> <p>a. Scope of the Budget Process</p> <p>b. Accountability Established Within a Component Reporting Entity</p> <p>c. Misleading to Exclude and/or Misleading to Include.</p> <p>Regulations are a major part of the Government as our Strategic Plans. The entities governed by regulations are controlled by Federal government agencies. Under what category do you distinguish this relationship?</p>
<p>#29 DOL CFO</p> <p><b><u>2. Component Reporting Issues- March 2014</u></b></p> <p><b><u>Misleading to Include portion</u></b></p> <p><b><u>April 2014</u></b></p>	<p>With regard to paragraph 62, we disagree that an organization may be excluded from the component entity's consolidation as long as it is consolidated in another component entity or directly in the government-wide reporting entity. We believe that the decision on whether or not to consolidate an organization in the component entity should depend on the interpretation of the accounting standard and should not depend on the financial reporting of another component entity or on the financial reporting of the government-wide reporting entity. Therefore, we believe that the following phrase in the last sentence of paragraph 62 should be deleted: "... so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity."</p> <p>In the exposure draft, we are not aware of any disclosure requirements for "misleading to include" in the consolidation; we believe that a brief disclosure may improve the reader's understanding of the financial statements.</p>
<p>#30 Intelligence Community</p>	<p>a. We agree each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it. The underlying principles provided for this are consistent with those outlined for the principles for inclusion in the government-wide GPFFR (e.g., budget inclusion, majority ownership, control, and misleading to exclude). This will ensure the financial statements present a complete picture of the entity.</p>
<p>#30 Intelligence Community</p> <p><b><u>2. Component Reporting Issues- March 2014</u></b></p>	<p>b. We agree administrative assignments can be adequately determined by evaluating (1) the scope of the budget process, (2) accountability established within a component reporting entity, and (3) whether it is misleading to exclude/include in the GPFFR. Paragraphs 54-63 define these in detail and, as noted in the previous response, the concepts are consistent with the principles of inclusion. However, it will be beneficial if FASAB considers providing a concise definition of an administrative assignment.</p>
<p>#31 AGA FMSB</p>	<p>The FMSB agrees that administrative assignments can be identified as provided for in paragraphs 54 – 63. The important factor in this process is the decision to consolidate or disclose. The rationale provided in paragraph 59 a. and 59.b. provide a sound basis for making a</p>

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	decision.
#32 NSB	No Response
#33 Treasury Bureau of Fiscal Service (FMS)	a. Agree – if the criteria exists establishing a consolidation entity or disclosure organization, it should be included in the component reporting entity's financial statements b. Agree – The referenced paragraphs focus heavily on what constitutes a consolidation entity and a disclosure organization
#34 NRC CFO	a. Agree, but also need to include the Judicial and Legislative branches of government in paragraph 57. b. Agree
#35 FAF	No Response
#36 Treasury CFO	a. Agree. As noted in footnote 24 to paragraph 56, coordinated guidance between central agencies may be required to ensure government-wide consistency on processes for identifying and assessing organizations for which federal agencies are accountable. b. Agree. We agree that administrative assignments can be identified in accordance with the provisions of paragraphs 54-63.
#37 Smithsonian Institute CFO	No response
#38 FDIC	No response
#39 US Railroad Retirement Board	a. Agree b. Agree

**QUESTION 4**

**Do you agree or disagree that each component reporting entity (for example, museums) and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations? Please provide the rationale for your answers.**

#1 PBGC -Joint Response CFO & OIG	No response
# 2 Holocaust Memorial Museum-CFO <b><u>4.Organizations Partially in the Budget-Museums-March 2014</u></b> <b><u>1. Organizations</u></b>	I disagree that each component reporting entity and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source. It would be misleading to the readers of the report to include non-federal funding to a government-wide report. These funds are not budgeted, owned or controlled by the federal government. Donations are not appropriated funds and are governed by the donor and not the federal government. The activities that they fund may not be tax payer supported. In addition, there are other laws that govern tax exempt, non-profit organizations. It would be more appropriate to footnote information about the non-federal funds in the government-wide general purpose federal financial report.



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<b><u>Partially in the Budget-Museums-April 2014</u></b>	
#3 Office of Personnel Management - CFO	Agree that each component reporting entity and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source. The funding enables entities to carry out their mission and provide services.
#4 Postal Service- OIG	No response
#5 SIPC	No response
#6 DOC CFO	The Department of Commerce agrees that each component reporting entity and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations. However, material non-federal funding sources ought to be distinguishable in the reports and fully disclosed in the notes.
#7 SSA CFO	We agree that the component and government-wide reporting entity should consolidate in their entirety organizations for which they are accountable without regard to funding source. This methodology will ensure that both the component reporting entity and the government-wide reporting entity are not misleading if excluded, and are complete when assessing the financial position of the Federal Government and evaluating the cost of operations financed through taxes and other non-exchange revenues.
#8 NSF CFO	NO NSF COMMENT
# 9 KPMG <b><u>4.Organizations Partially in the Budget-Museums-March 2014</u></b> <b><u>1. Organizations Partially in the Budget-Museums-April 2014</u></b>	The information presented in paragraphs A14 and A19 should be included in the statement as the paragraphs instead of the Basis for Conclusion. (Although not a specific response to Q4, staff included this comment here as staff believes A19 applies.)
#10 Treasury OIG	No Response
#11 HUD CFO	HUD agrees that each component reporting entity and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations. The reasons for including organizations at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFFR. Further, classification as consolidation entities or disclosure organizations would be consistent in government-wide and component reporting entity GPFFRs. A single set of principles for inclusion and classification presented from the government-wide perspective provides for the desired consistency. As stated previously, component reporting entities must identify and include in their GPFFR all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete.
#12 TVA CFO	No response

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<p>#13 NASA CFO</p> <p><b><u>4.Organizations</u></b> <b><u>Partially in the</u></b> <b><u>Budget-Museums-</u></b> <b><u>March 2014</u></b></p> <p><b><u>1. Organizations</u></b> <b><u>Partially in the</u></b> <b><u>Budget-Museums-</u></b> <b><u>April 2014</u></b></p>	<p>NASA disagrees that a component reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations. Our rationale is that an organization for which a component reporting entity is accountable may not meet the criteria in paragraph 38 to be a consolidation entity. Given that, the component reporting entity would not consolidate the organization in the financial statements. The sections cited address disclosure also and the question does not.</p> <p>NASA also disagrees with disclosing any information not directly related to the use of funds provided by the reporting entity and/or activity not directly controlled by the reporting entity.</p>
<p>#14 Department of Homeland Security CFO</p>	<p>Agree, reporting on results, relationships, and risks should apply regardless of funding source.</p>
<p>#15 Nuclear Regulatory Commission OIG</p>	<p>I agree that funding source should not be considered. The purpose of the GPFFR is to assess accountability for managing operations. Government-wide reporting entities can have multiple funding sources that they are accountable for. If funding source was taken into consideration, it would not provide the larger accountability financial picture.</p>
<p># 16 Federal Reserve System</p>	<p>No Response</p>
<p>#17 TVA OIG</p>	<p>No Response</p>
<p>#18 DOD CFO</p> <p><b><u>4.Organizations</u></b> <b><u>Partially in the</u></b> <b><u>Budget-Museums-</u></b> <b><u>March 2014</u></b></p> <p><b><u>1. Organizations</u></b> <b><u>Partially in the</u></b> <b><u>Budget-Museums-</u></b> <b><u>April 2014</u></b></p>	<p>Disagree. This proposal seems to be contradictory to what is described in paragraph 43 of the Exposure Draft. An entity receiving donations, as opposed to appropriations, should be considered a disclosure entity, and not consolidated.</p>
<p>#19 Commodity Credit Corporation CFO</p>	<p>Agree with the inclusion of the entire organization for which a Government reporting entity is responsible. The reporting of only sub-components could lead to misinterpretations of financial data. Sources of funding should be part of the disclosure to allow a reader of the report to more fully understand relationship and sources of funds allowing for operations.</p>
<p>#20 Joseph H. Marren</p>	<p>No response</p>
<p>#21 HUD OIG</p>	<p>We support the Board's position on questions 1 – 4 and 6-11</p>
<p>#22 HHS OIG</p>	<p>The component and government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source. This should be for organizations that receive appropriations, donations and/or funding from non-Federal</p>

	sources. Both component and the government-wide reporting entities need to take into account any funding sources from which there is increased risk to the component entity or to the Federal government, taken as a whole.
<b>#23 SEC CFO</b> <b><u>4. Organizations Partially in the Budget-Museums- March 2014</u></b>  <b><u>1. Organizations Partially in the Budget-Museums- April 2014</u></b>	<p>Disagree. This would result in reporting that presents a commingling of the federal government's resources with inflows that do not belong to the federal government. For example, donations to non-profit organizations such as museums generally cannot be used for purposes other than the purposes indicated by the donor; if the donated funds cannot be used for the specified purpose, the donated funds must be returned to the donor. Donations to non-profit organizations such as museums generally would not meet the definition of "revenues" in SFFAS 5 because such donated funds cannot by law increase the net position of the federal government. Because of this, it would be misleading to commingle or combine donations to non-profit organizations with tax and other revenues of the federal government.</p> <p>SEC recommendation: Revenues such as donations to non-profit organizations such as museums currently should not be consolidated in the federal government's financial statements because they do not meet the definition of "revenues" in SFFAS 5. The proposed new requirements should not include any provisions that would be inconsistent with SFFAS 5. This could be explicitly stated in a new footnote, perhaps to paragraph 54 of the ED:</p> <p><u>"Assets, liabilities and revenues that do not meet the definition of assets, liabilities and revenues in SFFAS 5 should not be consolidated in the financial statements of the federal government-wide reporting entity or any federal component entity."</u></p>
<b>#24 DOL OIG</b>	We agree that each entity determined to be a component entity should be included in its entirety. An entity should not be split in terms of reporting, it is either a component entity or it is not.
<b>#25 Administrative Office of the US Courts</b>	No response
<b>#26 GSA CFO</b> <b><u>4. Organizations Partially in the Budget-Museums- March 2014</u></b>  <b><u>1. Organizations Partially in the Budget-Museums- April 2014</u></b>	<p>GSA understands the rationale for consolidating financial information for all entities/organizations, even when sources such as donations are involved. However, this will probably be very burdensome because:</p> <ol style="list-style-type: none"> <li>1. This financial information will need to be obtained, and some organizations may not agree with the Federal agency on inclusion;</li> <li>2. Reporting periods may not be the same; and</li> <li>3. Reporting criteria and breakouts may not be similar.</li> </ol> <p>These relationships should be reviewed and it may be determined to bring many of these organizations into the Federal agency.</p>
<b>#27 GWSCPA FISC</b>	The FISC agrees with the inclusion of all funding sources for all consolidation entities, but we suggest that the definition of consolidation entities include a requirement that the relationship between the organization and the federal government be other than temporary in nature.

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#28 Joyce Dillard	Consolidation is preferable. From a Public perspective, private fundraising on a government entity, whether component or disclosed. We are seeing a trend to produce non-tax-exempt income on entities where decision making is controlled by the government. Protection of assets is an issue not addressed. Collections and other valuable assets need to be disclosed to the Public.
#29 DOL CFO	No comment
#30 Intelligence Community	We agree all reporting entities should consolidate all organizations for which they are accountable; no matter what the funding source is (this should all be disclosed too).
#31 AGA FMSB	The FMSB agrees that if the decision to consolidate is made, it is in an all-inclusive manner. The basis for consolidation versus disclosure will hinge for the most part upon the issue of control. As such if control is considered sufficient, all the financial results for the entity should be included. Providing only a partial view of the financial results benefits no one.
#32 NSB	No Response
#33 Treasury Bureau of Fiscal Service (FMS)	Agree – Once an entity falls into the “consolidation entity” classification, all of its financial data should be reported accordingly
#34 NRC CFO	Agree.
#35 FAF	No Response
#36 Treasury CFO	Agree. Federal reporting entities should consolidate in their entirety organizations for which they are accountable without regard to funding source.
#37 Smithsonian Institute CFO <b><u>4. Organizations Partially in the Budget-Museums- March 2014</u></b>  <b><u>1. Organizations Partially in the Budget-Museums- April 2014</u></b>	We strongly disagree with the exposure draft position of consolidation of each component reporting entity and government-wide reporting entity regardless of funding source. This position is in contrast to the tenants of consolidation accounting, that is to say, component reporting entities should be consolidated based upon funding source; otherwise, the reader will be misled in terms of comparing apples with oranges. Funding sources to a governmental entity outside the federal government appropriation process (OMB circular A-11) CANNOT be “commingled” with appropriated funds. These funding sources are under the mandate of the donor in terms of purpose and time restriction. Upon fulfillment of these two restrictions, of course, the nature of the funding is changed from either restricted or temporarily restricted to unrestricted. Question: How can this change of color of money be captured in this proposed exposure draft? What is the value or importance to the reader of “confusing and misleading” statements? Generally speaking, this proposed exposure draft will only confuse the reader more; and, thus render the ability for the reader (taxpayer) to make a rational decision to be nullified. If the Board is interested in making this proposal palatable to the reader, then, perhaps, a footnote disclosure is warranted in which non-federal funding can be identified and reported separately.
#38 FDIC	No response
#39 US Railroad Retirement Board	No response, referred to Q2a.

QUESTION 5	
Do you agree or disagree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate? Please provide the rationale for your answers.	
<p>#1 PBGC -Joint Response CFO &amp; OIG</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>	<p>We disagree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate.</p> <p>PBGC applies FASB GAAP for financial statement reporting, and provides intragovernmental FASB to FASAB conversion information with its Government-wide Financial Report System (GFRS) closing package.</p> <p>The proposed standard in the Exposure Draft would require PBGC to provide intragovernmental FASB to FASAB conversion information with its own standalone financial statements. PBGC's financial statement users expect and understand FASB GAAP, and will not likely understand or use this FASB to FASAB conversion information. Further, the FASB to FASAB conversion information amounts would likely be material to PBGC's standalone financial statements.</p> <p>As noted by the majority of the FASAB members who commented on this issue at the June 27, 2012 meeting, any requirement to provide conversion information with the standalone entity's financial statements would not be necessary if conversion information was provided in the closing package.</p> <p>Accordingly, we recommend the continuation of our current practice to provide intragovernmental FASB to FASAB conversion information with the GFRS closing package.</p>
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	Agree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate, per SFFAS 34. The disclosure of intragovernmental amounts facilitates any elimination entries required.
<p>#4 Postal Service-OIG</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>	<p>We agree with the FASAB's proposal that consolidation of FASAB and FASB based information without conversion is appropriate. The proposal is consistent with the FASAB's prior position on the matter.<sup>15</sup> Further, with respect to the Postal Service financial statements prepared in accordance with FASB standards, the FASAB standards have not had a material effect regarding changes prior to submitting financial information to the U.S. Department of the Treasury (Treasury) for the consolidated government-wide financial statements.</p> <p>We noted paragraph 66 necessitates a component entity using FASB based information to disclose intragovernmental amounts measured in amounts in accordance with federal accounting financial standards to facilitate elimination entries in the government-wide financial statements. We believe this is an unnecessary condition. First, it results in financial statements presented with two accounting standards and, despite accompanying explanations, can be confusing to a reader. Also, after fiscal year end, federal entities must submit financial</p>

<sup>15</sup> Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

	<p>information to Treasury for the consolidated government-wide financial statements. The financial information must identify intragovernmental amounts, thus supplanting the need for entities using FASB based information to identify such amounts in their published financial reports.</p> <p>With implementation of this standard, there could exist a future conflict between it and Treasury's requisite. In recent years, the Treasury Financial Manual<sup>16</sup> has required agencies using FASB based accounting standards to convert to FASAB based standards prior to submitting financial information for consolidation in the government-wide financial statements. Should Treasury's requirement remain, the conflicting positions would need resolution. Various federal agencies, including the FASAB, might need to discuss and resolve the opposing requirements in favor of the proposed Statement.</p>
#5 SIPC	No response
#6 DOC CFO <b><u>6. FASB Based Information- Dec 2013</u></b>	The Department of Commerce disagrees with consolidating FASAB and FASB information without conversion for consolidation entities. Considering that the GPFFR has been prepared under FASAB, consolidation with FASB could make comparison to prior years GPFFR difficult. SFFAS 34, The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board, dictates using FASAB to prepare the GPFFR. We would recommend addressing this idea separately due to its significance.
#7 SSA CFO	We agree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate because Statement of Federal Financial Accounting Standards 34 defines FASAB as the preferred method of reporting for Federal entities. FASAB also is responsible for identifying the GAAP hierarchy for Federal reporting entities. Additionally, converting FASB-based information to a FASAB basis may not be cost-effective, and FASAB and FASB both use accrual-based information.
#8 NSF CFO	NO NSF COMMENT
# 9 KPMG <b><u>6. FASB Based Information- Dec 2013</u></b>	<p>Although paragraph 65 indicates no new disclosures are needed for consolidated organizations, the last sentence of paragraph 66 implies that there are additional disclosure requirements for consolidated entities that follow FASB standards. The required disclosures in paragraph 66 should result in an amendment to SFFAS 34. Further, we believe that there are appropriate disclosures that should be required, such as the significant organizations being consolidated.</p> <p>Paragraph 65 states, "Consolidation entities as defined herein are considered federal reporting entities and should apply GAAP as defined in SFFAS 34." SFFAS 34 recognizes FASAB standards and FASB standards as GAAP for federal reporting entities. This paragraph implies that a consolidated organization that does not follow FASAB or FASB GAAP (such as a GASB entity) would need to convert their financial statements to either FASAB or FASB GAAP. The statement is silent as to how to consolidate GASB entities and as a result we suggest including guidance on how to consolidate a GASB entity.</p> <p>Paragraph 66 states that FASB entities need not be converted to FASAB for consolidation; however this paragraph should address how accounting aspects unique to FASAB GAAP (such as budgetary accounting) be obtained from a</p>

<sup>16</sup> I TFM 2-4700, Agency Reporting Requirements for the *Financial Report of the United States Government*, Subsection 4705.25.

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	<p>FASB entity if conversion is not required. Further, under current practice, federal reporting entities that consolidate FASB GAAP entities do currently convert the financial information to FASAB GAAP before consolidation. Paragraph 66 would cause a change in the current practice.</p> <p>Paragraph 66 also uses the term consolidation entity to refer to the entity doing the consolidation—the government wide reporting entity—as well as those entities being consolidated. To reduce confusion, we suggest that the statement use the term consolidated organization to refer to the organization being consolidated.</p>
<p>#10 Treasury OIG</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>	<p>We disagree that consolidation of FASAB and FASB based information without conversion is appropriate. The consolidation of material FASB based financial information that has not been converted to the FASAB basis of accounting used for the consolidated entity reporting, could result in a material misstatement and a qualified audit opinion on the consolidated entity's financial statements, and in the worst case, an adverse audit opinion, if the resulting misstatement is pervasive to the consolidated financial statements. A good example of an area where potential material differences in reporting between FASB and FASAB standards could arise is in the accounting for direct loans and loan guarantees.</p>
<p>#11 HUD CFO</p>	<p>HUD agrees that consolidation of FASAB and FASB based information without conversion for consolidation entities could be appropriate. However, it could also add confusion for the reader if there are multiple accounting methodologies reporting similar activities. For example, the confusion would occur wherein there were differing amounts for a component in its stand-alone statements and in the consolidated statements of the larger organization. Therefore, disclosure of the basis of accounting can provide clarity as to the governing body of the entity's reporting (FASB v FASAB).</p> <p>SFFAS 34 provides that GPFFRs prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP, so consolidation entities (i.e. the consolidated government-wide reporting entity or a consolidated component reporting entity) would be able to consolidate component reporting entity or sub-component financial statements for consolidation entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the organizations.</p>
<p>#12 TVA CFO</p>	<p>As adopted, SFFAS 34 allows that certain federal reporting entities prepare and publish financial reports pursuant to the accounting and reporting standards issued by FASB and these reports may be regarded as in conformity with generally accepted accounting principles (GAAP). TVA agrees in part with paragraph 66 which states that consolidation entities should consolidate component reporting entity or sub-component financial statements for consolidation entities in accordance with SFFAS 34 without conversion for any differences in accounting policies among the organizations.</p>
<p>#12 TVA CFO</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>	<p>However, TVA does not agree with the last sentence of paragraph 66 which states that “any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements” and recommends it be removed.</p> <p>TVA's reason for the removal of the sentence is that the primary users of TVA's financial statements are financial institutions, bondholders, investors, banking trade groups, and customers. These users expect TVA's financial statements to be prepared in accordance with FASB GAAP as required by the Securities and Exchange Commission with whom TVA is required to file financial statements. To present a second set of financial statements with intragovernmental amounts measured in accordance with FASAB standards could be confusing to the user. Also, conversion of information may not be cost-effective at a time when agencies are being asked to evaluate work efforts</p>



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	<p>in order to be more cost-conscious.</p> <p>Concern for the elimination of intragovernmental activity for the government-wide financial statement could potentially be resolved by Treasury through its Governmentwide Financial Report System Closing Package instructions as contained in Treasury's Financial Manual and its Intragovernmental Transactions Policy. Both documents may more appropriately address the mechanics of eliminating entries for the consolidated GFRS.</p>
#13 NASA CFO	NASA agrees that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate. Our rationale is that the financial statement presentation by both standards is based on the GAAP, accrual based accounting. In addition, the presentation of a component entity's financial information should be consistent in both their individual financial reports and the government-wide financial reports.
#13 NASA CFO <b><u>6. FASB Based Information- Dec 2013</u></b>	However, NASA does not agree with making this requirement effective prior to receiving guidance related to tie points between budgetary and proprietary accounts or specifying which reports are required. FASB does not require budgetary accounts and addition of proprietary accounts alone will cause out of balance conditions not accepted during annual reporting.
#14 Department of Homeland Security CFO	We agree that conversion need not be required when consolidating. However, disclosures should include any significant differences caused by different accounting treatments when entities use FASB vs. FASAB.
#15 Nuclear Regulatory Commission OIG <b><u>6. FASB Based Information- Dec 2013</u></b>	I disagree that consolidation entities based on two different standards are appropriate in all cases without conversion. Even though both standards are based on accrual rules, other accounting rules are different and can result in different account balances that could be material. I think that an analysis of the account balance differences based on different accounting standards should be completed and the materiality concept applied. If there is a material difference, then the balances should be converted to the government-wide reporting entity accounting standards. To do otherwise could be misleading to the GPFFR user.
# 16 Federal Reserve System	In addition, the U.S. government, the Board, and the Reserve Banks apply different sets of accounting principles (FASAB, U.S GAAP for public companies, and Board of Governors established principles, respectively). Reconciling these principles for reporting purposes would involve additional cost to both the federal government and the Federal Reserve System and could potentially increase financial reporting risk without any material benefit. These costs and efforts may also exist to a lesser extent if the Board and the Reserve Banks were to be classified as disclosure organizations under the standard.
#17 TVA OIG	After consultation with my staff, I would like to offer our considered opinion on the issue posed in question 5. While we agree with the first part of paragraph 66, consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate,
#17 TVA OIG <b><u>6. FASB Based Information- Dec 2013</u></b>	<p>we do not agree that any component entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements.</p> <p>The restatement of intragovernmental amounts from FASB to FASAB based amounts would not benefit users of the TVA general purpose (standalone) financial statements and would most likely confuse its users, including those in the</p>



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	<p>financial and investor community who need TVA financial information presented consistently with that of other comparable public companies who also file FASB based reports with the Security and Exchange Commission. Since it is necessary for the intragovernmental amounts to be stated consistent with the FASAB standards solely for the purpose of eliminating these amounts during consolidation in preparing the government-wide financial statements, any differences in account balances caused by the use of different accounting standards could be better identified and resolved during the reconciliation process that occurs quarterly between federal trading partners using guidance provided accordingly in the Treasury Financial Manual. The reconciled amounts could then be used to eliminate the intragovernmental balances and compile the government-wide statements without reducing the understandability and usefulness of the components' general purpose (standalone) financial statements.</p> <p>Accordingly, we recommend the following statement in paragraph 66 in the proposed Statement be removed: "Nonetheless, any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements."</p>
#18 DOD CFO	<p>Agree. Since the objective is to incorporate all required components into the GPFFR, entities with differences in accounting standards should still be consolidated, in accordance with SFFAS 34. In addition, a disclosure of the differences in accounting methodologies should be required. FASB reporting entities need to provide intragovernmental balances based on FASAB standards to allow for the proper elimination of intragovernmental activity. Intragovernmental differences are one of the causes of the disclaimer the GPFFR receives each year.</p>
<p>#19 Commodity Credit Corporation CFO</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>	<p>Disagree. Federal Financial Reporting should consistently follow FASAB guidance. The mixing of reporting standards could mislead a reader and provide confusion for the report users.</p>
#20 Joseph H. Marren	No response
<p>#21 HUD OIG</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>	<p>We do not agree that the consolidation FASAB and FASB based information without conversion is appropriate. HUD insures mortgages for single family and multifamily dwellings through its mortgage insurance programs administered by Federal Housing Administration (FHA). HUD also guarantees, through Government National Mortgage Association (Ginnie Mae), the timely payment of principal and interest on Mortgage-Backed Securities issued by approved private mortgage institutions and backed by pools of mortgages insured by the FHA, U.S. Department of Agriculture, U.S. Veterans Affairs, and HUD's Office of Public and Indian Housing. As component entities, Ginnie Mae (prepared using FASB standard) and FHA's financial information (prepared using FASAB standard) are reported to HUD for consolidation.</p> <p>In HUD-OIG's view, consolidating financial information using different basis of accounting can provide misleading</p>

	<p>information to the users of HUD's financial statements. This is true, even with additional disclosures, especially in instances where material differences between FASB and FASAB accounting standards could result in very different accounting outcomes. This scenario applies to HUD because Ginnie Mae's FASB based information is reported to HUD for consolidation and the FASB and FASAB conversion information is material to HUD's group financial statements. Further, transactions between Ginnie Mae and FHA (as component reporting entities of HUD) with regard to defaulted insured mortgages had generated material intragovernmental balances and activities in their respective books in recent years, but each prepare stand-alone financial statements using FASB and FASAB accounting standards respectively.</p> <p>The Board also indicates that, as a consideration for its proposal to allow consolidation of different basis of accounting without conversion, the conversion imposes a cost and it is not clear that the cost is justifiable based on the benefits to the user. However, the additional disclosure provision in the ED would most certainly require entities to incur additional disclosure costs already and therefore the cost conversion concern should not have significant incremental effect.</p> <p>Accordingly, we recommend the Board to reconsider its position to not allow consolidation without conversion in cases where material differences exist between FASB and FASAB accounting standards. Additionally, with respect to the additional disclosure requirement on intragovernmental amounts proposed in the ED, the Board needs to clarify whether the requirement is only required in the component entity's stand-alone financial statements or both the component and parent/group management entity's financial statements.</p>
#22 HHS OIG	HHS prepares its financial statements in accordance with standards established by FASAB. This question is directed to those entities that prepare their GPFFR in accordance with standards established by FASB. A more appropriate response could be provided to Treasury, GAO and the agencies that prepare their standards in accordance with standards established by FASB.
#23 SEC CFO  <b><u>6. FASB Based Information- Dec 2013</u></b>	<p>Disagree. The consolidation of FASB-based information into a component entity financial statement is likely to be unachievable because federal component entities are required to prepare a Statement of Budgetary Resources and a footnote that reconciles its budgetary and proprietary information. FASB-based financial statements do not include a Statement of Budgetary Resources or other budget-related classifications required for federal reporting entities, such as which of its expenses are "future funded" and which of its liabilities are "covered or not covered" by budgetary resources. Because of this, if FASB-based financial information were consolidated with FASAB-based information, the component entity's required reconciliation of budgetary and proprietary data would likely be forced out of balance.</p> <p>The consolidation of mixed-basis data would also likely create technical problems for component-level reporting to Treasury because FASB-based organizations are not required to use the U.S. Standard General Ledger chart of accounts with required account attributes that Treasury needs in order to prepare the consolidated government-wide financial statements.</p> <p>The component entity's USSGL-compliant trial balances are currently required to fully support the component entity's audited financial statements; this would not be possible with mixed-basis component-level financial statements because the FASB-basis data would not have sufficient information for USSGL-compliant trial balances. In addition, certain relationships between budgetary and proprietary information (edit check known as "tie points" are required for</p>

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	<p>reporting to Treasury. Those relationships would almost certainly be forced out of balance if FASB-basis data is consolidated with FASAB-basis data.</p> <p>If the proposed standard results in numerous organizations newly classified as part of the federal government, this would likely also create challenges for Treasury regarding intragovernmental eliminations and reporting on debt held by the public versus intra-governmental debt.</p> <p>Other implementation difficulties would include differences in fiscal year-end, because many FASB-based entities report on a calendar-year basis. It would be inappropriate to consolidate stale data with more current data into financial statements, because the title of the financial statements (“as of” and “for the period ended”) would be inaccurate and hence misleading. However, reliable and timely data is generally not available from organizations that to prepare financial statements on a calendar year, and/or available timely enough to be included in the component entity’s audited statements and notes.</p>
#24 DOL OIG	<p>We agree that any the consolidation entities should be consolidated without conversion of FASB-based information to a FASAB basis. We agree with the Board’s discussion that to do so could cause confusion due to differing amounts presented, but also could raise questions about the appropriateness of the entity’s method of accounting.</p>
#25 Administrative Office of the US Courts	<p>No response</p>
<p>#26 GSA CFO</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>	<p>No, it will be very difficult to combine financial statements unless reporting is based on same guidelines.</p>
<p>#27 GWSCPA FISC</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>	<p>The FISC generally agrees that the consolidation of FASAB and FASB-based information without conversion for consolidation entities is appropriate. We suggest that the Board:</p> <ol style="list-style-type: none"> <li>1. Include guidance on the conversion or consolidation of GASB-based information. There could be circumstances in which a consolidation entity could be a state-controlled organization, and the ED does not address the circumstances of what a GASB-based organization should do to comply with this Standard.</li> <li>2. Add additional information in the ED on the Board’s views on methods for consolidation of FASB entities into FASAB-based general purpose financial reports, such as whether the equity, cost, or acquisition consolidation method is preferred, and how an agency should handle consolidation of entities with year-ends other than September 30.</li> </ol> <p><i>Staff notes GWSCPA FISC also included the following in response to Q2:</i></p> <p>Finally, we suggest that the Board remove the requirement in paragraph 66 that requires FASB-based organizations to disclose intragovernmental amounts measured in accordance with federal financial accounting standards. Such a requirement for disclosure in the FASB-based organization’s GPFFR does not appear to meet the requirement for</p>

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	general-purpose reporting since the disclosure is needed solely to facilitate elimination entries in the preparation of the government-wide financial statements. In addition, reporting in accordance with two bases of GAAP (i.e., FASB and FASAB) may lead to unnecessary confusion among the users of the FASB-based organization's financial statements. Such intragovernmental information could continue to be reported to the U.S. Department of Treasury through the Closing Package process.
#28 Joyce Dillard	It should be noted that no conversion took place. At a point in time, you may wish to analyze if this decision is the proper one.
#29 DOL CFO	No Comment
#30 Intelligence Community <b><u>6. FASB Based Information- Dec 2013</u></b>	<p>We disagree; it is not appropriate to consolidate FASAB- and FASB-based information without conversion for consolidation entities. Consolidating amounts without regard for differences that may result from the differing accounting standards being used by the reporting entity and the consolidation entity may result in inconsistency in financial reporting. The proposed standards should include guidance related to material differences between FASB and FASAB accounting standards.</p> <ul style="list-style-type: none"> <li>• Situations may occur in which different accounting standards are applied to different entities, which could lead to possible presentation and disclosure conflicts when they are consolidated.</li> <li>• The use of different accounting standards reduces the confidence users and preparers have in the qualitative characteristics of the financial reports specifically consistency, comparability, reliability, and understandability.</li> <li>• Situations may arise in which there is a high opportunity cost to convert all financial statements and reports from FASB to FASAB and the cost outweighs the potential benefit. In these situations, the entity should evaluate the material impact of various accounting differences between the two standards and convert only those that would significantly change or could significantly change the presentation of the financial reports and the decision making of stakeholders and users.</li> </ul> <p>The board should consider the inclusion of principles discussing the requirements and guidance related to consolidation concerns when evaluating differences between FASB and FASAB. This could significantly mitigate costs of interpretation, provide clarity on the subject matter for preparers of a GPFFR, and enhance the usefulness of financial reports for users and stakeholders.</p>
#31 AGA FMSB	The FMSB agrees that the consolidation of FASAB and FASB based information without conversion is appropriate. Restatement of FASB information to a FASAB basis will provide opportunities for errors to occur and may require effectively two sets of records. Furthermore the information based on FASB principles are used by management and should stay as originally prepared.
#32 NSB	No Response
#33 Treasury Bureau of Fiscal Service (FMS) <b><u>6. FASB Based</u></b>	Disagree – although FASB is in compliance with GAAP, FASAB follows budgetary accounting reporting principles which do not apply to FASB; Without the reporting entity and organizational unit following the same accounting standards, USSGL propriety/budgetary tie points will not reconcile if the USSGL data for the tie points is derived from the consolidated trial balance which would be uploaded to FACTS I and II and/or GTAS for government-wide reporting; if the organization unit is not included in the FACTS I and II/GTAS trial balance, then how will the entity's

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<b><u>Information- Dec 2013</u></b>	data be reported government-wide?  In addition, the government-wide financial statements are reported on a FASAB basis; therefore, agencies need to convert to FASAB before reporting to the government-wide level.
<b><u>#34 NRC CFO</u></b> <b><u>6. FASB Based Information- Dec 2013</u></b>	Disagree, there should be one consistent accounting basis for Federal accounting and reporting, which is FASAB.
<b><u>#35 FAF</u></b>	No Response
<b><u>#36 Treasury CFO</u></b>	Agree. Consolidation of FASB-based accounts of component entities without conversion may be appropriate for agencies that publish financial reports pursuant to FASAB standards, particularly if differences between the two bases of accounting for these entities are not significant. Certain of Treasury's component entities, including Bureau of Engraving and Printing and the Exchange Stabilization Fund, maintains their financial accounts and prepare stand-alone audited financial reports on a FASB basis. Currently, we convert their accounts to FASAB accounts prior to consolidating them. While the provisions of the ED may eliminate the burden of conversion in the future, we do express concern as to potential new issues that may arise with regards to budgetary accounting and financial reporting requirements associated with these FASB accounts which are currently addressed when these FASB accounts are converted to FASAB accounts.
<b><u>#37 Smithsonian Institute CFO</u></b>	No response
<b><u>#38 FDIC</u></b>	The ED's paragraph 66 proposes that consolidation entities should consolidate component or sub-component entities that prepare financial statements pursuant to the Financial Accounting Standards Board (FASB) without conversion for any differences in accounting policies among the organizations. Paragraph 66 also proposes that any component entity that publishes financial reports pursuant to the FASB "should disclose intragovernmental amounts measured in accordance with [F]ederal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements." The FDIC agrees that FASB statements should not require conversion to FASAB. However, we do not support the disclosure of intragovernmental amounts measured in accordance with FASAB in FASB-based financial statements. Doing so may cause confusion because the information is not relevant to our main constituency, which includes banks, thrifts, and the financial industry in general. Furthermore, disclosing this information would be duplicative, and hence not cost beneficial because we already provide it to the constituency to which it is relevant and needed; that is, the U.S. Treasury.
<b><u>#38 FDIC</u></b> <b><u>6. FASB Based Information- Dec 2013</u></b>	On a related note, we found the proposal confusing on this point because it does not specify where the disclosure would be made nor does it specify the intragovernmental amounts that would facilitate elimination entries for preparing the government-wide financial statements. As a result, we interpreted the ED to mean that the FASAB-based, intragovernmental disclosure would be required in our calendar-year, FASB-based statements. Intragovernmental elimination amounts are already addressed in the compilation procedures of the Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 4700, Agency Financial Reporting Requirements for the Financial Report of the U.S. Government (see Appendices 6 through 10). The TFM is used to provide this information to the U.S. Treasury via the Governmentwide Financial Report System (or GFRS) that agencies use to prepare the Financial Report of the U.S. Government. As such, we believe this practice should continue as it appears to provide the

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	Treasury the information it needs. Again, we believe the proposal is duplicative because we already provide this information to the Treasury and, if required to be disclosed in our calendar-year FASB statements, it would not be relevant to our statements and would likely cause confusion to the users of the FDIC financial statements.
#39 US Railroad Retirement Board	No comment

<b>QUESTION 6</b>	
<b>a. Do you agree or disagree with the minimum disclosures for the central banking system or believe there are additional disclosures that should be considered? Please provide the rationale for your answer.</b>	
<b>b. Do you believe there are other significant organizations for which minimum disclosures should be made? Please specify which entities, if any, and the nature of disclosures and provide the rationale for your answer.</b>	
#1 PBGC -Joint Response CFO & OIG	No response
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	a. Agree with the minimum disclosures for the central banking system. b. N/A
#4 Postal Service- OIG	No response
#5 SIPC	No response
#6 DOC CFO	a. The Department of Commerce agrees with the minimum disclosures for the central banking system. However, additional disclosures may be necessary due to the unique nature of reporting requirements for the central banking system. b. The Department of Commerce does not believe there are other significant organizations for which minimum disclosures should be made.
#7 SSA CFO	a. We agree with the minimum disclosures for the central banking system because reporting it as a consolidation entity would considerably alter the Federal financial reporting of the Government as it pertains to securities, deposits, expenses, and revenues. The Federal Reserve System (FRS) performs a unique function in the Federal Government as it relates to governance, structure, and activities. Classifying FRS as a disclosure organization will help users in understanding an organization of this type. b. We are not aware of any other significant organizations that FASAB should consider for minimum disclosure.
#8 NSF CFO	NO NSF COMMENT
# 9 KPMG <b><u>7. Central Bank-</u></b>	We believe that when applying the principles (In the Budget and Control) to the central banking system, that a reporting entity could conclude that the central banking system would not be a consolidated or disclosure organization. If the Board believes that at a minimum the central banking system should be considered a disclosure organization, then we



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<b><u>Dec 2013</u></b> <b><u>Tab B2 Central Bank- March 2014</u></b>	believe this requirement should be stated within the Principles section of the statement. We further believe that paragraph 77 should be deleted as the minimum disclosure requirements provide the necessary disclosures for all disclosure organizations.
<b># 9 KPMG</b> <b>7. Other Organizations- April 2014</b>	The ED addresses the central banking system because of its uniqueness. We also believe that the Treasury General Fund should be addressed within the statement for the same reason. The consolidation of the Treasury General Fund would appear to be required based upon the application of the "control" principle, but the entity to which it should be consolidated should be specified within the statement. (Appendix 4 V1)
<b>#10 Treasury OIG</b>	No response
<b>#11 HUD CFO</b>	a. HUD agrees with the minimum disclosures for the central banking system. The disclosures should be integrated so that concise, meaningful and transparent information is provided.  b. HUD believes there may be other significant organizations for which minimum disclosures should be made, depending on the circumstances. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining the information that should be presented regarding disclosure organizations.
<b>#12 TVA CFO</b>	No response
<b>#13 NASA CFO</b>	NASA neither agrees nor disagrees with this statement.
<b>#14 Department of Homeland Security CFO</b>	a. We agree with some of the minimum disclosures relating to the central banking system, we do not believe new or onerous reporting requirements are needed.  b. We do not believe there are other significant organizations that won't be included in the three inclusion principals. Standards should include organizations that are significant and do not leave flexibility to include organizations based on subjective criteria.
<b>#15 Nuclear Regulatory Commission OIG</b>	a. I agree with the minimum disclosure requirements. The disclosures are comprehensive and complete. I think that any additional disclosures would be excessive and not add value to the GPFFR users.  b. I am not aware of any other significant financial organizations that might require minimum disclosure.
<b># 16 Federal Reserve System</b> <b><u>7. Central Bank- Dec 2013</u></b> <b><u>Tab B2 Central Bank- March 2014</u></b>	I. The Federal Reserve System provides a variety of transparent financial reports to the public that exceeds the reporting requirements of the proposed standard.  The Federal Reserve System provides a substantial amount of information to the public, and its financial reporting practices are particularly robust. Each week, the Board publishes the balance sheet of each Reserve Bank along with other significant financial information on their assets and liabilities. The Board also publishes an annual independent audit of the financial statements of the Board, each of the twelve Reserve Banks, and the combined Reserve Banks. The Board began publishing an unaudited quarterly combined Reserve Banks' financial report in 2012. The annual audited Board and Reserve Bank financial statements, and the Reserve Banks' weekly and quarterly financial reports can be accessed from the Board's public website at <a href="http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm">http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm</a> . We believe that the information we provide to the public demonstrates our ongoing commitment to transparency and should be sufficient for meeting the purposes of the standard without incurring additional costs.

	<p>V. The provisions related to minimum disclosures for the central banking system are unnecessary.</p> <p>The disclosure requirements for the central banking system described in paragraph 77 are inconsistent with the FASAB's objective of providing a principles-based standard. We believe that applying the proposed standard's inclusion principles and disclosure requirements that are applicable to all other organizations will result in an appropriate level of disclosures of Federal Reserve System financial information. The proposed disclosures for disclosure entities and the minimum disclosures for the central bank are very similar, even though the two sets of disclosures are described somewhat differently. For example, paragraph 73a, which is applicable to all disclosure organizations, requires disclosure of "information about how its mission relates to federal policy objectives, actions taken on behalf of the federal government, its organization and any significant involvements with outside parties." That requirement is substantially the same as the minimum disclosure requirement for the central bank described in paragraph 77b, which requires disclosure by the central bank of "significant roles and responsibilities (and how these relate to federal policy objectives)." We recommend deleting paragraph 77 in its entirety.</p> <p>VI. The authority over the financial accounting and reporting practices of the Board and the Reserve Banks is vested with the Board of Governors.</p> <p>FASAB's authority, which is derived from statutory authorities of the OMB, GAO, and Treasury, does not include authority to impose reporting requirements on the Board and Reserve Banks, given that (1) the Board is an independent entity in the executive branch; (2) neither the Board nor the Reserve Banks have reporting or other relationships to FASAB; and (3) Congress has separately established the financial reporting requirements applicable to the Federal Reserve System and vested final authority over those reports in the Board without directing the Board or the Reserve Banks to issue financial statements in accordance with FASAB requirements. To the extent requirements to report about the Federal Reserve System would be imposed on another entity, such as the Department of the Treasury, it is unclear how the Treasury can be expected to fulfill this obligation when the requested information pertains to the central bank, not the Treasury, and the central bank does not report to the Treasury.</p> <p>The Board's statutory powers and reporting requirements largely address the issues in the proposed statement. These statutory provisions take precedence and the proposal would be in conflict with them. For example, Congress has addressed its expectation regarding transparency of Federal Reserve System financial information.</p> <p>Public Access to Information- the Board shall place on its home Internet website, a link entitled "Audit", which shall link to a webpage that shall serve as a repository of information made available to the public for a reasonable period of time, not less than 6 months following the date of release of the relevant information, including—</p> <ol style="list-style-type: none"> <li>(1) the reports prepared by the Comptroller General under section 714 of title 31, United States Code;</li> <li>(2) the annual financial statements prepared by an independent auditor for the Board in accordance with section 11B;</li> <li>(3) the reports to the Committee on Banking, Housing, and Urban Affairs of the Senate required under section 13(3) (relating to emergency lending authority); and</li> <li>(4) such other information as the Board reasonably believes is necessary or helpful to the public in understanding the</li> </ol>
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	<p>accounting, financial reporting, and internal controls of the Board and the Federal reserve banks. [12 U.S.C. 225b.]</p> <p>In addition, as required by statute, the Board includes in its annual report to Congress a full account of its operations. To the extent the information you seek in the proposed statement is included in the Board's existing reports, we suggest that you reference these reports in the GPFFR.</p> <p>VII. We disagree with the proposal to include forward-looking financial information in the audited financial statements for the Federal Reserve System.</p> <p>The proposed disclosures and the minimum disclosures both include a requirement to disclose future exposures to gains and losses from future operations. Such information about future events is very difficult to audit and including such information in audited financial statements provides a false sense of reliability to such information. Further, preparers of the financial statements are unable to predict future monetary policy actions or when they will occur. Although it may be possible to report on contingencies arising from past events, it would not be feasible to report relevant and reliable financial information about pre-decisional future operations of the central bank that could be audited. The Federal Reserve System does not include forecasts and forward-looking information in the financial statements of the Board and the Reserve Banks. Instead, as it deems appropriate, such information is provided through other means. We recommend removing the disclosure requirements related to future exposures from paragraphs 72 and 73 of the proposed standard.</p> <p>VIII. The characterization of the Bureau of Consumer Financial Protection (CFPB) in the proposal is incorrect, and should be revised.</p> <p>Paragraph A32, footnote 57, in the proposed standard describes the Federal Reserve System as comprised, in part, of the CFPB. When Congress created the CFPB as a part of the Federal Reserve System, it provided that the CFPB's financial statements "shall not be consolidated with the financial statements of either the Board of Governors or the Federal Reserve System." The proposed standard should be clarified in this regard and, specifically, the references to the CFPB should be removed from the footnote.</p>
#17 TVA OIG	No Response
#18 DOD CFO	<p>a. Agree. If the central banking system is reported as a disclosure entity, it should be subject to the minimum disclosure requirements mentioned within this exposure draft.</p> <p>b. Yes. All segments of the government that are not consolidated entities should be required to provide disclosure information. This is consistent with GAAP principles and enhances government transparency and accountability to the public. However, we do not know of any specific entities that fall into this category.</p>
#19 Commodity Credit Corporation CFO	<p>a. Agree. The emphasis of the disclosure however should be from the Reporting Entities viewpoint and outline its business relationship and interactions with the Central Banking System.</p> <p>b. None to add.</p>
#20 Joseph H.	The proposed rules will largely continue current unconstitutional reporting practices with respect to the Federal Reserve System and Government Sponsored Enterprises such as Fannie Mae and Freddie Mac. They will not be consolidated in

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Marren <b><u>7.Central Bank- Dec 2013</u></b> <b><u>Tab B2 Central Bank- March 2014</u></b>	the Financial Report and hence, the government's consolidated financial statements will remain substantially misleading.
#21 HUD OIG	We support the Board's position on questions 1 – 4 and 6-11
#22 HHS OIG	a. Since HHS prepares its financial statements in accordance with standards established by FASAB and prepares its required disclosures, it is not appropriate to comment on this area. These questions are directed more to the Federal Reserve, Treasury, OMB and GAO. A more appropriate response would be obtained by these entities.  b. Not aware of any other significant organizations for which minimum disclosures should be made.
#23 SEC CFO	a. The SEC has no objections to the proposed minimum disclosures.  b. The SEC is not aware of any other significant organizations for which minimum disclosure should be made.
#24 DOL OIG	a. We agree with the minimum disclosures for the central banking system.  b. See answer to Q12.a.
#25 Administrative Office of the US Courts	No response
#26 GSA CFO <b><u>7.Central Bank- Dec 2013</u></b> <b><u>Tab B2 Central Bank- March 2014</u></b>	a. Per the notes already provided above, GSA see no justification for applying the rules differently just because the Federal Reserve System is the only entity of its kind, especially given the magnitude of its banking operations and the need for transparency. GSA agrees if the minimum disclosures for the central banking system are in addition to the disclosures required of other reporting entities.
#26 GSA CFO	b. No comments.
#27 GWSCPA FISC	The FISC agrees with the proposed standards included in paragraph 77.
#28 Joyce Dillard <b><u>7.Central Bank- Dec 2013</u></b> <b><u>Tab B2 Central Bank- March 2014</u></b>	Central Banking system aka Federal Reserve System FRS is too critical a factor in government, not to include it in consolidation.  Since the system is regional, all regions of the FRS should be disclosed. The aspect of Cash holdings need to be addressed, as this entity prints its own money. Uncirculated cash needs to be included as should any physical assets such as gold.  The offsetting entity needs full disclosure under Comments or Footnotes.  The Public needs to grasp the liability aspect of the Federal Reserve System and its investments in foreign and/or

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	offshore banking and the terms of any relationship.
#28 Joyce Dillard Staff notes there are active projects in the risk assumed area and PPP.	All risk should be disclosed. Accountability has been lacking and that aspect of Representation needs to be addressed. Space is being privatized. With that, the industry should be analyzed for inclusion. Future assets in the area of mining inventories need inclusion in this process as well as the risks and liabilities.
#28 Joyce Dillard <b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b>	The Judicial Branch should never be excluded, yet it does not operate in disclosure.
#29 DOL CFO	No Comment
#30 Intelligence Community <b><u>7. Central Bank- Dec 2013</u></b> <b><u>Tab B2 Central Bank- March 2014</u></b>	<p>a. We disagree; the central banking system should be required to report disclosures that provide for complete disclosure of their activities. Due to the unique nature of the central banking system, maybe additional guidance should be issued by the board to address specifically all of the central banking system's unique accounting and operations. The statement does not provide sufficient minimum disclosure requirements for the central banking system and the board should consider providing the additional disclosure requirements referenced below.</p> <ul style="list-style-type: none"> <li>• Paragraph 77, item b should include an assessment of meeting the objectives of federal and monetary policy. Item b requires the Federal Reserve System to disclose significant roles and responsibilities and how they relate to federal objectives, which is important, but incomplete. Financial reports are useful when they possess comparability and relevance to the user. As a result, it is important that not only the objectives are linked to the roles and responsibilities, but that an assessment is provided of those objectives (similar to a balanced scorecard).</li> <li>• Paragraph 77, item c should include actions such as open market operations, reserve requirements, adjustments to the fed funds rate, specific financial services provided to the federal government, and investments in specific financial instruments used by the Federal Reserve System (e.g. swaps, asset backed securities, collateralized debt and mortgage obligations, interest rate derivatives, commodities, real assets, etc.) in which significant positions are taken.</li> <li>• Paragraph 77, item d should also include significant transactions and balances within the fiscal period that would impact the decision making of stakeholders and GPFFR users.</li> <li>• The Federal Reserve System should disclose transactions and relationships with foreign governments and financial institutions as well as significant holdings (currencies, debt, treasury securities, ownership interests, etc.) that could be materially useful to a user of the GPFFR.</li> </ul> <p>The current minimum disclosures do not encompass these disclosures requirements, which should be articulated to a</p>

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	<p>greater degree in order to ensure that the government-wide GPFFR is reliable and the information presented is verifiable, and completely and faithfully represents what it purports to represent. The Federal Reserve System is a unique organization; therefore, the board should emphasize transparency in Federal Reserve System disclosures. The board should also consider developing a single statement devoted to the central banking system.</p> <p>The statement should require similar disclosures to the Federal Reserve System such as the roles and responsibilities of the organization, how it is accomplishing specified objectives and an assessment of meeting those objectives, nature of the research, development, or venture, sources and uses of funds, significant transactions, and governance structure. The government-wide GPFFR should provide transparency and accountability for the activities financed by taxpayers and non-exchange revenue as well as organizations that have a significant impact on policy making. In turn, this will provide users and stakeholders with sufficient information for decision making purposes.</p>
<p>#30 Intelligence Community</p> <p><b>7. Other Organizations- April 2014</b></p>	<p>b. We believe the board should consider providing minimum disclosures for the following organizations:</p> <ul style="list-style-type: none"> <li>Federally Funded Research and Development Centers;</li> <li>Venture capital projects; and</li> <li>Government sponsored enterprises such as the Federal Agricultural Mortgage Corporation, Federal National Mortgage Corporation, and Federal Home Loan Mortgage Corporation due to their impact on political, monetary, and fiscal policy objectives, and the federal government.</li> </ul>
<p>#31 AGA FMSB</p> <p><b><u>7. Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2 Central Bank- March 2014</u></b></p>	<p>a. The FMSB agrees with the minimum disclosures for the central banking system. The importance of the central banking system warrants minimum disclosures. However we are puzzled by the FASAB's decision to not provide a definitive determination as to whether the FRS should or should not be considered within the federal entity and at what level.</p>
#31 AGA FMSB	b. No.
#32 NSB	No Response
#33 Treasury Bureau of Fiscal Service (FMS)	<p>a. Agree – The minimum disclosure requirements appropriately identify what, why, and the financial implications of the work performed within the federal banking system on behalf of the Federal government</p> <p>b. No – I am not aware of other non-Federal entities that should receive unique consideration related to this exposure draft</p>
<p>#34 NRC CFO</p> <p><b><u>7. Central Bank- Dec 2013</u></b></p> <p><b><u>Tab B2 Central Bank- March 2014</u></b></p>	<p>a. Disagree as the Federal Reserve is independent. Disclosure if required should only include items a, e, and f. Disclosure information contained in items b, c, and d would be included in the Federal Reserve's reports.</p>

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#34 NRC CFO <b>3. Applicability to Judicial and Legislative Branches- Dec 2013</b>	b. Yes, if the Judicial and Legislative branches are not considered consolidating entities, then there should be disclosures pertaining to these entities and the fact that they receive appropriations funded from Federal tax revenue.
#35 FAF	No Response
#36 Treasury CFO <b>7. Central Bank- Dec 2013</b> <b>Tab B2 Central Bank- March 2014</b>	<p>a. Agree. We generally agree with the ED's minimum disclosures for the central banking system, with the exception of paragraph 77(c). Based on the inclusion principles outlined in paragraph 21, we do not believe the FRB would meet the criteria for being included as a consolidation or disclosure entity. Therefore, we agree that separate guidelines, such as those presented in paragraph 77, are needed to ensure that appropriate disclosure is given to this related party entity which is too misleading to exclude.</p> <p>We recommend removing the phrase "and changes in those actions" in paragraph 77(c). Treasury's agency financial report disclosures currently provide a general description of the FRB's monetary policy and how this policy is executed. We disagree with disclosing specific details about how monetary policy is executed or even changes in these actions or tools used to effect monetary policy. Not only is would this discussion be complex but is subject to significant change each year. Furthermore, audit assurance of this information could be difficult and costly to obtain. Reference to the availability of the FRB's annual report, as required by paragraph 77(f), would provide a reader with more in-depth information on this subject rather than in Treasury's agency financial report.</p>
#36 Treasury CFO <b>7. Other Organizations- April 2014</b>	b. Yes. Some organizations falling outside of the inclusion principles may be viewed by the public as being part of the federal government such as Medicaid and state unemployment programs. Perhaps some level of disclosure explaining the federal government's limited role with regards to organizations such as these would be useful to readers of GPFFRs.
#37 Smithsonian Institute CFO	No response
#38 FDIC	No response
#39 US RRB	No Comment

**QUESTION 7**

**a. Do you agree or disagree with the related parties definition and requirements? Please provide the rationale for your answer.**

<p><b>b. Do you agree or disagree with the list of the types of organizations that generally would be considered related parties? Please provide the rationale for your answer.</b></p> <p><b>c. Are there additional organizations that generally should be considered related parties? Please provide the rationale for your answer.</b></p> <p><b>d. Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.</b></p> <p><b>e. Are there additional exclusions that should be considered? Please provide the rationale for your answer.</b></p>	
#1 PBGC -Joint Response CFO & OIG	No response
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	<p>a. Agree with the related parties definition and requirements.</p> <p>b. Agree with the list of the types of organizations that generally would be considered related parties.</p> <p>c. N/A</p> <p>d. Agree with the list of exclusions.</p> <p>e. N/A</p>
#4 Postal Service- OIG	No response
#5 SIPC	No response
#6 DOC CFO	<p>a. The Department of Commerce agrees with the related parties definition and requirements. They ensure the inclusion of material and significant items.</p> <p>b. The Department of Commerce agrees with the list of organization types, which would generally be considered related parties. However, each reporting component would need to exercise sound judgment when applying this standard to decide which organizations would be considered a third party.</p> <p>c. The Department of Commerce is unaware of any additional organizations that should be considered third parties.</p> <p>d. The Department of Commerce agrees with the list of exclusions. This list appears comprehensive and easy to understand.</p> <p>e. The Department of Commerce is unaware of any additional exclusions that should be considered.</p>
#7 SSA CFO	<p>a. We agree with the definition and requirements regarding the disclosure of significant related party relationships. We agree that related party concepts applicable to the Federal domain are necessary.</p> <p>b. We agree with the list of the types of organizations that FASAB generally considers related parties. If the organization does not meet the inclusion principles, then the related parties "significant influence" test may apply.</p>

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	<p>c. We are not aware of additional organizations that FASAB should consider as related parties with regards to this draft Standard.</p> <p>d. We agree with the list of exclusions.</p> <p>e. We are not aware of additional exclusions FASAB should consider.</p>
<p>#8 NSF CFO</p> <p><b>3. Related Parties- April 2014</b></p>	<p>a. In paragraph 80, FASAB indicates that significant influence may be exercised by representation on the board of directors or equivalent governing body. The National Science Foundation, by law, must consist of a Director and National Science Board (NSB). The persons nominated for appointment as members of the board are eminent in the fields of the basic sciences, medical science, engineering, agriculture, education, or public affairs and are appointed by the US President. The NSB establishes the policies of NSF within the framework of applicable national policies set forth by the President and Congress. In this capacity, the Board identifies issues that are critical to NSF's future, approves NSF's strategic budget, and approves new major programs and awards. The Board also serves as an independent body of advisors to both the President and the Congress on policy matters and education related to science and engineering.</p> <p>Several NSB members may be affiliated with entities to which NSF issues grants or contracts. Most often these board members are professors or hold honorary positions at the awardee institution. NSF is concerned that the related party definition as currently written will be applied to organizations with which NSB members are affiliated. NSF does not support this view and does not see any indication in the related party illustration in Appendix C, page 74, Andromeda Prime Power Systems (related Part- GSE), this is FASAB's intent. Indicating a related party relationship between the federal government and organizations that receive grants such as not-for-profit entities and collegial institutions would grossly mislead the public.</p> <p>In order to clearly denote that NSB members as individuals, or the entities they are affiliated with, are not in related party relationships with NSF; NSF requests that FASAB add additional clarifying language. Suggestions for this clarification are indicated below:</p> <p>Paragraph 80 – The current reference to policy decisions should be narrowed to distinguish between “operational” (day-to-day, transactional level) and “strategic” (high level strategy and direction) policy decisions. Strategic policy decisions do not have a direct influence on financial transactions and operating decisions and should not be determinative of the existence of related party relationships. In the case of the NSB, the Board’s strategic decisions do not directly influence the day to day operational and financial transactions of the Foundation (individual awards to grantees, etc.). NSF suggests adding the language from paragraph 79 to the first sentence of paragraph 80 to clarify the intent: <b>“Significant influence (for the purpose of this Statement) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies.”</b></p> <p>Paragraph 84 – Although Paragraph 84 c) indicates that “key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families” should be excluded from the related party definition; NSF suggests that FASAB explicitly add <b>“Including Presidentially appointed agency board members”</b> to the list of exclusions. Alternatively, paragraph 84 b) could be expanded to state <b>“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not automatically result in a related party relationship between the</b></p>



	<p><b>federal government and the individual or the federal government and the affiliated institution.”</b></p> <p>Furthermore, NSF requests that FASAB add the term “that may or may not” to paragraph 84 b) as indicated below:</p> <p>“Organizations with which the federal government transacts a significant volume of business that <b>may or may not</b> result in economic dependence such as....”</p> <p>b. NO NSF COMMENT</p> <p>c. NO NSF COMMENT</p> <p>d. As noted in response Q7 a above, NSF suggests that FASAB explicitly add in 84c <b>“Presidentially appointed agency board members”</b> to the list of exclusions. Alternatively, paragraph 84 b) could be expanded to state <b>“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not result in a related party relationship between the federal government and the individual or the federal government and the affiliated institution.”</b></p> <p>Furthermore, NSF requests that FASAB add the term “that may or may not” to paragraph 84 b) as indicated below:</p> <p>“Organizations with which the federal government transacts a significant volume of business that may or may not result in economic dependence such as....”</p> <p>e. As noted in response Q7 d above, NSF suggests that FASAB explicitly add <b>“presidentially appointed agency board members”</b> to the list of exclusions.</p>
<p># 9 KPMG</p> <p><b>3. Related Parties- April 2014</b></p>	<p>Related Parties</p> <p>i. We believe that related party disclosures would only be evaluated for an organization that was considered by the reporting entity to be subject to its influence to such an extent that the reporting entity evaluated it under this standard; however the organization failed the control criteria but was considered misleading to exclude. This is based on our observation that the factors in paragraphs 79 and 80 closely parallel those in paragraph 30. If there is an expectation of an evaluation of a separate population, that expectation should be specifically stated and perhaps a separate standard should be considered.</p> <p>ii. The statement should contrast the disclosure requirements of a related party to those of a disclosure organization. It appears that a related party is similar to a disclosure organization but with limited disclosure requirements.</p> <p>Paragraph 83b seems to suggest that organizations such as the United Nations, World Bank, IMF, etc. would be considered related parties of the federal government and should therefore be subject to disclosure requirements. Is this the Board’s intention?</p> <p>We recommend that the Board consider developing a separate standard for Related Parties instead of embedding those disclosures within the Reporting Entity standard. If a reporting entity currently includes related party disclosures in its financial statements, the reporting entity would be using the guidance provided in the FASB standards as FASAB does</p>



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	not currently contain a standard addressing related party reporting. Once the Reporting Entity statement is issued, it may be difficult for a federal reporting entity to know and understand that embedded within the statement is guidance for related party identification and reporting. We believe that this statement can refer to related parties however; a separate standard addressing all aspects of related parties may be beneficial. (Appendix 4 1V)
#10 Treasury OIG	No response
#11 HUD CFO	<p>a. HUD agrees with the related parties definition and requirements. In addition to organizations for which the Congress and/or the President are accountable, the federal government may have relationships with other parties. Only relationships of such significance that it would be misleading to exclude information about such relationships warrant disclosure.</p> <p>b. HUD agrees with the list of the types of organizations that generally would be considered related parties.</p> <p>c. HUD is not aware of additional organizations that would be considered related parties.</p> <p>d. HUD agrees with the list of exclusions.</p> <p>e. HUD is not aware of any additional exclusions that should be considered.</p>
#12 TVA CFO	No response
#13 NASA CFO	<p>a. NASA agrees with the definitions and requirements for related parties.</p> <p>b. NASA agrees with the list of the types of organizations that would be considered related parties.</p> <p>c. NASA does not recommend additional types of organization that should be considered related parties.</p> <p>d. NASA agrees with the list of types of organization that would not be considered related parties.</p> <p>e. NASA agrees that the definition for related parties is consistent with generally accepted accounting principles guidance. The list of organizations considered to be related parties is consistent with the definition.</p>
<p>#14 Department of Homeland Security CFO</p> <p><b>3. Related Parties- April 2014</b></p>	<p>a. We disagree with definitions and requirements for related parties that require professional judgment in calculating significance and whether it would be misleading to exclude information.</p> <p>b. Disagree, the three inclusion principles would cover an related parties when the government holds a majority interest or controls an organization with risk of loss or expectation of benefits.</p> <p>d. The inclusion principals would capture all objectively measurable related parties requiring disclosure.</p>
#14 Department of Homeland Security CFO	<p>c. There are no additional organizations that should be considered as related parties.</p> <p>e.No, there are no additional exclusions that should be considered.</p>
#15 Nuclear Regulatory Commission OIG	<p>a. I agree with the definition and requirements for related parties. This standard is similar to GAAP related party disclosure requirements. By requiring disclosure of related party relationships, GPFFR users are provided with additional information that may be material and relevant to sound financial decision making.</p> <p>b. I agree with the list provided, but I think the list could have provided more examples so that the preparers would have a better</p>

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	<p>understanding of the definition of related parties. The list for what is not a related party is longer than the list of what is a related party.</p> <p>c. I think this would be dependent on the degree of influence rather than on a type of entity.</p> <p>d. I agree with list. These are examples where influence would not be significant.</p> <p>e. No additional exclusions.</p>
# 16 Federal Reserve System	No response
#17 TVA OIG	No Response
#18 DOD CFO	<p>a. Agree. The definition and requirements of related parties are consistent with GAAP terminology and disclosures.</p> <p>b. Agree. The list of organizations appears to define the vast majority of potential related parties.</p> <p>c. No additional organizations are noted, at this time.</p> <p>d. Agree. The list of exclusions appears appropriate.</p> <p>e. No additional exclusions are noted, at this time.</p>
#19 Commodity Credit Corporation CFO	<p>a. Agree. Definition provided in para 78-83 are clear and concise.</p> <p>.</p>
<p>#19 Commodity Credit Corporation CFO</p> <p><b>3. Related Parties- April 2014</b></p>	<p>b. Para 83 is not clear “use of the term generally” allows for substantive judgment by the reporting entity.</p>
#19 Commodity Credit Corporation CFO	<p>c. None at this time</p> <p>d. Agree. Definitions in Para 84 are clear.</p> <p>e. None at this time.</p>
#20 Joseph H. Marren	No response
#21 HUD OIG	We support the Board’s position on questions 1 – 4 and 6-11
#22 HHS OIG	<p>a. The definitions and requirements in paragraphs 78-87 adequately describe related parties. They are logical and define how related parties should be disclosed. The definitions and requirements follow what one would expect to find in normal Federal financial reporting.</p> <p>b. The list in paragraph 93 appropriately defines the types of organizations that would generally be considered related parties. The list follows what one would expect to find in normal Federal financial reporting.</p> <p>c. Not aware of additional organizations that should be considered related parties.</p>

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	<p>d. The list of exclusion in Paragraph 84 appears complete and normal for what one might expect in Federal financial reporting.</p> <p>e. Not aware of additional exclusions that should be reported.</p>
#23 SEC CFO	<p>a. Agree, except for question in Q7c below</p> <p>b. Agree, except for question in Q7c below</p> <p>d. Agree. The individuals and organizations listed should not be considered related parties.</p> <p>e. The SEC is not aware of any significant omissions from the list.</p>
#23 SEC CFO <b>3. Related Parties- April 2014</b>	c. Yes. It would be helpful if this section could address factors to consider regarding whether non-federal organizations receiving federal financial assistance (which are excluded from the inclusion principles in paragraph 22) might be considered related parties.
#24 DOL OIG	<p>a. We agree with the related parties definition and requirements.</p> <p>b. We agree with the list of the types of organizations.</p> <p>c. We identified no additional related organizations.</p> <p>d. We agree with the list of exclusions.</p> <p>e. We identified no additional exclusions.</p>
#25 Administrative Office of the US Courts	No response
#26 GSA CFO	<p>a. GSA agrees that the definition as stated is sufficiently comprehensive and justifiable.</p> <p>b. GSA agree that the list is sufficient, so long as it is a representative sample list and not all inclusive.</p> <p>c. No comments.</p>
#26 GSA CFO <b>3. Related Parties- April 2014</b>	<p>d. GSA does not agree that it is necessary to provide exclusions for Part 84, Sections' (d), (e), and (f) especially for special interest groups. The guidance indicates that significant influence is the power to participate in the policy decisions of an entity, but not control those policies. The guidance goes on to state that regulation or economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Most importantly, the guidance states that judgment is required in assessing the impact of regulation and economic dependence on a relationship. It is believed that there may indeed be instances where foreign governments and special interest groups meet the definitions as provided herein in certain relationships. The power to disclose such related party information should not be taken from the disclosing entity under any general exclusion principle.</p> <p>e. See comment above.</p>
#27 GWSCPA FISC	The FISC generally agrees with the definition of related parties found in paragraphs 78-87. However, we suggest that additional guidance be provided to address whether a related party exists when a federal board or commission (such as

<b>3. Related Parties- April 2014</b>	<p>many of the entities named under the Accountability of Tax Dollars Act of 2002) has members of its board of directors or commissioners who maintain employment outside of the Federal government, and then the federal board or commission issues a contract or grant with the company, state, university, or charitable organization that is represented by the board member or commissioner. Given the guidance in the ED, the member of the board or commissioner has significant influence since the individual has the “power to participate in policy decisions of an entity” (paragraph 80). However, the board member or commissioner likely doesn’t have the ability to direct a specific grant or contract to create a less-than-arms-length transaction between the federal board or commission and the individual’s company, state, university, or charitable organization.</p> <p>Further, the definition of a related party appears to differ from the FASB’s definition of related parties. For example, the ED differs from FASB literature in the discussions of arms-length transactions, and how arms-length transactions with related parties impact the reporting of those relationships in the entity’s GPFFR. If differences exist in the two definitions, then the consolidation of reporting entities with FASB-based information may be complicated if two definitions of related parties are applied.</p>
#28 Joyce Dillard	<p>You state:</p> <p>A83. Because of the extent of the federal government’s relationships – whether already established or implied – “related parties” concepts may result in numerous relationships requiring disclosure.</p> <p>Therefore, the Board proposes disclosure of related party relationships of such significance to the reporting entity that it would be misleading to exclude information about them.</p> <p>For clarity of intent, the standards rely heavily on listing parties to be included and excluded. In addition, the proposal provides room for judgment because one cannot anticipate all types of relationships the federal government may have or might have in the future that should be reported.</p> <p>The related parties category is needed to provide for disclosure of those organizations that are not included under the inclusion principles but where there is an existing relationship of such significance that it would be misleading to exclude.</p> <p>As related parties become complex, so does disclosure. We, the public, need to understand these relationships, financially and operatively.</p>
#29 DOL CFO	No Comment
#30 Intelligence Community	<p>a. We believe the definition and requirements set forth in sections 79 and 87, respectively, provide an adequate understanding of what constitutes a related party and the appropriate information for the reader to understand the nature and extent of the relationship.</p> <p>The definitions and requirements provided for related parties provide sufficient guidance that enable preparers and auditors of financial reports to assess an organization’s relationship to the federal government and whether it should be included and disclosed in the GPFFR.</p> <p>b. We agree that the list of the types of organizations that generally would be considered related parties, while limited, is adequate. Determining whether a related party exists requires professional judgment and the application of a number of tests/principles to reach the appropriate conclusions, which cannot necessarily be anticipated and/or defined by a particular type of organization.</p> <p>d. We agree with the list of exclusions because it is either explicit or implicit that the transactions do not meet the principles of inclusion or do not meet the related party definition.</p>

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	e. We do not believe there are additional exclusions needed.
#30 Intelligence Community <b>3. Related Parties- April 2014</b>	<p>c. We believe the board should also consider the influence of those listed below when considering related parties:</p> <ul style="list-style-type: none"> <li>• Free trade agreements</li> <li>• Customs unions</li> <li>• Common markets</li> <li>• United Nations</li> <li>• Foreign financial institutions</li> </ul> <p>Each of these organizations could possess significant influence due to their relationships with the federal government, its organizations, and non-profit or private sector organizations that impact the federal government.</p>
#31 AGA FMSB <b>3. Related Parties- April 2014</b>	a. The FMSB has some concerns about the use of the term related parties in the exposure draft. Under GASB, state and local governments are required to disclose certain related party transactions and to recognize the transaction for its economic form rather than its legal form. Thus related party issues are linked to transactions. The FASAB approach is to call the entity a related party if one party has the ability to influence financial and operating decisions. It is not linked to any particular transaction. Thus the use of the term by FASAB seems inconsistent with the use of the term in other professional pronouncements and we urge FASAB to utilize another term.
#31 AGA FMSB	<p>b. The FMSB agrees with the list.</p> <p>c. The FMSB has no additions to suggest at this time.</p> <p>d. The FMSB has no comment.</p> <p>e. The FMSB has no comment.</p>
#32 NSB <b>3. Related Parties- April 2014</b>	<p>a. The National Science Board (NSB) fully supports the comments made by the National Science Foundation (NSF) on the subject of related parties. The NSB submits comments to highlight some specific points.</p> <p>The federal government has numerous relationships with private sector and non-profit entities. NSB agrees with FASAB that it is appropriate to focus disclosure requirements only on those relationships of “such significance to the reporting entity that it would be misleading to exclude information about them.” Paragraph A83, Appendix A, and paragraph 78.</p> <p>In paragraph 80, FASAB indicates that ‘significant influence’ may be exercised by representation on the board of directors or equivalent governing body of an entity. The NSB recommends that FASAB clarify the definition of ‘significant influence’ used in paragraphs 78 – 82 to make clear that Presidentially appointed or Congressionally confirmed individuals in collegial bodies that head agencies, and the institutions with which those individuals are affiliated, do not automatically have a related party relationship with that agency. The operation of the National Science Board is illustrative.</p> <p>The National Science Foundation by law consists of the National Science Board and a Director. 42 U.S.C. § 1861.</p>

There are 24 members of the NSB; they are appointed by the President. Board members are eminent in the fields of basic science, medical science, social science, engineering, agriculture, education, research management and public affairs. The NSB establishes the policies of NSF within the framework of applicable national policies set forth by the President and Congress. In this capacity, the NSB acts both strategically, in that it identifies issues that are critical to NSF's future and approves NSF's strategic budget directions, and in certain instances it acts operationally, by approving major new programs plus specified kinds of large grants and awards. There are typically fewer than 15 NSB-approved awards per year.

NSB members may be affiliated with institutions such as universities where researchers are eligible to receive grants and awards from NSF. Individual NSF grant awards are made pursuant to a peer-review based process within NSF and the vast majority are not reviewed by the NSB. The NSB only reviews proposed awards that are larger than a designated threshold or meet other specific criteria. Federal conflict of interest rules prohibit NSB members from participating in matters where they have a conflict of interest or there is an impartiality concern without prior authorization from the designated agency Ethics Official. Individual NSB members are not involved in the review or approval of any proposed grant awards to their affiliated institutions.

NSB is concerned that the reference in paragraph 80 that significant interest lies in the power to participate in policy decisions may be interpreted too broadly in circumstances where agencies are headed by collegial bodies. This definition should be narrowed to distinguish between 'strategic' (high-level strategy and future direction) policy decisions, and 'operational' policy decisions, that is, day-to-day or transactional level policies. Strategic policy decisions do not have a direct influence on financial transactions and operating decisions and should not be determinative of the existence of a related party relationship. The NSB's strategic policy decisions do not have a direct influence on the day-to-day or financial transactions of NSF. With regard to operational policy decisions, NSB members are regulated by government-wide conflict of interest rules designed to prevent federal employees from participating in matters where they have a conflict of interest or there is an impartiality concern.

The NSB fully supports FASAB's underlying goal of transparency in an agency's financial statements. As a matter of course, NSF and NSB include information in the NSF Financial Statements about the NSB's role in the Foundation and the total amount of grant awards that NSF made to NSB member-affiliated institutions in the reporting year. The yearly award totals from NSF to each member-affiliated institution are provided. In years when the NSB has approved a grant to a Board member-affiliated institution, that amount is provided as well. However, to assume a related party relationship between an NSB member and NSF, or between the NSB member's affiliated institution and NSF, would itself be misleading to the public. It could imply the existence of the factors in paragraph 86, such as the ability to cause the agency to enter in transactions on different terms or conditions than those available to unrelated parties (paragraph 86.c). As explained above, this is not the case with the NSB.

Thus, the NSB recommends clarification of the definition of 'significant influence' paragraphs 78 – 82 to make clear that Presidentially appointed or Congressionally confirmed individuals in collegial bodies that head agencies, and institutions with which those individuals are affiliated, do not automatically have a related party relationship with that agency. This appears to be the intent of paragraph 84.c, but for avoidance of doubt NSB and NSF recommend the changes below.

	<p>Paragraph 80 – The current reference to policy decisions should be narrowed to distinguish between “operational” (day-to-day, transactional level) and “strategic” (high level strategy and direction) policy decisions. As noted above, strategic policy decisions do not have a direct influence on financial transactions and operating decisions and should not be determinative of the existence of related party relationships. NSF suggests adding the language from paragraph 79 to the first sentence of paragraph 80 to clarify the intent: <b>“Significant influence (for the purpose of this Statement) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies.”</b></p> <p>Paragraph 84 – Paragraph 84.c indicates that “key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families” should be excluded from the related party definition. NSF suggests that FASAB explicitly add <b>“Including Presidentially appointed agency board members”</b> to the list of exclusions. Alternatively, paragraph 84.b could be expanded to state <b>“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not automatically result in a related party relationship between the federal government and the individual or the federal government and the affiliated institution.”</b></p> <p>Furthermore, NSF requests that FASAB add the term “that may or may not” to paragraph 84.b as indicated below:  <b>“Organizations with which the federal government transacts a significant volume of business that may or may not result in economic dependence such as....”</b></p> <p>b. NO NSB COMMENT</p> <p>c. NO NSB COMMENT</p> <p>d. As noted above, NSB suggests that FASAB explicitly add in 84.c <b>“Presidentially appointed agency board members”</b> to the list of exclusions. Alternatively, paragraph 84.b could be expanded to state <b>“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not result in a related party relationship between the federal government and the individual or the federal government and the affiliated institution.”</b></p> <p>NSB requests that FASAB add the term <b>“that may or may not”</b> to paragraph 84b as indicated below:  <b>“Organizations with which the federal government transacts a significant volume of business that may or may not result in economic dependence such as....”</b></p> <p>e. As noted in response Q.7.d above, NSB suggests that FASAB explicitly add <b>“presidentially appointed agency board members”</b> to the list of exclusions.</p>
#33 Treasury Bureau of Fiscal Service (FMS)	<p>a. Agree – significant control should be the overriding factor for identifying a related party</p> <p>b. Agree – the ability to manage or control activities is the driving factor for these two conditions</p>



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	<p>c. No</p> <p>d. Yes – the exclusions do not represent factors related to control; (b) relates to concentrations of risk, (c) relates to family members but neither of these exemplifies control</p> <p>e. No</p>
#34 NRC CFO	<p>a. Agree.</p> <p>b. Agree.</p> <p>d. Agree; educational institutions, state and local governments, and foreign governments should be excluded.</p> <p>e. No.</p>
#34 NRC CFO <b>3. Related Parties- April 2014</b>	c. Disclosures should also include business entities and key individuals residing outside the United States for the purposes of conducting international business.
#35 FAF	No Response
#36 Treasury CFO <b>3. Related Parties- April 2014</b>	<p>a. Agree. While we generally agree with the related party definition (paragraph 12) and requirements (paragraphs 78-87), the standard does not appear to provide a clear distinction between the characteristics of a related party and those of a disclosure organization meeting the "misleading to exclude" inclusion principle. More specifically, it could be interpreted that a disclosure entity meeting the "misleading to exclude" inclusion principle is a related party and therefore could be disclosed under the requirements of either a disclosure entity or related party. Thus, the section "misleading to exclude" should not be placed as a "catch-all" for the inclusion principle (paragraphs 35 and 36), and then again in paragraphs 78-79 in referring to related parties. Instead, entities not meeting the "Budget", "Ownership", and "Control" inclusion criteria should then be considered for disclosure as a "related party" if too misleading to exclude. Also see related comments and recommendations in our response to Q1(c) and Addendum A.</p> <p>b. Agree with one minor exception. The federal government is party to certain multi-lateral development banks where it does not have significant influence. Paragraph 83(b) should therefore be amended to read "(for example, certain multi-lateral development banks)."</p>
#36 Treasury CFO	<p>c. No. We did not identify any missing types of organizations.</p> <p>d. No. We did not identify any additional exclusion that should be considered.</p>
#37 Smithsonian Institute CFO	No response
#38 FDIC	No response
#39 US RRB	<p>a. Agree</p> <p>b. Agree</p>



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	c. No Comment d. Agree e .No comment
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<b>QUESTION 8</b>	
<b>Do you agree or disagree with the conforming changes to SFFAC 2? Please provide the rationale for your answer.</b>	
#1 PBGC -Joint Response CFO & OIG	No response
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	Agree with the conforming changes to SFFAC 2.
#4 Postal Service- OIG	No response
#5 SIPC	No response
#6 DOC CFO	The Department of Commerce agrees with the conforming changes to SFFAC. While SFFAC 2 will remain the overarching concept for the GPFFR, this standard will refine the GPFFR to make the information more complete and result in better reporting for the government-wide GPFFR and the component GPFFRs. Not having these changes would result in overlapping guidance with conflicting criteria.
#7 SSA CFO	We agree with the conforming changes to SFFAC 2 as the language concerning the criteria for determining what organizations are required to be included in a Federal reporting entity's GPFFR will now be included in this Standard.
#8 NSF CFO	NO NSF COMMENT
# 9 KPMG <b>4. SFFAC 2 Amendments- April 2014</b>	a. As a result of the number of changes that the ED requires for SFFAC 2, we recommend that the Board consider the need to re-evaluate SFFAC 2 in totality and consider a complete revision to SFFAC 2 outside of the required changes resulting from the ED.
# 9 KPMG <b>Open- Editorial, structural, or clarified in BfC</b>	Comments related to Amendments to SFFAC 2, Entity and Display (Appendix 4 VII)  b. Paragraph 91 – The new paragraph (6a) to be included within SFFAC 2 uses the term “accountability.” We believe this should state “financial accountability” to agree with paragraph 38 of SFFAC 2, which uses the term “financial accountability.” This suggestion may require additional edits to SFFAC 2 if there is inconsistent use of “accountability” versus “financial accountability.”  c. Paragraph 93 – We provide the following suggested revision to the paragraph 10 replacement to SFFAC 2: Ensure information at each reporting entity includes information about all relevant organizations to support

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	<p>financial accountability by identifying organizations that are in the budget or controlled with risk of loss or expectation of benefit.</p> <p>d. Paragraph 94 – We suggest eliminating part of the last sentence to the revised paragraph 38 to SFFAS 2, which includes the concept of misleading to exclude.</p> <p>e. Paragraphs 99-100 – We do not believe that the information related to distinguishing between consolidated and disclosure organizations is necessary to be included in a concept statement.</p>
#10 Treasury OIG <b>4. SFFAC 2 Amendments- April 2014</b>	If changes are made to the Exposure Draft to implement our response to question 5 above, the rescission of paragraph 78 of SFFAC 2, proposed in paragraph 101 of this Exposure Draft, would need to be revisited. We have no comment on other conforming changes to SFFAC 2.
#11 HUD CFO	<p>HUD agrees with the conforming changes to SFFAC 2. Most of the conforming changes are rescissions that result from movement of criteria for determining what organizations are required to be included in the federal reporting entity's GPFFR from a concepts statement to standards statement.</p> <p>SFFAC 2 is being amended to ensure that concepts provide a framework for standards-setting but do not themselves establish standards by listing specific exclusions.</p>
#12 TVA CFO	No response
#13 NASA CFO <b><u>2. Misleading to Exclude- Dec 2013</u></b>	NASA agrees with the conforming changes, with the exception of item noted in our previous responses: Paragraph 94: The Statement should provide clarity on the criteria for the term "misleading".
#14 Department of Homeland Security CFO	Agree, inclusion of organizations that the federal government owns, controls, with risk of loss or expectation of benefits, fits within the objective of accountability for financial reporting purposes.
#15 Nuclear Regulatory Commission OIG	I agree with the conforming changes. The changes appear to be necessary to make SFFAC 2 and SFFAC 34 language agree.
# 16 Federal Reserve System	No response
#17 TVA OIG	No Response
#18 DOD CFO	Agree. The changes made to SFFAC 2 are consistent with the Exposure Draft guidance.
#19 Commodity Credit Corporation CFO	Agree. The SFFAC 2 should reflect the same reporting decision criteria outline in the standard.
#20 Joseph H. Marren	No response
#21 HUD OIG	We support the Board's position on questions 1 – 4 and 6-11

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#22 HHS OIG	The conforming changes should be made to SFFAC 2 since what is required for inclusion in an entities' GPFFR will now be in a Statement of Federal Financial Accounting Standards (SFFAS). The SFFAS' have a higher priority than the concept statements in the Federal accounting hierarchy.
#23 SEC CFO <b><u>1. In the Budget – Dec 2013</u></b> and <b><u>4. Term for Disclosure Organization-- Dec 2013</u></b>	<p>Disagree. The proposed standard would rescind paragraph 42 of SFFAC 2 and replace it with what the SEC believes to be a narrower definition of a non-federal entity. Paragraph 42 of SFFAC 2 states that: "This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation." However, paragraphs 22 and 39 and footnote 11 of the ED refer to federal financial assistance as defined by the Single Audit Act; this implies that organizations must be subject to the Single Audit Act in order to qualify for the exemption currently in paragraph 42 of SFFAC 2.</p> <p>Also, the SEC disagrees with inconsistent use of the terms "organization" and "entity." For example, in this ED, the terms "consolidation entity" and "disclosure organization" are used. However, in paragraph 100 of the ED, proposed new paragraph 53A refers to the federal governments as an "organization" and proposed new paragraph 53B uses the term "disclosure entity." (This was also noted in SEC response to Q1b and Q2a.)</p> <p>SEC Recommendation:</p> <p>The SEC recommends that paragraphs 22 and 39 be deleted and that being "in the budget" should be included only a one indicator of control. The passage referring to non-federal entities listed in the budget should retain the same language as paragraph 42 of SFFAC 2.</p> <p>Also, to address inconsistent use of the terms "entity" and "organization," the term "organization" should be used consistently throughout the document, including conforming changes to SFFAC 2, for everything except for references to a primary federal reporting entity (government-wide or component level) that would be reporting on an organization.</p>
#24 DOL OIG	We agree with the conforming changes.
#25 Administrative Office of the US Courts	No response
#26 GSA CFO	It is agreed that conforming changes to the Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display, to rescind or amend language to remove criteria for determining what organizations are required to be included in a federal reporting entity's GPFFR from the concepts statement are necessary for the reasons stated.
#27 GWSCPA FISC	The FISC agrees with the conforming changes to SFFAC 2.
#28 Joyce Dillard <b>7. Other Organizations – April 2014</b>	<p>You state:</p> <p>89. Paragraph 2 is replaced with the following paragraph which describes the amended purpose and contents of the Statement.</p> <p style="padding-left: 40px;">The purpose of this statement is to establish concepts regarding what would be encompassed by a Federal</p>

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	<p>Government entity's financial report. The statement specifies the types of entities for which there should be financial reports (hereinafter called "reporting entities"), establishes an organizational perspective for considering the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, suggests the types of information each type of report would convey, and identifies the process and factors the Board may consider in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI).</p> <p>We are not clear if all entities involved would be Reporting Entities. They should be. The Federal Register is a notification to the public on Notices, Proposed Rules and Final Rules. One assumes that this is notification of how the government works with an opportunity for the public to comment. Without the full encompassing of the process, government becomes hidden or a "Black Government." "Black Government" definitely fits into the misleading category.</p>
#29 DOL CFO	No Comment
#30 Intelligence Community	<p>We agree the conforming changes to SFFAC 2 relating to rescissions and additions based on the explanations provided in paragraphs 88-101. Rescissions appear to be justified based on the explanations provided in the Exposure Draft. There are two newly added paragraphs, the first of which relates the financial reporting objective of accountability to that of the reporting entity, and the second of which (containing subparagraphs 53A-53E) provides a more detailed distinction between consolidation entities and disclosure organizations.</p> <p>The remaining changes described are either amendments or replacements.</p>
#30 Intelligence Community <b>4. SFFAC 2 Amendments- April 2014</b>	<p>The document does not specify what was replaced and/or why it was replaced. We would recommend that the document specify this information to provide the reader with FASAB's rationale for the proposed change.</p> <p>FASAB should consider providing more specific guidance related to the material differences before rescinding paragraph 78.</p>
#31 AGA FMSB	The FMSB agrees with the conforming changes to SFFAC 2.
#32 NSB	No response
#33 Treasury Bureau of Fiscal Service (FMS)	Agree – the changes give proper consideration to the effects of implementing this exposure draft
#34 NRC CFO	Agree.
#35 FAF	No Response
#36 Treasury CFO <b>4. SFFAC 2 Amendments- April</b>	Agree. We generally agree that conforming changes to SFFAC 2 are appropriate and necessary since, without these changes, there is a risk that federal agencies will erroneously follow the original guidance in the SFFAC and miss the guidance in the new standard. However, due to the significant number of changes that are proposed to SFFAC 2, the Board should give consideration to superseding the provisions of SFFAC 2 in their entirety with this ED, or

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<b>2014</b>	alternatively completely revising SFFAC 2.
#37 Smithsonian Institute CFO	No response
#38 FDIC	No response
#39 US RRB	Agree with having the changes in one place in the accounting guidance.

<b>QUESTION 9</b>	
<b>Do you agree or disagree with this effective date? Please provide the rationale for your answer.</b>	
#1 PBGC -Joint Response CFO & OIG	No response
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	Agree with this effective date.
#4 Postal Service- OIG	No response
#5 SIPC	No response
#6 DOC CFO	The Department of Commerce agrees with the effective date being for periods after September 30, 2016. We believe it provides ample time for agencies to implement, including the preparation of data systems and the identification of consolidation entities and disclosure organizations.
#7 SSA CFO	We agree with the implementation date as it appears to provide preparers and users adequate time to review and implement applicable changes. However, organizations significantly affected by this Standard would be better equipped to respond to this question.
#8 NSF CFO	NO NSF COMMENT
# 9 KPMG <b>5. Effective Date- April 2014</b>	We do not agree with allowing for early implementation, because it would lead to inconsistent reporting across federal reporting entities. We suggest stating that early implementation is not permitted.
#10 Treasury OIG	No Response
#11 HUD CFO	HUD agrees with this effective date. It is the beginning of federal government fiscal year.
#12 TVA CFO	No response

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#13 NASA CFO	NASA agrees with this effective date as long as technical guidance on the accounting treatment of implementing this requirement is provided prior to the effective date to include guidance related to tie points between budgetary and proprietary accounts and specifying which reports are required when FASB entities are consolidated with FASAB entities.
#14 Department of Homeland Security CFO	Agree
#15 Nuclear Regulatory Commission OIG	I agree.
# 16 Federal Reserve System	No response
#17 TVA OIG	No Response
#18 DOD CFO	Agree. The effective date seems reasonable to allow Component Reporting Entities to fulfill these requirements and update their accounting systems.
#19 Commodity Credit Corporation CFO <b>5. Effective Date- April 2014</b>	Disagree. The change should be further out into the future to allow agencies to complete the necessary analytics and incorporate reporting changes. We would suggest agencies complete the information for FY17, with comparative presentation in FY18 financial statements.
#20 Joseph H. Marren	No response
#21 HUD OIG	We support the Board's position on questions 1 – 4 and 6-11
#22 HHS OIG	The effective date for the new Statement and Amendments to SFFAS 2 appears reasonable. This implementation date should give preparers and auditors of component and government-wide GPFFRs enough time to account or make any changes needed for reporting under the new statement.
#23 SEC CFO	Agree, provided that the SEC's concerns in Q1, Q3, and Q5 are addressed.
#24 DOL OIG	We agree with the proposed effective date.
#25 Administrative Office of the US Courts	No response
#26 GSA CFO	GSA agree that the effective date, which is well over two years from now, should give reporting entities sufficient time to prepare for these new guidelines and requirements.
#27 GWSCPA FISC <b>5. Effective Date- April 2014</b>	The FISC suggests that the Board take an iterative step before full implementation of this ED. This Standard has the potential for some far-reaching consequences that may not be envisioned in deliberations during this limited comment period. We suggest that the Board consider an expanded comment period for implementation challenges, and/or allow the preparer community additional time to consider whether the consequences of this ED may result in unintended legal or political challenges.

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#28 Joyce Dillard <b>5. Effective Date- April 2014</b>	No, it should be sooner. Political campaigns years should not be influential in these decisions. The year 2016 is a Presidential Election Year.
#29 DOL CFO <b>5. Effective Date- April 2014</b>	With regard to paragraph 102, we have no comments on the effective date. However, because coordination may be required between component entities and between the government-wide entity and component entities to implement this accounting standard, we believe that encouraging earlier implementation may make coordination more difficult and that reporting entities may be better served by a date certain for implementation.
#30 Intelligence Community	We agree the effective date gives entities adequate time to implement the new standard.
#31 AGA FMSB	The FMSB agrees with the effective date.
#32 NSB	No response
#33 Treasury Bureau of Fiscal Service (FMS)	Agree – the proposed date gives agencies an opportunity for the Board to consider reviewer responses, to effect any changes, roll out the new standard and for agencies to assess the impact as a Reporting Entity. It also provides the opportunity for early implementation.
#34 NRC CFO	Agree.
#35 FAF	No Response
#36 Treasury CFO <b>5. Effective Date- April 2014</b>	Agree. The proposed effective date seems reasonable as long as changes in reporting entity, if applicable, follow the past practice that these types of changes are not retroactively restated in comparative statements.
#37 Smithsonian Institute CFO	No response
#38 FDIC	No response
#39 US RRB <b>5. Effective Date- April 2014</b>	Disagree. Reporting entities should be given additional time, especially if consolidation is necessary. Propose the change be effective for periods beginning after September 30, 2020.

**QUESTION 10**

**a. Do you agree the appendices are helpful in the application of the proposed standards?**

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<p><b>b. Do you believe the appendices should remain after the Statement is issued?</b></p> <p><b>c. Do you believe there should be any changes or additional examples regarding the illustrations that would be useful in understanding the application of the standards? Please provide rationale to support your answer.</b></p>	
#1 PBGC -Joint Response CFO & OIG	No response
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	<p>a. Agree the appendices are helpful in the application of the proposed standards.</p> <p>b. Yes. The guidance will assist entities in adopting the new standard.</p> <p>c. No. The summary chart in Appendix C appears to be excellent.</p>
#4 Postal Service- OIG	No response
#5 SIPC	No response
#6 DOC CFO	<p>a. The Department of Commerce agrees that the appendices are helpful in multiple ways. Seeing these examples, especially the inclusion principle illustrations in appendices B and C, allows you to understand how to apply the standard in a variety of situations. The appendices also provide good resource information to support the paragraphs in the body of the standard.</p> <p>b. The Department of Commerce believes that the appendices should remain after the statement is issued, because they assist in understanding and applying the standard.</p> <p>c. The Department of Commerce does not believe that any changes or additional examples are needed in the illustrations to understand the application of the standards.</p>
#7 SSA CFO	<p>a. We believe the appendices are helpful. The flowchart in Appendix B helps visually display the sequence of decisions involved in determining whether the entity is a consolidation entity or a disclosure organization. In addition, the flowchart is easy to follow and the page number references are useful to the reader. The illustrations provided in Appendix C help users apply the Standard by providing relevant examples.</p> <p>b. We believe the appendices should remain after FASAB issues the Standard because the information the appendices provide is helpful in understanding the application of the Standard.</p>
#7 SSA CFO <b>6. Appendices- April 2014</b>	c. We believe that if the Board retains receivership, conservatorship, and intervention as part of this Standard as disclosure organizations, the Board should include examples of each in the Standard. In addition, it would be beneficial if FASAB relayed to users how they differentiate among these three categories.
#8 NSF CFO	<p>a. NO NSF COMMENT</p> <p>b. Yes – the illustrative scenarios in particular help the reader to understand FASAB's intended application of each definition.</p>
#8 NSF CFO <b>3. Related Party</b>	c. NSF, and presumably other agencies with Boards such as the Nuclear Regulatory Commission and Federal Communications Commission, would benefit from a related party scenario involving agency Board members. The



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<b>and 6 Appendices- April 2014</b>	scenario should involve a federal agency with a board of directors that approves strategic and high level budget decisions. A board member with an administrative or professor role at a collegial institution, or that serves in a management capacity at a not-for-profit organization should be included. The illustration should indicate that the agency does not have a related party relationship with the board member or the institution/organization with which the board member is affiliated. NSF is open to providing the board with scenario details if desired.
# 9 KPMG  Staff believes the Appendices should remain non-authoritative guidance; the overwhelming response was they were helpful.	KPMG provided a Revised Flowchart for consideration, see letter.  We did not review the illustrations provided in Appendix C for consistent application of the principles included within the statement because we believe these examples will become requirements and replace the application of the principles. As a result, we suggest removing Appendix C. If this removal causes concern because the examples provide important guidance, consider whether additional guidance should be added to the Principles and Characteristics section. (Appendix 4, V)
#10 Treasury OIG	a. We agree that the appendices are helpful in the application of the proposed standard. b. Yes, We believe the appendices should remain after the Statement is issued. c. We have no suggested changes or additional examples that would be useful in understanding the application of the standards.
#11 HUD CFO	a. HUD agrees that the flowcharts and illustrations are useful in understanding the application of the standards. b. HUD believes the appendices should remain after the Statement is issued. c. HUD believes that the illustrations are adequate for understanding the application of this standard.
#12 TVA CFO	No response
#13 NASA CFO	a. NASA agrees. The appendices provided insight on the Board's objectives and concerns, which facilitated understanding the proposed standard in the Statement. b. NASA agrees. The appendices will provide clarity on the background of the Statement standards and its applicability to various types of organizations. c. NASA does not recommend additional examples.
#14 Department of Homeland Security CFO	a. Agree b. Yes
#15 Nuclear Regulatory Commission OIG	a. I agree the appendices are very helpful. b. I believe the appendices should be part of the Statement after it is issued. Since these are tools to apply the Statement, they should remain. c. I do not have any changes or additional examples regarding the illustrations. I think they provide good examples for guidance of how

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	to apply the Statement.
# 16 Federal Reserve System	No response
#17 TVA OIG	No Response
#18 DOD CFO	<p>a. Agree. The examples provided help demonstrate the inclusion principles outlined in the exposure draft, as well as the four attributes that distinguish what to consolidate or disclose. The flowchart summarizes the standard in a clear and concise way. "A picture is worth a thousand words."</p> <p>b. Agree. The guidance will assist Component Reporting Entities in adopting the new standard.</p> <p>c. No changes at this time. The examples provided are helpful, they should not be considered all encompassing.</p>
#19 Commodity Credit Corporation CFO	<p>a. Agree—all of the appendices provide clarifying guidance. The decision flowchart will clearly aid reporting entities in the determination of inclusion and presentation.</p> <p>b. Yes</p> <p>c. None at this time.</p>
#20 Joseph H. Marren	No response
#21 HUD OIG	We support the Board's position on questions 1 – 4 and 6-11
#22 HHS OIG	<p>a. The appendices were extremely helpful in defining how to apply the proposed standards. The flowchart in Appendix B is also extremely helpful in showing support for the illustrations described in Appendix C.</p> <p>b. The appendices should remain in the Statement when issued by FASAB. They are especially helpful to those who have limited experience in Federal financial reporting.</p> <p>c. Not aware of any additional examples that would be useful in understanding the application of the standards</p>
<b>#23 SEC CFO</b> <b>6. Appendices-</b> <b>April 2014</b>	<p>a. Agree that Appendix B could be helpful, except for recommended edits described in response to Q 1c and as follows: The decision tree appears to indicate that all organizations in the budget must be consolidated, either by a component entity or in the government-wide financial statements. The text of the proposed standard and Q2 indicate that this is not accurate. Accordingly, Appendix B should be edited to more accurately reflect the proposed requirements.</p> <ul style="list-style-type: none"> <li>Disagree for Appendix C.</li> </ul> <p>Reason: Appendix B, with the recommended edits described in response to Q1c, provides a summary decision tree that would be useful for preparers. The recommended edit is that the potential decision of "misleading to exclude" should be deleted. The rationale for this is explained in the SEC's response to Q1c and Q3a.</p>
<b>#23 SEC CFO</b> <b>6. Appendices-</b>	Appendix C does not provide useful implementation guidance because it does not explain which factors were selected as the deciding factors, and why. The explanations imply that factors not mentioned could have been the deciding factors. (Illustrative "tentative conclusions" in Appendix C generally stated that "Management determined

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<b>April 2014</b>	<p>and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to [include/exclude] organization XX.”) For this reason, the illustrations in Appendix C do not provide useful implementation guidance.</p> <p>SEC Recommendation: Retain Appendix B (with recommended edits) but not Appendix C in the final standard.</p> <p>b. SEC Recommendation: Agree for Appendix B (with edit described in (a) above); Disagree for Appendix C. See response to Q10a for rationale.</p> <p>c. No. See explanation in response to Q10a above.</p> <p>SEC Recommendation: It would be impractical to change Appendix C so that each example spelled out the factor or factors that were considered decisive. Instead, Appendix C should not remain when the Statement is issued.</p>
#24 DOL OIG	<p>a. The appendices would be very helpful in the application of the proposed standard.</p> <p>b. Yes, the appendices should remain as a part of the issued Statement.</p> <p>c. We identified not additional changes or additions to the examples.</p>
#25 Administrative Office of the US Courts	No response
#26 GSA CFO	<p>a. The appendices provide some useful insight into application of the guidelines, but there are some inconsistencies in the examples, in the Commentator's opinion (see comments in Question 11 below). The guidelines serve to demonstrate how truly subjective this reporting requirement is, and how it can be anticipated that inconsistencies in application will be the norm for reporting disclosure organizations.</p> <p>b. GSA agrees that the appendices should remain as useful insight into application of the guidelines, but only after the examples goes through another review by independent parties to insure their consistency.</p> <p>c. See comments on 10a. above.</p>
#27 GWSCPA FISC	The FISC agrees with the appendices included the ED.
#28 Joyce Dillard	Yes, keep them in. The Board members are industry related, but the accountability is to the Public. Visual tools help as does color.
#29 DOL CFO	No Comment
#30 Intelligence Community	<p>a. We agree Appendix B (Flowchart) is helpful in the application of the proposed standards as it provides a simplified depiction of the process, including decision trees, to enable the user to easily understand the thought process that applies to determining the appropriate composition of the reporting entity.</p> <p>We agree Appendix C (Illustration) is helpful in the application of the proposed standards because it provides detailed scenarios for control, ownership, budget inclusion and related parties, which serve to deepen the reader's understanding of the concepts presented in the standard.</p> <p>Although Appendix A was not referenced in this question, we believe this appendix is helpful in the application of the proposed standards as it provides the reader with FASAB's rationale for each proposed action in the standard.</p>

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	<p>b. We believe the appendices should remain after the Statement is issued for the reasons stated in Q10a.</p> <p>c. We do not believe there are any additional changes or examples needed.</p>
#31 AGA FMSB	<p>a. The FMSB agrees that the appendices are useful in applying the proposed standards.</p> <p>b. The FMSB believes the appendices should remain after the Statement is issued.</p> <p>c. The FMSB has no suggested changes.</p>
#32 NSB	<p>a. NO NSB COMMENT</p> <p>b. Yes – the illustrative scenarios in particular help the reader to understand FASAB's intended application of each definition.</p>
<p>#32 NSB</p> <p><b>3. Related Party and 6. Appendices- April 2014</b></p>	<p>c. NSF, and presumably other agencies with Boards such as the Nuclear Regulatory Commission, Federal Communications Commission, Federal Retirement Thrift Investment Board, and the Corporation for National and Community Service, would benefit from a related party scenario involving agency Board members. The scenario should involve a federal agency with a board of directors that approves strategic and high level budget decisions. A board member with an administrative or professorial role at a collegial institution, or that serves in a management capacity at a not-for-profit organization should be included. The illustration should indicate that the agency does not have a related party relationship with the board member or the institution/organization with which the board member is affiliated.</p>
#33 Treasury Bureau of Fiscal Service (FMS)	<p>a. Agree - Appendix B is a useful resource for organization considerations; Appendix C is useful in providing various examples.</p> <p>b. Yes</p>
<p>#33 Treasury Bureau of Fiscal Service (FMS)</p> <p>“Consolidating” statements (columns for significant components with an eliminating entity column) are not presently required and we did not revisit that in this project.</p>	<p>c. Yes - The exposure draft does not provide clear guidance for the reporting entity's financial statement presentation when it involves a consolidating entity (i.e. Is columnar presentation recommended or required that specifically identifies consolidation entities?) Are any updates necessary for OMB Circular A-136 or was consideration given to directing the reader to A-136 for sample presentation formats?</p>
#34 NRC CFO	<p>a. Agree.</p>
#34 NRC CFO	<p>c. Yes, include the Judicial and Legislative branches of government in paragraphs A38 – A41</p>

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<b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b>	
#35 FAF	No Response
#36 Treasury CFO	a. Agree. The appendices provide quick reference to pertinent sections. b. Yes. The appendices should remain after the Statement is issued as they provide quick reference to pertinent sections.
#36 Treasury CFO <b>6. Appendices- April 2014</b>	c. Yes. See Addendum A, and responses to Q1(c) and Q7(a) above regarding proposed changes to the Flowchart in Appendix B. Additionally, an illustration that provides clarity in the application of the "administratively assigned" principles would also be a positive addition to the standard.
#37 Smithsonian Institute CFO	No response
#38 FDIC	No response
#39 US RRB	a. Agree b. Agree c. no

<b>QUESTION 11</b>	
<b>Are there other unique situations that should be addressed within this Statement? Please explain fully and also how the situation is not addressed by this Statement when considered in its entirety.</b>	
#1 PBGC -Joint Response CFO & OIG	No response
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	N/A
#4 Postal Service- OIG	No response
#5 SIPC	No response

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#6 DOC CFO	The Department of Commerce is not aware of any other unique situations that should be addressed within this statement.
#7 SSA CFO	We are not aware of any other unique situations that this Standard should address.
#8 NSF CFO	NO NSF COMMENT
# 9 KPMG <b>7. Other organizations – April 2014</b>	We believe the statement should address how an organization should be consolidated if it appears in the budget in multiple locations. For example, the National Railroad Passenger Corporation (Amtrak) is included in the budget of the Department of Transportation and is also included as an Other Independent Agency (National Railroad Passenger Corporation Office of the Inspector General). (Appendix 4 II)
# 9 KPMG	We understand that certain equity investments currently are required by legislation to be accounted for in accordance with the Federal Credit Reform Act and normally follow the requirements of SFFAS 2, Accounting for Direct Loans and Loan Guarantees. As equity is an ownership interest, we believe that these equity investments could result in a majority ownership interest, which is considered an indicator of control and therefore would trigger the need to evaluate the organization against the Principles contained in the statement. This will cause a change in accounting principles, which we believe should be addressed by the statement (Appendix 4 III)
#10 Treasury OIG	No response.
#11 HUD CFO	HUD believes that there are no other unique situations that should be addressed within this Statement.
#12 TVA CFO	No response
#13 NASA CFO	No response
#14 Department of Homeland Security CFO  Appropriate GAAP standards would apply.	Yes, when the government divests its ownership interest in an organization. How will comparative statements be prepared.
#15 Nuclear Regulatory Commission OIG	I am not aware of any unique situations that should be addressed within this Statement.
# 16 Federal Reserve System	No response
#17 TVA OIG	No Response
#18 DOD CFO	No unique situations are noted, at this time.
#19 Commodity Credit	Not aware of any at this time.

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Corporation CFO	
#20 Joseph H. Marren	No response
#21 HUD OIG	We support the Board's position on questions 1 – 4 and 6-11
#22 HHS OIG	Not aware of other unique standards that should addressed within this Statement.
#23 SEC CFO	The proposed SFFAS lists a large number of indicators/factors both for and against inclusion, and for and against consolidation. As a result, considerable future resources will likely be expended as federal component entities and their auditors debate which factors should be considered decisive for a large number of organizations, most of which are immaterial for the government-wide GPFFR.
<b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b>	The proposed standard indicates that legislation should not determine inclusion or exclusion (paragraph 4). It is difficult to imagine what could be more authoritative information on the nature of an organization than the legislation that established the organization or authorizes its activities. Entities carrying out governmental functions generally may do so only to the extent authorized by legislation. If the organization's activities are beyond the scope authorized, that raises legal issues regarding governmental responsibility for its actions. Meanwhile, much larger organizations, such as most of the Legislative and Judicial branches of the federal government, are not included in the government-wide GPFFR. This material omission is not mentioned in the proposed standard; it is only mentioned in the Basis for Conclusions, which may or may not be retained in the final standard.
and	The SEC also questions whether it is cost-beneficial for federal entities to expend increasingly scarce resources evaluating and defending decisions on the inclusion/exclusion of reporting on relatively immaterial organizations.
<b><u>1. In the Budget – Dec 2013</u></b>	SEC Recommendation:  In order to avoid expending increasingly scarce resources addressing the pros and cons of reporting relatively immaterial organizations, the SEC recommends a more cost-beneficial approach by making the following edits:  (a) Moving the discussion of the Legislative and Judicial branches from the Basis for Conclusions in paragraph A13 to the Introduction, just before paragraph 4, and change "would" to "should,"  (b) Incorporating existing paragraph 42 of SFFAC 2 into the proposed new SFFAS without change and without an added reference to the Single Audit Act as an indicator of control, and
#23 SEC CFO	(c) Making paragraph 4 less biased toward inclusion of numerous immaterial organizations by deleting the following sentence:  Even in cases where legislation indicates an organization is "not an agency or instrumentality" of the federal government, the organization should be assessed against the guidance contained in this Statement to determine whether it should be included in the reporting entity's GPFFR.
#24 DOL OIG	None.

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#25 Administrative Office of the US Courts	No response
#26 GSA CFO	No comments
#27 GWSCPA FISC	Please see our responses to questions 2 & 7.
#28 Joyce Dillard <b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b>	The Judicial Branch is to hidden from the Public and it is part of the three-armed governance. They must be included. Memorandums of Understanding should be addressed. It becomes a form of government outside representation and that signature may only need the approval of an agency head, not a legislative approval. Yes, they may involve Local and State Government Agencies and Non-Profit Corporation hybrids.
#28 Joyce Dillard Staff notes there is an active project on PPP.	Public-Private Partnerships are formed to avoid public disclosure and oversight when it is time to rein the secrecy.
#29 DOL CFO <b><u>6. FASB Based Information</u></b>	We believe that if FASAB proposes no conversion from FASB to FASAB information for those amounts to be consolidated, then there should also be no conversion from FASB to FASAB information for those amounts to be disclosed.
#29 DOL CFO <b>Open- Editorial, structural, or clarified in BfC</b>	DOL/OCFO believes that there are entities currently consolidated in the Financial Report of the U.S. Government for which the U.S. Government is not responsible for obligations of this entity under current law. For example, the FY 2012 Financial Report of the U.S. Government states, "PBGC insures pension benefits for participants in covered defined benefit pension plans. As a wholly-owned corporation of the U.S. Government, PBGC's financial activity and balances are included in the consolidated financial statements of the U.S. Government. However, under current law, PBGC's liabilities may be paid only from PBGC's assets and not from the General Fund of the Treasury or assets of the Government in general." (FY 2012 Financial Report of the U.S. Government, Note 18, page 105) We do not believe that the exposure draft addresses this unique situation with regard to consolidation entities. In paragraph A71, the second sentence states, "... liabilities not fully guaranteed by the federal government might be added to federal liabilities. Instead, financial balances and amounts for organizations having the characteristics of disclosure organizations should be kept separate from balances and amounts for those organizations having the characteristics of consolidation entities to prevent distortions to the consolidated financial statements." The wording in paragraph A71 for disclosure organizations may imply that consolidation entities would have liabilities that would be fully guaranteed by the Federal government.
#29 DOL CFO Staff can	DOL/OCFO believes that the relationship between this exposure draft and SFFAS 31, "Accounting for Fiduciary Activities," is unclear. Please describe the relationships between the fiduciary activities and the reporting entity from



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understand how certain relationships when considering “funds” may become unclear, but describing fiduciary activities in a proposal based on organizational basis may confuse more than provide clarity.	the government-wide entity and component entity perspective.
#30 Intelligence Community <b>7. Other Organizations- April 2014</b>	We believe an exception statement should also be added for the applicability to certain entities if application of this standard will be detrimental to national security.
#30 Intelligence Community GAAP and Other Form and Content Guidance applies.	<ul style="list-style-type: none"> <li>The proposed guidance does not include information pertaining to the disclosure of the consolidation policy in the GPFFR. It would be helpful to the user to understand the policy implemented to by each consolidating entity. The consolidation process will differ from organization to organization; therefore, providing stakeholders with information pertaining to the policies and methodologies employed could significantly enhance the users understanding of the financial reports.</li> </ul>
#30 Intelligence Community Treasury guidance and long standing professional practices deemed sufficient.	<ul style="list-style-type: none"> <li>The proposed guidance does not discuss differences in fiscal periods between the consolidating entity and the component entity. There are instances in which the fiscal periods may differ for some entities; therefore, the board should consider including guidance related to consolidating an entity with a fiscal period different than that of the consolidation entity. For example, a component entity may be required to prepare a set of financial statements for a period that corresponds with or closely approaches the fiscal period of the consolidation entity.</li> </ul>
#30 Intelligence Community Beyond scope of the project. GAAP Hierarchy would apply in situations if	<ul style="list-style-type: none"> <li>Presentation guidance for consolidating and/or combining financial statements is not provided in the statement. The board should consider the possible conflicts and interpretation differences among preparers and auditors of GPFFRs that could arise due to limited guidance between combining and consolidating and the process of presenting information in a uniform manner for users.</li> <li>The statement does not discuss principles and guidance related to combinations. Instances could arise in which a combination of ownerships or non-controlling interests is employed by the preparer. The board should</li> </ul>

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determined appropriate.	address differences in consolidation and combinations of organizations in the financial statements and the disclosures, and the appropriate presentation that may not be provided in SFFAC No. 2 or SFFAS No. 34.
#30 Intelligence Community Beyond scope of the project.	<ul style="list-style-type: none"> <li>Deconsolidation principles and guidance are not provided in the statement (the reporting entity deconsolidating a consolidation entity as of the date the reporting entity no longer has majority ownership, exposure to significant benefits or losses, contractual agreement expires, etc.) Presentation requirements for deconsolidations are also not provided in the statement. The board should provide principles and guidance related to these matters since they are possible situations that may occur.</li> </ul>
#30 Intelligence Community Majority ownership provides for which organizations will be included. The assessment of the characteristics between consolidation entity and disclosure organization determine how it will be presented.	<ul style="list-style-type: none"> <li>Majority ownership does not necessarily ascertain that an organization should be included as a consolidation entity or disclosure organization. The board should consider adding a paragraph to the statement providing guidance on a majority-owned entity that does not rest with the majority owner. For example, FAS 160/ABS 51, regarding subsidiaries and parent reporting entities, states that “a majority-owned entity shall not be consolidated if control does not rest with the majority owner if the entity is in legal reorganization or in bankruptcy or operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast doubt on the parent’s ability to control the entity.” Similar scenarios and situations should be considered when evaluating the majority ownership of an organization from the perspective of the federal government because there are possible situations which may arise that prohibit the Federal Government from having control of the consolidated or disclosed entity.</li> </ul>
#30 Intelligence Community GAAP applies. The proposal addresses ownership through net residual assets and when it holds ownership through its components. Less than a 50% interest is accounted for in accordance with	<ul style="list-style-type: none"> <li>A consolidating entity’s interest as the majority owner may change as a result of legal, regulatory, or financial difficulties, the consolidation entity may issue additional stock, which could alter the majority ownership position, purchase and/or sell ownership interests, and change a contractual agreement, which provides control over an entity.</li> <li>The combination of several non-controlling interests could result in a potential risk, loss, or expected benefit to the federal government and could be more impactful than a majority ownership. The board should consider the impact of combining non-controlling interests and the way this information should be presented and disclosed.</li> </ul>

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GAAP.	
#31 AGA FMSB	No response.
#32 NSB	No Response
<p>#33 Treasury Bureau of Fiscal Service (FMS)</p> <p>The central agencies intend to provide coordinated guidance and the proposed guidance elaborates on this. One would anticipate written guidance to be developed. Further the proposal is clear multiple entities may disclose the same entity.</p>	<ul style="list-style-type: none"> <li>Should a reporting entity or the consolidating disclosure entity know or make known that another entity is consolidating or disclosing information about the agency to avoid more than one agency reporting/disclosing the same entity? (The standard does not appear to assist agencies in determining substantial control if control resides with more than one federal agency.)</li> <li>How does Treasury intend to capture the information necessary to consolidate/disclose data without possibly duplicating consolidating reporting entity data that may be submitted by multiple federal agencies?</li> </ul>
#34 NRC CFO	No.
#35 FAF	No Response
#36 Treasury CFO	No. We did not identify any other unique situation that should be addressed.
#37 Smithsonian Institute CFO	No response
#38 FDIC	No response
<p>#39 US RRB</p> <p><b>7. Other Organizations- April 2014</b></p>	Yes. We have a unique situation due to reporting of net assets for NRRIT (non-federal government entity). We may not be able to provide the audited figures for consolidation to the Federal government agency in time to meet the 45 day time table for submission to the Department of the Treasury due to timing of completing agency's financial statements audited position before the data is provided to Treasury and non-federal government entity's audited position of net assets included in agency's financial statements.

QUESTION 12	
<p>a. Do you agree or disagree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government? Please provide the rationale for your answer.</p> <p>b. Do you agree or disagree with the alternative view that the guidance for all interventions, regardless of type, should be presented in a single Statement of Federal Financial Accounting Standard? Please provide the rationale for your answer.</p>	
#1 PBGC -Joint Response CFO & OIG	No response
# 2 Holocaust Memorial Museum- CFO	No response
#3 Office of Personnel Management - CFO	<p>a. Disagree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations. Believe the proposed standards appropriately distinguish between consolidation entities and disclosure organizations including receiverships, conservatorships, and interventions resulting in ownership or control; as they are not consolidated into a federal reporting entity's financial report, and the disclosure can use language to make it clear that they are not part of the Federal Government.</p> <p>b. Disagree with the alternative view. The proposed standards establish principles for when relationships with organizations create a need for accountability, and how information should be included in GPFFRs. This proposed Statement also addresses whether organizations are required to apply the GAAP hierarchy for federal reporting entities, and it was clarified that it is not the purpose of this Statement of Federal Financial Accounting Standards to assist in determining what entities are "part of the federal government" for legal or political purposes.</p>
#4 Postal Service- OIG	No response
#5 SIPC	No response
#6 DOC CFO	<p>a. The Department of Commerce generally does not agree with the alternative view that the standards might infer that receiverships, conservatorships, and interventions are part of the federal government due to them being included in other disclosure organizations. Steps should be taken to highlight the temporary nature of these organizations in the disclosures, so they are not seen as permanent parts of the federal government.</p> <p>b. The Department of Commerce generally does not agree with the alternative view that guidance for all interventions should be presented in a single standard. Although a single standard would be easy to reference and may decrease the probability of misunderstanding the standards by providing one document, it seems unnecessary since interventions can be clearly presented in additional paragraphs. Future updates will be better accommodated through additional paragraphs, instead of completely replacing the existing standard(s) with a new one.</p>
#7 SSA CFO	<p>a. We believe receiverships, conservatorships, and interventions are examples of types of disclosure organizations. In order for the Federal Government to provide a comprehensive and complete GPFFR, inclusion of these three types of organizations is necessary to provide a meaningful representation of operations and financial condition of the Federal Government.</p> <p>b. We believe FASAB can address the guidance for interventions in the Reporting Entity Standard rather than in a single Statement of</p>

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	Federal Financial Accounting Standard.
#8 NSF CFO	NO NSF COMMENT
# 9 KPMG Alternative view language will be handled in normal protocol.	Paragraphs A89-A93 provide an alternative view as it relates to receiverships, conservatorships, and interventions. While we agree that receiverships, conservatorships, and interventions could be covered within a Risk Assumed statement as is suggested in the alternative view, we believe these types of relationships should remain within this statement, until at a later date it becomes apparent that an amendment to the statement is necessary to place these types of relationships in a separate statement related to other Risk Assumed matters. (Appendix 4 VIII f)
#10 Treasury OIG	No response.
#11 HUD CFO	a. HUD does not agree with the alternative view that the proposed standard should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government. We believe that including these types of entities makes the standard more complete. Given that certain organizations were established in the private sector, carry out activities not intended to be performed by the federal government and are temporary, gives the impression that these entities are not part of the Federal government.  b. HUD does not agree with the alternative view. We believe that one standard (i.e., this Exposure Draft) should cover all consolidation and disclosure entities in the GPFFR, including interventions, regardless of the type, to maintain consistency.
#12 TVA CFO	No response
#13 NASA CFO	NASA neither agrees nor disagrees with this statement.
#14 Department of Homeland Security CFO	a. Disagree, if an organization meets one of the three inclusion principles it should be included in the GPFFR. b. Disagree, this exposure draft's proposed three inclusion principles meets the modern governmental and quasi-governmental arrangements that would also include receiverships, conservatorships, and/or interventions.
#15 Nuclear Regulatory Commission OIG	a. I disagree with the alternative view. I think receiverships, conservatorships, and interventions should be a part of the GPFFR if they meet the criteria of inclusion rules. I think the Statement clearly makes the distinction that disclosure entities are not required to apply the GAAP hierarchy for federal reporting entities.  b. I disagree with the alternative view. I think interventions should be addressed in SFFAC 34 because they should be included in an entities GPFFR if they meet the inclusion rules. The financial risks associated with interventions should disclosed to the GPFFR users to provide them with the necessary information to make informed and sound business decisions.
# 16 Federal Reserve System	No response
#17 TVA OIG	No Response
#18 DOD CFO	a. Disagree. The proposed standard appropriately distinguishes between consolidation entities and disclosure entities, including receiverships, conservatorships, and interventions. The Federal Government assumes some risk in these endeavors and does exhibit some control. Therefore, these entities need to be included, but it is important that the disclosures clearly state that they are not part of the Federal Government. It is important for the Federal Government to be as transparent as possible, especially when it involves public funding. Additional explanation within the disclosure could emphasize the government's position.

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	b. Disagree. This proposed standard attempts to establish which entities need to be included in the GPFFR. It also establishes which entities need to be consolidated and which entities need to be disclosed. Receiverships, conservatorships, and interventions need to be disclosed since they pose a potential risk to the Federal Government. Any additional guidance as to the proper accounting for these entities, or risks assumed, could be resident in another standard, but disclosure requirement are appropriately resident in this proposed standard.
#19 Commodity Credit Corporation CFO	<p>a. Disagree. While the inclusion of these organizations greatly broadens the scope—the disclosure of Government involvement in the organization management and financial actions provides the user of the statements significant information. The disclosure needs to be concise and not duplicate information reported.</p> <p>b. Disagree. The current statement is focused on the reporting entity—it should ensure that it is not in conflict with other statements or concept papers.</p>
#20 Joseph H. Marren	No response
#21 HUD OIG	We support the Board's position on questions 1 – 4 and 6-11.
#22 HHS OIG	<p>a. The alternative view should not be considered based on the fact these are still disclosures organizations. All Federal reporting entities should disclose areas where the component reporting entities or the Federal government taken as whole would be at risk. Receiverships, conservatorships and interventions provide a great deal of risk for Federal agencies. Disclosure of these items helps report on actual financial condition of the Federal government.</p> <p>b. All requirements for reporting entities should be included in one single Statement of Federal Accounting Standards. Two different Statements of Federal Financial Accounting Standards that define potential reporting entities or disclosure organizations could create different interpretations and lead to inconsistent financial reporting.</p>
#23 SEC CFO	The SEC has no comment
#24 DOL OIG The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.	<p>a. We believe the alternative view includes a number of valid points; however, we believe these can be addressed by the standard establishing a minimum level of disaggregation and disclosure of information for such entities. We do concur with the majority view that such entities should be included in the GPFFR. The proposed standard allows latitude as to presentation for disclosure entities and whether and how disclosure entities should be aggregated or reported separately (paragraphs 70 through 73 of the proposed standard, and A45 of Appendix A). Perhaps two broad classes of disclosure entities could be defined with the requirement for separate reporting and minimum level of disclosure in the GPFFR. This may help address the concerns raised in the alternative view, which we share.</p> <p>b. A separate standard on interventions may be appropriate for other purposes; however, the standard on the reporting entity should provide complete guidance on determining what constitutes the reporting entity and stand on its own.</p>
#25 Administrative Office of the US Courts	No response
#26 GSA CFO	a. GSA disagrees with the alternate view. It is pointed out that Mr. Steinburg's position is that the organizations in question were established in the private sector and they carry out activities not intended to be performed by the federal government, and that equating them with other disclosure organizations could be viewed as a broadening of the reach of the federal government into the private sector. GSA not only believes that equating these bailout entities with other disclosure organizations could be viewed as a broadening of the

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	<p>reach of the federal government, but that is in fact exactly what happened. It is not a view - it is a fact. The real question is how such dramatic interference into operations of the private sector could ever possibly be legal. When the government owns something, it is part of the federal government by definition. There is no avoidance of that fact.</p> <p>b. GSA sees no problem with disclosing the information as a separate standard as long as it is fully disclosed and is fully accounted for as part of the assets and liabilities of the Federal government. More important to the subject at hand would be how to fully disclose the government's current and future potential liabilities in these areas.</p>
<p><b>#27 GWSCPA FISC</b></p> <p>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.</p>	<p>The FISC agrees with the Board Member's alternative view. Receiverships, conservatorships, and interventions are less than temporary in nature, and information related to the federal government's role in these organizations should be disclosed separately from the financial information included for disclosure organizations in the notes to the financial statements of the GPFFRs. We suggest that the disclosures for receiverships, conservatorships, and interventions be limited to the risk of loss or expectation of benefit associated with the federal government's temporary role in those organizations. We agree with the Board Member that presenting all of the financial information for receiverships, conservatorships, and interventions would give a false impression to the readers of the GPFFRs of the federal government's size and financial position.</p>
<b>#28 Joyce Dillard</b>	No response
<b>#29 DOL CFO</b>	No Comment
<p><b>#30 Intelligence Community</b></p> <p>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.</p>	<p>a. We agree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government. If these types of entities have a material relationship with the federal government, they should be disclosed, but there needs to be criteria developed to distinguish the reporting requirements for these types of entities versus true disclosure entities per this standard. The proposed standards should establish specific terminology in order to refer to disclosure entities that are part of the federal government and disclosure entities that are not part of the federal government. The current definition and proposed language for disclosure entities could create unnecessary confusion regarding the type of relationship between a disclosed entity and the federal government, and between a receivership, intervention, or conservatorship (RIC) and the federal government. Disclosure organizations are categorized in the statement as (1) receiving limited or no funding from general tax revenues, (2) having less direct involvement, and influence, by the Congress and/or the President, (3) imposing limited risks and rewards on the federal government, and/or (4) are more likely to provide goods and services on a market basis. These requirements as well as those mentioned throughout the statement do not align with RICs due to</p> <ul style="list-style-type: none"> <li>• the unique nature of their relationships with the federal government;</li> <li>• the government's exposure to significant loss or benefit;</li> <li>• the characteristics of RICs in relation to those of a typical disclosure organization; and</li> <li>• the high degree of influence by Congress and/or the President.</li> </ul>



	<p>The board should consider differentiating between organizations required to be disclosed and a disclosure entity. RICs should be disclosed in the financial reports; however, based upon the statement they do not meet the qualification of disclosures organizations (i.e. an organization being disclosed does not necessary mean it's a disclosure organization). As a result, the board should consider developing separate distinctions and principles for RICs in order to segregate the characteristics and nature of disclose organizations from RICs.</p> <p>b. We agree a separate standard should be developed to capture and address all of the unique aspects of these types of entities. Guidance for all interventions should be presented in a single Statement of Federal Financial Accounting Standard in order to adequately discuss all situations and concerns that may arise related to interventions. The brief guidance provided in this proposed Statement of Federal Financial Accounting Standard does not capture all aspect of interventions; therefore, in order to effectively guide preparers on this subject matter a single standard should be established.</p>
<p>#31 AGA FMSB</p> <p>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.</p>	<p>No response, but staff notes in the general comments:</p> <p>Comments on Alternative Views in the Basis for Conclusion Section</p> <p>We have read the alternative views contained in paragraph A89 through A93 and we find that the views presented by Mr. Steinberg regarding the case of receivership, conservatorships and interventions are compelling. Although we are disappointed that the FASAB chose to omit these from the current project, we agree with Mr. Steinberg that these issues must be considered in the risk assumed project. In our letter of comments regarding the FMSB's latest three year plan, we had suggested that these projects be combined or operated on parallel tracks as there are interrelated issues that must be considered.</p>
#32 NSB	No Response
#33 Treasury Bureau of Fiscal Service (FMS)	<p>a. Disagree – One purpose of financial statement disclosure is to provide relevant information to assist the reader in interpreting unique relationships between federal entities and/or federal/non-federal entities and why/how those relationships were formed and the extent to which they exist; resulting receivables/payables and operating activities that exist between the entities should be appropriately disclosed</p> <p>b. Disagree – I believe one standard focusing on the “Reporting Entity” is capable of addressing consolidating entities as well as disclosure organizations. Due to the short term nature of interventions, a separate standard could easily be disregarded by a reporting entity as it considers the impact of consolidation only, giving little or no consideration to interventions due to their infrequency of occurrence</p>
<p>#34 NRC CFO</p> <p>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.</p>	<p>a. Agree.</p> <p>b. No, a separate standard does not seem necessary and exceptions should be included within the single standard.</p>



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#35 FAF	No Response
#36 Treasury CFO	<p>a. Disagree. The criteria proposed in the ED seem clear enough that a reader would not infer that receiverships, conservatorships, and interventions are part of the federal government.</p> <p>b. Disagree. One standard focusing on the “reporting entity” is capable of addressing consolidation and disclosure entities. Due to the short-term nature of interventions, a separate standard would only require the same disclosures as are being proposed in this standard for disclosure entities, thereby creating unnecessary duplication.</p>
#37 Smithsonian Institute CFO	No response
<p>#38 FDIC</p> <p>The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.</p>	<p>12a: Inclusion of Receiverships/Conservatorships as Disclosure Organizations</p> <p>The FDIC does not believe FDIC-established receivership and conservatorship entities should be equated with other disclosure organizations for government-wide reporting and disclosure purposes. It is our belief that receiverships and conservatorships do not meet the definition of disclosure organizations. These entities are self-funded without reliance on taxpayer dollars and are governed by separate statutory roles and responsibilities. In addition, the FDIC is already a consolidating entity with the Federal government and we submit our financial information for inclusion in the Federal government's September 30 financial statements. The impact on the FDIC from failed financial institutions is captured in the Deposit Insurance Fund's net assets presented on its balance sheet as Receivables from Resolutions, Net. For the Federal government's consolidated financial statements, the relevant financial effects of receiverships administered by the FDIC are already captured and presented in its Other Assets.</p> <p>Generally, we believe that the inclusion of such entities as disclosure organizations would be misleading to the users of the government-wide financial statements because these are not Federal assets or liabilities (i.e., the Federal government has no claim on these entities beyond what is consolidated in the financial statement of the Deposit Insurance Fund's Net Receivable). Receiverships are administered by the FDIC under unique statutory parameters in the Federal Deposit Insurance Act. These receiverships are not owned or controlled by the Federal government, as such, but are subject to the oversight of the FDIC, as receiver, for a particular failed institution and have statutory responsibilities to the creditors of that entity, including the FDIC. Conservatorships represent a transitional phase of the resolution process, which may result in a final receivership in liquidation. The FDIC, in its corporate capacity, as administrator of the Deposit Insurance Fund, is a creditor in all receiverships, when established, and that creditor relationship is recognized as a net receivable in the Fund's financial statements. All required disclosures concerning the effects of receiverships and conservatorships on the FDIC are appropriately contained in the Fund's financial statement notes.</p> <p>12b. No Response</p>
#39 US RRB	<p>a. No Comment</p> <p>b. No Comment</p>

Listing of Additional Comments	
#9 KPMG While staff was directed to incorporate clarifications where appropriate, the Board appeared to want to maintain the overall structure of the proposal.	<p><i>General Structure</i></p> <p>The statement should be divided into two sections – Principles and Characteristics and Presentation Requirements.</p> <p>Should present principles for consolidation or disclosure at both the government-wide and component reporting entity level. It should be clear that the principles apply to both the government-wide and component reporting entity level.</p>
#9 KPMG <b>Open- Editorial, structural, or clarified in BfC</b>	<p>T As noted in paragraph 13 of the ED, SFFAC 2 (paragraph 38) uses the term “financial accountability;” therefore, we suggest that the term “accountability” be replaced with “financial accountability” throughout the statement. In addition, the term “financial accountability” should be added to the definitions section.</p> <p>In conjunction with our suggested removal of “inclusion entity” and the resulting simplification of the statement, our suggested revision of paragraph 1 is as follows:</p> <p>The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, <b>general purpose federal financial reports</b> (GPFFR) for the <b>government-wide reporting entity</b> should be broad enough to reflect the financial accountability of Congress and/or the President for those organizations. In addition, <b>component reporting entity</b> GPFFRs should allow the Congress and/or the President to hold management accountable. Although Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display, addresses identifying <b>reporting entities</b> and criteria for including components in a reporting entity, questions have continued in this area indicating the need for standards. Standards that can be used to identify organizations to be consolidated and/or disclosed in the GPFFR of the government-wide reporting entity and each component reporting entity are important to meet federal financial reporting objectives.</p> <p>Based on our suggestion to divide the statement into two main sections – Principles and Characteristics and Presentation Requirements, we provide the following suggested revision for paragraph 2, which also includes information from paragraph 3, thereby eliminating paragraph 3:</p> <p>This Statement guides preparers of GPFFRs in determining what organizations should be consolidated and/or disclosed in the reporting entity’s GPFFR as well as the presentation requirements related to consolidated and disclosure organizations. This statement also provides guidance on identifying and disclosing related parties. This guidance, together with existing guidance, will ensure that users of GPFFRs</p>

	<p>are provided with comprehensive financial information about federal reporting entities so that the federal financial reporting objectives are met.</p> <p>Paragraph 4 provides useful guidance for evaluating control. We suggest that it be moved to that section of the statement.</p> <p>As suggested in the general structure, we recommend placing the information included in paragraphs 13-19 (Organizational Approach) within the Purpose section of the statement. Paragraphs 13 and 14 would follow paragraph 3, and paragraphs 15-17 and 19 would be combined into one paragraph as follows:</p> <p>his statement:</p> <ul style="list-style-type: none"> <li>• establishes the principles for identifying organizations to consolidate or disclose within the government-wide and/or component reporting entity;</li> <li>• provides the presentation requirements related to consolidated and disclosure organizations; and</li> <li>• provides guidance for identifying related parties and the disclosure requirements for such relationships.</li> </ul> <p>If the statement will separately discuss the central banking system, the information from paragraph 18 should be included in this section.</p> <p><i>Scope and Applicability</i></p> <p>a. Paragraph 6 states, "This statement applies to federal reporting entities that prepare GPFFR in conformance with GAAP as defined by SFFAS 34." GAAP as defined by SFFAS 34 includes FASB standards for those federal reporting entities that have historically prepared financial statements in accordance with FASB standards. The FASB Accounting Standards Codification contains standards for consolidation. The scope paragraph implies that federal reporting entities that follow FASB, as allowed by FASAB 34, would need to follow this statement for consolidation. In doing so, a federal FASB entity would no longer report in accordance with FASB standards as related to consolidation. Therefore, we suggest that this conflict be resolved.</p> <p>Paragraph 7 of the scope should be revised as follows:</p> <p>The purpose of this statement is to enable federal reporting entities preparing and issuing GPFFRs to determine what organizations should be consolidated or disclosed in its GPFFR and to determine the presentation requirements for consolidated and/or disclosure organizations.</p> <p><i>Definitions</i></p> <p>a. Throughout the ED and its footnotes, embedded definitions should be moved to the definition section.</p> <p>b. This section should include a definition for financial accountability.</p> <p>c. We do not believe that paragraph 9 is the definition of the government-wide reporting entity. It is a statement</p>
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	<p>of what should be included in the financial statements of such an entity.</p> <p>d. The definitions of consolidated and disclosure organizations should be included in this section.</p> <p><i>Presentation</i></p> <p>We suggest the following revision to paragraph 64 to ensure consistency between the terms used in the Principles and Characteristics section and the Presentation Requirements section. We also note that the last sentence included in paragraph 64 provides a definition for the term “consolidation,” which we believe should be moved to the definitions section of the statement, and as a result it is not included in our suggestion revision.</p> <p>Consolidated financial statements should be prepared for the government as a whole to facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxes and other non-exchange revenue. Component reporting entities should consolidate the financial information of all organizations identified through the application of the principles and related characteristics of a consolidated organization.</p>
<p>#9 KPMG</p> <p><b>Open- Editorial, structural, or clarified in BfC</b></p>	<p>OTHER COMMENTS on BfC</p> <p>The “Indicators of Control” in paragraphs A23-A27 is the order which we have suggested in the general structure. (Appendix 4 VIIIb)</p> <p>We suggest that the heading before paragraph A30 state, “Characteristics of Consolidated and Disclosure Organizations. (Appendix 4 VIIIc)</p> <p>Paragraph A41 implies that not all of the characteristics of a consolidated organization need to be met to be considered a consolidated organization; however, this should be clarified within the statement at paragraph 38. (Appendix 4 VIId)</p>
<p>#9 KPMG</p> <p><b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b></p>	<p>Paragraph 1 states, “the government-wide reporting entity should be broad enough to reflect the Congress and/or President’s accountability for those organizations.” Paragraph A13 of the Basis for Conclusion states, “Although the legislative and judicial branches are not currently required to prepare financial statements, based on the principle (in the budget) those organizations would be reported upon in the government-wide report.” Without commenting on the accountability of each branch under the Separation of Powers included with the Constitution, we believe that the consolidation of the judicial branch would provide a more complete presentation of the financial position of the government-wide reporting entity. (Appendix 4 I)</p> <p>Paragraph A13 implies that the judicial branch should be consolidated in the government-wide GPFFR, although noting that the judicial branch is not currently required to prepare financial statements. Further, footnote 53 states that FASAB GAAP would be the appropriate accounting standards for these organizations to adopt to the extent they prepare GAAP-based financial statements. Therefore, if the judicial branch were to prepare GAAP-based financial statement, they should follow FASAB GAAP. This statement conflicts with SFFAC 1, paragraph 5, which states, “FASAB does not propose to recommend accounting concepts and standards for the Legislative and Judicial</p>

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	branches. (Appendix 4 VIIIa)
#9 KPMG <b>3. Related Parties- April 2014</b>	We find paragraph A84 to be confusing and do not understand why this statement should defer to OMB for additional disclosure requirements for related parties. We believe this statement should be all inclusive of the required related party disclosures or the Board should consider a separate standard to address related parties. (Appendix 4 VIIIe)
AGA FMSB #31 <b>3. Applicability to Judicial and Legislative Branches- Dec 2013</b>	Paragraph 40 – This paragraph discusses the governance structure and that for consolidation entities the chain of command leads directly to elected officials. We would suggest that the FASAB include in this paragraph a statement that the judicial and legislative branches are included in the Federal Entity as stated in paragraph A13 of the Basis for Conclusions. This might avoid confusion regarding the chain of command issue to the user.
AGA FMSB #31 <b>3. Related Parties- April 2014</b>	Paragraph 87 – Paragraph 87 provides guidance regarding what should be disclosed once the determination is made that an entity is considered a related party. We believe that part 87.b. should be expanded to include information that discusses the fiscal interdependency of the related party to the federal funds in addition to information on the risks to the federal government. What represents a small risk or exposure to the federal government will generally present a significant risk to the related party. Such potential impacts should be disclosed relevant to related parties.
AGA FMSB #31 <b>4. Term for Disclosure Organization- Dec 2013</b>	<u>Selected Terminology</u>  In reviewing the exposure draft we believe that the FASAB needs to reconsider the terminology selected to describe disclosure organizations. In the exposure draft, the FASAB has chosen the terms “consolidation entities” and “disclosure organizations” to distinguish between who shall have its financial information integrated into the GPFFR and who shall not have its financial information integrated into the face of the GPFFR but instead included in the notes to the GPFFR. We understand the need for such distinction but we are concerned that the term “disclosure organization” will cause confusion on two fronts. The general term disclosure is associated with a wide variety of issues, yet as used in this exposure draft it is now associated with the accounting for a very specific purpose. Likewise, we see the term “organization” used in place of the word entity, when speaking about organizations whose financial information will not be shown on the face of the GPFFR. Is an organization the same as an entity, but just handled differently? This can cause confusion.
AGA FMSB #31  The Board deliberated the notion of discrete or columnar reporting several times but	Reporting of Disclosure Organizations Financial Information  The FASAB has provided that the financial information for disclosure organizations should be disclosed on an individual basis to the reader. The exposure draft’s discussion, however, does not recognize the essential nature of the information available on such organizations. For example, information that can be presented in the form of a financial statement, and is “essential to understanding the financial position and results of operations” of the organization should be presented in that form, while information that helps in understanding such information should

there was not support for this type of reporting.	be presented in note form. Therefore, would it not be preferable to include the financial statement information about such organizations in one or more combining statements, with notes structured, as appropriate for each separately presented organizations. Structurally, this would be similar to how "discretely presented component units" are reported for state and local governments—even to the point of presenting the consolidation of all "disclosure organizations" in a single column beside the sum of all of the "consolidation entities." We think that such a presentation would be more readily understood by stakeholders than what might otherwise be a string of separate notes for each disclosure organizations. This would enhance the reader's ability to understand the full financial impacts.
AGA FMSB #31  The Board voted <u>not</u> to consider the Alternative View further at the August 2013 meeting.	Comments on Alternative Views in the Basis for Conclusion Section  We have read the alternative views contained in paragraph A89 through A93 and we find that the views presented by Mr. Steinberg regarding the case of receivership, conservatorships and interventions are compelling. Although we are disappointed that the FASAB chose to omit these from the current project, we agree with Mr. Steinberg that these issues must be considered in the risk assumed project. In our letter of comments regarding the FMSB's latest three year plan, we had suggested that these projects be combined or operated on parallel tracks as there are interrelated issues that must be considered.
#30 Intelligence Community  <b>Open- Editorial, structural, or clarified in BfC</b>	<b><u>Section: PRINCIPLES FOR INCLUSION IN THE GOVERNMENT-WIDE GPFFR</u></b>  <b>Page 14, Line 21</b>  Suggestion: Recommend removing footnote 10 and including this verbiage directly in line 21.  Rational: Provide more clarity without requiring the reader to refer to footnotes, similar to verbiage in line 24 on page 15.  <b><u>Section: SITUATION WHERE CONTROL DOES NOT EXIST</u></b>  <b>Page 17, Line 32</b>  Suggestion: (U) A blanket statement that control does not exist when the organization is economically dependent upon the federal government is unrealistic to a reasonable person; (i.e., the "power of the purse") the presumption should be that there is an ability to influence/control the behaviors of the recipients even when not specifically called out in an agreement -- though it might not be true in all cases and reasonable judgment would be required.  <b><u>Section: RECEIVERSHIPS AND CONSERATORSHIPS</u></b>  <b>Page 21, Line 49</b>  Suggestion: The Basis for Conclusions related to receiverships and conservatorships appears to provide a judgmental conclusion on how to report these organizations, which is not consistent with terminology reflected in the body of the exposure draft.  Rational: Line 49 indicates that "Organizations controlled or owned through receiverships or conservatorships are

	<p>likely to be disclosure organizations." However, in Appendix A, line A48, the basis for conclusion indicates "... such controlled or owned organizations would be disclosure organizations...."</p> <p><b><u>Sections: RECEIVERSHIPS AND CONSERVATORSHIPS &amp; FEDERAL GOVERNMENT INTERVENTION ACTIONS RESULTING IN CONTROL OR OWNERSHIP</u></b></p> <p><b>Page 21, Lines 49-53</b></p> <p>Suggestion: Segregating receiverships and conservatorships separately from other Federal Government Intervention Actions Resulting in Control or Ownership may not be necessary. Information included in lines 50-53 could be applied to receiverships and conservatorships to conclude on disclosure requirements.</p> <p>Rational: Note 20 indicates the difference between the two is that receivership and conservatorship activities are considered part of the mission of the federal reporting entity. However, agencies such as TARP were established with the mission to temporarily oversee/assist financial institutions back to safe and sound conditions as part of an economic intervention activity, similar to FHFA's mission to temporarily assist Fannie Mae/Freddie Mac (referred to as receiverships and conservatorships).</p> <p><b><u>Section: SCOPE OF BUDGET PROCESS</u></b></p> <p><b>Page 23, Line 58.b</b></p> <p>Suggestion: Recommend editing - b. inclusion in an organization's published organization chart -- may be an indicator but not necessarily evidence of a particular type of relationship; there is no substance to that particular criteria upon which to base a decision.</p> <p><b><u>Section: ACCOUNTABILITY ESTABLISHED WITHIN A COMPONENT REPORTING ENTITY</u></b></p> <p><b>Page 24, Line 60</b></p> <p>Suggestion: Line 60 appears to have an error. Instead of: "If a disclosure organization has not been administratively assigned to a consolidation entity...." should it state: "If a disclosure organization has not been administratively assigned to a component reporting entity...."</p> <p>Rationale: Section 58-60 refers to accountability for component reporting entities.</p>
<p>#30 Intelligence Community</p> <p><b><u>6. FASB Based Information- Dec 2013</u></b></p>	<p><b><u>Section: GPFFR CONSOLIDATION AND DISCLOSURE</u></b></p> <p><b>Page 26, Page 66</b></p> <p>Suggestion: Disagree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate. Recommend that the reporting entity convert any consolidation entity balances to either the FASB or FASAB standards used by the reporting entity.</p> <p>Rationale: While this provision in line 66 may have been included to address cost/benefit concerns, two of the six qualitative characteristics for developing accounting standards discussed in SFFAC No. 1 and SFFAC No. 4 are</p>



	<p>consistency and comparability. Consolidating balances from two or more organizations without regard to FASAB and FASB differences does not represent consistent application of accounting principles in a GPFFR.</p> <p><b>Page 26, Line 66</b></p> <p>Suggestion: Disagree that any component reporting entity that publishes financial reports pursuant to FASB standards should be required to disclosure intragovernmental amounts measured in accordance with FASAB standards to facilitate elimination entries for the government-wide financial statements</p> <p>Rationale: Federal reporting components that use FASB standards are already required by Treasury to prepare GFRS (closing package) financial statements which presents the necessary converted intragovernmental elimination information required for the government-wide financial statements. This additional disclosure may be confusing and/or not useful to the reporting entity's wider GPFFR audience.</p>
<p>#30 Intelligence Community</p> <p><b><u>3. Disclosure Entity Issues- March 2014</u></b></p>	<p><b><u>Section: DISCLOSURE REQUIREMENTS</u></b></p> <p><b>Page 28, Lines 72.c, 73.e, 73.i, 73.j</b></p> <p>Suggestion: Disagree that disclosures should include the objective of providing a description of future exposures. Recommend considering future exposure information as part of the risk assumed project (Required Supplementary Information).</p> <p>Rationale: The disclosures (footnotes) are part of the audited financial statements. It may be difficult for reporting entities to make such determinations and defend them during the audit process as this information may be judgmental and/or speculative in nature.</p>
<p>#30 Intelligence Community</p> <p><b><u>7. Central Bank – Dec 2013</u></b></p> <p><b><u>Tab B2 Central Bank- March 2014</u></b></p>	<p><b><u>Section: MINIMUM DISCLOSURES REGARDING THE CENTRAL BANKING SYSTEM</u></b></p> <p><b>Page 30, Line 77</b></p> <p>Suggestion: Minimum Disclosures regarding the Central Banking System -- should include significant types of transactions and balances related to exchanges between the central banking system and foreign entities</p>
<p># 36 Treasury CFO</p> <p>While staff was directed to incorporate clarifications, the Board appeared to want to maintain the</p>	<p>In addition to the responses above, Treasury has one additional comment to the ED for consideration. In general, we found the ED difficult to read which we believe is primarily due to how the provisions of the standard are organized. Discussion of the three inclusion principles seems to apply only for purposes of the government-wide GPFFR, while the characteristics for distinguishing between a consolidation and disclosure entity seem to apply to both the government-wide and component reporting entities' GPFFR. We recommend that the Board reorganize this ED by focusing its discussion on the three inclusion principles and then the characteristics for distinguishing between a consolidation and disclosure entity, and that these guidelines be applicable to both the government-wide and</p>



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overall structure of the proposal.	component reporting entities' GPFFR.
# 36 Treasury CFO <b>2. Misleading to Exclude –Dec 2013</b> (Board still has to discuss Related Parties)	Move “Misleading to Exclude” after “Related Parties”. The current placement is not appropriate for two reasons: (1) the question of whether a related party is misleading to exclude is not addressed, and (2) current placement would indicate that all related party entities could be excluded and not be misleading.
<b>Listing of Board Member Punch List &amp; Other Comments</b>	
	<b>Reger Comments</b>
<b>2.Component Reporting Issues- March 2014</b> <b>Also EDITORIAL</b>	We need clarification around use of Misleading to Exclude vs. Misleading to Include -- the subsection heading prior to Par 61 is titled “Misleading To Exclude and/or Misleading to Include – which seems to refer specifically to component entities.
<b>2. Misleading to Exclude –Dec 2013</b>	However, the Subsection heading prior to Par 35 references only “Misleading to Exclude”. This seemingly broader-scoped section should also reference a Misleading to Include provision to be consistent with Par 61. One way or the other we need to make these provisions clearer to the reader.
<b>1. In the Budget – Dec 2013</b> <b>1a. In the Budget – March 2014</b>	22. An organization with an account or accounts listed in the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled “Federal Programs by Agency and Account” should be included in the government-wide GPFFR unless it is a non-federal organization ( <b>needs definition – things such as would fail the tests in part 2, do not rely on federal authority to collect funds, would exist without any ongoing federal action or intervention</b> )
<b>5. “Temporary”- Dec 2013</b> <b>1b. “Temporary”-</b>	Temporary issue- 23. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets of an organization. When the federal government (directly or through its components) holds a majority ownership interest in an organization, it should be included as either a consolidation entity or a disclosure organization in the government-wide GPFFR <u>unless that ownership is temporary (need some definition) in nature or</u>

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<b><u>March 2014</u></b>	<u>an intervention (again, need some definition).</u>
Central agencies/guidance	We should consider the idea of asking agencies to identify any entities either currently reporting or currently not reporting which may be impacted by the change in rule.
Central agencies/guidance	We should consider saying something about how the annual cycle will exist to identify emerging entities against the standard
<b><u>4. Organizations Partially in the Budget-Museums- March 2014</u></b>  <b><u>1. Organizations Partially in the Budget-Museums- April 2014</u></b>	How do we want to handle Smithsonian and other organizations with divided revenue streams?
<b><u>1. In the Budget- Dec 2013</u></b>  <b><u>1a. In the Budget – March 2014</u></b>	Specifically remove state and municipal governments unless they are no longer going concerns and their existence defaults to the federal government
<b><u>3. Applicability to Judicial and Legislative Branches- Dec 2013</u></b>	Can we specifically add the other two branches of the government? If not, how do we emphatically make these the whole federal government statements?
<b><u>7. Central Bank- Dec 2013</u></b>  <b><u>Tab B2 Central Bank- March 2014</u></b>	FRB – what outstanding issues do we have??
Guidance is provided for disclosure organizations and it appears that Treasury and professional practice	Non – 9.30 year end filers. Should we insist they provide information current to our report and what assurance would they have to provide over that data and what increased value does that provide for the costs? What are the costs?

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has worked in past for consolidated entities or that was what the Board believed	
<b>6. FASB Based Information- Dec 2013</b>	FASAB/FASB/GASB/Other basis – we should revisit the footnote disclosure to make sure it is clear to us and everyone else.
<b>3.Related Party- April 2014</b>	It is difficult to differentiate a disclosure entity from a related party
	<b>Showalter Comments</b>
While staff was directed to incorporate clarifications where appropriate, the Board appeared to want to maintain the overall structure of the proposal.	Revisit organization of standard
<b>4. Term for Disclosure Organization-Dec 2013</b>	Terms- Consolidation entities vs disclosure organization
<b>3. Related Parties- April 2014</b>	Another name for Related Parties
<b>Open- Editorial, also somewhat addressed “In the Budget” but staff plans to make additional changes.</b>	Par 28. Make clear where states are on continuum. Mazur comment

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<b><u>1. In the Budget- Dec 2013</u></b> <b><u>1a. In the Budget – March 2014</u></b>	Par. 22 Clarify items in the budget that should be excluded= Fees
<b><u>2. Misleading to Exclude –Dec 2013</u></b>	Par. 35 -36 and
<b><u>2.Component Reporting Issues- March 2014</u></b> <b><u>2.Component Reporting Issues- Misleading to Include Provisions April 2014</u></b>	Par. 61-63 Should we include Misleading to Exclude (include) provisions?
<b><u>6. FASB Based Information- Dec 2013</u></b>	Par. 66 Need to report intragovernmental amount? Is par 66 clear about what is required?
<b><u>3. Disclosure Entity Issues- March 2014</u></b>	Par. 69c Is the factor necessary? Par 73 How to make examples don't appear to be requirements- See KPMG response Par 73i Should we limit gain or loss to events that already happened?
<b><u>7. Central Bank- Dec 2013</u></b> <b><u>Tab B2 Central Bank- March 2014</u></b>	Par 77 Applicable to Government-wide vs component
<b><u>3. Related Party- April 2014</u></b>	Par. 79 necessary?
While staff was directed to incorporate clarifications where appropriate, the	Par 21 consolidate principles? Relationship with/to related parties

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Board agreed to maintain the inclusion principles. Staff was directed to consider moving “in the budget” into control- staff did this as part of 1. In the Budget – Dec 2013.	
<b><u>5. “Temporary” – Dec 2013</u></b> <b><u>1b. “Temporary” – March 2014</u></b>	Temporary Control defined
<b>5. Effective Date- April 2014</b>	Effective date & early implementation
<b>7. Other Organizations- April 2014</b>	FFRDCs
Board has not indicated an approach other than establishing the objectives & examples for disclosure organizations. Need to confirm with Board.	Should disclosures be different for different types of disclosure organizations?
	<b>Steinberg Comments</b>
<b><u>3. Applicability to Judicial and Legislative</u></b>	Applicability to the three branches of government

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<b><u>Branches- Dec 2013</u></b>	
<b><u>1. In the Budget- Dec 2013</u></b> <b><u>1a. In the Budget – March 2014</u></b>	Inclusion principles- “In the budget versus “controlled by the budget.” Ability to grant or withhold tax-exempt status. Possibility of adding “who do assets and liabilities belong to” as a factor, per the SECs comment
<b><u>4. “Temporary” – Dec 2013</u></b> <b><u>1b. “Temporary” – March 2014</u></b>	Status of other than temporary Indication that temporary is now other than temporary (e. g., legislative or administrative action
<b><u>1. In the Budget- Dec 2013</u></b> <b><u>1a. In the Budget – March 2014</u></b>	Limitations of phrase “federal financial assistance,” particularly when defined with Single Audit Act
Board voted not to pursue alternative view.	Receiverships, conservatorships, intervention entities
<b><u>7. Central Bank- Dec 2013</u></b> <b><u>Tab B2 Central Bank- March 2014</u></b>	Central banking system
<b><u>2.Component Reporting Issues- March 2014</u></b> <b><u>2.Component Reporting Issues- Misleading to Include provisions April 2014</u></b>	Misleading to exclude-Explanation in Basis for Conclusions Deletion of last phrase in paragraph 62, per the DOL letter
<b><u>7. Other Organizations- April 2014</u></b>	Special situations General fund

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	<p>District of Columbia and territories</p> <p>Consumer Finance Protection Board</p> <p>Entities financed in part by donations - Clarification of inclusion or consolidation</p> <p>Build on the definitions of Congressionally Chartered Organizations contained in the GAO report included with the August meeting clippings</p> <p>Recognition of impact of an implied guarantee (Pension Benefits Guarantee Corporation</p> <p>Impact on entities such as National Railroad Retirement Investment Trust)</p>
Board has not indicated an approach other than establishing the objectives & examples for disclosure organizations. Need to confirm with Board.	<p>Consolidation or disclosure</p> <p>Desirability of narrowing disclosures to those germane to the type of disclosure organization FFRDCs</p> <p>Distinguishing characteristics for inclusion and exclusion</p>
<b><u>4. Term for Disclosure Organization-Dec 2013</u></b>	Name—Disclosure organization or Non-consolidated entity
<b><u>6. FASB Based Information- Dec 2013</u></b>	<p>FASB-based entities</p> <p>Disclosure of intragovernmental amounts in footnotes or other means (i. e., closing package)</p> <p>Consolidation issues</p> <p>Statement of Budgetary Resources</p> <p>Reconciliation of costs to budget</p>
<b><u>3. Related Parties-April 2014</u></b>	<p>Related parties</p> <p>Advisability of adopting a different term to assure distinction between possible on transactions versus ability to influence financial and operating decisions</p> <p>Status of advisory boards</p>

	Confusion about possible inclusion of state components such as Unemployment Insurance Fund
<b>7. Other Organizations – April 2014</b>	Ability to depart from principles when detrimental to national security
<b>4. SFFAC 2 Amendments- April 2014</b>	Decision to modify or completely revise SFFAC 2
<b>Open- Editorial, structural, or clarified in BfC</b>	<p>In reading the materials for this week's meeting, I was struck by the fact that the terms "consolidated" and "disclosure" are being used in two contexts. The first context is to distinguish among types of entities. The second context is to distinguish between the two ways the financial information is to be presented.</p> <p>The rationale for whether an entity is a consolidated entity or a disclosure entity (the first context), is explained in paragraphs 38 and 41. However, the text, as it is presently drafted, states <u>how</u> the information should be presented as consolidated (paragraph 64) or disclosed (paragraphs 67-72) without providing a good rationale for using one method versus the other. That is why I suggested preceding paragraph 64 with an explanation of the two ways of disclosing financial information and the implications of each. I have drafted the following as a possible way of doing it.</p> <p>There are various ways to present financial information. Consolidation entails presenting the <a href="#">assets</a>, <a href="#">liabilities</a>, position, <a href="#">revenues</a>, and expenditures of an organization and all of the components it owns and/or controls as those of a single <a href="#">entity</a>. It provides the best understanding of the position and results of the organization as a whole. On the other hand, because the information is aggregated at such a high level, users do not have the opportunity to discern the details of what has and is happening financially within the organization, and particularly when transactions and balances among components are eliminated.</p> <p>Another way to present financial information is disclosure. Disclosure uses footnotes to present 1) desired information that is otherwise concealed in the consolidated totals and 2) additional information needed for a full and fair understanding of the organization's financial position and results. It can also be used, when appropriate to disclose financial and other information concerning organizations with whom the relationship with the reporting entity is other than ownership and/or control. Using disclosure rather than consolidation to present financial information will, in some instances, provide a better understanding of an individual entity's financial matters, and thus better meet Federal financial reporting objectives</p> <p>Incidentally, despite our monumental efforts, there could well be persons on the Board, and certainly in the public, who still believe the Federal Reserve System should be consolidated, or at least that the Exposure Draft was not sufficiently clear to lead to a disclosure conclusion for the Federal Reserve System. These two paragraphs could be used as a foundation for why disclosure is better for the central bank rather than consolidation.</p>



