



## DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20020

December 13, 2010

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6K17V  
441 G Street, NW, Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

Thank you for the opportunity to provide comments on the September 13, 2010 Exposure Draft (ED) titled "Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording – *Statement of Federal Financial Accounting Concepts*." Our comments, in response to the questions on pages eight, nine, and ten of the Exposure Draft, are as follows:

1. This Statement discusses whether and under what circumstances it might be more useful to report an asset or liability in periods after its acquisition or incurrence (a) at the amount initially recorded (i.e., "historical cost," subject to appropriate adjustments for amortization, depreciation, or depletion) or (b) at an amount measured at each financial statement date. These two amounts are referred to in this Statement as, respectively, "initial amounts" and "remeasured amounts."

1a. Question: Is the distinction between initial and remeasured amounts understandable and useful to you? If not, please suggest improvements.

Response: The Department agrees that the distinction between initial and remeasured amounts, as defined in the ED, is understandable and useful for our Treasury operations.

1b. Question: Are the benefits and drawbacks of using each approach clear and complete? (See paragraphs 17–33.) If not, please suggest improvements or additions.

Response: The Department agrees that the benefits and drawbacks of using each approach are generally clear, but not necessarily complete.

The Department strongly urges the Board to more carefully weigh the benefits against the cost for each approach. Remeasurement methodologies, other than a methodology employed based on use of available market-based quotes, can be more complex, time consuming, and therefore more costly to implement. Remeasurement methods based on less common or observable means may significantly distort comparability in financial statement results and trends. Furthermore, greater discussion regarding the agency/department level impact, where each agency within a department may have a

different measurement approach and how it would be treated on a consolidated basis at the department level, should be considered.

Intent, ability to hold, and type of asset/liability are also important factors to consider. For entities with an intent and ability to hold an asset/liability until maturity, remeasuring at each reporting date to its current market value and recognizing unrealized gains or losses would cause unnecessary fluctuations in the financial reports and not accurately match revenues/expenses with the related assets/liabilities.

1c. Question: Do you agree with the decision to exclude any discussion of the advantages and disadvantages of inflation-adjusted amounts from this Statement? (See paragraphs 14–15.) Please provide the rationale for your answer.

Response: The Department agrees that any discussion related to inflation-adjustment amounts in this Statement should be excluded. There has not been a strong demand for such information, both in federal government and commercial financial statements, due to relatively low U.S. economic inflation levels in recent years. The Department agrees consideration should be given to such reporting in the future only if we experience significantly higher levels of inflation over a long period of time.

2. This Statement distinguishes among “measurement approach,” “measurement attribute,” and “measurement method.” (See paragraph 7.)

Question: Are the distinctions clear? If not, please suggest improvements.

Response: The Department agrees that the distinctions are clear and the examples provided offer an appropriate level of clarity.

3. The Statement asserts that: When the goal is to help ensure that reported information meets several financial reporting objectives in response to the various decision-making needs of a range of users, it is necessary to accept that different measurement approaches, measurement attributes, and measurement methods may be appropriate to convey useful information about different transactions and underlying events. (See paragraph 33.)

Question: Do you believe that it is appropriate to measure items presented in accrual-basis financial statements using different measurement approaches, attributes, and/or methods?

Response: The Department agrees. A mixed measurement approach, whereby some assets or liabilities are reported at initial amounts and others at remeasured amounts, serves a wider range of decision-making needs than either the historical cost approach or the remeasurement approach alone. Requiring the same measurement approach for all assets and/or liabilities and related costs is unlikely to be conceptually appropriate or

useful for decision makers. Rather, when the goal is to help ensure that reported information meets several financial reporting objectives in response to the various decision-making needs of a range of users, different measurement approaches, measurement attributes, and measurement methods may be appropriate to convey the economic substance of transactions, and provide readers with more useful information about different transactions and underlying events.

However, reporting requirements must be written in such a manner that the burden of complying with them will not exceed the benefits of doing so. Furthermore, clear guidance is needed regarding what measurement methods should be used for which assets and liabilities and in what circumstances. Also, consideration should be made not to revalue assets and liabilities that are held between federal agencies so that they will properly eliminate in the consolidation of the U.S. Financial Report.

4. Beginning in paragraph 34, this Statement presents the definitions of measurement attributes and discusses each attribute in relation to the qualitative characteristics that information in financial reports should demonstrate. These attributes will be relied on in establishing accounting standards in the future.

4a. Question: Is the definition of each attribute clear and understandable? If not, please identify the attribute(s) for which you found the definition lacking, explain why, and suggest improvements.

Response: The Department agrees that the definition of each attribute (e.g., fair value, settlement amount, replacement cost, value in use, and fulfillment cost) is clear and understandable.

4b. Question: Is the list of attributes complete? If not, please identify and define the attribute(s) that you would add to this Concepts Statement and explain why you would add it (them).

Response: The Department agrees that the list of attributes for inclusion in this Concepts Statement is complete.

4c. Question: Are there any attributes in the list that you believe are inappropriate for accrual-basis federal government entity financial statements?

Response: The Department believes that the attributes in the list are appropriate for accrual-basis federal government entity financial statements. However, consideration should be given to aligning the use of attributes with those used in Generally Accepted Accounting Principles (GAAP). It is not clear if GAAP uses such terms as “value in use” and “fulfillment cost” in the same context as being used in this ED.

4d. Question: Do you agree with the discussion of the extent to which the measurement attributes and methods fulfill the individual qualitative characteristics?

Response: The Department agrees with the discussion of the extent to which the measurement attributes and methods fulfill the individual qualitative characteristics.

Different measurement methods may be used in applying measurement attributes, and because the methods used may introduce different degrees of uncertainty in the resultant amounts, the degree to which the qualitative characteristics are met may be affected.

The discussion regarding initial amounts should be limited to general terms because they are not changed from period to period – except for appropriate adjustments for amortization, depreciation, or depletion. However, for remeasured amounts, the discussion should include reference to the attribute measured because the attribute selected may affect the degree to which a particular qualitative characteristic is met. Also, some examples of why an attribute is considered relevant would be helpful. Relevance of particular attributes could be linked to types of assets and liabilities in a matrix to help readers get an idea of what is being considered for each type. However, the Department feels that within the same class of assets, the same qualitative characteristics should be consistent.

Again, we appreciate the opportunity to comment on this Exposure Draft. If we can be of further assistance, please contact Bob Faber at (202) 622-0934.

Sincerely,



Carole Y. Banks  
Director, Office of Accounting  
and Internal Control