

**Reporting Entity**

Please submit to [fasab@fasab.gov](mailto:fasab@fasab.gov)

**Name of Respondent: Department of Homeland Security**

**Organization: Department of Homeland Security**

All responses 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.**

**i. Agree these principles are objective and could be consistently applied across government agencies.**

**b. Do you believe the inclusion principles, and the related definitions and indicators, are helpful and clear? Please provide the rationale for your answer.**

**i. Agree, however some real life examples would be helpful and would deter subjectivity.**

**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.**

**i. Disagree, this catch all could be too subjective. We believe that the term “misleading” would need to be quantified.**

**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 GPFRR? Please provide the rationale for your answer.**

- i. Agree, as long as the “misleading to exclude” is either removed or better defined with some objective measures.**

Q2. The Board proposes distinguishing between two types of organizations in GPFRRs 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.**

- i. Agree, we also believe that an agency should be required to consistently report either consolidation or disclosure.**

- 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.**

- i. 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. 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.

**i. Disagree, we believe a hard line test should be developed when choosing between consolidation and disclosure.**

- 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),

**1. 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.**

ii. the objectives for disclosures (see par. 72), and

**1. Agree**

iii. the examples provided (see par. 73)?

**1. Agree**

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.**

- i. Agree, this will be beneficial to stakeholders.**

- 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.**

- i. 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.**

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-**Error! Reference source not found.** of the proposed standards and paragraph A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. 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.**

- i. Agree, reporting on results, relationships, and risks should apply regardless of funding source.**

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.

- a. **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.**

- i. **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.**

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.**

- i. **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. **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.**

- i. **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.**

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.**
  - i. **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.**
- 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.**
  - i. **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.**
- c. **Are there additional organizations that generally should be considered related parties? Please provide the rationale for your answer.**
  - i. **There are no additional organizations that should be considered as related parties.**
- d. **Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.**
  - i. **The inclusion principals would capture all objectively measurable related parties requiring disclosure.**
- e. **Are there additional exclusions that should be considered? Please provide the rationale for your answer.**
  - i. **No, there are no additional exclusions that should be considered.**

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.

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

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.

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

i. **Agree.**

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?**

i. **Agree**

- b. **Do you believe the appendices should remain after the Statement is issued?**

i. **Yes**

- 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.**

i. **Yes.**

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.**

- a. **Yes, when the government divests its ownership interest in an organization. How will comparative statements be prepared.**

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.**
  - i. **Disagree, if an organization meets one of the three inclusion principles it should be included in the GPFFR.**
  
- 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.**
  - i. **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.**