

**From:** Rivera, Eric  
**Sent:** Tuesday, July 02, 2013 4:18 PM  
**To:** FASAB  
**Cc:** Vaught, Larry; Zane, Steven  
**Subject:** Comments on Reporting Entity Exposure Draft

Good afternoon,

Attached are NRC/OIG's comments on the Reporting Entity Standard Exposure Draft.  
Thank you for the opportunity to comment.

Eric Rivera  
Team Leader  
Financial and Administrative Audits Team  
Office of the Inspector General  
U.S. Nuclear Regulatory Commission

**Reporting Entity**

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

**Name of Respondent:****Organization:**

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.**

**Answer: 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.**

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

**Answer: 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.**

- 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.**

**Answer: 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.**

- 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.**

**Answer: 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.**

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.**

**Answer: 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. 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.

Answer: 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. 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.

Answer: I agree. The attributes are well defined and specific enough to provide for the proper determination of the named organizations as consolidation entities or disclosure 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), Answer: 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.
- ii. the objectives for disclosures (see par. 72), and Answer: I agree with the objectives because they are concise and clear and easy to follow.
- iii. the examples provided (see par. 73)? Answer: 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.

**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.**

Answer: 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. Do you agree or disagree that administrative assignments can be identified as provided in paragraphs 54-63? Please provide the rationale for your answers.**

Answer: 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.

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.**

Answer: 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.

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.**

Answer: 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.

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.**

Answer: 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. 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.**

Answer: I am not aware of any other significant financial organizations that might require minimum disclosure.

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.**

Answer: 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.

**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.**

Answer: I agree with the list provided, but I think the list could have provided more examples so that the preparers would have a better 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.

**c. Are there additional organizations that generally should be considered related parties? Please provide the rationale for your answer.**

Answer: I think this would be dependent on the degree of influence rather than on a type of entity.

**d. Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.**

Answer: I agree with list. These are examples where influence would not be significant.

**e. Are there additional exclusions that should be considered? Please provide the rationale for your answer.**

Answer: No additional exclusions.

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.**

Answer: I agree with the conforming changes. The changes appear to be necessary to make SFFAC 2 and SFFAC 34 language agree.

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.**

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?**

Answer: I agree the appendices are very helpful.

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

Answer: 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. 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.**

Answer: I do not have any changes or additional examples regarding the illustrations. I think they provide good examples for guidance of how to apply the Statement.

**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.**

I am not aware of any unique situations that should be addressed within this Statement.

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.**

**Answer:** 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. 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.**

**Answer:** 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 be disclosed to the GPFFR users to provide them with the necessary information to make informed and sound business decisions.