

GSA comments on SFFAS Exposure Draft - Reporting Entity 07-03-2013

Name of Respondent: Erik Dorman

Organization: General Services Administration

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

- 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 GPFRR 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.

Response: 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 adding band aids to the symptoms.

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

Response: GSA does not think the inclusion principles, definitions and indicators are completely clear. Please clarify how Public Private Partnerships fit.

c. Do you agree or disagree that an organization should be included in the GPFRR 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.

Response: 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.

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.**

Response: No, see comments above.

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.

Response: 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.

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.

Response: The attributes seem appropriate.

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.

Response: No comments

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.

Response: *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.*

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.**

Response: *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.*

- 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.**

Response: *GSA agrees. The guidelines seem appropriate.*

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.

Response: 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:

- 1. This financial information will need to be obtained, and some organizations may not agree with the Federal agency on inclusion;*
- 2. Reporting periods may not be the same; and*
- 3. Reporting criteria and breakouts may not be similar.*

These relationships should be reviewed and it may be determined to bring many of these organizations into the Federal agency.

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.

Response: No, it will be very difficult to combine financial statements unless reporting is based on same guidelines.

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.**

Response: 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.

- 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.**

Response: No comments.

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.**

Response: GSA agrees that the definition as stated is sufficiently comprehensive and justifiable.

- 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.**

Response: GSA agree that the list is sufficient, so long as it is a representative sample list and not all inclusive.

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

Response: No comments.

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

Response: *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.*

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

Response: *See comment above.*

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.

Response: *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.*

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.

Response: *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.*

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?

Response: *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.*

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

Response: *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.*

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.

Response: *See comments on 10a. above.*

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.

Response: *No comments*

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.**

Response: 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 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.

- 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.**

Response: 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.