Greater Washington Society of CPAs and GWSCPA Educational Foundation

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July 3, 2013

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standards (SFFAS), *Reporting Entity*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes 27 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our response to the ED questions follow.

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.

A1. 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:

- 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*.

- 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*.

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.

The FISC agrees that the inclusion principles should be applied to the entities identified in the Board's question for comment.

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.

A2. 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."

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. 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.

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 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.

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.

A3. 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:

1. The evaluation of administrative assignments include a criterion that the administrative assignment has been made on an other than temporary basis.

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."

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.

A4. 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.

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.

A5. 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:

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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.

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.

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.

A6. The FISC agrees with the proposed standards included in paragraph 77.

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.

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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.

A7. 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 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.

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.

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.

A8. The FISC agrees with the conforming changes to SFFAC 2.

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.

A9. 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.

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.

A10. The FISC agrees with the appendices included the ED.

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.

A11. Please see our responses to questions 2 & 7.

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.

A12. 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.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

Andrew C. Lewis
FISC Chair