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July 8, 2013

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

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its April 3, 2013 exposure draft entitled Reporting Entity. This exposure draft proposes principles to guide preparers of financial statements in determining what organizations should be included in the reporting entity's general purpose federal financial reports (GPFFR).

The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB agrees with the position of the FASAB as expressed in the exposure draft and supports the principle based approach proposed by the FASAB to determine what entities properly belong in a GPFFR and what entities do not. We find that the approach proposed by the FASAB aligns with the approach adopted by GASB and view this as a positive development. The exposure draft provides important clarification on the issues that must be considered when making professional judgments of what does and does not belong within the federal entity. When finalized it should provide preparers and auditor's with the guidance necessary to make the necessary decisions regarding what belongs in the federal entity.

We do have some questions regarding the exposure draft and also some items that we believe could be clarified. In addition we have a suggestion regarding how information for disclosure organizations should be handled. Our comments follow on from this section. We then provide answers to the questions posed in the exposure draft.

Comments Regarding the Executive Summary Section

We believe the language in the second paragraph of the Executive Summary should be clarified to make it clear to the reader that when the FASAB is discussing



the matter of including organizations in the GPFFR, such inclusion could be as either a consolidating entity or a disclosure organization, dependent upon other considerations. This would help to join the first part of the determination with the second part of the determination. We also believe that the Executive Summary would be strengthened if it emphasized the intended temporary nature of a financial relationship as a key factor for determining if an entity is to be considered for consolidation or simply disclosure.

Comments Regarding the Body of the Exposure Draft

We believe that the body of the exposure draft is well organized and sufficiently detailed to provide guidance regarding the federal entity. Following are some concerns we had as a result of our committee's review.

Paragraph 25 – Part of the definition of the phrase “control with risk of loss or expectation of benefit” uses the phrase “... with the potential to be obligated to provide financial support or assume financial obligations or obtain financial resources or non-financial benefits.” We believe that FASAB needs to provide better guidance in this part to assist the preparer and the auditor. The word “potential” has a fairly broad meaning and guidance should be provided on this matter. Would the preparer and auditor be expected to apply the same standards it might apply when measuring a contingency or do they expect a lesser standard of measurement to be used. We believe that this should be clarified.

Paragraphs 27 and 28 – These paragraphs discuss issues of control and that control can be indicated by the federal government's authority to determine or influence the policies governing activities. A concern discussed by members of the FMSB is that these paragraphs might justify the inclusion of information from certain states and/or localities in the GPFFR. Although, we believe that it is not the FASAB's intent to include either a state or locality's financial information in the GPFFR, clarity would be improved if this matter were addressed either directly or through a footnote.

Paragraph 31- The paragraph provides additional indicators of control that may exist and must be considered in the aggregate when reaching a decision as to whether an entity is or is not to be included in the GPFFR. Although we find parts of this paragraph useful we are also concerned that it may serve to confuse matters. When reviewing the list, we were able to identify many key indicators that might be associated with various federal programs that exist today, such as for Small Business Loan guarantees. While we do not believe it is the intent of the FASAB to include entities that received such guarantees as a result of a routine federal program within the federal entity, this paragraph may lead to this debate. We recommend the FASAB add additional language to this paragraph to clarify matters on this issue.

Paragraph 32 – This paragraph appears designed to reinforce the concept that regulatory control and economic dependency alone should not be the sole or dual factors that influence a decision to include an entity within the GPFFR. If this is its intent, we would suggest a more direct statement on this matter as the term inferred is often confused with the term implied.

Paragraphs 35 and 36 – We believe these paragraphs should be expanded to provide additional guidance for the preparer and the auditor on the meaning of the terms “Misleading to Exclude”. While we recognize that this matter will certainly require the exercise of professional judgment, it should be expanded to note that the preparer and auditor shall have to consider both quantitative factors and/or qualitative factors in reaching this decision.

Paragraph 40 – This paragraph discusses the governance structure and that for consolidation entities the chain of command leads directly to elected officials. We suggest that the FASAB include a statement that

the judicial and legislative branches are included in the federal entity as stated in paragraph A13 of the Basis for Conclusions. This might avoid confusion regarding the chain of command issue to the user.

Paragraph 87 – Paragraph 87 provides guidance regarding what should be disclosed once the determination is made that an entity is considered a related party. We believe Part 87.b. should be expanded to include information that discusses the fiscal interdependency of the related party to the federal funds in addition to information on the risks to the federal government. What represents a small risk or exposure to the federal government will generally present a significant risk to the related party. Such potential impacts should be disclosed relevant to related parties.

Selected Terminology

In reviewing the exposure draft we believe that the FASAB needs to reconsider the terminology selected to describe disclosure organizations. In the exposure draft, the FASAB has chosen the terms “consolidation entities” and “disclosure organizations” to distinguish between those that will have their financial information integrated into the GPFRR and those that will instead be included in the notes to the GPFRR. We understand the need for such distinction but we are concerned the term “disclosure organization” will cause confusion on two fronts. The general term disclosure is associated with a wide variety of issues, yet as used in this exposure draft it is now associated with the accounting for a very specific purpose. Likewise, we see the term “organization” used in place of the word entity, when speaking about organizations whose financial information will not be shown on the face of the GPFRR. Is an organization the same as an entity, but just handled differently? This can cause confusion.

Reporting of Disclosure Organizations Financial Information

The FASAB has provided that the financial information for disclosure organizations should be disclosed on an individual basis to the reader. The exposure draft’s discussion, however, does not recognize the essential nature of the information available on such organizations. For example, information that can be presented in the form of a financial statement and is “essential to understanding the financial position and results of operations” of the organization should be presented in that form, while information that helps in understanding such information should be presented in note form. Therefore, would it not be preferable to include the financial statement information about such organizations in one or more combining statements, with notes structured, as appropriate, for each separately presented organizations? Structurally, this would be similar to how “discretely presented component units” are reported for state and local governments even to the point of presenting the consolidation of all “disclosure organizations” in a single column beside the sum of all of the “consolidation entities.” We think that such a presentation would be more readily understood by stakeholders than what might otherwise be a string of separate notes for each disclosure organizations. This would enhance the reader’s ability to understand the full financial impacts.

Comments on Alternative Views in the Basis for Conclusion Section

We have read the alternative views contained in paragraph A89 through A93 and we find the views presented by Mr. Steinberg regarding the case of receivership, conservatorships and interventions compelling. Although we are disappointed that the FASAB chose to omit these from the current project, we agree with Mr. Steinberg that these issues must be considered in the risk assumed project. In our letter of comments regarding the FMSB’s latest three year plan, we suggested these projects be combined or operated on parallel tracks as there are interrelated issues that must be considered.

Following are our answers to the questions posed by the FASAB.

Question 1

a. Do you agree or disagree with each of the inclusion principles? Please provide the rationale for your answer.

The FMSB agrees with the inclusion principles proposed by the FASAB. We agree that a principles based approach is superior to a rules based approach. This provides a longer lasting solution to the issues under consideration and aligns with the use of professional judgment. Regarding the three inclusion principles, we find that the three principles align well with the GASB principles.

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

We believe that the inclusion principles and the related definitions are helpful and clear. In our response we have offered some areas where we believe improvements can be made. However the definitions and indicators are clear and understandable.

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.

Yes, we agree that an organization should be included in the GPFRR if it would be misleading to exclude it. This provides a safe haven for significant exceptions to the principles should they arise. However, as stated in our comments, we believe additional guidance should be included in the final document.

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 governmentwide GPFRR? Please provide the rationale for your answer.

The FMSB agrees that the inclusion principles can be applied for such determinations.

Question 2

a. Do you agree or disagree with the concept of distinguishing between consolidation entities and disclosure organizations? Please provide the rationale for your answer.

The FMSB agrees with this approach. The FMSB agrees that beyond the factors of being in the budget and majority owned by the federal government, control is the principal factor that must be considered in determining if an entity is classified as a consolidating entity or a disclosing organization. The principle behind the consolidated presentation is one of control.

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.

The FMSB agrees with the attributes used to make the distinction between consolidating entities and disclosing organizations. However we have concerns about some of the "Indicators" in the exposure draft that will be used for deciding if an organization is to be consolidated or disclosed. As stated in our comments above, we believe that some of the indicators in paragraph 31 are too wide ranging and can be

applied to organizations not within the federal entity. We suggest these be clearly labeled as some form of lesser indicator for the preparer and auditor to consider in reaching their conclusion.

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.

The FMSB agrees with the FASAB on this matter. The attributes are generally sound and can be applied to reach a reasonable conclusion.

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)?

The FMSB agrees with the factors to be considered in making judgments about the extent of appropriate disclosures, the objectives for the disclosure and the examples provided. In particular, we believe the issue of future loss exposures is especially significant and we applaud the FASAB for requiring this information in 73.i.

Question 3

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.

The FMSB agrees with the position of the FASAB. The FMSB believes providing a comprehensive GPFFR at every level is important and is consistent with the overall goal of the federal entity exposure draft.

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

The FMSB agrees that administrative assignments can be identified as provided for in paragraphs 54 – 63. The important factor in this process is the decision to consolidate or disclose. The rationale provided in paragraph 59 a. and 59.b. provide a sound basis for making a decision.

Question 4

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.

The FMSB agrees that if the decision to consolidate is made, it is in an all-inclusive manner. The basis for consolidation versus disclosure will hinge for the most part upon the issue of control. As such if control is considered sufficient, all the financial results for the entity should be included. Providing only a partial view of the financial results benefits no one.

Question 5

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.

The FMSB agrees the consolidation of FASAB and FASB based information without conversion is appropriate. Restatement of FASB information to a FASAB basis will provide opportunities for errors to occur and may effectively require two sets of records. Furthermore the information based on FASB principles are used by management and should stay as originally prepared.

Question 6

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.

The FMSB agrees with the minimum disclosures for the central banking system. The importance of the central banking system warrants minimum disclosures. However we are puzzled by the FASAB's decision to not provide a definitive determination as to whether the FRS should or should not be considered within the federal entity and at what level.

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.

No.

Question 7

a. Do you agree or disagree with the related parties definition and requirements? Please provide the rationale for your answer.

The FMSB has some concerns about the use of the term related parties in the exposure draft. Under GASB, state and local governments are required to disclose certain related party transactions and to recognize the transaction for its economic form rather than its legal form. Thus related party issues are linked to transactions. The FASAB approach is to call the entity a related party if one party has the ability to influence financial and operating decisions. It is not linked to any particular transaction. Thus the use of the term by FASAB seems inconsistent with the use of the term in other professional pronouncements and we urge the FASAB to utilize another term.

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.

The FMSB agrees with the list.

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

The FMSB has no additions to suggest at this time.

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

The FMSB has no comment.

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

The FMSB has no comment.

Question 8

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

The FMSB agrees with the conforming changes to SFFAC 2.

Question 9

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

The FMSB agrees with the effective date.

Question 10

a. Do you agree the appendices are helpful in the application of the proposed standards?

The FMSB agrees that the appendices are useful in applying the proposed standards.

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

The FMSB believes 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.

The FMSB has no suggested changes.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of the FMSB members approved of the issuance of this letter of comments. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA's staff liaison for the FMSB, at ssossei@agacgfm.org or at (518) 522- 9968

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric S. Berman', with a long horizontal flourish extending to the right.

Eric S. Berman, CPA, Chair
AGA Financial Management Standards Board

cc: Evelyn A. Brown, CGFM-Retired
AGA National President

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July 2012 – June 2013

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