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Sent: Friday, July 05, 2013 10:12 AM

To: Payne, Wendolyn M

Subject: Fw: Reporting Entity - FASAB Pronouncement Exposure Draft.docx

Hi Wendy,

See below for comments on the Reporting Entity exposure draft from the Bureau of the Fiscal Service.

Thank you for the opportunity to comment, and please let me know if you have any questions.

Christina

FASAB Pronouncement Exposure Draft
“Reporting Entity”

Purpose: To address what appears to be a gap in “reporting entity”, whereby certain entities that are managed by elected officials are not being captured in General Purpose Federal Financial Reports (GPFFR); the exposure draft guides agencies in determining what organizations should be included at the government-wide and reporting component unit levels

Factors to Consider: Agencies are guided by specific factors to determine the appropriateness of financial statement presentation and/or footnote disclosure, based notably on management and financial control and financing sources

Effective Date: Applies to periods beginning after September 30, 2016

Comment Due Date: July 3, 2013

Internal Review/Comment Due Date: June 14, 2013

Other specifically referenced accounting standards:

SFFAS 34 (The Hierarchy of GAAP)

SFFAC 2 (Entity and Display)

Questions for Respondents:

1. Three inclusion principles (President’s Budget; federal government – majority owner; controlled; government risk of loss or expected benefit): paragraphs 20-36
 - a. **Do you agree or disagree**
Agree – with each of the 3 inclusion principles
 - b. **Yes** – definitions/indicators are helpful and clear
 - c. **Agree** – include if it would be misleading to exclude, even if qualifying criteria to include are not met (*providing examples of instances where it would be “misleading to exclude” would be helpful in guiding applicable primary reporting entities*)
 - d. **Agree** – apply on the basis of the 3 inclusion criteria and misleading to exclude principle
2. Establishes criteria for inclusion in agency financial statements (consolidating) vs. footnote disclosure: paragraphs 37-53 and 64-77; A30-54; A71-81
 - a. **Agree** – different levels of Federal government responsibility/control should determine whether or not the entity would be consolidated with the primary agency or if a lesser role exists, it would be more appropriate to disclose the relationship and disclose the financial impact
 - b. **Agree** – The Federal government’s responsibility to fund and ability to exercise control over an agency with a risk of loss/opportunity to benefit are substantive criteria for consolidating, while a reduced role in determining the overall health of an organization would substantiate a disclosure of the relationship and the resulting financial impact

- c. Paragraph 45-48 attempt to address the specific nuances that call out these organizations
- d. Reasonableness of disclosures
 - i. **Disagree** – I don't understand why 'how the agency views its relationship with the government' should have a bearing on what gets disclosed
 - ii. **Agree** – includes the relevant factors that should be addressed for any related party disclosure
 - iii. **Agree** – represents all the relevant disclosure characteristics
3. Component reporting entity GPFFR consolidation entities and disclosure organizations: paragraphs 54-63; A55-61
 - a. **Agree** – if the criteria exists establishing a consolidation entity or disclosure organization, it should be included in the component reporting entity's financial statements
 - b. **Agree** – The referenced paragraphs focus heavily on what constitutes a consolidation entity and a disclosure organization
4. Consolidating entities: paragraphs 54-64: A19; **Agree** – Once an entity falls into the "consolidation entity" classification, all of its financial data should be reported accordingly
5. FASAB vs. FASB: paragraphs 65-66; A66-70; **Disagree** – although FASB is in compliance with GAAP, FASAB follows budgetary accounting reporting principles which do not apply to FASB; Without the reporting entity and organizational unit following the same accounting standards, USSGL propriety/budgetary tie points will not reconcile if the USSGL data for the tie points is derived from the consolidated trial balance which would be uploaded to FACTS I and II and/or GTAS for government-wide reporting; if the organization unit is not included in the FACTS I and II/GTAS trial balance, then how will the entity's data be reported government-wide?
In addition, the government-wide financial statements are reported on a FASAB basis; therefore, agencies need to convert to FASAB before reporting to the government-wide level.
6. Federal Reserve System – minimum disclosure requirements: paragraph 77; A30-37
 - a. **Agree** – The minimum disclosure requirements appropriately identify what, why, and the financial implications of the work performed within the federal banking system on behalf of the Federal government
 - b. **No** – I am not aware of other non-Federal entities that should receive unique consideration related to this exposure draft
7. Related Party considerations: paragraphs 78-87; A82-84
 - a. **Agree** – significant control should be the overriding factor for identifying a related party
 - b. **Agree** – the ability to manage or control activities is the driving factor for these two conditions
 - c. **No**
 - d. **Yes** – the exclusions do not represent factors related to control; (b) relates to concentrations of risk, (c) relates to family members but neither of these exemplifies control

- e. **No**
8. SFFAC #2 - Entity and Display: paragraphs 88-101; A85-88; **Agree** – the changes give proper consideration to the effects of implementing this exposure draft
 9. Effective date for implementation; paragraph 102; **Agree** – the proposed date gives agencies an opportunity for the Board to consider reviewer responses, to effect any changes, roll out the new standard and for agencies to assess the impact as a Reporting Entity. It also provides the opportunity for early implementation.
 10. Applying the proposed standards; Appendices B and C
 - a. **Agree** - Appendix B is a useful resource for organization considerations; Appendix C is useful in providing various examples.
 - b. **Yes**
 - c. **Yes** - The exposure draft does not provide clear guidance for the reporting entity's financial statement presentation when it involves a consolidating entity (i.e. Is columnar presentation recommended or required that specifically identifies consolidation entities?) Are any updates necessary for OMB Circular A-136 or was consideration given to directing the reader to A-136 for sample presentation formats?
 11. Other unique situations that should be addressed:
 - Should a reporting entity or the consolidating disclosure entity know or make known that another entity is consolidating or disclosing information about the agency to avoid more than one agency reporting/disclosing the same entity? (The standard does not appear to assist agencies in determining substantial control if control resides with more than one federal agency.)
 - How does Treasury intend to capture the information necessary to consolidate/disclose data without possibly duplicating consolidating reporting entity data that may be submitted by multiple federal agencies?
 12. Receiverships, conservatorships, and interventions; paragraphs 7, 13-14, 41, 49-53, 65, A1-2; A9-11, A20-23, A30-31, A44-54, A89-93; Appendix A
 - a. **Disagree** – One purpose of financial statement disclosure is to provide relevant information to assist the reader in interpreting unique relationships between federal entities and/or federal/non-federal entities and why/how those relationships were formed and the extent to which they exist; resulting receivables/payables and operating activities that exist between the entities should be appropriately disclosed
 - b. **Disagree** – I believe one standard focusing on the “Reporting Entity” is capable of addressing consolidating entities as well as disclosure organizations. Due to the short term nature of interventions, a separate standard could easily be disregarded by a reporting entity as it considers the impact of consolidation only, giving little or no consideration to interventions due to their infrequency of occurrence