DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 15, 2013

BY ELECTRONIC MAIL
(fasab@fasab.gov)

Ms. Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6H19
441 G Street NW, Suite 6814
Washington, DC 20548

RE: Statement of Federal Financial Accounting Standards Exposure Draft

Dear Ms. Payne:

Thank you for the opportunity to share with the Federal Accounting Standards Advisory Board the views of the Department of the Treasury with regard to the Statement of Federal Financial Accounting Standards Exposure Draft, *Reporting Entity*, dated April 3, 2013 (hereinafter referred to as the "ED"). We respectfully provide responses below to your questions regarding the ED, with additional commentary on the ED provided at the end of this document.

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.**

AGENCY RESPONSE: Agree. While we generally agree with the concept of these inclusion principles, we believe the ownership and control principles described in paragraphs 23-28 should be expanded to indicate that the relationship must be other than temporary in nature between the federal government and the organization in order for an organization to be included in the GPFFR. 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.*

Additionally, we do not believe that the "majority ownership interest" should be a separate principle, given that federal government entities generally do not hold majority ownership interests in other organizations. Though Treasury currently possesses a majority ownership interest with certain organizations as a result of federal interventions, such relationships are considered temporary in nature and therefore are not consolidated in Treasury's consolidated financial statements. Accordingly, we believe consideration should be given to deleting "majority ownership interest" as a separate principle and, instead, incorporating it as part of the "control with risk of loss or expectation of benefit" principle.

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

AGENCY RESPONSE: Yes. We believe the inclusion principles, and related definitions and indicators, are helpful and clear.

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.**

AGENCY RESPONSE: Agree. We believe that an organization not meeting the criteria for inclusion based upon the three inclusion principles specified in paragraph 21 should still be considered for inclusion in the GPFFR if it would be misleading to exclude. Such inclusion, however, should be based on the premise that the organization is a related party (rather than a consolidation or disclosure entity) and therefore should be included as a footnote disclosure based on the disclosure requirements of a related party as discussed in paragraphs 78-87. As such, we recommend that paragraphs 35 and 36 be deleted. In the Appendix B: Flowchart, we further recommend deleting the "Misleading to Exclude" decision box located after the "Control" decision box and prior to the "Related Parties" decision box. (See Addendum A at the end of this 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 government-wide GPFFR? Please provide the rationale for your answer.

AGENCY RESPONSE: Agree. The examples in Appendix C demonstrate how the principles can be theoretically applied to various types of organizations such as the Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others.

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.**

AGENCY RESPONSE: Agree. How an organization is included in an agency financial report (either as a "consolidation entity" or "disclosure entity") should be distinguished based upon the nature of the relationship and the characteristics as listed beginning with paragraph 37.

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.**

AGENCY RESPONSE: Agree. We identified no additional attributes. However, we believe clarification is needed regarding paragraph 39 which states that "Organizations listed in the budget, except for non-federal organizations receiving federal assistance, are presumed to qualify as consolidation entities…" The phrase "presumed to qualify as consolidation entities" is very misleading, especially since there are a number of organizations, beyond those that are non-Federal entities receiving federal assistance, which are currently not consolidated within the government-wide financial report (FR). Specifically, organizations that are listed in the budget under the judicial or legislative branch are not consolidated nor are they required to be consolidated since they are not subject to the periodic financial reporting requirements of Office of Management and Budget's Circular No. A-136, *Financial Reporting Requirements*. Currently, cash-related activity and balances of legislative and judicial branch organizations that are not consolidated within the FR are nevertheless included in the FR using receipt and outlay data from the central accounting system. This is necessary to account for the changes in government-wide cash balances that result from their operating activities. This accounting policy is disclosed in Note 1A of the FR. However, this current accounting and reporting practice differs significantly from the concept of consolidation of accounts which is "presumed" for all entities included in the budget, as proposed by this ED. If the ED is finalized as written without modifying current financial accounting and reporting practices for legislative and judicial branch organizations, the FR could receive an audit finding for not complying with the finalized accounting standard. It would seem that the only possible means for the FR to overcome such an audit finding without undergoing significant modifications to its current financial account and reporting practices would be to provide evidence that all account balances and related activity other than cash, both by individual entity and collectively for all legislative and judicial branch organizations, would not be material to the FR's consolidated financial statements. Such evidence may need to be provided on an annual basis. The Board should therefore consider whether the potentially significant burden of complying with this new requirement outweighs the intended benefits to be derived.

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.**

AGENCY RESPONSE: Agree. The attributes seem adequate to make a determination regarding the listed organizations and others that are similarly situated.

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.

AGENCY RESPONSE: We generally agree with the following exceptions. With regards to factors for determining disclosures, how a disclosure organization views its relationship with the federal government should not have a significant bearing on a federal agency's determination of what should be disclosed in its agency financial report regarding this disclosure organization. Accordingly, we recommend that paragraph 69(c) be removed.

Disclosure of the amount of the federal government's exposure to gains and losses from future operations of the disclosure organization appears to be "forward looking" and should be avoided in audited notes to the financial statements. We therefore recommend removing the phrase "or future operations" from paragraph 72(c).

We do not believe disclosure should be made of a disclosure organization's key financial indicators and changes in key financial indicators as proposed in paragraph 73(e). Audit assurance of key financial indicators of a disclosure organization, even if they could be readily identified, could be difficult and costly to obtain especially given its relative informational value. It would be better to point the reader to the disclosure organization's annual financial report, as required by paragraph 73(f), rather than disclosing such information in the audited notes to the financial statements of a federal agency financial report. Accordingly, we suggest removing paragraph 73(e).

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.**

AGENCY RESPONSE: Agree. As noted in footnote 24 to paragraph 56, coordinated guidance between central agencies may be required to ensure government-wide consistency on processes for identifying and assessing organizations for which federal agencies are accountable.

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.**

AGENCY RESPONSE: Agree. We agree that administrative assignments can be identified in accordance with the provisions of paragraphs 54-63.

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.**

AGENCY RESPONSE: Agree. Federal reporting entities should consolidate in their entirety organizations for which they are accountable without regard to funding source.

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.**

AGENCY RESPONSE: Agree. Consolidation of FASB-based accounts of component entities without conversion may be appropriate for agencies that publish financial reports pursuant to FASAB standards, particularly if differences between the two bases of accounting for these entities are not significant. Certain of Treasury's component entities, including Bureau of Engraving and Printing and the Exchange Stabilization Fund, maintains their financial accounts and prepare stand-alone audited financial reports on a FASB basis. Currently, we convert their accounts to FASAB accounts prior to consolidating them. While the provisions of the ED may eliminate the burden of conversion in the future, we do express concern as to potential new issues that may arise with regards to budgetary accounting and financial reporting requirements associated with these FASB accounts which are currently addressed when these FASB accounts are converted to FASAB accounts.

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.**

AGENCY RESPONSE: Agree. We generally agree with the ED's minimum disclosures for the central banking system, with the exception of paragraph 77(c). Based on the inclusion principles outlined in paragraph 21, we do not believe the FRB would meet the criteria for being included as a consolidation or disclosure entity. Therefore, we agree that separate guidelines, such as those presented in paragraph 77, are needed to ensure that appropriate disclosure is given to this related party entity which is too misleading to exclude.

We recommend removing the phrase "and changes in those actions" in paragraph 77(c). Treasury's agency financial report disclosures currently provide a general description of the FRB's monetary policy and how this policy is executed. We disagree with disclosing specific details about how monetary policy is executed or even changes in these actions or tools used to effect monetary policy. Not only is would this discussion be complex but is subject to significant change each year. Furthermore, audit assurance of this information could be difficult and costly to obtain. Reference to the availability of the FRB's annual report, as required by paragraph 77(f), would provide a reader with more in-depth information on this subject rather than in Treasury's agency financial report.

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.**

AGENCY RESPONSE: Yes. Some organizations falling outside of the inclusion principles may be viewed by the public as being part of the federal government such as Medicaid and state unemployment programs. Perhaps some level of disclosure explaining the federal government's limited role with regards to organizations such as these would be useful to readers of GPFFRs.

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.

AGENCY RESPONSE: Agree. While we generally agree with the related party definition (paragraph 12) and requirements (paragraphs 78-87), the standard does not appear to provide a clear distinction between the characteristics of a related party and those of a disclosure organization meeting the "misleading to exclude" inclusion principle. More specifically, it could be interpreted that a disclosure entity meeting the "misleading to exclude" inclusion principle is a related party and therefore could be disclosed under the requirements of either a disclosure entity or related party. Thus, the section "misleading to exclude" should not be placed as a "catch-all" for the inclusion principle (paragraphs 35 and 36), and then again in paragraphs 78-79 in referring to related parties. Instead, entities not meeting the "Budget", "Ownership", and "Control" inclusion criteria should then be considered for disclosure as a "related party" if too misleading to exclude. Also see related comments and recommendations in our response to Q1(c) and Addendum A.

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.

AGENCY RESPONSE: Agree with one minor exception. The federal government is party to certain multi-lateral development banks where it does not have significant influence. Paragraph 83(b) should therefore be amended to read "(for example, ***certain*** multi-lateral development banks)."

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

AGENCY RESPONSE: No. We did not identify any missing types of organizations.

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

AGENCY RESPONSE: Agree. We agree with the list of exclusions.

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

AGENCY RESPONSE: No. We did not identify any additional exclusion that should be considered.

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.

AGENCY RESPONSE: Agree. We generally agree that conforming changes to SFFAC 2 are appropriate and necessary since, without these changes, there is a risk that federal agencies will erroneously follow the original guidance in the SFFAC and miss the guidance in the new standard. However, due to the significant number of changes that are proposed to SFFAC 2, the Board should give consideration to superseding the provisions of SFFAC 2 in their entirety with this ED, or alternatively completely revising 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.**

AGENCY RESPONSE: Agree. The proposed effective date seems reasonable as long as changes in reporting entity, if applicable, follow the past practice that these types of changes are not retroactively restated in comparative statements.

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?**

AGENCY RESPONSE: Agree. The appendices provide quick reference to pertinent sections.

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

AGENCY RESPONSE: Yes. The appendices should remain after the Statement is issued as they provide quick reference to pertinent sections.

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.**

AGENCY RESPONSE: Yes. See Addendum A, and responses to Q1(c) and Q7(a) above regarding proposed changes to the Flowchart in Appendix B. Additionally, an illustration that provides clarity in the application of the "administratively assigned" principles would also be a positive addition to the standard.

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.

AGENCY RESPONSE: No. We did not identify any other unique situation that should be addressed.

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.**

AGENCY RESPONSE: Disagree. The criteria proposed in the ED seem clear enough that a reader would not infer that receiverships, conservatorships, and interventions are part of the federal government.

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.

AGENCY RESPONSE: Disagree. One standard focusing on the "reporting entity" is capable of addressing consolidation and disclosure entities. Due to the short-term nature of interventions, a separate standard would only require the same disclosures as are being proposed in this standard for disclosure entities, thereby creating unnecessary duplication.

Additional Comment

In addition to the responses above, Treasury has one additional comment to the ED for consideration. In general, we found the ED difficult to read which we believe is primarily due to how the provisions of the standard are organized. Discussion of the three inclusion principles seems to apply only for purposes of the government-wide GPFFR, while the characteristics for distinguishing between a consolidation and disclosure entity seem to apply to both the government-wide and component reporting entities' GPFFR. We recommend that the Board reorganize this ED by focusing its discussion on the three inclusion principles and then the characteristics for distinguishing between a consolidation and disclosure entity, and that these guidelines be applicable to both the government-wide and component reporting entities' GPFFR.

In conclusion, we thank the Board for the opportunity to comment on the proposed standard and respectfully ask for consideration of the recommendations and suggestions in this letter. If you have any questions or would like to discuss these comments, please contact Shawn Mickey (202-622-0916), Gary Ward (202-622-0274), Kawan Taylor (202-622-7899), or Carole Banks (202-622-0818).

Shawn Mickey
Senior Accountant
Office of Financial Reporting and Policy

Gary Ward
Senior Accountant
Office of Financial Reporting and Policy

Kawan Taylor
Assistant Director
Office of Financial Reporting and Policy

Carole Y. Banks
Director
Office of Financial Reporting and Policy

Addendum A

Suggested modification to Flowchart (ED Appendix B)

Move "Misleading to Exclude" after "Related Parties". The current placement is not appropriate for two reasons: (1) the question of whether a related party is misleading to exclude is not addressed, and (2) current placement would indicate that all related party entities could be excluded and not be misleading.