



KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

July 1, 2013

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

RE: Proposed Statement of Federal Financial Accounting Standards, *Reporting Entity* – the exposure draft (ED)

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Statement of Federal Accounting Standards, *Reporting Entity* – the exposure draft (ED). We support the Board's efforts to develop standards for consolidated and disclosure organizations. However, the wide reach and significant influence of the federal government provide the possibility of a large number of organizations subject to evaluation – possibly by multiple reporting entities. As a result, we anticipate a significant implementation effort at the government-wide and component reporting entity level to identify the population of organizations to which the reporting entity would apply the "control" principle for identification of consolidated and disclosure organizations. A federal reporting entity does not have the same attributes — financial interest or ability to appoint the board -- that a commercial entity or a not-for-profit organization would have, to limit the population subject to evaluation. We believe the Board should thoroughly analyze this level of effort before issuing its final statement.

In addition, we found the use of the term "inclusion entity" unnecessary and confusing as it is used to refer to organizations whose financial statements were consolidated in those of the reporting entity as well as to describe those organizations for which the reporting entity provides only certain disclosures. We also found it confusing to present guidance related to component reporting entities apart from the guidance related to the government-wide entity. Therefore, we suggest simplifying the statement by providing the principles for identifying consolidated or disclosure organizations based on the characteristics of such organizations at the government-wide and component reporting entity level concurrently within the statement. In doing so, the statement will provide a clear distinction between consolidated and disclosure organizations that will enable consistent implementation and ongoing application of the principles both at the government-wide and component reporting entity level. To illustrate this approach, we provide a suggested general structure for the statement with broad comments in Appendix 1.

We also provide more detailed comments related to our suggested general structure in Appendix 2. Appendix 3 provides a revised flowchart supporting this structure. Appendix 4 includes other comments.

We have not responded directly to the specific questions posed by the ED, as the comments included in the Appendices either address those questions or render the questions not applicable.

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Auditor

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 2 of 17

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or aenelson@kpmg.com.

Very truly yours,
KPMG LLP

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Appendix 1 - General Structure

I. Purpose

- a. The statement should be divided into two sections – **Principles and Characteristics** and **Presentation Requirements**.
- b. The information included in paragraphs 13-19 (Organizational Approach) should be included within the Introduction/Purpose of the statement.

II. Scope and Applicability

III. Definitions

IV. Principles and Characteristics

- a. This section should present principles for consolidation or disclosure at both the government-wide and component reporting entity level.
- b. The three principles in paragraph 21 should be reduced to two principles: (1) In the Budget and (2) Control with risk of loss or expectation of benefit. Based on the definition in paragraph 24 and footnote 12, the majority ownership interest should be considered a presumptive indicator of control instead of a stand-alone principle.
- c. It should be clear that the principles apply to both the government-wide and component reporting entity level.
- d. In the Budget
 - i. The statement should indicate that this is a presumptive principle for consolidation. If an organization is included in the budget, it should be consolidated at the government-wide or component reporting entity level.
 - ii. The exception related to federal financial assistance should be if the organization is included in the budget ONLY as a recipient of federal financial assistance. The standards should clarify whether these organizations require further evaluation against the second principle (Control) if the exception is met.
 - iii. This section should include relevant information for the component reporting entities as well as the government-wide entity. Information from paragraphs 57 and 57 (a) should be included.
- e. Control with risk of loss or expectation of benefit (Control)

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 4 of 17

- i. The statement should indicate that this is a presumptive principle for an organization to be either consolidated or disclosed.
 - ii. This section should include relevant information for the component reporting entities as well as the government-wide entity. Information from paragraph 58 would be included related to the component reporting entities.
 - iii. This section should include the concept of exclusivity of control. We believe that control involves decision-making ability that is not shared with others. Therefore, we believe that consolidated and disclosure organizations would only be controlled by one entity. The ED currently indicates that disclosure organizations could be reported by multiple component reporting entities.
 - iv. The indicators of control should be reordered for ease of application:
 1. Paragraph 29;
 2. Paragraphs 32-34 (situations where control does not exist);
 3. Paragraphs 30-31 (persuasive indicators and other indicators), which would also include adding "Majority Ownership," paragraphs 23 and 24, as a persuasive indicator of control.
 - v. For those organizations that meet the definition of control, this section should reference to the paragraphs that provide the characteristics of a consolidated and disclosure organization.
 - vi. For those organizations that do not meet the definition of control, this section should reference to the paragraphs that provide the characteristics of a misleading to exclude organization. We believe that an organization that meets these characteristics would be subject to related party disclosures.
- f. Characteristics of a consolidated organization
- i. This section should state that the characteristics should be applied to those organizations having met the definition of control in the 2nd principle outlined above. These characteristics would not be evaluated for organizations having met the 1st principle as it is considered a presumptive principle for consolidation.
 - ii. These characteristics would come from paragraph 38. The standard should be clear about whether all characteristics must be met to trigger the consolidation requirement. We do not understand the characteristic in item 38d; therefore, we suggest deleting it. Further, consistent with the approach related to receiverships/conservatorships in paragraph 49 and interventions in paragraph 50 whereby the concept of temporary control is introduced, we believe that the characteristic, other than temporary control, should be added to this section.
- g. Characteristics of a disclosure organization

- i. This section should state that the characteristics should be applied to those organizations having met the definition of control in the 2nd principle.
 1. This section should clearly contrast with the characteristics of a consolidated organization. While judgment will be needed to distinguish between consolidation and disclosure, having the basic characteristics parallel will facilitate the evaluation. These characteristics would come from paragraphs 41-44 presented in the following order – 41, 43, 42, and 44.
- h. We suggest including a flowchart within the statement. Our suggested flowchart is included in Appendix 3.

V. Presentation Requirements

a. Consolidated organizations

- i. This section should present relevant accounting, presentation, and disclosure requirements for consolidated organizations. These requirements will generally include information from paragraphs 64-66. We have included suggestions in Appendix 2.
- ii. This section should include the concepts presented in paragraphs 74-76.

b. Disclosure organizations

- i. This section should clearly prescribe the disclosure requirements (paragraphs 70-73). Paragraphs 72 and 73 should be combined as follows:
 1. Items 73a-c should be sub-items of 72a;
 2. Item 73d should be a sub-item of 72b;
 3. Items 73g-j should be sub-items of 72c; and
 4. Items 73e-f should be removed.
- ii. The factors influencing the extent of the required disclosures should include only those factors that management of the reporting entity has the knowledge to evaluate. We have included suggestions in Appendix 2.

c. Related Parties

- i. We believe that related party disclosures would only be evaluated for an organization that was considered by the reporting entity to be subject to its influence to such an extent that the reporting entity evaluated it under this standard; however the organization failed the control criteria but was considered

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 6 of 17

misleading to exclude. This is based on our observation that the factors in paragraphs 79 and 80 closely parallel those in paragraph 30. If there is an expectation of an evaluation of a separate population, that expectation should be specifically stated and perhaps a separate standard should be considered.

- i. The statement should contrast the disclosure requirements of a related party to those of a disclosure organization. It appears that a related party is similar to a disclosure organization but with limited disclosure requirements.

Appendix 2 - Detailed Comments on Suggested General Structure

I. Purpose

- a. As noted in paragraph 13 of the ED, SFFAC 2 (paragraph 38) uses the term “financial accountability;” therefore, we suggest that the term “accountability” be replaced with “financial accountability” throughout the statement. In addition, the term “financial accountability” should be added to the definitions section.
- b. In conjunction with our suggested removal of “inclusion entity” and the resulting simplification of the statement, our suggested revision of paragraph 1 is as follows:

The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, **general purpose federal financial reports** (GPFRR) for the **government-wide reporting entity** should be broad enough to reflect the financial accountability of Congress and/or the President for those organizations. In addition, **component reporting entity** GPFRRs should allow the Congress and/or the President to hold management accountable. Although Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, addresses identifying **reporting entities** and criteria for including components in a reporting entity, questions have continued in this area indicating the need for standards. Standards that can be used to identify organizations to be consolidated and/or disclosed in the GPFRR of the government-wide reporting entity and each component reporting entity are important to meet federal financial reporting objectives.

- c. Based on our suggestion to divide the statement into two main sections – **Principles and Characteristics** and **Presentation Requirements**, we provide the following suggested revision for paragraph 2, which also includes information from paragraph 3, thereby eliminating paragraph 3:

This Statement guides preparers of GPFRRs in determining what organizations should be consolidated and/or disclosed in the reporting entity’s GPFRR as well as the presentation requirements related to consolidated and disclosure organizations. This statement also provides guidance on identifying and disclosing related parties. This guidance, together with existing guidance, will ensure that users of GPFRRs are provided with comprehensive financial information about federal reporting entities so that the federal financial reporting objectives are met.

- d. Paragraph 4 provides useful guidance for evaluating control. We suggest that it be moved to that section of the statement.
- e. As suggested in the general structure, we recommend placing the information included in paragraphs 13-19 (Organizational Approach) within the Purpose section of the statement. Paragraphs 13 and 14 would follow paragraph 3, and paragraphs 15-17 and 19 would be combined into one paragraph as follows:

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 8 of 17

This statement:

- establishes the principles for identifying organizations to consolidate or disclose within the government-wide and/or component reporting entity;
- provides the presentation requirements related to consolidated and disclosure organizations; and
- provides guidance for identifying related parties and the disclosure requirements for such relationships.

- f. If the statement will separately discuss the central banking system, the information from paragraph 18 should be included in this section.

II. Scope and Applicability

- a. Paragraph 6 states, “This statement applies to federal reporting entities that prepare GPFER in conformance with GAAP as defined by SFFAS 34.” GAAP as defined by SFFAS 34 includes FASB standards for those federal reporting entities that have historically prepared financial statements in accordance with FASB standards. The FASB Accounting Standards Codification contains standards for consolidation. The scope paragraph implies that federal reporting entities that follow FASB, as allowed by FASAB 34, would need to follow this statement for consolidation. In doing so, a federal FASB entity would no longer report in accordance with FASB standards as related to consolidation. Therefore, we suggest that this conflict be resolved.
- b. Paragraph 7 of the scope should be revised as follows:

The purpose of this statement is to enable federal reporting entities preparing and issuing GPFERs to determine what organizations should be consolidated or disclosed in its GPFER and to determine the presentation requirements for consolidated and/or disclosure organizations.

III. Definitions –

- a. Throughout the ED and its footnotes, embedded definitions should be moved to the definition section.
- b. This section should include a definition for financial accountability.
- c. We do not believe that paragraph 9 is the definition of the government-wide reporting entity. It is a statement of what should be included in the financial statements of such an entity.
- d. The definitions of consolidated and disclosure organizations should be included in this section.

IV. Principles and Characteristics

- a. We suggest the following revision to paragraph 20:

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 9 of 17

This Statement provides two principles for determining which organizations should be consolidated or disclosed in the government-wide and/or component reporting entity GPFRR. The statement also provides characteristics of a consolidated and disclosure organization, which should be applied in conjunction with the principles to distinguish between consolidated and disclosure organizations.

b. In the Budget

- i. We believe that for consolidation to be required control should exist. In keeping with the Board's approach, we have maintained in the budget as a separate principle from control, on the basis that if an organization is in the budget (at the component reporting level or government-wide level) it is considered to be controlled by that reporting entity.
- ii. The statement should state which year's budget document to consider when applying the principle.
- iii. Information from paragraph 57a related to the component reporting entity should be moved to this section.
- iv. Paragraph 57b provides another definition of in the budget by its reference to a congressional budget justification document. We believe references to this document should be removed for simplicity and consistency in the application of this statement.

c. Control with risk of loss or expectation of benefit

- i. We believe that the principles should include the concept of exclusivity for purposes of identifying and reporting on consolidated and disclosure organizations. We recommend the following sentence be added to the end of paragraph 25 to incorporate the exclusivity concept:

Control involves decision-making ability that should not be shared with others and, therefore, an organization can only be identified and reported as a consolidated or disclosure organization by one reporting entity.

- ii. Footnote 14 would not be needed based on the changes in our suggested structure.
- iii. Footnote 16 appears to contradict paragraph 30a. Please clarify.
- iv. Footnote 27 should be deleted because it is confusing. The Bureau of Census is included in the budget of the Department of Commerce; therefore, it would not be subject to the evaluation of control.

d. Misleading to exclude

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 10 of 17

- i. Based on our belief that an organization that is misleading to exclude should only result in a related party disclosure, we suggest combining paragraphs 35-36 as follows:

There may be instances when an organization does not meet the principles in paragraphs ____ yet the government-wide or component reporting entity GPFRR would be incomplete if information about the organization were excluded. Organizations should be subject to the disclosure requirements for related parties in the government-wide or component reporting entity GPFRR if the omission would be considered material to the reporting entity's financial statements.

- ii. We believe that the concept of misleading to include should be deleted from the statement because it undermines the overall principles stated.

e. Characteristics of a consolidated organization

- i. Remove paragraphs 39-40 from the statement. Consider including this information within the Basis for Conclusion.

f. Characteristics of a disclosure organization

- i. The information presented in paragraph 44 should clarify that the types of disclosure organizations presented in paragraphs 45-53 (quasi-governmental and/or financially independent organizations, organizations in receiverships and conservatorships, and organizations owned or controlled through federal government intervention actions) are examples of types of organizations that meet the characteristics of a disclosure organization, but do not include all types of disclosure organizations. To clarify this, we suggest the following revision to paragraph 44.

Disclosure organizations may include but are not limited to: quasi-governmental and/or financially independent organizations, organizations in receiverships and **conservatorships**, and organizations owned or controlled through federal government intervention actions. In some cases, the relationship with the federal government is not expected to be permanent. The following disclosure organization types, while not inclusive of all of the types of disclosure organizations, are presented to assist in identifying organizations that are disclosure organizations.

- ii. Paragraph A45 of the Basis for Conclusion implies that the examples of disclosure organizations are inclusive of all the types of disclosure organizations and as a result conflicts with paragraph 44. This should be clarified.
 - iii. The examples provided in paragraphs 45-53 could be moved to an appendix for readability.

g. Identifying organizations component reporting entities are accountable for

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 11 of 17

- i. As a result of the comments above, this information is no longer necessary as its own section. Paragraphs 54-56 and 59-63 should be deleted. The concepts included within paragraph 57 (except for item 57b, which we suggest deleting) should be incorporated into the “In the Budget” principle and the concepts included in paragraph 58 should be incorporated into the “control” principle.

V. Presentation Requirements

a. Consolidated Organizations

- i. We suggest the following revision to paragraph 64 to ensure consistency between the terms used in the Principles and Characteristics section and the Presentation Requirements section. We also note that the last sentence included in paragraph 64 provides a definition for the term “consolidation,” which we believe should be moved to the definitions section of the statement, and as a result it is not included in our suggestion revision.

Consolidated financial statements should be prepared for the government as a whole to facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxes and other non-exchange revenue. Component reporting entities should consolidate the financial information of all organizations identified through the application of the principles and related characteristics of a consolidated organization.

- ii. Although paragraph 65 indicates no new disclosures are needed for consolidated organizations, the last sentence of paragraph 66 implies that there are additional disclosure requirements for consolidated entities that follow FASB standards. The required disclosures in paragraph 66 should result in an amendment to SFFAS 34. Further, we believe that there are appropriate disclosures that should be required, such as the significant organizations being consolidated.
- iii. Paragraph 65 states, “Consolidation entities as defined herein are considered federal reporting entities and should apply GAAP as defined in SFFAS 34.” SFFAS 34 recognizes FASAB standards and FASB standards as GAAP for federal reporting entities. This paragraph implies that a consolidated organization that does not follow FASAB or FASB GAAP (such as a GASB entity) would need to convert their financial statements to either FASAB or FASB GAAP. The statement is silent as to how to consolidate GASB entities and as a result we suggest including guidance on how to consolidate a GASB entity.
- iv. Paragraph 66 states that FASB entities need not be converted to FASAB for consolidation; however this paragraph should address how accounting aspects unique to FASAB GAAP (such as budgetary accounting) be obtained from a FASB entity if conversion is not required. Further, under current practice, federal reporting entities that consolidate FASB GAAP entities do currently convert the

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 12 of 17

financial information to FASAB GAAP before consolidation. Paragraph 66 would cause a change in the current practice.

- v. Paragraph 66 also uses the term consolidation entity to refer to the entity doing the consolidation—the government wide reporting entity—as well as those entities being consolidated. To reduce confusion, we suggest that the statement use the term consolidated organization to refer to the organization being consolidated.
- vi. The information presented in paragraphs A14 and A19 should be included in the statement as the paragraphs instead of the Basis for Conclusion.

b. Disclosure Organizations

- i. We believe that paragraph 67 serves as a good introduction to the disclosure requirements and can remain as the introduction to this section.
- ii. We suggest the following revision to paragraph 68:

For those organizations classified as disclosure organizations, the reporting entity should exercise judgment in determining the appropriate disclosures based on the guidance provided in paragraphs 70-73.

- iii. We believe the information provided in paragraph 69 can be removed based on the following:
 - a. 69a (Relevance to reporting objectives) – The concepts presented within paragraph 69a are included within paragraph 72a and the related examples included within paragraph 73 (specifically 73a-c).
 - b. 69b (Nature and magnitude of the potential risks/exposures or benefits associated with the relationship) – The concepts presented within paragraph 69b are included within paragraph 72b and the related examples included within paragraph 73 (specifically 73d).
 - c. 69c (Disclosure organization views/perspectives) – We do not believe that the federal reporting entity would know the disclosure organizations' views/perspectives of its relationship with the federal reporting entity, nor should this influence the level of disclosures included within the reporting entity's financial statements.
 - d. 69d (Complexity of relationship) – This paragraph implies that a more complex relationship would require additional disclosures. If this is true, we believe the additional required disclosures for a complex relationship should be included within the requirements of paragraph 72.

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 13 of 17

- e. 69e and 69f – We believe the concepts presented in paragraphs 69e and 69f are too subjective and should not be considered to influence the level of disclosures included in the reporting entity’s financial statements.

iv. We suggest the following revision to paragraph 70:

Both qualitative and quantitative factors should be considered in determining whether information about a disclosure organization should be presented separately due to its significance or aggregated with the information for other disclosure organizations. If information is aggregated, aggregation may be based on disclosure organization type, class, investment type, or a particular event deemed significant to the reporting entity.

- v. As noted in our suggested general outline, we believe that paragraphs 72 and 73 should be combined and paragraphs 74-76 should be moved to consolidated organizations as they do not apply to a disclosure organization.
- vi. We believe that when applying the principles (In the Budget and Control) to the central banking system, that a reporting entity could conclude that the central banking system would not be a consolidated or disclosure organization. If the Board believes that at a minimum the central banking system should be considered a disclosure organization, then we believe this requirement should be stated within the Principles section of the statement. We further believe that paragraph 77 should be deleted as the minimum disclosure requirements provide the necessary disclosures for all disclosure organizations.

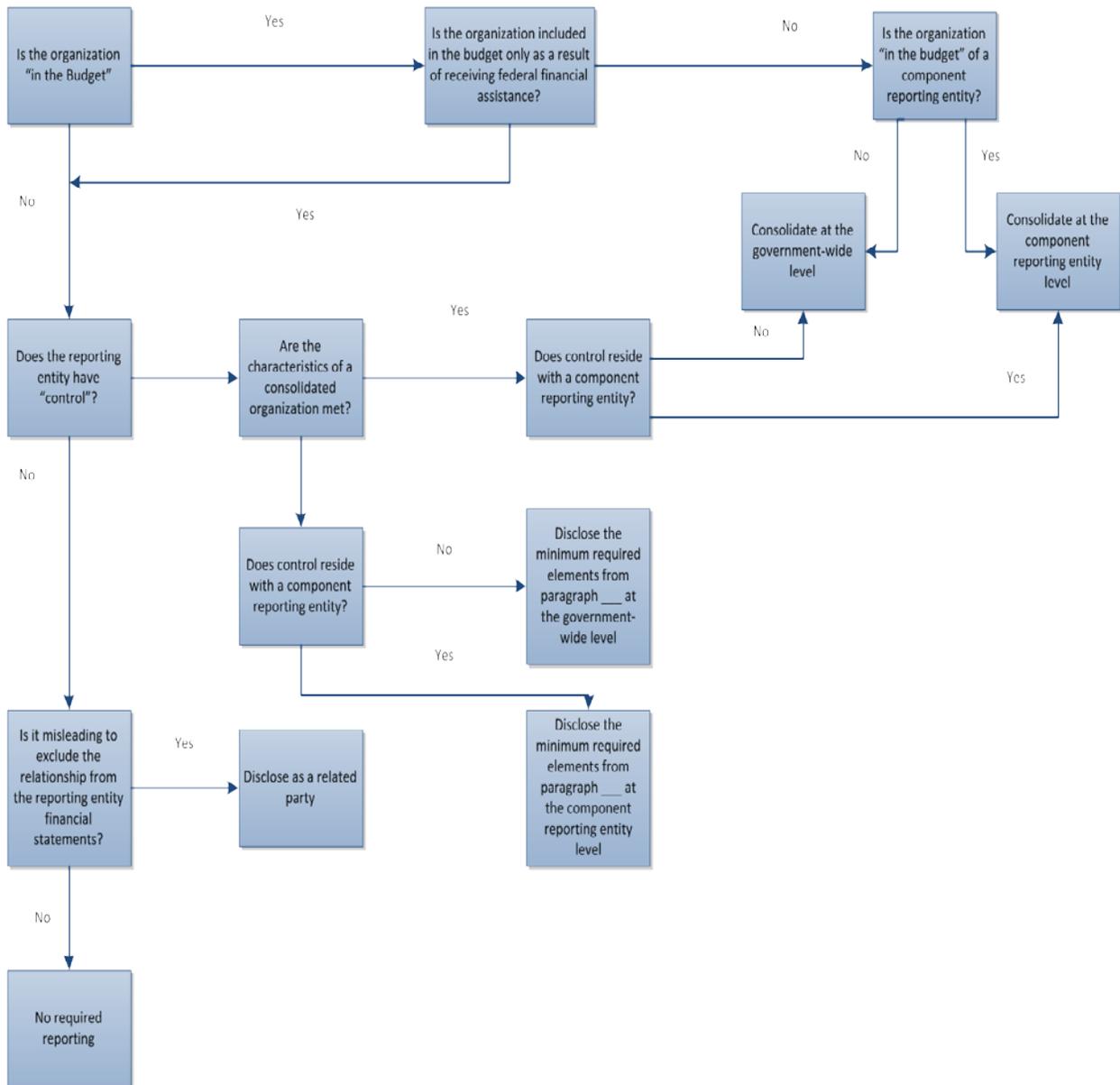
c. Related Parties

- i. Paragraph 83b seems to suggest that organizations such as the United Nations, World Bank, IMF, etc. would be considered related parties of the federal government and should therefore be subject to disclosure requirements. Is this the Board’s intention?

VII. Effective date --We do not agree with allowing for early implementation, because it would lead to inconsistent reporting across federal reporting entities. We suggest stating that early implementation is not permitted.

We did not comment on the changes necessary to the Basis of Conclusion that would correspond to our suggested changes in Appendices 1 and 2.

Appendix 3 – Revised Flowchart



Appendix 4 – Other Comments

- I. Paragraph 1 states, “the government-wide reporting entity should be broad enough to reflect the Congress and/or President’s accountability for those organizations.” Paragraph A13 of the Basis for Conclusion states, “Although the legislative and judicial branches are not currently required to prepare financial statements, based on the principle (in the budget) those organizations would be reported upon in the government-wide report.” Without commenting on the accountability of each branch under the Separation of Powers included with the Constitution, we believe that the consolidation of the judicial branch would provide a more complete presentation of the financial position of the government-wide reporting entity.
- II. We believe the statement should address how an organization should be consolidated if it appears in the budget in multiple locations. For example, the National Railroad Passenger Corporation (Amtrak) is included in the budget of the Department of Transportation and is also included as an Other Independent Agency (National Railroad Passenger Corporation Office of the Inspector General).
- III. We understand that certain equity investments currently are required by legislation to be accounted for in accordance with the Federal Credit Reform Act and normally follow the requirements of SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*. As equity is an ownership interest, we believe that these equity investments could result in a majority ownership interest, which is considered an indicator of control and therefore would trigger the need to evaluate the organization against the Principles contained in the statement. This will cause a change in accounting principles, which we believe should be addressed by the statement
- IV. We recommend that the Board consider developing a separate standard for Related Parties instead of embedding those disclosures within the Reporting Entity standard. If a reporting entity currently includes related party disclosures in its financial statements, the reporting entity would be using the guidance provided in the FASB standards as FASAB does not currently contain a standard addressing related party reporting. Once the Reporting Entity statement is issued, it may be difficult for a federal reporting entity to know and understand that embedded within the statement is guidance for related party identification and reporting. We believe that this statement can refer to related parties however; a separate standard addressing all aspects of related parties may be beneficial.
- V. We did not review the illustrations provided in Appendix C for consistent application of the principles included within the statement because we believe these examples will become requirements and replace the application of the principles. As a result, we suggest removing Appendix C. If this removal causes concern because the examples provide important guidance, consider whether additional guidance should be added to the Principles and Characteristics section.
- VI. The ED addresses the central banking system because of its uniqueness. We also believe that the Treasury General Fund should be addressed within the statement for the same reason. The consolidation of the Treasury General Fund would appear to be required based upon the application of the “control” principle, but the entity to which it should be consolidated should be specified within the statement.

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 16 of 17

VII. Comments related to Amendments to SFFAC 2, *Entity and Display*

- a. As a result of the number of changes that the ED requires for SFFAC 2, we recommend that the Board consider the need to re-evaluate SFFAC 2 in totality and consider a complete revision to SFFAC 2 outside of the required changes resulting from the ED.
- b. Paragraph 91 – The new paragraph (6a) to be included within SFFAC 2 uses the term “accountability.” We believe this should state “financial accountability” to agree with paragraph 38 of SFFAC 2, which uses the term “financial accountability.” This suggestion may require additional edits to SFFAC 2 if there is inconsistent use of “accountability” versus “financial accountability.”
- c. Paragraph 93 – We provide the following suggested revision to the paragraph 10 replacement to SFFAC 2:

Ensure information at each reporting entity includes information about all relevant organizations to support financial accountability by identifying organizations that are in the budget or controlled with risk of loss or expectation of benefit.
- d. Paragraph 94 – We suggest eliminating part of the last sentence to the revised paragraph 38 to SFFAC 2, which includes the concept of misleading to exclude.
- e. Paragraphs 99-100 – We do not believe that the information related to distinguishing between consolidated and disclosure organizations is necessary to be included in a concept statement.

VIII. Comments related to Basis for Conclusion

- a. Paragraph A13 implies that the judicial branch should be consolidated in the government-wide GPFRR, although noting that the judicial branch is not currently required to prepare financial statements. Further, footnote 53 states that FASAB GAAP would be the appropriate accounting standards for these organizations to adopt to the extent they prepare GAAP-based financial statements. Therefore, if the judicial branch were to prepare GAAP-based financial statement, they should follow FASAB GAAP. This statement conflicts with SFFAC 1, paragraph 5, which states, “FASAB does not propose to recommend accounting concepts and standards for the Legislative and Judicial branches.
- b. The “Indicators of Control” in paragraphs A23-A27 is the order which we have suggested in the general structure.
- c. We suggest that the heading before paragraph A30 state, “Characteristics of Consolidated and Disclosure Organizations.

Ms. Wendy M. Payne
FASAB Executive Director
July 1, 2013
Page 17 of 17

- d. Paragraph A41 implies that not all of the characteristics of a consolidated organization need to be met to be considered a consolidated organization; however, this should be clarified within the statement at paragraph 38.
- e. We find paragraph A84 to be confusing and do not understand why this statement should defer to OMB for additional disclosure requirements for related parties. We believe this statement should be all inclusive of the required related party disclosures or the Board should consider a separate standard to address related parties.
- f. Paragraphs A89-A93 provide an alternative view as it relates to receiverships, conservatorships, and interventions. While we agree that receiverships, conservatorships, and interventions could be covered within a Risk Assumed statement as is suggested in the alternative view, we believe these types of relationships should remain within this statement, until at a later date it becomes apparent that an amendment to the statement is necessary to place these types of relationships in a separate statement related to other Risk Assumed matters.