



August 20, 2013

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: **Public Hearing on *Reporting Entity*—Tab A2¹**

MEETING OBJECTIVES

- To review materials in advance of the public hearing on the *Reporting Entity* Exposure Draft.

BRIEFING MATERIAL

The transmittal memorandum includes the following material for the Board's review:

Attachment 1: REVISED Public Hearing Agenda

Attachment 2: Speaker Biographies, Prepared Remarks, and Potential Questions

Attachment 3: 3 Additional Comment Letters Received since the Reporting Entity Comment Letter Binder was distributed on July 18, 2013

Appendix 1: Other Materials

You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>

NEXT STEPS

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

The Board will have the opportunity to ask each speaker questions during the session. Also, on Thursday the Board will discuss high level issues to be addressed based on the comment letters and public hearing testimony.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-5976 or by e-mail at loughanm@fasab.gov with a cc to paynew@fasab.gov.

Reporting Entity
REVISED Public Hearing Schedule
August 28, 2013

	TIME	NAME	ORGANIZATION	LETTER #
	8:30 – 8:45	Chairman and Executive Director discuss process for Public Hearing with Board and other parties		
1	8:45 – 9:15	John Lynskey	National Science Foundation	8
2	9:15 – 9:45	Caryn Kauffman Eileen W. Parlow	Securities and Exchange Commission	23
3	9:45 – 10:15	Andrew Lewis	GWSCPA	27
	10:15 – 10:45	~BREAK ¹ ~		
4	10:45 – 11:15	Joyce Dillard	Presenting as a Citizen, not on behalf of an organization	28
5	11:15 – 11:45	Ed Mazur	AGA, Financial Management Standards Board	31
6	11:45 – 12:15	Christina Ho	Treasury, Bureau of the Fiscal Service	33
	12:15 – 1:00	~LUNCH~		
7	1:00 – 1:30	Dan Murrin	Ernst & Young	
8	1:30 – 2:00	James Gould Amanda Nelson	KPMG	9
9	2:00 – 2:30	Carole Banks	Department of Treasury	36
	2:00 – 2:30	~BREAK ² ~		
10	2:30 – 3:00	Donna Terzak	Tennessee Valley Authority	12
11	3:00 – 3:30	Joseph H. Marren	Presenting as a Citizen, not on behalf of an organization	20

¹ Break shows 30 minutes but this extra time is for speaker changes so each is given full 30 minutes.

² Break shows 30 minutes but this extra time is for speaker changes so each is given full 30 minutes.

Speaker Biographies, Prepared Remarks, and Potential Questions

(Listed in order of appearance at the August 28, 2013 Public Hearing)

John Lynskey, National Science Foundation	2
Caryn Kauffman and Eileen W. Parlow, Securities and Exchange Commission	7
Andrew Lewis, Greater Washington Society of CPAs.....	19
Joyce Dillard	21
Ed Mazur, AGA, Financial Management Standards Board.....	35
Christina Ho, Treasury, Bureau of Fiscal Services	38
Dan Murrin.....	43
James Gould and Amanda Nelson, KPMG	46
Carole Banks, Department of Treasury	50
Donna Terzak, Tennessee Valley Authority	52
Joseph H. Marren	60

John Lynskey, National Science Foundation

Mr. John Lynskey
Deputy Director
Financial Management
National Science Foundation

John Lynskey is currently the Deputy Director of the Division of Financial Management at the U.S. National Science Foundation (NSF). He works directly for NSF's CFO and DCFO. John serves as NSF's "Controller" with responsibility for oversight of NSF's daily financial operations including: grant financial monitoring and grant payments, internal controls, financial audit, financial statements, financial reporting, financial operations, commercial payments, and NSF's financial system. He is also responsible for NSF's implementation of many White House initiatives including: Do Not Pay, ARRA, improving financial performance, improper payments (IPERA, IPIA), and financial systems. Under John's stewardship, NSF has had significant success in obtaining "clean" audit opinions and recognition with awards and "Green" metrics related to financial management, accountability, and accountability reporting. John has also served at NSF as Acting Deputy Chief Financial Officer (1.5 yrs) and Accounting Operations Branch Chief (3 yrs).

Prior to joining NSF, John served eight years with the U.S. Secret Service where he developed the Secret Service's first financial statements. He held several positions related to financial management and administration both under the CFO and in Protective Operations. John also traveled extensively with the U.S. Secret Service as part of the core security team for events such as political conventions, United Nations General Assemblies, the State of the Union Address, and the Olympics.

Prior to his federal government service, John worked in the private sector for Deloitte, Haskins, and Sells (currently Deloitte and Touche) and two other public accounting firms.

John is involved in many activities outside of work both professionally and with his daughters school and sports. Most notably John serves as the National Treasury for the Association of Government Accountants, which is the professional organization for federal, state and local accountants across the country. He also is on the finance committee for his girls school and coaches basketball.

John graduated with honors in 1989 from James Madison University in Virginia with a BBA degree in Accounting. John is a Certified Government Financial Manager (CGFM) and a Certified Public Accountant (CPA). He has also received a financial management certificate from George Washington University.

WRITTEN REMARKS
JOHN LYNSKEY
DEPUTY DIRECTOR, FINANCIAL MANAGEMENT
NATIONAL SCIENCE FOUNDATION
FINANCIAL ACCOUNTING STANDARDS ADVISORY BOARD (FASAB)
PUBLIC HEARING ON REPORTING ENTITY

Introduction:

Good morning. I want to express my appreciation to the members of the Board for the opportunity to appear here today to discuss the Reporting Entity Exposure Draft.

The NSF has the mission to advance research and education in science and engineering across all fields and disciplines and at all educational levels. NSF is the overarching source of federal support for fundamental research that enables advances and innovation across the fields of science, engineering, and science education. We accomplish this through a Director, National Science Board and talented workforce dedicated to that mission.

Related Party Definition and Requirements:

I would like to start with the related party definition and requirements. The FASAB is proposing 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.

NSF thinks the definition of “significant influence” should be further clarified or expanded. For instance, the definition should make clear that Presidentially appointed or Congressionally confirmed individuals that serve on Agency boards and also have collegial or industry positions do not automatically create a related party relationship between the Agency and the university or corporation. The operation of the National Science Board (NSB) is a good example.

The NSB establishes the policies of NSF within the framework of applicable national policies set forth by the President and Congress. In this policy capacity, the NSB acts strategically but does not influence daily operations or transactions. NSB members may be affiliated with institutions such as universities where researchers are eligible to receive grants and awards from NSF. However, Federal conflict of interest rules prohibit NSB members from participating in matters where they have a conflict of interest

or there is an impartiality concern without prior authorization from the designated agency Ethics Official. In addition, Individual NSB members are not involved in the review or approval of any proposed grant awards to their affiliated institutions.

The reference that ‘significant influence’ lies in the power to participate in policy decisions may be interpreted too broadly in circumstances where agencies are headed by individuals that also serve in collegial organizations, such as in NSF. We think that to assume a related party relationship between an NSB member and NSF, or between the NSB members’ affiliated institution and NSF, would itself be misleading to the public. It could imply the existence of factors such as the ability to cause the agency to enter in transactions on different terms or conditions than those available to unrelated parties. This is not the case with the NSB.

In regard to the sample scenarios, NSF, and presumably other agencies with Boards or other multi-member governing bodies, would benefit from a related party scenario involving agency Board members. The illustration should indicate that the agency does not have a related party relationship with the board member or the institution/organization with which the board member is affiliated.

Standards for Federally Funded Research and Development Centers (FFRDC) Classification:

Let me turn now to the proposed standards for FFRDCs. NSF thinks it is important to clarify the inclusion of FFRDCs in the definition of “Disclosure Organizations.” Although NSF legally considers and is noted as the sponsoring agency for four FFRDCs, by law, the Foundation is not allowed to manage or operate the facilities. The Exposure Draft indicates that Disclosure Organizations are separately defined and presented in the General Purpose Federal Financial Report in order to “avoid obscuring information about more autonomous organizations while still providing accountability.” The NSF’s prohibition or restriction from managing or operating FFRDC’s limits the level of influence and accountability the Foundation has over the FFRDC as it relates to the intent of this exposure draft. Therefore, we think FASAB should add language that excludes FFRDCs for which the “sponsoring agency” is precluded by law from participating in the operation or management of the entity.

Summary:

To wrap up I want to highlight the main remarks that NSF would like the Board consider.

Concerning Related Parties:

- Clarify the definition for agencies with Board of Directors.
- Define “significant influence” in the context of Board members, whose strategic actions do not affect transactions and, therefore, do not automatically create a related party relationship with that agency.

- Offer a related party scenario involving agency Board members, where the agency does not have a related party relationship with the board member or the institution/organization with which the board member is affiliated.

With respect to FFRDCs:

- Add language in the definition of “Disclosure Organizations” that excludes FFRDCs for which the “sponsoring agency” is precluded by law from participating in the operation or management of the entity.

Thank you for hearing NSF’s concern’s on this matter.

NOTE: the Comment Letter Submitted by the National Science Foundation is #8 in the Reporting Entity Comment Letter Binder provided July 18, 2013 and can be found on page 33 or #8 John Lynskey, National Science Foundation at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/reporting-entity/> .

QUESTIONS FOR Mr. Lynskey:

Regarding the National Science Board:

The Board recognizes there may be instances as you describe where “Presidentially appointed or Congressionally confirmed individuals that serve on Agency boards and also have collegial or industry positions do not automatically create a related party relationship between the Agency and the university or corporation.”

Do you believe the exclusions in paragraph 84b (which includes collegial institutions) or 84c (which includes key executives) could address your concern with the modifications you suggest?

The National Science Board response indicated that large grants to collegial institutions represented on the NSB are disclosed.

Were these disclosures included because current standards for related party disclosures require them?

Would these disclosures continue if the related party definition is clarified as you request?

Regarding FFRDCs:

The Board recognizes the unique nature of FFRDC relationships while also remaining cognizant that an organization's legal form may not reflect the substance of the relationship—and this is not a statement or an assessment of any particular FFRDC relationship but a broad statement. As such, the legal form or designation does not always determine financial reporting. The Board also notes that there are broad and wide ranging FFRDC relationships, so while it may be helpful to classify all in one manner, it may not be appropriate to do so.

Notwithstanding the fact that NFS cannot itself operate an FFRDC, did you conclude that the government – rather than NSF - owns or controls these FFRDCs? If so, do you believe that NSF's FFRDCs should be disclosure organizations?

Do the contracts or agreements under which FFRDCs are operated provide that the federal government will assume responsibility for certain post-employment benefits for FFRDC staff or for any cleanup costs associated with the facilities upon termination of these arrangements? If so, are these exposures presently reported in NSF's financial reports?

Is your concern about inclusion and/or classification of FFRDCs with the legal issue or with the proposed disclosures that may result?

Can you offer other areas for improvement or clarification for FFRDCs in the proposed standard? For example, in your comment letter it was suggested to add the Master List of FFRDCs as an item indicative of administrative assignments for component entities.

In your comment letter, you noted one of the attributes for consolidation entities "financed through taxes, and other non-exchange revenues", and the requirement that disclosure organizations "receive limited or no funding from general tax revenues" should be reconsidered. Your letter indicated that federal funds being the primary source of funding for an organization does not determine its status and paragraphs 32 – 34 of the ED indicate that economic dependency does not equate to control. You suggest that the funding source should be considered for removal as a characteristic for distinguishing between consolidation entities and disclosure organizations.

Is your concern that too much weight may be assigned to this one attribute rather than focusing on an overall assessment of the attributes?

Caryn Kauffman and Eileen W. Parlow, Securities and Exchange Commission

Caryn E. Kauffman

Caryn Kauffman is the Deputy Chief Financial Officer at the Securities and Exchange Commission ("SEC"). She previously served as the SEC's Chief Accounting Officer. Caryn came to the SEC after thirteen years in PwC's auditing practice. At PwC she serviced a wide variety of clients in the financial services, consumer products and not-for-profit industries. Further, she spent a significant amount of time auditing publicly traded companies registered with the SEC.

Caryn's experience includes the implementation of, and compliance with, various FASAB and FASB accounting standards. Further, she has extensive experience with performing risk analyses and internal controls assessments and has implemented the Sarbanes-Oxley Act of 2002 at numerous organizations.

Caryn received her Bachelor degree in accounting from the University of Richmond. She is a Certified Public Accountant licensed in the Commonwealth of Virginia.

Eileen W. Parlow

Eileen Parlow is a senior staff accountant in the Office of Financial Management at the Securities and Exchange Commission. Eileen came to the SEC from the Federal Accounting Standards Advisory Board, where she was an Assistant Director for eight years. Among her accomplishments at FASAB were serving as project manager for the development of FASAB standards for reporting on the fiscal sustainability of the U.S. Federal government, dedicated collections/earmarked funds, fiduciary activities, and other areas.

Eileen has worked for over fifteen years resolving Federal government-wide accounting policy issues at the Department of Defense, the U.S. Department of Education, and the FASAB, often serving on the U.S. Standard General Ledger Board and numerous other government-wide working groups. Prior to her Federal career, Eileen's experience included non-profit accounting, private sector financial statements, and four years as the Comptroller for the U.S. Operations of the London Times.

Eileen received an Elijah Watt Sells Certificate with High Distinction from the AICPA for her performance on the November 1993 Unified Certified Public Accountant Examination, and she was recognized by the Virginia Society of Certified Public Accountants for achieving the highest score in Virginia. She is a Certified Public Accountant licensed in the Commonwealth of Virginia and a Certified Government Financial Manager.

Securities and Exchange Commission (SEC) Statement:
FASAB Public Hearing on exposure draft, *Reporting Entity*,
August 28, 2013

Speakers:

Caryn Kauffman, SEC Deputy CFO
Eileen Parlow, SEC Senior Staff Accountant

Disclaimer:

The views expressed today are those of the speakers and do not represent official views of the SEC.

Introduction:

In today's discussion, we would like to focus on three organizations that are currently included in the SEC's section of the *Budget of the United States Government: Analytical Perspectives – Supplemental Materials*, schedule entitled "Federal Programs by Agency and Account" ("the Budget"). Those organizations are:

- Financial Accounting Standards Board (FASB), budget account titled "Payment to Standard Setting Body"
- Securities Investor Protection Corporation (SIPC)
- Public Company Accounting Oversight Board (PCAOB)

Objective of this discussion:

The staff believe that it is not the Board's intent to establish a non-rebuttable presumption that inclusion in the Budget always requires consolidation. The staff also believe that the proposed additional principles for inclusion would not require the consolidation of FASB, SIPC or PCAOB into the SEC or the government-wide financial statements. We want to discuss our understanding of the inclusion principles with you.

The staff also believe that the proposed disclosure requirements would not require the SEC to report financial data for those three organizations in its notes. At today's public hearing, we want to discuss our understanding of the proposed disclosure requirements with you. We also want to suggest edits that the staff believe might clarify several of the disclosure requirements.

Financial Accounting Standards Board (FASB), budget account title "Standard Setting Body"

The staff believe that neither consolidation nor extensive disclosure would be appropriate for FASB. Here is how the staff believe that each of the Board's proposed three major principles would relate to FASB:

Principle 1. "In the Budget"

The Budget Appendix for Fiscal Year (FY) 2014 includes line item 95-5377, "Payment to Standard Setting Body." The text of this section (**bold added**) states:

The Sarbanes-Oxley Act of 2002 (P.L. 107–204) authorizes the Securities and Exchange Commission (SEC) to designate a **private entity** as a standard setting body. This standard setting body will set accounting principles that will be "generally accepted" for the purposes of federal securities laws. Funding for the standard setting body comes from Accounting Support Fees, paid by public companies. The **private entity currently designated as the standard setting body** is the Financial Accounting Standards Board (FASB).

Principle 2. "Majority Ownership Interest"

The staff believe that the FASB is not owned by the SEC or by the U.S. Government. As noted by the response letter from the FAF (response letter #35) (**bold added**):

... as the circumstances of the FASB indicate, there may be accounts included in the Budget which do not receive federal appropriations, for which elected officials are not accountable, and in which **the federal government has no ownership interest** and little or no operational control.¹

The accounting support fees paid by for FASB Section 109 of SOX² states that "[a]ccounting support fees and other receipts of ... such standard-setting body **shall not be considered public monies of the United States.**" Moreover, the Rules of Construction set forth in Section 109 provide that "[n]othing in this section shall be construed to render [the FASB] subject to procedures in Congress to authorize or appropriate public funds...."³

Principle 3. "Control with Risk of Loss or Expectation of Benefit"

Indicators that control does not exist include but are not limited to:

1. The SEC has no final decision regarding appointment of FASB members or selection of FASB staff.
2. The SEC has no involvement in FASB's daily operations.
3. FASB is organized as a private-sector entity, as part of the Financial Accounting Foundation, a non-profit organization. FASB employees are private sector employees, not subject to civil service hiring rules or eligible for federal employee benefits.
4. FASB is not funded by general tax revenues; it is funded by accounting support fees, investment income, and sales of subscriptions and publications.
5. FASB is not required to report in accordance with FASAB standards as described in paragraphs 5-7 of Statement of Federal Financial Accounting Standards (SFFAS) 34.

Indicators of control

- The SEC has the authority to designate FASB as "generally accepted" for purposes of the federal securities laws.
- The Sarbanes-Oxley Act of 2002 provides the authority for FASB to collect accounting support fees. The accounting support fee is subject to review by the SEC. However, as noted in the Financial Accounting Foundation (FAF) comment letter, the intent of the funding provisions in the legislation was to strengthen FASB's independence by providing for mandatory accounting fees. Prior to 2002, FASB was funded by voluntary donations supplemented by sales of its publications and subscriptions.

¹ Also see the Financial Accounting Foundation (FAF) comment letter, page 4.

² Sarbanes-Oxley Act of 2002

³ FAF comment letter, page 2.

SEC staff comments for discussion on FASB: Disclosure requirements

The FAF's comment letter indicated that: "If there is no federal governmental ownership or operational control of an entity, and the entity does not receive federal funds, there would be no justification for including the entity within the scope of the GPFFRs; indeed, to do so would be misleading." The staff agree with the FAF's comments.

The staff believe that the proposed objectives for disclosure listed in paragraph 72 of the ED⁴ should be clarified as follows:

- Objective 72(b) should be clarified to indicate that the "nature and magnitude of relevant activity" and "balances at the end of the period" explicitly refer to (a) financial relationships or transactions between the disclosure organization and the federal reporting entity and/or (b) situations where there may be a potential exposure to loss (or gain) by the federal government. Reason: Otherwise, objective 72(b) may be interpreted as requiring extensive reporting on the financial activities of non-federal organizations, which would be confusing and/or misleading for financial statement readers.
- Example 73(e), "a discussion of the disclosure organization's key financial indicators and changes in key financial indicators" also should be clarified to refer to relevant situations, for example where the disclosure organization may potentially expose the federal government to future losses or gains. Reason: In other situations presenting information about "key financial indicators" of nonfederal organizations would be confusing and/or misleading for financial statement readers. This comment also applies to the "subsequent events" requirement in paragraph 76.⁵

Securities Investor Protection Corporation (SIPC)

The staff believe that neither consolidation nor extensive disclosure would be appropriate for SIPC. Here is how the staff believe that each of the Board's proposed three major principles would relate to SIPC:

Principle 1. "In the Budget"

The Budget Appendix for FY 2014 includes line item 95–5600, Securities Investor Protection Corporation. The text of this section of the Budget states:

⁴ Paragraph 72 of the ED lists the following objectives for disclosures:

- a. Relationship and Organization: The nature of the federal government's relationship with the disclosure organization(s)
- b. Relevant Activity: Nature and magnitude of relevant activity during the period and balances at the end of the period
- c. Future exposures: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure organization

⁵ Paragraph 76 of the ED proposes that : Significant changes in information occurring from the end of the disclosure organization's reporting period should be reported consistent with the requirements of SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

SIPC was created when Congress passed the Securities Investor Protection Act of 1970 (SIPA). Its purpose is to afford certain protections to customers against loss resulting from broker-dealer failure and, thereby, to promote investor confidence in the nation's securities markets. SIPC is a non-profit membership corporation. Its members are, with some exceptions, all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange. SIPC receives funds through assessments on its membership and from interest earned on its investments in U.S. Government securities.

SIPC may borrow up to \$2.5 billion from the U.S. Department of the Treasury, through the Securities and Exchange Commission, in the event that the fund maintained by SIPC is insufficient to satisfy the claims of customers of failing brokerage firms. SIPC has not accessed these loans to date, and the Budget does not project that SIPC will require use of these loans over the next ten years.

As noted in SIPC's comment letter (letter #5):

Throughout SIPC's history, SIPC has been both excluded and included in the Appendix of the Budget. For example, in FY 2007, SIPC's line of credit with Treasury had a line in the budget. In FY 2008, the line of credit was removed from the Budget and replaced with a paragraph explaining the role of SIPC. In FY 2011, the SIPC Fund was included as an account in the Budget, with adjustments going back to FY 2009. As far as SIPC is aware, no legislative changes in those years led to these changes in treatment.

Principle 2. "Majority ownership interest"

- SIPC is organized as a separate legal entity, a non-profit organization that issues annual audited financial statements. SIPC's legislation states that SIPC "shall not be an agency or establishment of the United States Government."⁶
- As of December 31, 2012, SIPC had approximately \$1.5 billion in investments in Treasury securities. Those securities are valued in accordance with private-sector (FASB) accounting principles,⁷ which is a different valuation basis from the valuation method used by federal agencies for intra-governmental investments in Treasury securities. If proposed reporting requirements should require reclassification of SIPC as a part of the federal government, the valuation of SIPC's Treasury investments would present significant challenges, because the Treasury Department would be required to reclassify those securities as intra-governmental debt and eliminate them in the process of consolidating the government-wide financial statements.

Principle 3. Control with Risk of Loss or Expectation of Benefit"

Indicators that control does not exist

⁶ 15 U.S.C. 78 ccc (a)(1)

⁷ SIPC's footnote 6 states that: The fair value of the U.S. Government securities is based on the Federal Reserve Bank of New York bid quote as of December 31, 2012. As a bid quote on U.S. Government securities vary substantially among market makers, the fair value bid quote is considered a level 2 input under the guidance. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. As of December 31, 2012 all securities held within the portfolio are priced using level 2 input.

The most important indicators of a lack of control are:

- The SEC has only limited control over SIPC's operations. An example of the limits of the SEC's control over SIPC's operations is described in SIPC's Annual Report for 2012, financial statement Note 10, which describes a lawsuit between the SEC and SIPC regarding a specific action that the SEC believes that SIPC should take.⁸
- Unlike the FDIC, SIPC does not provide a guarantee of government-backed insurance.⁹ The consolidation of the SIPC into the federal government's financial statements, or even the disclosure of SIPC's liabilities in the financial statements of a federal reporting entity, may imply to some readers that the SIPC provides federally-backed insurance for investments and/or that its liabilities are backed by the full faith and credit of the federal government.

Other factors indicating a lack of control:

- SIPC is not funded by general tax revenues; it is a membership corporation, whose members are brokerage firms, and is funded entirely by membership assessments. Its resources are not available to the Treasury general fund, the SEC, or any other federal entity.
- SIPC is organized as a private-sector entity, as a non-profit membership organization. SIPC employees are private sector employees; they are not subject to federal civil service hiring rules or eligible for federal employee benefits.
- SIPC is not required to report in accordance with FASAB standards as described in paragraphs 5-7 of SFFAS 34. SIPC issues annual audited financial statements in accordance with private-sector accounting principles.

Indicators of control

- **(Important note: This indicator is an indicator of control by the Treasury Department and/or the federal government as a whole, but not the SEC, because the SEC has no authority to appoint any of the SIPC's directors.)** One of SIPC's directors is appointed by the Secretary of the Treasury, one is appointed by the Federal Reserve Board, and the other five are appointed by the President, subject to Senate approval.
- The legislation establishing SIPC provides some limited control over SIPC by the SEC. For example, although the legislation allows SIPC to determine its own fiscal year in its bylaws, it also allows the SEC, under certain circumstances, to require SIPC to amend its bylaws or rules.¹⁰

SEC staff comments for discussion on SIPC:

⁸ SIPC's 2012 Annual Report is available at <http://www.sipc.org/Portals/0/PDF/2012AnnualReport.pdf>

⁹ See SIPC's discussion, "Why we are not the FDIC" at <http://www.sipc.org/Who/NotFDIC.aspx>

¹⁰ The *Securities and Investor Protection Act of 1970*, 15 U.S.C Section 78ccc.(e)3states that, "The Commission may, by such rules as it determines to be necessary or appropriate in the public interest or to carry out the purposes of this chapter, require SIPC to adopt, amend, or repeal any SIPC bylaw or rule, whenever adopted."

Comments for discussion on SIPC include the same comments on FASB, with one additional issue that is unique to SIPC:

As of December 31, 2012, SIPC held approximately \$1.5 billion in Treasury securities. Because SIPC operates as a private-sector organization, it does not hold funds as “Fund Balance with Treasury” or purchase Treasury securities via an intra-governmental transaction, as if it were an actual federal component entity. SIPC also appropriately uses FASB accounting standards in reporting the value of its Treasury investments. If SIPC were to be reclassified as a federal entity for financial reporting purposes, there would be a considerable implementation burden on the Treasury Department, in order to reclassify SIPC’s investments as intra-governmental investments, adjust their valuation in accordance with FASAB reporting requirements, and eliminate them in the consolidation process. It is unclear what additional benefit would be provided by the additional costs. More importantly, such a procedure would result in financial reporting that may be misleading for readers of the government-wide federal financial statements.

Public Company Accounting Oversight Board (PCAOB)

Staff believe that neither consolidation nor extensive disclosure would be appropriate for PCAOB. Here is how the staff believe that each of the Board’s proposed three major principles would relate to PCAOB:

Principle 1. “In the Budget”

The Budget Appendix for FY 2014 includes line item 95–5376, Public Company Accounting Oversight Board. The text of this section of the Budget states:

The Sarbanes-Oxley Act of 2002 (P.L. 107–204) established the Public Company Accounting Oversight Board (PCAOB) to oversee the audit of public companies that are subject to federal securities laws. PCAOB was created to protect the interests of investors by regulating the preparation of informative, accurate, and independent audit reports for companies whose securities are sold to, and held by and for, public investors. Funding for PCAOB comes from registration fees paid by public accounting firms and accounting support fees paid by public companies.

Principle 2. “Majority ownership interest”

Section 101(b) of the Sarbanes-Oxley Act states that:

The Board shall not be an agency or establishment of the United States Government, and, except as otherwise provided in this Act, shall be subject to, and have all the powers conferred upon a nonprofit corporation by, the District of Columbia Nonprofit Corporation Act. No member or person employed by, or agent for, the Board shall be deemed to be an officer or employee of or agent for the Federal Government by reason of such service.

Section 109 (c) 1 of the Sarbanes-Oxley Act (**bold added**) states that:

“Accounting support fees and other receipts of the Board and of such standard-setting body **shall not be considered public monies of the United States**.”

Based on the above legislation, it does not appear that the Treasury Department or any other federal entity has any claim on or access to the PCAOB's receipts or assets. It should be noted that notwithstanding the explicit statutory language providing that the accounting support fees and other receipts of the PCAOB "do not constitute public monies or public funds," in FY 2013 the OMB determined that the PCAOB is subject to sequestration.¹¹ Further research would be needed to determine the significance of the FY 2013 sequestration relative to the question of "majority ownership interest." The PCAOB has stated in Note 9 of its FY 2012 audited financial statements that it does not agree with OMB's determination that the PCAOB's resources should be subject to sequestration and has consulted the Department of Justice on the legal issue of whether the PCAOB is properly subject to sequestration. Because of this pending legal issue, staff requests that our discussion of this issue with FASAB be deferred until after the Department of Justice has provided a response to the PCAOB.

Principle 3. "Control with Risk of Loss or Expectation of Benefit"

Indicators that control does not exist

- PCAOB is not funded by general tax revenues. The Sarbanes-Oxley Act, as amended by the Dodd-Frank Act, established funding for PCAOB activities, primarily through the annual accounting support fees assessed on public companies and on brokers and dealers.
- PCAOB is organized as a private-sector non-profit membership organization.
- PCAOB is not required to report in accordance with FASAB standards as described in paragraphs 5-7 of SFFAS 34. PCAOB issues audited financial statements in accordance with private-sector accounting principles.

Indicators of control

- All five of the PCAOB Board members are appointed by the Securities and Exchange Commission, after consultation with the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury.¹²
- The SEC must approve the PCAOB's budget and accounting support fee.¹³
- The SEC can relieve the PCAOB of its authority.¹⁴
- The SEC has authority to issue binding rules for the PCAOB and to approve or amend proposed rules or other actions of the PCAOB.¹⁵

SEC staff comments for discussion on PCAOB:

Comments for discussion on PCAOB include the same issues described on FASB on page 3 of this document.

¹¹ This notes applies to FASB and SIPC as well, which were also not exempted from the FY 2013 sequester. Notwithstanding OMB's position on sequestration, staff does not believe that OMB has indicated that the SEC or the USA has any right to the monies that the PCAOB collects, or those of the SIPC, or FASB.

¹² Sarbanes-Oxley Act, Section 101(e)(4).

¹³ Sarbanes-Oxley Act, Section 109.

¹⁴ Sarbanes-Oxley Act, Section 107.

¹⁵ Sarbanes-Oxley Act, Section 107.

Although the staff believe that it would be misleading to consolidate PCAOB as if it were part of the federal government,¹⁶ we believe that it would be appropriate to include a description of the SEC's oversight responsibilities regarding PCAOB in the SEC's MD&A and/or in its financial statement notes. The staff believe that this would provide useful information for the SEC's financial statement readers.

Appendix A: Additional discussion points regarding consolidation

The staff believe that it is not the Board's intent to establish a non-rebuttable presumption that inclusion in the Budget always requires consolidation.

The staff also believe that the proposed additional principles for inclusion would not require the consolidation of FASB, SIPC or PCAOB. The following comments for discussion support narrative disclosure rather than consolidation of those organizations.

Inconsistent with definitions in SFFAC 5 and SFFAS 1. SFFAC 5, paragraph 18 states that, "An asset is a resource that embodies economic benefits or services that the federal government controls." The consolidation of the assets of private-sector non-profit organizations such as FASB, SIPC and PCAOB into the financial statements of the SEC or any other federal entity would not appear to be consistent with this definition of an asset. In addition, their assets could not be classified as either "entity assets" or even "non-entity assets" as defined in SFFAS 1, paragraph 25, because their assets are neither "available for use" nor "held by" the SEC or any other federal agency.

Misleading reporting on liabilities. The consolidation of such entities into the federal government's financial statements, or even reporting their liabilities in the notes, might imply to some that their liabilities are backed by the full faith and credit of the federal government. It should be researched whether this implication may create risk by exposing the federal government to future losses.

Cost/benefit considerations. In the Board's consideration of the federal government's reporting on organizations such as FASB, SIPC, and PCAOB, it should be noted that the process of consolidating such organizations, either into a federal component entity or directly into the federal government-wide financial statements, would present very significant implementation challenges, as noted in the Treasury Bureau of the Fiscal Service response letter, Letter #33, item 5:

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?

¹⁶ See Appendix A of this document for discussion topics relative to consolidation.

Resolving this issue would require such organizations to report in accordance with FASAB standards, including providing data for budgetary and proprietary balances that correspond to the federal government's fiscal year-end and in compliance with the OMB's required due dates for the issuance of audited financial statements. In many cases this would impose significant additional costs. In the current environment of budget austerity, cost/benefit considerations should be included among the many factors for the Board to consider in proposing reporting requirements. In instances where such organizations already issue audited financial statements, it is unclear what added benefit such additional costs would provide.

Misleading and confusing reporting

The organizations and individuals that pay member assessments to SIPC expect SIPC to issue annual audited financial statements in accordance with private-sector reporting standards for non-profit organizations. If SIPC were required to issue audited financial statements in compliance with FASAB standards, which would be necessary for Treasury and/or the SEC to be able to consolidate them, SIPC would need to either (a) discontinue issuing annual private-sector basis audited financial statements or (b) continue issuing them and create the appearance that they are “keeping two sets of books.” For example, as noted in the discussion comments on SIPC, the value of SIPC’s Treasury investments would need to be calculated differently, and the difference may be material. Either action would likely create confusion for financial statement users.

Inconsistent inclusion/exclusion

- Paragraph 63a of the ED appears to assume that organizations included in a component federal entity’s section of the budget are also included in that entity’s budget justification. This is not always the case. FASB, SIPC and PCAOB are not included in the SEC’s budget justification.
- As previously noted, SIPC has been in and out of the Budget during its 40+ years of existence.

Appendix B: References:

The following comment letters are relevant to this discussion:

[#23 Securities and Exchange Commission](#)

[#35 Financial Accounting Foundation](#)

[#5 Securities Investor Protection Corporation](#)

NOTE: the Comment Letter Submitted by the Securities and Exchange Commission is #23 in the Reporting Entity Comment Letter Binder provided July 18, 2013 and can be found on page 267 or **#23 William Fleming, Securities and Exchange Commission** at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/reporting-entity/> .

Questions for Ms. Kauffman and Ms. Parlow

Regarding the “in the Budget” inclusion principle:

SFFAC 2 currently provides:

41. There are two types of criteria that should be considered when deciding what to include as part of a financial reporting entity. The first is a conclusive criterion, i.e., an inherent conclusion that for financial reporting purposes, any organization meeting this criterion is part of a specified larger entity.

42. Appearance in the Federal budget section currently entitled “Federal Programs by Agency and Account” is a conclusive criterion. Any organization, program, or budget account, including off-budget accounts and government corporations, included in that section should be considered part of the U.S. Federal Government, as well as part of the organization with which it appears. This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation.

What are the key differences between the SFFAC 2 text and the proposed “in the budget” language in the ED that led you to believe SIPC would be treated differently under the proposal than it is under SFFAC 2?

Did you interpret “non-federal organization receiving financial assistance” and the related footnote in paragraph 22 to mean that an organization must report under the Single Audit Act provisions in order to qualify as one?

Did you assume that a “non-federal organization receiving federal financial assistance” that met the “control” indicators could not be a disclosure organization because it was also identified in the budget?

Would clarification of the definition of a “non-federal organization receiving federal financial assistance” address your concerns? Could you offer any suggestions?

Did you consider whether SIPC might meet the inclusion principles overall but that it may be “misleading to include” SIPC in SEC’s financial report per par. 62 of the proposal?

The Board notes that once an organization is deemed to be a non-federal organization receiving financial assistance, then it must be assessed against the next two principles.

Would clarification that paragraph 39 does not apply to organizations listed in the budget that are deemed to be non-federal organizations receiving financial assistance which meet the owned or controlled principles address some of your concerns?

In your comment letter you noted there was the potential for inconsistency and potential implementation issues at the component level.

Could you describe some of the issues you foresee at the component level?

Andrew Lewis, Greater Washington Society of CPAs

Andrew C. Lewis, CPA, CGFM, CIPP/G

Andrew is a Partner at KPMG LLP, and works primarily in the government audit practice in Washington, DC. KPMG is one of the world's largest public accounting firms, and provides audit, tax, and advisory services to its clients. In his fifteen years at KPMG, Andrew has managed, supervised or participated in a number of large and complex federal, state, and local government financial statement audits.



Andrew is a Senior Fellow in KPMG's Government Institute, and has written several research articles and professional publications produced by KPMG's Government Institute including the following two recent articles:

- Building Public Trust through Open Government Electronic Reporting: "We've Only Just Begun" (*AGA Journal of Government Financial Management*, Winter 2012)
- Moving to the Next Stage of Federal Financial Reporting: Bringing Greater Value and Transparency through "Open Government" Electronic Reporting (KPMG Government Institute white paper, July 2012)

Since 2005, he has been an adjunct professor at GW, and teaches a course on government and not-for-profit accounting and auditing in the Masters of Accountancy program. He has also helped to advise GW on curriculum and other academic matters. Andrew also serves on the GW Corporate Collaborative Council, and advises the Director of GW's F. David Fowler Career Center on programs and efforts to improve the competitiveness of GW students in the marketplace.

He is a Certified Public Accountant (CPA) in Virginia, Maryland, and Washington, DC, a Certified Government Financial Manager (CGFM), and a Certified Information Privacy Professional/Government (CIPP/G). He is active in the Association of Government Accountants, is the past chapter president of the Montgomery/Prince George's County Chapter, and is the Regional Vice President-elect of the Capital Region. He is also the chairman of the Federal Issues and Standards Committee of the Greater Washington Society of CPAs.

Andrew is a graduate of The George Washington University. He received his Bachelor's of Accountancy in 1998, with a minor in Russian Language and Literature.

As of 8/20/13, staff had not received any planned remarks from Mr. Lewis.

NOTE: the Comment Letter Submitted by GWSCPA is #27 in the Reporting Entity Comment Letter Binder provided July 18, 2013 and can be found on page 303 or #27 Andrew C. Lewis, Greater Washington Society of CPAs (GWSCPA) at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/reporting-entity/> .

Questions for Mr. Lewis:

The FISC suggests that the second and third inclusion principles also indicate that relationship must be other than temporary in nature. Further, you suggested similar clarifying language be added in other places in the proposed standard. The Board addressed these types of temporary or intervention activities that are not expected to be permanent (though they may result in ownership or control) in paragraphs 50 – 53 of the proposed standards. The Board also discusses the fact disclosure organizations include relationships that may not be permanent.

If we add “other than temporary,” do you believe a definition or other guidance on “temporary” would be needed so that classification would not be solely based on expressed intentions? Would providing a time frame or indicators that the relationship is “other than temporary” such as an approved plan to end the relationship need to be in place be needed?

The FISC suggests that governments such as Guam, Puerto Rico, DC, and bankrupt states may be included. We have not completed an analysis of these matters but will do so.

Assuming the federal government does exercise control over such governments, should users of the financial statements receive information about those relationships and any risks arising from them?

In your letter, you agreed with the Alternative View and believed information related to the federal government’s role in intervention organizations should be disclosed separately from the financial information included for disclosure organizations in the notes to the financial statements of the GPFFRs. The proposed standards provide flexibility with presentation of disclosure organizations as long as the objectives are met. For example, interventions need not be labeled “disclosure organizations” and all the information required about interventions qualifying as disclosure organizations should be presented in an integrated disclosure.

Was the intended degree of flexibility clear in the ED? How do you believe the AV proposal (or what you are suggesting) would change the outcome of the proposed standard?

Joyce Dillard

JOYCE DILLARD

BIOGRAPHY

Native of Los Angeles

Work Experience includes:

- Family-owned Furniture Manufacturer
- Entertainment Industry Business Manager
- Presidential Campaign Reporting as required by the Federal Election Commission

Interests in:

- International Relations with a bent toward Economics and Emerging Markets
- Government Programs rooted in Poverty Level Qualifications
- Water and Watersheds
- All Aspects of the Governance and Operation of the City of Los Angeles

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TESTIMONY-REPORTING ENTITY PUBLIC HEARING

August 28, 2013

REPORTING ENTITIES have a purpose rooted in the Constitution through Lawful Appropriations and disclosure of Public Monies.

The Public entrusts decisions to its Elected Representatives.

Accounting has become complex. The inclusion of entities, not clearly defined under Public Monies disclosure, has complicated the issue of accountability to the Public.

We question if the Constitution is practiced as a living document as the individual Citizen seems to drown in obscurity and the blessings of Liberty fade away.

The Federal Government has expanded its role into relationships of State and Local Governments. Agencies of the Federal Government enter into Memorandums of Understanding without Congressional approval.

These Related Party relationships have little to no accountability.

They operate in a form of government outside elected representation.

Regulations have superseded representational law and have formed the Rules that lead to disbursing of Lawful Appropriations.

With the extension of Public Private Partnerships, even the regulatory forum, open to Public oversight and scrutiny, disappears.

Public Monies are clouded.

MEMORANDUMS OF UNDERSTANDING (MOU)

Agencies form Memorandums of Understanding MOUs to create programs.

PARTNERSHIP FOR SUSTAINABLE COMMUNITIES was formed by

1. [Department of Transportation](#)
2. [Department of Housing and Urban Development](#)
3. [Environmental Protection Agency](#)

The purpose is to improve access to affordable housing, increase transportation options, and lower transportation costs while protecting the environment with six Principles of Livability:

1. Provide more transportation choices.
2. Promote equitable, affordable housing.
3. Enhance economic competitiveness.
4. Support existing communities
5. Coordinate and leverage federal policies and investment.
6. Value communities and neighborhoods

COLLABORATIVE SCIENCE, SERVICES AND TOOLS TO SUPPORT INTEGRATED AND ADAPTIVE WATER RESOURCES MANAGEMENT was formed by:

1. [Department of Defense-Department of the Army-Army Corps of Engineers](#)
2. [Department of the Interior-U.S. Geological Survey](#)

3. Department of Commerce-National Oceanic and Atmospheric Administration

URBAN WATERS FEDERAL PARTNERSHIP, through the (Department of the Interior) **AMERICA'S GREAT OUTDOORS INITIATIVE (AGO)** and coordinated by WHITE HOUSE DOMESTIC POLICY COUNCIL, was formed by:

1. Environmental Protection Agency
2. Department of Agriculture
3. Department of the Interior
4. Department of Housing and Urban Development
5. Department of Transportation
6. Department of Defense-Department of the Army, Corps of Engineers-Civil Works
7. Department of Commerce-National Oceanic Atmospheric Administration
8. Department of Commerce-Economic Development Administration
9. Department of Health and Human Services-Centers for Disease Control and Prevention
10. Department of Health and Human Services-National Institute for Health-National Institute of Environmental Health Sciences
11. Corporation for National and Community Service
12. Department of Education-Office of Communications and Outreach
13. Department of Energy

Vision, Mission & Principles states:

"We believe a deeper connection to local water bodies can bring a new cycle of community hope and energy that will lead to healthier urban waters, improved public health, strengthened local businesses, and new jobs as well as expanded educational, recreational, housing, and social opportunities."

Guiding Principles are structured to:

- Promote Clean Urban Waters
- Reconnect People to their Waterways
- Water Conservation
- Urban Water Systems for Economic Revitalization
- Active Partnerships
- Listen to the Community
- Measuring Sustainable & Systemic Improvement

In the LOS ANGELES RIVER PILOT PROGRAM, Federal participants include:

1. Department of the Interior-Bureau of Reclamation
2. Department of the Interior-National Park Service
3. Department of the Interior-U.S. Geological Survey
4. Department of the Interior-Fish and Wildlife Service
5. Department of Defense-Department of the Army, Corps of Engineers
6. Department of Transportation- Federal Railway Administration
7. Department of Agriculture- Forest Service

8. Department of Commerce-National Oceanic Atmospheric Administration-National Weather Service
9. Department of Housing and Urban Development

STATE OF CALIFORNIA and MEMORANDUMS OF UNDERSTANDING (MOU)

State agencies are including in MOUs.

SURFACE TRANSPORTATION PROJECT DELIVERY PILOT PROGRAM, including ASSIGNING CERTAIN FEDERAL ENVIRONMENTAL RESPONSIBILITIES TO THE STATE OF CALIFORNIA, INCLUDING NATIONAL ENVIRONMENTAL POLICY ACT (NEPA) AUTHORITY FOR CERTAIN CATEGORICAL EXCLUSIONS (CES) was formed by:

1. Department of Transportation-Federal Highway Administration
2. California Department of Transportation CALTRANS

NATIONAL ESTUARY PROGRAM includes an MOU between:

1. Environmental Protection Agency
2. State of California

This program involves the SANTA MONICA BAY ESTUARY and has created controversy with Los Angeles citizens and environmental groups because of USEPA funding given directly to a private foundation SANTA MONICA BAY RESTORATION FOUNDATION.

SANTA MONICA BAY RESTORATION FOUNDATION acts as a fiscal agent for the STATE OF CALIFORNIA SANTA MONICA BAY RESTORATION COMMISSION. No formal contractual agreement with the STATE OF CALIFORNIA was signed until November 12, 2012 and amended February 21, 2013 after being triggered by Public Record Request inquiries by these Los Angeles citizens.

This PUBLIC-PRIVATE PARTNERSHIP was formed without consent and hidden from the Public.

EXECUTIVE OFFICE OF THE PRESIDENT

AMERICA'S GREAT OUTDOORS INITIATIVE (AGO) was formed by President Barack Obama with the agencies:

1. Department of the Interior
2. Department of Agriculture
3. Environmental Protection Agency
4. White House Council of Environmental Quality

AGO project LOS ANGELES RIVER TRAIL & SAN GABRIEL RIVER TRAIL IMPROVEMENTS includes:

1. Department of the Interior-National Park Service
2. State of California
3. Local Governments
4. Non Profit Partners

This project is to implement the LOS ANGELES RIVER REVITALIZATION PLAN LARRP, a project of the CITY OF LOS ANGELES with implementation by the City-legislated non-profit corporation RIVER REVITALIZATION CORPORATION RRC (who does not have site control).

WHITE HOUSE OFFICE OF URBAN AFFAIRS was formed, by EXECUTIVE ORDER 13503, to:

- (a) to provide leadership for and coordinate the development of the policy agenda for urban America across executive departments and agencies;*
- (b) to coordinate all aspects of urban policy;*
- (c) to work with executive departments and agencies to ensure that appropriate consideration is given by such departments and agencies to the potential impact of their actions on urban areas;*
- (d) to work with executive departments and agencies, including the Office of Management and Budget, to ensure that Federal Government dollars targeted to urban areas are effectively spent on the highest-impact programs; and*
- (e) to engage in outreach and work closely with State and local officials, with nonprofit organizations, and with the private sector, both in seeking input regarding the development of a comprehensive urban policy and in ensuring that the implementation of Federal programs advances the objectives of that policy.*

PRESIDENT'S ADVISORY COUNCIL ON FINANCIAL CAPABILITY was formed, by EXECUTIVE ORDER 13530, to:

help keep America competitive and assist the American people in understanding and addressing financial matters, and thereby contribute to financial stability

PRESIDENT'S MANAGEMENT ADVISORY BOARD was formed, by EXECUTIVE ORDER 13538, to:

shall provide the President and the President's Management Council (PMC) advice and recommendations on effective strategies for the implementation of best business practices on matters related to Federal Government management and operation, with a particular focus on productivity, the application of technology, and customer service.

PRESIDENT'S COUNCIL OF ADVISORS ON SCIENCE AND TECHNOLOGY was formed, by EXECUTIVE ORDER 13539, to:

advise the President, directly at its meetings with the President and also through the Science Advisor, on matters involving science, technology, and innovation policy. This advice shall include, but not be limited to, policy that affects science, technology, and innovation, as well as scientific and technical information that is needed to inform public policy relating to the economy, energy, environment, public health, national and homeland security, and other topics.

WHITE HOUSE COUNCIL FOR COMMUNITY SOLUTIONS was formed, by EXECUTIVE ORDER 13560, to:

support the nationwide “Call To Service” campaign authorized in the Serve America Act (Public Law 111–13) by:

- (a) identifying the key attributes of effective community-developed solutions to our national problems;*
- (b) identifying specific policy areas in which the Federal Government is investing significant resources that lend themselves to cross-sector collaboration and providing recommendations for such collaborations;*
- (c) highlighting examples of best practices, tools, and models that are making a demonstrable positive impact in communities and fostering increased cross-sector collaboration and civic participation;*
- (d) making recommendations to the President on how to engage individuals, State and local governments, institutions of higher education, non- profit and philanthropic organizations, community groups, and businesses to support innovative community-developed solutions that have a significant impact in solving our Nation’s most serious problems; and*
- (e) honoring and highlighting the work of leaders in service and social innovation who are making a significant impact in their communities.*

ADMINISTRATIVE CONFERENCE OF THE UNITED STATES, activated after **IMPROVING REGULATION AND REGULATORY REVIEW** by EXECUTIVE ORDER 13563, includes:

1. Department of Agriculture
2. Department of Commerce
3. Department of Defense
4. Department of Education
5. Department of Defense
6. Department of Education
7. Department of Energy
8. Department of Health and Human Services
9. Department of Homeland Security
10. Department of Housing and Urban Development
11. Department of the Interior
12. Department of Justice
13. Department of Labor

14. Department of State
15. Department of Transportation
16. Department of the Treasury
17. Department of Veterans Affairs
18. Bureau of Consumer Financial Protection
19. Environmental Protection Agency
20. Equal Employment Opportunity Commission
21. Federal Deposit Insurance Corporation
22. Federal Housing Finance Agency
23. General Services Administration
24. Merit Systems Protection Board
25. National Archives and Records Administration
26. Office of Government Ethics
27. Office of Management and Budget
28. Office of Personnel Management
29. Office of Science and Technology Policy
30. Small Business Administration
31. Social Security Administration

The Citizens have no accountability on Advisory Councils with input that affects the Memorandum of Understanding Agreements.

RESEARCH REPORTS

In 2010, [Brookings Institution](#) presented the report:

State of Metropolitan America on the Front Lines of Demographic Transformation

with a conference held at the University of Southern California titled:

The Blueprint for American Prosperity: Unleashing the Potential of a Metropolitan Nation

This report made a direct connection between the Federal Government and Local City Government without Constitutional continuity and the subordination of State jurisdictional issues by Federal.

It opens a door to thinking of governance outside of Representation and of Due Process.

PUBLIC HEALTH AND SAFETY

STATE OF CALIFORNIA gives special protection privileges to Public Health and Safety officials that limit the public's ability to verify residence issues, in the case of elections, and conflict of interest issues. Please note that FEDERAL JUDGES, FEDERAL

DEFENDERS, MEMBERS OF CONGRESS and PRESIDENTIAL APPOINTEES are included.

California Government Code 6254.21 reads:

6254.21. (a) No state or local agency shall post the home address or telephone number of **any elected or appointed official** on the Internet without first obtaining the written permission of that individual.

(b) No person shall knowingly post the home address or telephone number of **any elected or appointed official, or of the official's residing spouse or child**, on the Internet knowing that person is an elected or appointed official and intending to cause imminent great bodily harm that is likely to occur or threatening to cause imminent great bodily harm to that individual. A violation of this subdivision is a misdemeanor. A violation of this subdivision that leads to the bodily injury of the official, or his or her residing spouse or child, is a misdemeanor or a felony.

(c) (1) (A) 'No person, business, or association shall publicly post or publicly display on the Internet the home address or telephone number of **any elected or appointed official** if that official has made a written demand of that person, business, or association to not disclose his or her home address or telephone number.

(B) A written demand made under this paragraph by a **state constitutional officer, a mayor, or a Member of the Legislature, a city council, or a board of supervisors** shall include a statement describing a threat or fear for the safety of that official or of any person residing at the official's home address.

(C) A written demand made under this paragraph by **an elected official** shall be effective for four years, regardless of whether or not the official's term has expired prior to the end of the four-year period.

(D) (i) A person, business, or association that receives the written demand of **an elected or appointed official** pursuant to this paragraph shall remove the official's home address or telephone number from public display on the Internet, including information provided to cellular telephone applications, within 48 hours of delivery of the written demand, and shall continue to ensure that this information is not reposted on the same Internet Web site, subsidiary site, or any other Internet Web site maintained by the recipient of the written demand.

(ii) After receiving the **elected or appointed official's** written demand, the person, business, or association shall not transfer the appointed or elected official's home address or telephone number to any other person, business, or association through any other medium.

(iii) Clause (ii) shall not be deemed to prohibit a telephone corporation, as defined in Section 234 of the Public Utilities Code, or its affiliate, from transferring the elected or appointed official's home address or telephone number to any person, business, or association, if the transfer is authorized by federal or state law, regulation, order, or tariff, or necessary in the event of an emergency, or to collect a debt owed by the elected or appointed official to the telephone corporation or its affiliate.

(E) For purposes of this paragraph, "publicly post" or "publicly display" means to intentionally communicate or otherwise make available to the general public.

(2) An official whose home address or telephone number is made public as a result of a violation of paragraph (1) may bring an action seeking injunctive or declarative relief in any court of competent jurisdiction. If a court finds that a violation has occurred, it may grant injunctive or declarative relief and shall award the official court costs and reasonable attorney's fees. A fine not exceeding one thousand dollars (\$1,000) may be imposed for a violation of the court's order for an injunction or declarative relief obtained pursuant to this paragraph

(3) An elected or appointed official may designate in writing the official's employer, a related governmental entity, or any voluntary professional association of similar officials to act, on behalf of that official, as that official's agent with regard to making a written demand pursuant to this section. A written demand made by an agent pursuant to this paragraph shall include a statement describing a threat or fear for the safety of that official or of any person residing at the official's home address.

(d) (1) No person, business, or association shall solicit, sell, or trade on the Internet the home address or telephone number of an elected or appointed official with the intent to cause imminent great bodily harm to the official or to any person residing at the official's home address.

(2) Notwithstanding any other law, an official whose home address or telephone number is solicited, sold, or traded in violation of paragraph (1) may bring an action in any court of competent jurisdiction. If a jury or court finds that a violation has occurred, it shall award damages to that official in an amount up to a maximum of three times the actual damages but in no case less than four thousand dollars (\$4,000).

(e) An interactive computer service or access software provider, as defined in Section 230(f) of Title 47 of the United States Code, shall not be liable under this section unless the service or provider intends to abet or cause imminent great bodily harm that is likely to occur or threatens to cause imminent great bodily harm to an elected or appointed official.

(f) For purposes of this section, "**elected or appointed official**" includes, but is not limited to, all of the following:

- (1) State constitutional officers
- (2) Members of the Legislature
- (3) Judges and court commissioners
- (4) District attorneys
- (5) Public defenders
- (6) Members of a city council
- (7) Members of a board of supervisors
- (8) Appointees of the Governor
- (9) Appointees of the Legislature
- (10) Mayors
- (11) City attorneys
- (12) Police chiefs and sheriffs
- (13) A public safety official, as defined in Section 6254.24.
- (14) State administrative law judges.
- (15) **Federal judges and federal defenders.**
- (16) **Members of the United States Congress and appointees of the President.**

BANKING INSTITUTIONS

COMMUNITY REINVESTMENT ACT and aspects of urban poverty do affect agency relationships and policies.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT has engaged ENTERPRISE COMMUNITY PARTNERS, a non-profit corporation, as consultants to the CITY OF LOS ANGELES and the CONSOLIDATED PLAN as a national sample for the rest of the country to follow.

MOVING AHEAD FOR PROGRESS IN THE 21ST CENTURY ACT (MAP-21), Department of Transportation-Federal Motor Carriers Safety Administration, and **CONSOLIDATED PLAN**, Department of Housing and Urban Development, are combined to enhance urban Transit Oriented Development TOD.

This is a poverty oriented program. Non-profit corporations, given Federal tax-exemption by the INTERNAL REVENUE SERVICE, replace elected representation.

Two conferences were held this year regarding the LA RIVER REVITALIZATION PLAN PROJECT.

ROOM FOR THE RIVER: LOS ANGELES described as:

A conference exploring climate change adaptation strategies, sustainable development, and the Dutch experience

was hosted by:

Foreign Government

- [Consulate General of the Netherlands, San Francisco](#)

Government Agencies and Related Parties

- [City of Los Angeles](#)
- [County of Los Angeles](#)
- [Urban Waters Federal Partnership](#)
- [United States Army Corps of Engineers](#)

Public Private Partnership (government, business community, academia, labor, and environmental and community groups)

- [Los Angeles Regional Collaborative for Climate Action and Sustainability LARC](#)

Non-Profit Corporations

- [The River Project](#)
- [TreePeople](#)
- [Council for Watershed Health](#)
- [Friends of the Los Angeles River](#)

COMMUNITY & ECONOMIC DEVELOPMENT FORUM: INVESTING IN LOS ANGELES RIVER REVITALIZATION was hosted by:

1. [Federal Reserve Bank of San Francisco](#)
2. [Urban Waters Federal Partnership](#)
3. [Enterprise Community Partners](#)

Description is:

*Few local initiatives have the potential to transform the landscape of Metropolitan Los Angeles as much as high-profile efforts to revitalize the Los Angeles River. As the River courses 51 miles from the San Fernando Valley to where it meets the Pacific Ocean in Long Beach, **government and non-profit organizations** are focusing on restoring natural and recreational enjoyment as a starting point to catalyze economic and community renewal along its banks.*

*This is an **invitation-only meeting** for **representatives of banks, community development financial institutions, as well as river restoration stakeholders** to learn about revitalization plans and projects underway, and where the next investment opportunities are being cultivated.*

No public was allowed which brings in the possibility of investment that leads to gentrification.

US TREASURY DEPARTMENT-COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND (CDFI) is a tool used by the CITY OF LOS ANGELES in the creation of several parent and subsidiary non-profit corporations qualified to issue New Markets Tax Credits NMTC designed to

to spur new or increased investments into operating businesses and real estate projects located in low-income communities. The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs).

The city-legislated and controlled non-profit corporations, known for CDFI purposes as Community Development Entities, are:

- THE LOS ANGELES DEVELOPMENT FUND
- LADF MANAGEMENT INC.
- LADF I, LLC
- LADF II, LLC
- LADF III, LLC
- LADF IV, LLC
- LADF V, LLC
- LADF VI, LLC
- LADF VII, LLC
- LADF VIII, LLC
- LADF IX, LLC
- LADF X, LLC
- LADF XI, LLC
- LADF XII, LLC

DEMOGRAPHIC CHANGES

In California, and especially in the Los Angeles area, as we embrace the changing demographics for a future voting population that may be first or second generation, we must provide those aspects of CIVIL ENGAGEMENT in a manner that can be expressed by VOTING or by PARTICIPATION in government.

With family experiences in countries and cultures that distrust their government, the transition to participatory democracy is not easy.

The Pursuit of Happiness must be a reality. Children and, consequently, the future are at stake.

The complexities need to be eliminated. The financial house must be in order. Disclosure and inclusiveness should be required.

NOTE: the Comment Letter Submitted by Joyce Dillard is #28 in the Reporting Entity Comment Letter Binder provided July 18, 2013 and can be found on page 312 or **#28 Joyce Dillard** at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/reporting-entity/> .

Questions for Ms. Dillard:

We are interested in learning more about how citizens use federal financial reports.

Could you elaborate on which federal financial reports you review, how often, and for what purpose?

Could you offer any suggestions to improve public awareness about the availability of federal financial reports?

Your comment letter identified “Central Banking system aka Federal Reserve System FRS is too critical a factor in government, not to include it in consolidation” and added that “Accountability has been lacking and that aspect of Representation needs to be addressed.” The Board’s proposal of principle-based standards does not explicitly classify organizations as consolidation entities or disclosure organizations.

Do you believe a standard-setting body should specify whether an organization should be consolidated within the government-wide GPFFR? If so, should the standard-setting-body be specific only about unique organizations or about every type of organization the federal government engages?

Are there circumstances for which it may be more meaningful to disclose information about an individual organization instead of consolidating that information with the government-wide financial information? If so, what circumstances?

Your comment letter and testimony made several references to Public-Private Partnerships. The Board currently has an active project considering the appropriate recognition, measurement and disclosure of Public-Private-Partnerships.

Are there any issues in this area that you believe the Board should consider as we develop guidance in this area?

What type of disclosures would you be looking for in federal financial reports?

Ed Mazur, AGA, Financial Management Standards Board

Bio for Edward J. Mazur

Ed Mazur is Senior Advisor for Public Sector Services with Clifton Larson Allen.

He served four Governors as State Comptroller for the Commonwealth of Virginia between 1980 and 1991, during which time he also served as President of the National Association of State Auditors, Comptrollers, and Treasurers.

In 1991, he was confirmed by the Senate to be the first Controller appointed under the Chief Financial Officers Act, through which he headed OMB's Office of Federal Financial Management.

Ed served on the GASB from 1997 to 2007. He is currently chair of SBA's Audit and Financial Management Advisory Committee and member of AGA's Financial Management Standards Board. He is a CPA, and holds an MBA from the Wharton School.

July 2013

As of 8/20/13, staff had not received any planned remarks from Mr. Mazur.

NOTE: the Comment Letter Submitted by AGA, FMSB is #31 in the Reporting Entity Comment Letter Binder provided July 18, 2013 and can be found on page 349 or **#31 AGA, Financial Management Standards Board** at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/reporting-entity/> .

Questions for Mr. Mazur:

Regarding Misleading to Exclude

The FMSB comment letter noted in several places that while you agree with the misleading to exclude notion because it provides a safe haven for significant exceptions to the principles should they arise, additional guidance should be included in the final document. The Board discussed the issue of criteria—while having difficulty coming up with examples that weren't already addressed by the three inclusion principles, they believed it better to have the principle to accommodate areas that may arise knowing the preparer and auditor would be allowed judgment in working through what would be misleading to exclude.

Could you offer any examples or criteria? Is there any harm or unintended consequences by maintaining the Misleading to exclude principle absent additional criteria?

Reporting of Disclosure Organizations Financial Information

The FMSB comment letter suggests it might be preferable to include the financial statement information about disclosure organizations in one or more combining statements, with notes structured, as appropriate for each separately presented organizations. The letter notes it 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.”

What user needs may be met by a single column presenting combined financial statement for the various disclosure organizations?

If there are disclosures of combined financial statements for disclosure organizations - would you group disclosure organizations based on like missions or other characteristics?

Is there a risk of obscuring information by combining dissimilar organizations?

Regarding Related Parties

In the comment letter, the FMSB noted concerns with the use of the term ‘related parties’ because it appears inconsistent with the term as used in other pronouncements. The letter explained other standard setters 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 and it is not linked to any particular transaction.

Do you believe the only way to resolve the potential confusion is to come up with a different name in the federal government? Or would this somewhat create different confusion if some still see the need for traditional related party disclosures for the federal government so that readers can assess the impact of non-arms-length transactions?

The FMSB comment letter also discussed that that part 87.b should be expanded to include information that discusses the fiscal interdependency of the related party to federal funds in addition to information on the risks to the federal government because what represents a small risk or exposure to the federal government will generally present a significant risk to the related party.

Could you elaborate further on this type of information or provide an example?

Regarding Terminology

The FMSB suggested that FASAB reconsider “disclosure organizations” mainly because “disclosure” is associated with the accounting for a very specific purpose and can cause confusion.

Could you offer any suggestions for a better term?

Christina Ho, Treasury, Bureau of Fiscal Services

Christina Ho is the Assistant Commissioner, Government Wide Accounting responsible for the centralized financial accounting and reporting services and policy relating to the federal government's financial and operational performance to the Congress, customer agencies, American citizens, and other stakeholders. From September 2009 to September 2011, Christina served as the Deputy Assistant Commissioner responsible for the auction operations of Treasury marketable securities used to finance the US Government.

Prior to joining the Federal Government in September 2009, Christina was a senior manager at Deloitte & Touche, LLP (Deloitte) serving many high-profile publically traded companies in the financial services industry. One of her most significant accomplishments was leading the largest restatement audit in US history whereby over 20 material weaknesses were identified and reported.

Christina is a certified public accountant (CPA) and a certified information system auditor (CISA). She is also a member of the Accounting and Auditing Policy Committee (AAPC) established by Federal Accounting Standards Advisory Board (FASAB). AAPC's mission is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues within the framework of existing authoritative literature.

Thank the Advisory Board and those in attendance for the opportunity to provide comments and feedback on the content of the exposure draft and the implications to Treasury's Bureau of Fiscal Service and/or other reporting entities of implementing the standard, if approved in its current context.

With regard to **Question #1** for respondent consideration, I agree that the three inclusion principles - "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" - are well conceived criteria for including the financial data of another entity in the Federal government reporting entity's General Purpose Federal Financial Reports (GPFFR). Further, the related definitions are both clear and helpful. With regard to inclusion when it would be

misleading to exclude, I believe one or more examples would be helpful in assisting a prospective user in implementing this principle. We 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 GPFFR.

With regard to **Question #2** for respondent consideration, I agree that different levels of Federal government responsibility and control should determine whether or not the entity would be consolidated with the primary agency or if a lesser role exists. When a lesser role exists, it would be more appropriate to disclose the relationship and the financial impact. 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. Finally, with regard to the relevant factors for disclosure, I believe they are appropriately addressed with the exception of the impact of paragraph 69-c: Disclosure organization views/perspective which states – "whether the disclosure organization views itself as an extension of the federal government or operationally independent of the Congress and/or the President may influence the type and extent of information that is disclosed." I'm struggling to understand how the disclosure organization's perception of its relationship to the federal reporting entity gives merit to limiting certain disclosures.

With regard to **Question #3** for respondent consideration, I agree that the criteria for distinguishing between a GPFFR consolidation entity and disclosure organization is sufficient and should be consistently applied.

With regard to **Question #4** for respondent consideration and its focus on the funding source and the impact on donations received, I agree that once an entity falls into the "consolidation entity" classification based on consolidating entity accountability, all of its financial data should be reported regardless of funding source.

With regard to **Question #5** for respondent consideration which assesses the impact of the consolidation entity reporting using FASAB and the component entity reporting using FASB, I have concerns with the impact to the consolidation entity's trial balance and financial statements. Because FASB reporting excludes budgetary reporting, budgetary resources and the status of those resources would not be properly reflected in the consolidation entity's "Statement of Budgetary Resources". "Obligations Incurred" would not be reflected at all as it relates to the component entity who follows FASB reporting principles because obligations are not accounted for in their trial balances. Furthermore, in 2006 Treasury introduced draft USSGL tie points which many federal agencies adopted as a basis for ensuring certain USSGL relationships are intact as a result of transaction processing. These relationships would be out of balance since budgetary accounting is not applicable to FASB standards. The consolidating entity should be guided as to the proper disposition of these differences. If the USSGL balances are to be uploaded into GTAS for government-wide reporting, these differences will be more

difficult to discern unless the component entity's activity is easily separable through unique attributes. I don't think paragraph 66 goes far enough to address the impact on the consolidation entity when it prepares its financial statements and submits its financial balances to GTAS following FASAB but the component unit follows FASB. It is my understanding that a federal entity that prepares its stand-alone financial statements following FASB must maintain its trial balance in accordance with FASAB for government-wide financial reporting and that adjustments to the trial balance are performed to develop FASB-based financial statements. If the consolidation entity prepares its financial statements in accordance with FASAB, is it not then required to convert the FASB-based component entity's trial balance to FASAB? While I agree with paragraph A69 that there would be a cost associated with converting the FASB-based trial balance of the component entity to FASAB, I believe there will be a much more significant cost associated with developing a USSGL trial balance that incorporates the component entity which must be submitted to GTAS. Would it not then be beneficial to establish the USSGL trial balance of the component entity following FASAB standards?

With regard to **Question #6** for respondent consideration and the disclosure requirements applicable to the Federal Reserve System, I feel that 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. I am not aware of other non-Federal entities that should receive unique consideration related to this exposure draft

With regard to **Question #7** for respondent consideration of related party interaction, I agree with the related party definition and requirements, particularly that significant control should be the overriding factor for identifying a related party. I agree that the ability to manage or control activities should be the driving factors for identifying a related party. The two relationships identified in paragraph 83 reflect these criteria. The exclusion criteria identified in paragraph 84 also seem to be adequate and sufficient.

With regard to **Question #8** for respondent consideration related to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, I agree with the conforming changes because I feel they give proper consideration to the effects of implementing this exposure draft.

With regard to **Question #9** for respondent consideration on the effective date of the pronouncement, I agree with making this pronouncement effective for periods beginning after September 30, 2016 because it 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.

With regard to **Question #10** for respondent consideration on the content and usefulness of Appendices B and C, I agree they are helpful in the application of the proposed standards and should remain after the Statement is issued. I would like to see the table of appendix C shown before the examples as a resource tool to aid users in more quickly finding an example relevant to their specific scenario. For additional consideration, 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 in order to specifically identify 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?

With regard to **Question #11** for respondent consideration inquiring if other unique situations should be addressed considering the Statement in its entirety, I was curious to know if the Board considered the impact of more than one consolidation entity consolidating the financial information of the same component entity and if this would result in duplicate reporting at the government-wide reporting level. The standard does not appear to assist agencies in determining substantial control if control resides with more than one federal agency.

With regard to **Question #12** for respondent consideration, I 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. 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. I also 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. 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.

NOTE: the Comment Letter Submitted by the Treasury, Bureau of Fiscal Services is #33 in the Reporting Entity Comment Letter Binder provided July 18, 2013 and can be found on page 362 or **#33 at Treasury, Bureau of the Fiscal Services** <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/reporting-entity/> .

Questions for Ms. Ho:

In your letter, you disagreed with the issue of consolidation of FASAB and FASB based information without conversion. It should be noted that nearly half of those responding to this question, also disagreed with the Board's proposal. Further, several of those that agreed with the proposal did not believe the intra-governmental provision was necessary and the current practice through the closing practice should continue. With such a wide disparity in responses, the Board needs to have a better understanding of the potential implications of the proposed standards or suggested alternatives. Your letter and remarks focus on the impact to the consolidation entity's trial balance and financial statements, specifically as it related to the role of "tie-points" that agencies use to ensure relationships are intact as a result of transaction processing.

Could you provide the Board with a layman's overview of the role of the tie-points?

Is there a systems solution to address the concern, such as adjusting the tie point amounts to exclude FASB TB totals?

Is the concern with tie-points strictly with the absence of budgetary accounts for FASB preparers or is it also that the proprietary accounts may be measured differently than anticipated when the tie-points were developed?

One may consider the budget to be a control mechanism that some of our FASB preparers may not be operating under. For example, some may not be subject to OMB's apportionment process and or submit SF-133s reporting on budget execution.

Do any FASB preparers submit budgetary information?

That said, would perhaps a better fix be to require those FASB preparers who submit SF-133s to include an SBR in their stand alone statements? Do you believe tie points would work for them on a standalone basis?

Dan Murrin

Daniel J. Murrin

Ernst & Young LLP, Americas Director of Government and Public Sector Services-Professional Practice

A partner, certified public accountant and certified government financial manager, Daniel Murrin has over 33 years of experience in the public sector audit services arena. Prior to his return to Ernst & Young in October 1992 as a Partner, Mr. Murrin was a Professional Accounting Fellow at the U.S. Government Accountability Office (GAO) for two years. Mr. Murrin's fellowship term at the GAO coincided with the passage and implementation of the Chief Financial Officers (CFO) Act, which reemphasized financial management in the federal government. Mr. Murrin serves as a resource within E&Y on public sector auditing issues and liaison to the Government Accountability Office, Office of Management and Budget (OMB), and Federal Inspectors General community. Mr. Murrin assists in developing and interpreting guidance for our teams in providing audit and advisory services in the federal, state, local and grantee communities and more broadly in the application of government auditing standards.

Mr. Murrin assists our teams in providing audit and advisory services to a number of federal agencies, including audit services to the Department of Health and Human Services, Tennessee Valley Authority, United States Postal Service and Amtrak. Mr. Murrin has assisted myriad agencies as they enhanced their internal controls over the last two decades, applying criteria from the GAO Green Book and implementation guidance embedded in related OMB Circulars. In addition to successively improved audit opinions, agency implementation of recommendations included in work products associated with these efforts have led to improved internal controls.

Mr. Murrin is a frequent speaker on issues impacting the public sector and has served on committees, in board, officer, or other leadership roles for the Greater Washington Society of Certified Public Accountants, the AICPA and Association of Government Accountants (AGA). His leadership in the implementation of government auditing standards and the CFO's Act is recognized in the federal financial management community, including receipt of the Andy Barr Award from AGA in 2008, the Distinguished Service to the Financial Management Community Award from the Washington DC Chapter and the 2011 President's Award from the Greater Washington Society of CPAs. Mr. Murrin received his B.S. in Economics with highest honors from the Wharton School at the University of Pennsylvania.

Daniel J. Murrin

August 28, 2013

FASAB Testimony areas of focus

1. Express concern with unanticipated consequences from adopting the overall guidance in the absence of a comprehensive as is/after adoption determination by the central support agencies, preparers and the audit community for each potentially impacted second, third and lower tier "consolidated" entity. There are a limited number of entities, and seemingly enough time to

make these determinations before the guidance is finalized. A “before” and “after” analysis, which indicates for the existing pool of entities how presentation classification would change, if at all, is warranted before finalization of the standard to address unintended consequences and avoid conversion costs/disruption unless there is a compelling need for change. The analysis should explicitly address which second and third tier entities would be considered the “parent” for fourth tier and lower entities.

2. Express strong support for the approach taken to allow entities currently reporting utilizing FASB guidance to continue to do so, and be consolidated on that basis, with appropriate footnote disclosures on basis of accounting, in the consolidated statements.
 3. Note difficulties in requiring FASAB based footnote disclosure of intergovernmental balances in an otherwise FASB based general purpose financial statement presentation for such entities, and possible alternative approaches to obtaining the information to aid in the consolidation process. Note that such entities, with lower materiality thresholds, may have developed more precise estimates of certain intergovernmental related activities. These estimates may also be on different bases under FASB based reporting.
 4. Express concern about how entity determinations under FASB standards may differ from those under the proposed FASAB guidance, and whether that concern has been assessed for FASB reporting entities ultimately included in the Consolidated Statements of the US Government.
 5. Touch on mechanics of budgetary statement conversions for entities not otherwise subject to budgetary accounting.
 6. Express support for the standard setting process, the periodic revisiting of standards, and need to consider the cost/benefit of changes.
 7. Pending completion of the Board’s risk assumed project, address the benefit of assessing entities with elements of ownership/control, whether permanent or temporary, such as conservatorships, while acknowledging that further standard setting regarding disclosures for these arrangements may ultimately be forthcoming.
-

NOTE: Dan Murrin did not provide a comment letter as an individual or on behalf of Ernst and Young.

Questions for Mr. Murrin:

Absent a “comprehensive as is/after adoption” field test, your remarks express concern with unanticipated consequences from adopting the proposed standards.

Based on the questions proposed in the ED regarding the inclusion principles, consolidation entities and disclosure organizations, and administrative assignments at the component reporting entity level, wouldn’t potential issues be brought up in the due process?

Could you elaborate further on your concerns—cost of implementation, a landscape change of the government-wide financial report, inability to implement, etc?

Do you believe detailed and coordinated guidance by the sponsoring agencies would address the concerns?

Would a small field test at one or more agencies address your concern?

Nearly half of those responding to the question regarding the consolidation of FASAB and FASB based information without conversion disagreed with the Board's proposal. Further, several of those that agreed with the proposal did not believe the intra-governmental provision was necessary and the current practice through the closing practice should continue. With such a wide disparity in responses, the Board needs to have a better understanding of the potential implications of the proposed standards or suggested alternatives. Your remarks suggested support for the overall proposal yet concern with the footnote disclosure.

Could you explain the reasons for your position, with an emphasis on the budgetary issues?

Could you offer any recommendations to the Board or do you believe the current practice providing the information through the closing practice should continue?

James Gould and Amanda Nelson, KPMG

James Gould

James Gould is an audit senior manager serving a three-year rotation in KPMG's Department of Professional Practice. In that role, James is responsible for providing technical assistance to engagement teams primarily in the areas of governmental accounting, auditing and reporting. This includes the resolution of complex accounting and financial reporting issues.

Prior to joining KPMG's Department of Professional Practice, James was a senior manager in KPMG's Federal Audit Practice in Washington, DC with more than 10 years of experience primarily providing financial statement audit services to federal government agencies, as well as various not-for-profit organizations.

James has participated on many large and complex federal government financial statement audits, including the audits for the Departments of the Interior (Bureau of Indian Affairs, Bureau of Ocean Energy Management, United States Geological Survey, National Park Service, and Departmental Offices), Defense (Defense Commissary Agency), Homeland Security (Customs and Border Protection and Secret Service), and Transportation (Federal Aviation Administration and the Department-wide consolidated audit).

James has a Master of Science in Accounting and a Bachelor of Business Administration from James Madison University and is a Certified Public Accountant and a Certified Government Financial Manager.

James is a member of the American Institute of Certified Public Accountants, the Virginia Society of CPAs, and the Association of Government Accountants (AGA). He is also the Education Chair for the Northern Virginia Chapter of the AGA.

Amanda Nelson

Amanda Nelson is an audit partner in KPMG's Department of Professional Practice and in her role issues guidance to KPMG offices on governmental and not-for-profit accounting, performing audits under *Government Auditing Standards*, and performing compliance audits for federal agencies. Amanda also is involved in drafting KPMG's responses to the AICPA, FASB, GASB, FASAB, OMB, and GAO on proposed accounting and auditing literature for public sector entities.

Amanda currently serves on and is the past chairman of the executive committee of the AICPA's Governmental Audit Quality Center (GAQC) and is a task force member for the revision of the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*. Amanda served on the AICPA's Auditing Standards Board task force responsible for developing SAS No. 117, *Compliance Audits*. Amanda has also chaired and served on other AICPA task forces for accounting and auditing issues including various statements of positions and technical practice aids.

Amanda has a Bachelor of Science from the University of Virginia and is a Certified Public Accountant. She is also a member of the American Institute of Certified Public Accountants.

Publications and Speaking Engagements

- AICPA Not-for-Profit Industry Conference (past Chairman)
- AICPA National Governmental Accounting and Auditing Update (GAAC)
- 2008 Department of Health and Human Services Single Audit Workshop
- Governmental Audit Quality Center Annual Webcasts

As of 8/20/13, staff had not received any planned remarks from Mr. Gould or Ms. Nelson.

NOTE: the Comment Letter Submitted by KPMG is #9 in the Reporting Entity Comment Letter Binder provided July 18, 2013 and can be found on page 41 or **#9 KPMG** at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/reporting-entity/> .

Questions for Mr. Gould and Ms. Nelson:

Your letter suggests we present principles for consolidation and disclosure for both the government-wide and component reporting entities and apply the same principles at both levels.

Is that a correct reading of your outline?

If so, are you aware of any cases where an organization assigned to a particular department or agency may meet the principles at the government-wide level but not at the department or agency (component reporting entity) level?

If there are such cases, would you require consolidation or disclosure only at the government-wide level despite the administrative assignment to the department or agency?

You suggest that the standards indicate that exclusivity of control be included. Control is often shared in government. At a high level, Congress has certain powers and the Executive branch others so there may appear to be shared control. At the day-to-day level, agencies may partner to meet shared goals through separate organizations.

If a disclosure organization is reported by two component reporting entities, what misunderstandings may result?

Your comment letter notes in several places that the majority ownership interest principle should be considered a presumptive indicator of control instead of a stand-alone principle. While the Board appreciates streamlining, and this issue was brought up when the principles were discussed some time ago and note that other standard-setters have also debated this issue.

Could you discuss what the outcome or effect of combining the two principles-- control and majority ownership would be?

You suggest that the standards require that control be "other than temporary."

Do you believe we should elaborate on the meaning of temporary or permit this to be based on management's intentions?

In your comment letter, you suggested the Board consider developing a separate standard for Related Parties instead of addressing the issue within the Reporting Entity standard. Your letter noted '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.'

Is your concern primarily with the logistics of researching existing literature rather than with the overall scope of the standards perhaps being too broad to be manageable for preparers and auditors?

Your comment letter suggested the Treasury General Fund should be addressed within the statement because of its uniqueness. The letter noted "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." Paragraphs 54-63 discuss identifying organizations for component reporting entities and

paragraph 13 discusses the organization approach to defining boundaries, these paragraphs along with the inclusion principles should provide a principles based approach for that determination.

What challenges do you anticipate in applying the administrative assignment guidance to the general fund?

Do you believe it the role of a standard-setting body to specify which entity an organization should be consolidated within?

You suggest we amend SFFAS 34 to include GASB as an option.

Are you aware of any entities meeting the inclusion principles who prepare financial statements based primarily on GASB standards?

Carole Banks, Department of Treasury

As of 8/20/13, staff had not received any planned remarks from Ms. Banks.

NOTE: the Comment Letter Submitted by the Department of Treasury is #36 in the Reporting Entity Comment Letter Binder provided July 18, 2013 and can be found on page 378 or **#36 Department of Treasury** at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/reporting-entity/> .

Questions for Ms. Banks:

Your letter suggests we present principles for consolidation and disclosure for both the government-wide and component reporting entities and apply the same principles at both levels. Is that a correct reading of your outline?

If so, are you aware of any cases where an organization assigned to a particular department or agency may meet the principles at the government-wide level but not at the department or agency (component reporting entity) level?

If there are such cases, would you require consolidation or disclosure only at the government-wide level despite the administrative assignment to the department or agency?

Your comment letter notes in several places that the majority ownership interest principle should be considered a presumptive indicator of control instead of a stand-alone principle. While the Board appreciates streamlining, and this issue was brought up when the principles were discussed some time ago and note that other standard-setters have also debated this issue.

Could you discuss what the outcome or effect of combining the two principles-- control and majority ownership would be?

You suggest that the standards require that control be "other than temporary."

Do you believe we should elaborate on the meaning of temporary or permit this to be based on management's intentions?

Your comment letter notes in several places that misleading to exclude should be considered after related party and not be considered a principle for inclusion, and it would be 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."

Do you believe an organization not meeting at least one of the three inclusion principles should not be consolidated? Or do you believe that an organization meeting the misleading to exclude should not be subject to the same disclosure organization disclosures?

Your comment letter expressed concern with “presumed to qualify as consolidation entities” because there are 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 A-136. 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. The purpose of the phrase is to assist with the distinction applying the standard. The issue had been discussed at length by the FASAB Board, and it agreed the best approach would be to bring focus on the issue of the branches not being required to report and allow the preparer to deal with the absence of complete information from the materiality perspective. Although the Board recognizes accountability should be required of all branches—most likely the other branches are immaterial. Further, the Board cannot control what may be beyond its purview.

As noted in your letter, would Treasury be able 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?

Donna Terzak, Tennessee Valley Authority

Donna J. Terzak, CPA

Donna is an accounting and reporting professional with over 35 years of experience. She has been with the Tennessee Valley Authority for 25 years where her responsibilities have included internal auditing and control evaluations; financial systems implementation and operations; training; and most recently financial reporting. As Senior Manager of External Reporting, Donna is responsible for the preparation of financial statements for various external stakeholders including the Securities and Exchange Commission, U.S. Treasury, analysts, bondholders, various agencies of the U.S. government and Congress as well as intragovernmental reconciliations with other federal agencies.

Prior to joining the Tennessee Valley Authority, Donna was controller for two companies in the commercial development and commercial and residential sales sector. As such, she was responsible for implementation of accounting systems, operations, budgeting, and financing in addition to preparation of financial reports and tax returns for the companies and related partnerships. Prior to this, Donna worked for twelve years at public accounting firms in audit, reporting and tax departments with emphasis on profit and not-for-profit corporations including a local school system, private university and the Eastern Band of Cherokee Indians which included federally-funded programs and enterprise funds.

Donna is a certified public accountant. She earned a bachelor's degree from Youngstown State University with graduate work at the University of South Carolina.

Remarks of Donna J. Terzak, CPA

On behalf of

The Tennessee Valley Authority

To the Federal Accounting Standards Advisory Board

August 28, 2013

Mr. Chairman and Members of the Board

I am here today on behalf of the Tennessee Valley Authority (TVA). We appreciate the opportunity to provide comments to the Board on its exposure draft of the proposed statement *Reporting Entity*.

Prior to today, you received a formal letter of comment from the TVA, dated July 2, 2013, and signed by its Vice President and Controller, Diane T. Wear. The purpose of my appearance this afternoon is to offer a summary of these previously provided comments, together with some additional commentary and perspective.

Background

The Tennessee Valley Authority is a corporate agency and instrumentality of the United States (U.S.) that was created in 1933 by legislation enacted by the U.S. Congress (TVA Act). TVA was created to, among other things, improve navigation on the Tennessee River, reduce the damage from destructive flood waters within the Tennessee River system and downstream on the lower Ohio and Mississippi Rivers, further the economic development of TVA's service area in the southeastern United States, and sell the electricity generated at the facilities TVA operates.

Today, TVA operates the nation's largest public power system and supplies power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky and in portions of northern Georgia, western North Carolina, and southwestern Virginia to a population of over nine million people. In 2012, the revenues generated from TVA's electricity sales were \$11.1 billion and accounted for virtually all of TVA's revenues.

Initially, all TVA operations were funded by federal appropriations. Direct appropriations for the TVA power program ended in 1959, and appropriations for TVA's stewardship, economic development, and multipurpose activities ended in 1999. Since 1999, TVA has funded all of its operations almost entirely

from the sale of electricity and power system financings. As a wholly-owned government corporation, TVA is not authorized to issue equity securities. TVA's power system financings consist primarily of the sale of debt securities and secondarily of alternative forms of financing such as lease arrangements. TVA issues a variety of debt securities in U.S. dollars and other currencies designed to meet the needs of investors around the world. Investors in all 50 states and over 60 countries have purchased TVA securities. All TVA bonds are publicly held. Most TVA Power Bonds are listed and traded on the bond market of the New York Stock Exchange, and some global bonds are listed on various foreign exchanges.

The Consolidated Appropriation Act, 2005 amended Section 37 of the Securities Exchange Act of 1934 to require TVA to file annual reports (10-Ks), quarterly reports (10-Qs), and current reports (8-Ks) with the Securities and Exchange Commission (SEC). The mission of the SEC is to protect investors and it does this by requiring public companies (and TVA) to disclose meaningful financial and other information to the public by following U.S. Generally Accepted Accounting Principles (U.S. GAAP). This provides a common pool of knowledge for all investors to use to judge for themselves whether to buy, sell, or hold a particular security through the steady flow of timely, comprehensive, and accurate information. As an SEC filer, TVA is required to comply with the Sarbanes-Oxley Act of 2002 (SOX). SOX legislation was signed into law in response to several accounting scandals in the early 2000s and requires management to annually certify to the effectiveness of its financial reporting controls. In addition to management certification, TVA also elects to obtain an opinion from an external audit firm regarding its internal control environment. TVA is also required to follow the Federal Energy Regulatory Commission's Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act.

Federal Reporting Entities

TVA is very encouraged that the FASAB recognizes that reporting should allow the users of financial statements--primarily legislative and oversight bodies, citizens, and investors and creditors--to identify the various activities undertaken by the federal government in order to achieve the missions and objectives of the government's diverse programs.

TVA concurs with the three inclusion principles proposed by the FASAB that organizations meet to be included in the government-wide general purpose federal financial report (GPFFR) as listed below:

- 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

Basis of Federal Reporting

Having determined the appropriateness of including organizations in the government-wide GPFFR, the next consideration may be whether a “one size fits all” reporting model is appropriate to best convey the results of the government’s financial objectives of budgetary integrity, operating performance, stewardship and adequacy of systems and controls. Depending on the type of activity, focus may be on how effectively taxpayers’ money is being used to fund projects and programs to benefit the general public. In other instances, focus may be on how successful individual organizations characterized by an exchange relationship (funded by user charges) are in meeting directives to be self-sufficient and not reliant on taxpayers’ money to achieve their missions. Because of the different means to achieve objectives, different reporting models are needed to measure and report on the effectiveness of the various activities to meet organizations’ missions and objectives.

As the FASAB has noted, the primary activities of the federal government may be characterized by the differing sources and uses of funds:

- Governmental-type activities--those activities funded by governmental receipts to include taxes on individuals and corporate citizens;
- Business-type activities--those activities which are primarily self-supporting from sale of goods and/or services on a continuing basis; and
- Fiduciary activities—those activities related to collection and disposition of assets which are not owned by the federal government.

TVA believes the proposal by the FASAB to distinguish between types of organizations in the government-wide GPFFR will enhance the GPFFR so it may better convey the financial condition of organizations as well as communicate the effectiveness of these organizations in achieving financial objectives to users of the report. TVA also believes it appropriate to differentiate between organizations—those which will be consolidating organizations and those which will be disclosing organizations. TVA notes that accounting for and reporting of fiduciary activities are addressed in a separate standard. The distinction between consolidating and disclosing organizations will allow for organizations to report according to their business models and more appropriately portray actual results and financial conditions of organizations and the federal government in its entirety to meet the needs of the users of the financial statements.

Consolidation

TVA purports that organizations reporting under Financial Accounting Standards Board (FASB)-based information not be required to convert FASB-based information to a FASAB basis in the government-wide GPFFR. As discussed earlier, organizations such as TVA with business-type activities frequently operate in an environment that differs to a certain extent from the environment in which government-type activities operate. Requiring business-type organizations to convert FASB-based financial statements to FASAB-based would result in an organization having two sets of financial statements with different format and content, including different accounts, balances, footnotes, and disclosures, as well as differing financial positions and results of operations. To require business-like or “disclosing” organizations to prepare a second set of financial statements could cause users to fail to differentiate between the two bases of accounting making the information reported misleading and potentially impairing a business-like organization’s ability to obtain financing at favorable terms in the public capital markets.

Specifically, TVA does not have the option of converting to FASAB-based financial statements in lieu of FASB-based statements. FASAB-based statements could reflect a mismatch between TVA’s revenues and expenses and have no relationship to the economic effects of the rate-making process as required by the TVA Act and allowed under FASB. Because of TVA’s SEC reporting requirements, TVA would still be required to report FASB-based statements. As noted above, this would further confuse the users of TVA’s financial statements, including potential investors, existing bond holders, analysts and bond rating agencies, the media, rate payers, the general public and other stakeholders. This could also limit TVA’s access to the debt markets and its ability to obtain financing at favorable terms. Additionally, requiring TVA to prepare and submit FASAB-based financial statements would be inefficient and increase TVA’s financial accounting and reporting costs as well as audit costs. Since TVA is self-funded and receives no appropriations, these added costs would ultimately be passed on to its ratepayers in the form of higher electricity costs which may be contrary to the TVA Act which states that rates are to be as low as are

feasible to produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system, among other requirements. Given the current financial climate whereby federal organizations are being asked to make program cuts and work more efficiently and effectively, and requirements of the TVA Act, this conversion requirement seems contrary to directives.

TVA can appreciate the challenge faced by U.S. Treasury in preparing the government-wide GPFFR including the issue of eliminating intragovernmental transactions in the consolidation process. However, TVA does not believe requiring business-like organizations to convert FASB-based statements to FASAB-based statements will eliminate this issue. TVA believes that consolidation is achievable to produce a government-wide GPFFR without this conversion requirement through the Closing Package instructions as described in the *Treasury Financial Manual (TFM) Volume I: Federal Agencies, Part 2, Central Accounting and Reporting, Chapter 4700 Agency Reporting Requirements for the Financial Report of the United States Government, Section 4705—Closing Package Requirements*. This section instructs organizations to:

- *Reclassify all line items and amounts on their comparative, audited consolidated, department level Balance Sheet, Statement of Net Cost/Income Statement, Statement of Changes in Net Position, and Statement or Note on Custodial Activity (if applicable) to the Closing Package reclassified financial statement formats.*
- *List Closing Package line item amounts identified as Federal (items to be eliminated in the Governmentwide consolidation) by trading partner and amount.*

In support of the Closing Package requirements related to intragovernmental activity noted above, the U.S. Treasury revised its Intragovernmental Transactions (IGTs) procedures for 2013. The purpose of the new procedures is to assist organizations in adequately accounting for and eliminating IGT activity and balances between federal agencies by establishing business rules and processes to properly record, report, and reconcile IGTs. Consolidation of organizations' financial statements into the government-wide GPFFR should be achieved by following U.S. Treasury guidance rather than an accounting standard. This will allow both government-like and business-like organizations to follow appropriate accounting standards to meet the needs of users of their financial statements.

Conclusion

TVA would like to conclude its remarks by again thanking members of the Board for this opportunity to comment on its Exposure Draft and summarize its positions.

1. TVA concurs with inclusion principles as proposed by the FASAB for organizations to be included in the government-wide GPFFR;
2. TVA concurs with the FASAB proposal that it is appropriate to differentiate between organizations—those which will be consolidating organizations and those which will be disclosing organizations;
3. TVA concurs with the FASAB and does not support a requirement that organizations with FASB-based financial statements convert to FASAB-based financial statements for the purposes of consolidating the government-wide GPFFR.

Thank you for your time and consideration.

NOTE: the Comment Letter Submitted by the Tennessee Valley Authority is #12 in the Reporting Entity Comment Letter Binder provided July 18, 2013 and can be found on page 70 or **#12 Diane T. Wear, Tennessee Valley Authority** at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/reporting-entity/> .

Questions for Ms. Terzak:

Nearly half of those responding to the question regarding the consolidation of FASAB and FASB based information without conversion disagreed with the Board's proposal. Further, several of those that agreed with the proposal did not believe the intra-governmental provision was necessary and the current practice through the closing practice should continue. With such a wide disparity in responses, the Board needs to have a better understanding of the potential implications of the proposed standards or suggested alternatives. TVA was an example of a respondent that agreed with the proposal but did not agree with disclosing intragovernmental amounts. TVA's letter explained to present a second set of financial statements with intragovernmental amounts measured in accordance with FASAB standards could be confusing to the user. Also, conversion of information may not be cost-effective at a time when agencies are being asked to evaluate work efforts in order to be more cost-conscious and the concern for the elimination of intragovernmental activity for the government-wide financial statement could potentially be resolved by Treasury through its Governmentwide Financial Report System Closing Package.

Could you elaborate further on the cost of conversion and implications to users?

If required to disclose the intragovernmental amounts under FASAB standards as proposed, what benefits may be provided to, or costs may be imposed on, users?

Does TVA submit any budgetary information with its closing package, or are they subject to budgetary controls such as apportionment and do they submit an SF-133?

Joseph H. Marren

Joseph H. Marren, JD, MBA

Mr. Marren is the President and Chief Executive Officer of KStone Partners LLC, an SEC registered investment advisor that specializes in managing low volatility, diversified funds of hedge funds that primarily invest in credit-related arbitrage and relative value strategies.

In the last several years Mr. Marren has devoted substantial time researching, writing and speaking on the issue of whether current financial reporting by the federal government comports with the requirements of the U. S. Constitution. Early in 2012 he and his wife, along with KStone, sponsored a first-of-its-kind conference “*Representation Without Accountability*” at Fordham University School of Law on this topic. Speakers included Hon. David Walker, former Comptroller General, David Mosso, former Chairman of the FASAB, Brian Fitzpatrick, a Constitutional Law scholar from Vanderbilt Law School and Mr. Marren. Professor Sean Griffith, Director of the Corporate Law Center moderated the conference and delivered opening remarks.

Prior to joining KStone, Mr. Marren was an investment banking professional for twenty-three years. He identified attractive investment opportunities for corporations and financial sponsors and assisted in the execution of M&A transactions. Most recently, Mr. Marren was Managing Director and Head of the Strategic Opportunities Group at Sagent Advisors, a privately-owned M&A advisory boutique based in New York City. Previously, Mr. Marren had been Managing Director and Global Head – M&A Business Development at Citigroup Global Markets and Credit Suisse First Boston, and Managing Director and Head of the Business Development Group at Donaldson Lufkin & Jenrette. Prior to joining DLJ, Mr. Marren worked at The Bridgeford Group, Prudential Securities and Kidder Peabody & Co. He led, or was a senior professional, in the business development groups at these firms.

Before moving to Wall Street in 1985, Mr. Marren worked for six years in various management positions at American Maize-Products Company, a diversified publicly-traded conglomerate. Mr. Marren began his career as a Certified Public Accountant at Price Waterhouse & Co.

In the past year Mr. Marren has been a guest lecturer at Columbia Law School, Fordham Law School and Columbia Business School. Previously, he taught a course in Mergers & Acquisitions as an Adjunct Professor at New York University Stern School of Business. He is the author of two books “Mergers & Acquisitions: A Valuation Handbook” and “Mergers & Acquisitions: Will You Overpay?”

Mr. Marren holds a Bachelor of Business Administration degree from the College of William & Mary, a Juris Doctor degree from Fordham University School of Law and an MBA from New York University Stern School of Business. He is a member of the New York State Bar Association and was recently admitted to practice before the United States Supreme Court.

As of 8/20/13, staff had not received any planned remarks from Mr. Marren.

NOTE: the Comment Letter Submitted by Joseph H. Marren is #20 in the Reporting Entity Comment Letter Binder provided July 18, 2013 and can be found on page 125 or **#20 Joseph H. Marren** at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/reporting-entity/> .

Questions for Mr. Marren:

We are interested in citizen users and their needs.

Could you elaborate on which federal financial reports you review, how often, and for what purpose?

Could you offer any suggestions to improve public awareness about the availability of federal financial reports?

Your comment letter states “The proposed rules will largely continue current unconstitutional reporting practices with respect to the Federal Reserve System and Government Sponsored Enterprises such as Fannie Mae and Freddie Mac. They will not be consolidated in the Financial Report and hence, the government’s consolidated financial statements will remain substantially misleading.” The Board’s proposal of principle-based standards does not explicitly classify organizations as consolidation entities or disclosure organizations.

Did you attempt to apply the proposed principles to the organizations you identified? If so, what conclusions did you reach regarding inclusion of each and whether each was a consolidation entity or disclosure organization as defined in the proposal?

Do you believe it the role of a standard-setting body to specify whether an organization should be consolidated within the government-wide GPFFR?

Attachment 3:

(3) Additional Comment Letters Received since the Reporting Entity Comment Letter Binder was distributed on July 18, 2013

#37 Stephen G. Wills, Citizen

#38 Karen J. Hughes, Federal Deposit Insurance Corporation

#39 Richard Lannin, U.S. Railroad Retirement Board

From: Wills, Stephen G.
Sent: Monday, July 29, 2013 2:24 PM
To: Loughan, Melissa L
Subject: RE: FASAB ED (Reporting Entity)
Importance: High

Good afternoon,

Please post this response to the FASAB website; and, I am very interested in speaking to this issue at the upcoming hearing.

Regards, Stephen G. Wills

Smithsonian Institution Response to Question 4:

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

Response:

We strongly disagree with the exposure draft position of consolidation of each component reporting entity and government-wide reporting entity regardless of funding source. This position is in contrast to the tenants of consolidation accounting, that is to say, component reporting entities should be consolidated based upon funding source; otherwise, the reader will be misled in terms of comparing apples with oranges. Funding sources to a governmental entity outside the federal government appropriation process (OMB circular A-11) **CANNOT** be “commingled” with appropriated funds. These funding sources are under the mandate of the donor in terms of purpose and time restriction. Upon fulfillment of these two restrictions, of course, the nature of the funding is changed from either restricted or temporarily restricted to unrestricted. Question: How can this change of color of money be captured in this proposed exposure draft? What is the value or importance to the reader of “confusing and misleading” statements? Generally speaking, this proposed exposure draft will only confuse the reader more; and, thus render the ability for the reader (taxpayer) to make a rational decision to be nullified. If the Board is interested in making this proposal palatable to the reader, then, perhaps, a footnote disclosure is warranted in which non-federal funding can be identified and reported separately.

**Federal Deposit Insurance Corporation**

3501 Fairfax Drive, Arlington, VA 22226-3500

Division of Finance

August 9, 2013

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

Dear Ms. Payne:

The Federal Deposit Insurance Corporation (FDIC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) that sets forth the proposed Statement of Federal Financial Accounting Standards (SFFAS), *Reporting Entity*. We commend the FASAB's efforts to bring more transparency and accountability to the Federal government's financial and performance reporting. The ED seeks to improve transparency and completeness of the Federal reporting entity by considering a broader definition of which organizational entities should be included given their relationship to the Federal government. Two proposals in the ED, however, are of particular interest to the FDIC and merit comment. Accordingly, the FDIC responds to the ED's questions 5 and 12a.

Question No. 5: Consolidation without conversion of FASB-based information to FASAB-based information

The ED's paragraph 66 proposes that consolidation entities should consolidate component or sub-component entities that prepare financial statements pursuant to the Financial Accounting Standards Board (FASB) without conversion for any differences in accounting policies among the organizations. Paragraph 66 also proposes that any component entity that publishes financial reports pursuant to the FASB "should disclose intragovernmental amounts measured in accordance with [F]ederal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements." The FDIC agrees that FASB statements should not require conversion to FASAB. However, we do not support the disclosure of intragovernmental amounts measured in accordance with FASAB in FASB-based financial statements. Doing so may cause confusion because the information is not relevant to our main constituency, which includes banks, thrifts, and the financial industry in general. Furthermore, disclosing this information would be duplicative, and hence not cost beneficial because we already provide it to the constituency to which it is relevant and needed; that is, the U.S. Treasury.

Ms. Wendy M. Payne

- 2 -

August 9, 2013

On a related note, we found the proposal confusing on this point because it does not specify where the disclosure would be made nor does it specify the intragovernmental amounts that would facilitate elimination entries for preparing the government-wide financial statements. As a result, we interpreted the ED to mean that the FASAB-based, intragovernmental disclosure would be required in our calendar-year, FASB-based statements. Intragovernmental elimination amounts are already addressed in the compilation procedures of the Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 4700, *Agency Financial Reporting Requirements for the Financial Report of the U.S. Government* (see Appendices 6 through 10). The TFM is used to provide this information to the U.S. Treasury via the Governmentwide Financial Report System (or GFRS) that agencies use to prepare the *Financial Report of the U.S. Government*. As such, we believe this practice should continue as it appears to provide the Treasury the information it needs. Again, we believe the proposal is duplicative because we already provide this information to the Treasury and, if required to be disclosed in our calendar-year FASB statements, it would not be relevant to our statements and would likely cause confusion to the users of the FDIC financial statements.

Question No. 12a: Inclusion of Receiverships/Conservatorships as Disclosure Organizations

The FDIC does not believe FDIC-established receivership and conservatorship entities should be equated with other disclosure organizations for government-wide reporting and disclosure purposes. It is our belief that receiverships and conservatorships do not meet the definition of disclosure organizations. These entities are self-funded without reliance on taxpayer dollars and are governed by separate statutory roles and responsibilities. In addition, the FDIC is already a consolidating entity with the Federal government and we submit our financial information for inclusion in the Federal government's September 30 financial statements. The impact on the FDIC from failed financial institutions is captured in the Deposit Insurance Fund's net assets presented on its balance sheet as Receivables from Resolutions, Net. For the Federal government's consolidated financial statements, the relevant financial effects of receiverships administered by the FDIC are already captured and presented in its Other Assets.

Generally, we believe that the inclusion of such entities as disclosure organizations would be misleading to the users of the government-wide financial statements because these are not Federal assets or liabilities (i.e., the Federal government has no claim on these entities beyond what is consolidated in the financial statement of the Deposit Insurance Fund's Net Receivable). Receiverships are administered by the FDIC under unique statutory parameters in the Federal Deposit Insurance Act. These receiverships are not owned or controlled by the Federal government, as such, but are subject to the oversight of the FDIC, as receiver, for a particular failed institution and have statutory responsibilities to the creditors of that entity, including the FDIC. Conservatorships represent a transitional phase of the resolution process, which may result in a final receivership in liquidation. The FDIC, in its corporate capacity, as administrator of the Deposit Insurance Fund, is a creditor in all receiverships, when established, and that creditor relationship is recognized as a net receivable in the Fund's financial statements. All required disclosures concerning the effects of receiverships and conservatorships on the FDIC are appropriately contained in the Fund's financial statement notes.

Ms. Wendy M. Payne

- 3 -

August 9, 2013

Again, we appreciate the opportunity to respond to the ED and thank you very much for your consideration of the FDIC's views.

Sincerely,

A handwritten signature in black ink that reads "K. J. Hughes". The signature is written in a cursive, slightly stylized font.

Karen J. Hughes
Deputy Director/Controller
Federal Deposit Insurance Corporation

June 14, 2013

Federal Accounting Standards Advisory Board

REPORTING ENTITY

Statement of Federal Financial Accounting Standards

Exposure Draft

Railroad Retirement Board Comments

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.

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

RRB Response: Agree

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

RRB Response: Agree

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.

RRB Response : Agree

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.

RRB Response : No comment.

Q2. The Board proposes distinguishing between two types of organizations in GPFFRs and this distinction will ultimately determine how they are reported: consolidation entities and disclosure organizations. Consolidation entities generally are (1) financed by taxes or other non-exchange revenue as evidenced by their inclusion in the budget, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards on the federal government, and/or (4) providing goods and services on a non-market basis. In contrast, disclosure organizations are those that (1) receive limited or no funding from general tax revenues, (2) have less direct involvement, and influence, by the Congress and/or the President, (3) impose limited risks and rewards on the federal government, and/or (4) are more likely to provide goods and services on a market basis.

The Board proposes consolidation entities be consolidated in the government-wide financial statements and the information about disclosure organizations be disclosed in notes. The Board also proposes that certain factors and objectives be considered in determining the information about disclosure organizations to be disclosed in notes. The Statement allows flexibility in the information presented as long as the disclosure objectives are met. The Statement also provides examples of information that may meet objectives.

Refer to paragraphs 37- 53 and 64-77 of the proposed standards and paragraphs A30-A54, A62-A63 and A71-A81 in Appendix A - Basis for Conclusions for a discussion and related explanation.

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

RRB Response : Modification: We suggest another category which is "modified consolidated entity". In this instance, an entity would have its net assets combined in the balance sheet and Statement of Social Insurance (if appropriate) of the Federal Report and information about disclosure organizations be disclosed in notes. In this instance, the entity would provide its audited net asset figure to the appropriate federal government agency for inclusion in the agency's financial statements and the FR. This separate category would be applicable to the situation that our agency incurs in relation to NRRIT (non-federal govt entity).

National Railroad Retirement Investment Trust

The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The sole purpose of the NRRIT is to manage and invest railroad retirement assets. The NRRIT is a tax-exempt entity, independent from the Federal Government and not subject to Title 31, United States Code (USC). The NRRIT is domiciled in and subject to the laws of the District of Columbia.

The NRRIT is comprised of a Board of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six. Members of the Board of Trustees are not considered officers or employees of the Government of the United States.

The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of benefit payments. The NRRIT has no powers or authority over the administration of benefits under the railroad retirement program. Under the RRSIA, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the RRA. The RRSIA does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the RRSIA provides that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the RRSIA or to enforce any provision of the RRSIA.

Under the RRSIA, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a Statement of Financial Position, a Statement of Operations, a Statement of Cash Flows, a Statement on Internal Accounting and Administrative Control Systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of OMB.

- 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.**

RRB Response : See a. above

- 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.**

RRB Response : No comment.

- 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)?**

RRB Response: Agree

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.**

RRB Response : Agree

- 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.**

RRB Response : Agree

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.

RRB Response : See Q2 a.

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.

RRB Response : No comment

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.

RRB Response: No comment.

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.

RRB Response: No comment.

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.

RRB Response : Agree

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.

RRB Response : Agree

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

RRB Response : No comment

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

RRB Response : Agree

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

RRB Response : No comment

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.

RRB Response : Agree with having the changes in one place in the accounting guidance.

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.

RRB Response : Disagree. Reporting entities should be given additional time, especially if consolidation is necessary. Propose the change be effective for periods beginning after September 30, 2020.

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?

RRB Response : Agree

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

RRB Response : Agree

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.

RRB Response : no

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.

RRB Response : Yes. We have a unique situation due to reporting of net assets for NRRIT (non-federal government entity). We may not be able to provide the audited figures for consolidation to the Federal government agency in time to meet the 45 day time table for submission to the Department of the Treasury due to timing of completing agency's financial statements audited position before the data is provided to Treasury and non-federal government entity's audited position of net assets included in agency's financial statements.

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.

RRB Response : No comments at this time.

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.

RRB Response : No comments at this time.

Appendix 1:

Other Materials

Master Government List of FFRDCs

Informal discussion guide for the SEC's session at the PH



National Science Foundation
WHERE DISCOVERIES BEGIN

MASTER GOVERNMENT LIST OF FEDERALLY FUNDED R&D CENTERS (FFRDCS)

Information on this list is current as of May 2013. Changes from the previous edition are noted below; decertified, closed, or renamed FFRDCs are listed in "**Historical Notes**."

Download the list (124 KB)

Grouped by:

FFRDC

- **Aerospace Federally Funded Research and Development Center**

Administrator:

The Aerospace Corporation

Location:

El Segundo, CA

Sponsor:

Department of Defense, Department of the Air Force

- **Ames Laboratory**

Administrator:

Iowa State University of Science and Technology

Location:

Ames, IA

Sponsor:

Department of Energy

- **Argonne National Laboratory**

Administrator:

UChicago Argonne, LLC

Location:

Argonne, IL

Sponsor:

Department of Energy

On 1 January 2007 the Argonne National Laboratory acquired a new university administrator (UChicago Argonne, LLC). The previous administrator was the University of Chicago.

- **Arroyo Center**

Administrator:


RAND Corp.

Location:

Santa Monica, CA

Sponsor:

Department of Defense, Department of the Army

 *The following portions of the RAND Corporation are FFRDCs: National Defense Research Institute (formerly Defense/Office of the Joint Chiefs of Staff), Project Air Force, and the Arroyo Center.*

- **Brookhaven National Laboratory**

Administrator:


Brookhaven Science Associates, LLC

Location:

Upton, NY

Sponsor:

Department of Energy

 *On 1 March 1998 Brookhaven National Laboratory acquired a new nonprofit administrator (Brookhaven Science Associates, LLC). The previous administrator was a university consortium.*

- **Center for Advanced Aviation System Development**

Administrator:

MITRE Corp.

Location:

McLean, VA

Sponsor:

Department of Transportation, Federal Aviation Administration

- **Center for Communications and Computing**

Administrator:

Institute for Defense Analyses

Location:

Alexandria, VA

Sponsor:

Department of Defense, National Security Agency/Central Security Service

- **Center for Enterprise Modernization**

Administrator:

MITRE Corporation

Location:

McLean, VA

Sponsor:

**Department of the Treasury, Department of Veterans Affairs,
Internal Revenue Service**

☞ *On 1 October 2008 the Department of Veterans Affairs was designated a co-sponsor of the Center for Enterprise Modernization. In August 2001 the Internal Revenue Service (IRS) Federally Funded Research and Development Center was renamed the Center for Enterprise Modernization.*

- **Center for Naval Analyses**

Administrator:

The CNA Corporation

Location:

Alexandria, VA

Sponsor:

Department of Defense, Department of the Navy

- **Center for Nuclear Waste Regulatory Analyses**

Administrator:

Southwest Research Institute

Location:

San Antonio, TX

Sponsor:

Nuclear Regulatory Commission

- **Centers for Medicare and Medicaid Services Federally Funded Research and Development Center**

Administrator:

MITRE Corp.

Location:

Baltimore, MD

Sponsor:

Department of Health and Human Services, Centers for Medicare and Medicaid Services

☞ *On 27 September 2012 the Centers for Medicare and Medicaid Services Federally Funded Research and Development Center was created*

- **Fermi National Accelerator Laboratory**

Administrator:


Fermi Research Alliance, LLC

Location:

Batavia, IL

Sponsor:

Department of Energy

 On 1 October 2006 the Fermi National Accelerator Laboratory acquired a new university administrator (Fermi Research Alliance, LLC). The previous administrator was Universities Research Association, Inc.

- **Frederick National Laboratory for Cancer Research**

Administrator:


SAIC-Frederick Inc., a subsidiary of the Science Applications International Corp.

Location:

Frederick, MD

Sponsor:

Department of Health and Human Services, National Institutes of Health

 On 28 February 2012 the National Cancer Institute at Frederick (NCI-Frederick) changed its name to the Frederick National Laboratory for Cancer Research. On 26 September 2008 NCI-Frederick acquired a single industrial firm administrator: SAIC-Frederick, Inc., a subsidiary of Science Applications International Corp. The previous administration was conducted under a system of four industrial firm contractors: SAIC-Frederick, Inc., a subsidiary of Science Applications International Corp.; Charles River Laboratories, Inc.; Data Management Services, Inc.; and Wilson Information Services, Inc. In 2001 the name of this FFRDC was changed from Frederick Cancer Research and Development Center to the National Cancer Institute at Frederick.

- **Homeland Security Studies and Analysis Institute**

Administrator:

Analytic Services, Inc.

Location:

Arlington, VA

Sponsor:

Department of Homeland Security, Science and Technology Directorate

📄 *On 5 March 2009 the Homeland Security Studies and Analysis Institute was created. This new FFRDC together with the Homeland Security Systems Engineering and Development Institute replaced the Homeland Security Institute.*

- **Homeland Security Systems Engineering and Development Institute**

Administrator:

MITRE Corp.

Location:

McLean, VA

Sponsor:

Department of Homeland Security, Science and Technology Directorate

📄 *On 5 March 2009 the Homeland Security Systems Engineering and Development Institute was created. This new FFRDC together with the Homeland Security Studies and Analysis Institute replaced the Homeland Security Institute.*

- **Idaho National Laboratory**

Administrator:

Battelle Energy Alliance, LLC

Location:

Idaho Falls, ID

Sponsor:

Department of Energy

📄 *On 1 February 2005 the Idaho National Engineering and Environmental Laboratory was renamed the Idaho National Laboratory (INL). Also, INL's administrator, Bechtel BWXT Idaho, LLC, was renamed Battelle Energy Alliance, LLC.*

- **Jet Propulsion Laboratory**

Administrator:

California Institute of Technology

Location:

Pasadena, CA

Sponsor:

National Aeronautics and Space Administration

- **Judiciary Engineering and Modernization Center**

Administrator:


MITRE Corp.

Location:

McLean, VA

Sponsor:

United States Courts, Administrative Office of the United States Courts

 *On 2 September 2010 the Judiciary Engineering and Modernization Center was created.*

- **Lawrence Berkeley National Laboratory**

Administrator:

University of California

Location:

Berkeley, CA

Sponsor:

Department of Energy

- **Lawrence Livermore National Laboratory**

Administrator:


Lawrence Livermore National Security, LLC

Location:

Livermore, CA

Sponsor:

Department of Energy

 *On 1 October 2007 Lawrence Livermore National Laboratory acquired a new industrial firm administrator (Lawrence Livermore National Security, LLC). The previous administrator was the University of California.*

- **Lincoln Laboratory**

Administrator:


Massachusetts Institute of Technology

Location:

Lexington, MA

Sponsor:

Department of Defense, Assistant Secretary of Defense for Research and Engineering

 *On 25 April 2011 the Assistant Secretary of Defense for Research and Engineering became the sponsor of the Lincoln Laboratory. The previous sponsor was the Department of the Air Force.*

- **Los Alamos National Laboratory**

Administrator:

Los Alamos National Security, LLC

Location:

Los Alamos, NM

Sponsor:

Department of Energy

☞ On 1 June 2006 Los Alamos National Laboratory acquired a new industrial firm administrator (Los Alamos National Security, LLC). The previous administrator was the University of California.

- **National Biodefense Analysis and Countermeasures Center**

Administrator:

Battelle National Biodefense Institute

Location:

Frederick, MD

Sponsor:

Department of Homeland Security, Science and Technology Directorate

- **National Center for Atmospheric Research**

Administrator:

University Corporation for Atmospheric Research

Location:

Boulder, CO

Sponsor:

National Science Foundation

- **National Defense Research Institute**

Administrator:

RAND Corp.

Location:

Santa Monica, CA

Sponsor:

Department of Defense, Office of the Under Secretary of Defense for Acquisitions, Technology and Logistics

☞ On 25 April 2011 the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics became the sponsor of the National Defense Research Institute. The previous sponsor was the Office of the Secretary of Defense.

☞ The following portions of the RAND Corporation are FFRDCs: National Defense Research Institute (formerly Defense/Office of the Joint Chiefs of Staff), Project Air Force, and the Arroyo Center.

- **National Optical Astronomy Observatory**

Administrator:

Association of Universities for Research in Astronomy, Inc.

Location:

Tucson, AZ

Sponsor:

National Science Foundation

☞ *Since February 1984 this center includes three former FFRDCs: Cerro Tololo Inter-American Observatory, Kitt Peak National Observatory, and the National Solar Observatory (formerly Sacramento Peak Observatory).*

- **National Radio Astronomy Observatory**

Administrator:

Associated Universities, Inc.

Location:

Charlottesville, VA

Sponsor:

National Science Foundation

- **National Renewable Energy Laboratory**

Administrator:

Alliance for Sustainable Energy, LLC

Location:

Golden, CO

Sponsor:

Department of Energy

☞ *On 29 July 2008 National Renewable Energy Laboratory acquired a new nonprofit administrator (Alliance for Sustainable Energy, LLC).*

- **National Security Engineering Center**

Administrator:

MITRE Corp.

Location:

Bedford, MA, and McLean, VA

Sponsor:

Department of Defense, Assistant Secretary of Defense for Research and Engineering

☞ *On 25 April 2011 C3I Federally Funded Research and Development Center changed its name to the National Security Engineering Center, and it changed its sponsor from the Office of the Secretary of Defense to the*

Office of the Under Secretary of Defense for Acquisitions, Technology and Logistics.

- **Oak Ridge National Laboratory**

Administrator:

UT-Battelle, LLC

Location:

Oak Ridge, TN

Sponsor:

Department of Energy

☞ *On 1 April 2000 Oak Ridge National Laboratory acquired a new nonprofit administrator (UT-Battelle, LLC). The previous administrator was the industrial firm Lockheed Martin Energy Research Corp.*

- **Pacific Northwest National Laboratory**

Administrator:

Battelle Memorial Institute

Location:

Richland, WA

Sponsor:

Department of Energy

- **Princeton Plasma Physics Laboratory**

Administrator:

Princeton University

Location:

Princeton, NJ

Sponsor:

Department of Energy

- **Project Air Force**

Administrator:

RAND Corp.

Location:

Santa Monica, CA

Sponsor:

Department of Defense, Department of the Air Force

☞ *The following portions of the RAND Corporation are FFRDCs: National Defense Research Institute (formerly Defense/Office of the Joint Chiefs of Staff), Project Air Force, and the Arroyo Center.*

- **SLAC National Accelerator Laboratory**

Administrator:


Leland Stanford, Jr., University

Location:

Menlo Park, CA

Sponsor:

Department of Energy

 *On 15 October 2008 the Stanford Linear Accelerator Center was renamed the SLAC National Accelerator Laboratory.*

- **Sandia National Laboratories**

Administrator:

Sandia Corporation, a subsidiary of Lockheed Martin Corp.

Location:

Albuquerque, NM

Sponsor:

Department of Energy

- **Savannah River National Laboratory**

Administrator:


Savannah River Nuclear Solutions, LLC

Location:

Aiken, SC

Sponsor:

Department of Energy

 *On 1 August 2007 Savannah River National Laboratory acquired a new industrial firm administrator (Savannah River Nuclear Solutions, LLC).*

- **Science and Technology Policy Institute**

Administrator:


Institute for Defense Analyses

Location:

Washington, DC

Sponsor:

National Science Foundation

 *On 1 December 2003 RAND Corp. was replaced by the Institute for Defense Analyses as the administrator of the Science and Technology Policy Institute.*

- **Software Engineering Institute**

Administrator:

Carnegie Mellon University

Location:

Pittsburgh, PA

Sponsor:

Department of Defense, Assistant Secretary of Defense for Research and Engineering

☞ *On 25 April 2011 the Assistant Secretary of Defense for Research and Engineering became the sponsor of the Software Engineering Institute (SEI). The Office of the Secretary of Defense was the sponsor between 28 April 2010 and 24 April 2011. The Department of the Army was the sponsor between December 2004 and 27 April 2010. The Office of the Secretary of Defense was the sponsor between June 1997 and December 2004. The Defense Advanced Research Projects Agency was the sponsor from 1984 to June 1997.*

- **Studies and Analyses Center**

Administrator:

Institute for Defense Analyses

Location:

Alexandria, VA

Sponsor:

Department of Defense, Office of the Under Secretary of Defense for Acquisitions, Technology and Logistics

☞ *On 25 April 2011 the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics became the sponsor of the Studies and Analysis Center. The previous sponsor was the Office of the Secretary of Defense.*

- **Thomas Jefferson National Accelerator Facility**

Administrator:

Jefferson Science Associates, LLC

Location:

Newport News, VA

Sponsor:

Department of Energy

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Master Government List of Federally Funded R&D Centers (FFRDCs) - I

Source: National Science Foundation/National Center for

FFRDC Name	FFRDC URL	Agency	Agency URL	Agency2	Agency2 URL	Sub_Agency	Sub_Agency U	Sub_Agency2	Sub_Agency2 U	Admin_Type	Admin_URL	Loc_Full	Loc_State	Activity	FFRDC_Note_N	Update_Date
Aerospace Federally Funded Research and Development Center	http://www.aero.gov/	Department of Defense	http://www.defenselink.mil/			Department of the Air Force	http://www.af.mil/			The Aerospace Corporation	http://www.aero.gov/	nonprofit institutions other than universities and colleges	California	Systems engineering integration centers	0	um
Ames Laboratory	http://www.ameslab.gov/	Department of Energy	http://www.ames.gov/							Iowa State University of Science and Technology	http://www.iasat.amesia.edu/	universities and colleges, including university consortia	Iowa	Research and development laboratories	0	
Argonne National Laboratory	http://www.anl.gov/	Department of Energy	http://www.energ.gov/							UChicago Argonne, LLC	http://www.uchicago.edu/	universities and colleges, including university consortia	Illinois	Research and development laboratories	8	
Arroyo Center	http://www.rand.org/ard.html	Department of Defense	http://www.defenselink.mil/			Department of the Army	http://www.army.mil/			RAND Corp.	http://www.rand.org/	nonprofit institutions other than universities and colleges	California	Study and analysis centers	1	
Brookhaven National Laboratory	http://www.bnl.gov/world	Department of Energy	http://www.energ.gov/							Brookhaven Science Associates, LLC	http://www.bnl.gov/virtual/Admin/BSA.asp	nonprofit institutions other than universities and colleges	New York	Research and development laboratories	10	
National Security Engineering Center	http://www.nste.org/about/ffdcsh/DefenseSec.html	Department of Defense	http://www.defenselink.mil/			Assistant Secretary of Defense for Research and Engineering	http://www.acqod.mil/cheftech/docs/index.html			MITRE Corp.	http://www.mitre.org/about/ffdcsh/McLean_VA	nonprofit institutions other than universities and colleges	Massachusetts	Systems engineering and integration centers	20	
National Security Engineering Center	http://www.nste.org/about/ffdcsh/DefenseSec.html	Department of Defense	http://www.defenselink.mil/			Assistant Secretary of Defense for Research and Engineering	http://www.acqod.mil/cheftech/docs/index.html			MITRE Corp.	http://www.mitre.org/about/ffdcsh/McLean_VA	nonprofit institutions other than universities and colleges	Virginia	Systems engineering and integration centers	20	
Center for Advanced Aviation System Development	http://www.caasd.org/	Department of Transportation	http://www.dot.gov/			Federal Aviation Administration	http://www.faa.gov/			MITRE Corp.	http://www.mitre.org/	nonprofit institutions other than universities and colleges	Virginia	Research and development laboratories	0	
Center for Enterprise Modernization	http://www.mitre.org/about/ffdcsh/theTreasuryam.html	Department of the Treasury	http://www.usdoj.gov/			Internal Revenue Service	http://www.irs.gov/			MITRE Corporation	http://www.mitre.org/	nonprofit institutions other than universities and colleges	Virginia	Systems engineering and integration centers	17	
Center for Naval Analysis	http://www.cna.org/center/naval	Department of Defense	http://www.defenselink.mil/			Department of the Navy	http://www.navy.mil/			The CNA Corporation	http://www.cna.org/	nonprofit institutions other than universities and colleges	Virginia	Study and analysis centers	0	
Center for Nuclear Waste Regulatory Analysis	http://www.sawtooth.org/qd200.htm	Nuclear Regulatory Commission	http://www.nrc.gov/							Southwest Research Institute	http://www.swri.org/	nonprofit institutions other than universities and colleges	Texas	Study and analysis centers	0	
Center for Communications and Computing	http://www.csa.org/about/ffdcsh/nationalncc.php	Department of Defense	http://www.defenselink.mil/			National Security Agency/Central Security Service	http://www.nsa.gov/			Institute for Defense Analysis	http://www.ida.org/Alexandria_VA	nonprofit institutions other than universities and colleges	Virginia	Research and development laboratories	0	
Centers for Medicare and Medicaid Services Federally Funded Research and Development Center		Department of Health and Human Services	http://www.dhhs.gov/			Centers for Medicare and Medicaid Services	http://www.cms.gov/			MITRE Corp.	http://www.mitre.org/	nonprofit institutions other than universities and colleges	Maryland	Study and analysis centers	24	
Fermi National Accelerator Laboratory	http://www.fnal.gov/	Department of Energy	http://www.energ.gov/							Fermi Research Alliance, LLC	http://www.fnal.gov/	universities and colleges, including university consortia	Illinois	Research and development laboratories	6	

Homeland Security Studies and Analysis Institute	http://www.honai-anisecurity.org/	Department of Homeland Security	http://www.dhs.gov/	Science and Technology Directorate	http://www.dhs.gov/about-structure/directorial_0530.shtm	Aeronic Services, Inc.	http://www.honai-anisecurity.org/	nonprofit institutions other than universities and colleges	McLean, VA	Virginia	Study and analysis centers	14
Homeland Security Systems Engineering and Development Institute	http://www.mha.gov/work/kiss_sedt/	Department of Homeland Security	http://www.dhs.gov/	Science and Technology Directorate	http://www.dhs.gov/about-structure/directorial_0530.shtm	MITRE Corp.	http://www.mitre.org/work/kiss_sedt/	nonprofit institutions other than universities and colleges	McLean, VA	Virginia	Systems engineering and integration centers	18
Idaho National Laboratory	http://www.inl.go.id/	Department of Energy	http://www.energy.gov/			Battelle Energy Alliance LLC		Industrial firms	Idaho Falls, ID	Idaho	Research and development laboratories	4
Jet Propulsion Laboratory	http://www.jpl.nasa.gov/	National Aeronautics and Space Administration	http://www.nasa.gov/			California Institute of Technology	http://www.caltech.edu/	universities and colleges, including university consortia	Pasadena, CA	California	Research and development laboratories	9
Judiciary Engineering and Modernization Center		United States Courts	http://www.uscourts.gov/home.aspx	Administrative Office of the United States Courts	http://www.uscourts.gov/searadc/publications/unadministrative%20Office.aspx	MITRE Corp.	http://www.mitre.org/institutions-other-than-universities-and-colleges	nonprofit institutions other than universities and colleges	McLean, VA	Virginia	Systems engineering and integration centers	22
Lawrence Berkeley National Laboratory	http://www.lbl.gov/	Department of Energy	http://www.energy.gov/			University of California	http://www.universityofcalifornia.edu/	universities and colleges, including university consortia	Berkeley, CA	California	Research and development laboratories	6
Lawrence Livermore National Laboratory	http://www.llnl.gov/	Department of Energy	http://www.energy.gov/			Lawrence Livermore National Security LLC	http://www.llnslc.com/	industrial firms	Livermore, CA	California	Research and development laboratories	5
Lincoln Laboratory	http://www.ll.mit.edu/	Department of Defense	http://www.dodmilitary.com/	Assistant Secretary of Defense for Research and Engineering	http://www.asd.mil/chiefexecutive/index.html	Massachusetts Institute of Technology	http://web.mit.edu/collaboration/	universities and colleges, including university consortia	Lanington, MA	Massachusetts	Research and development laboratories	2
Los Alamos National Laboratory	http://www.lanl.gov/	Department of Energy	http://www.energy.gov/			National Security LLC	http://www.nslc.com/	industrial firms	Los Alamos, NM	New Mexico	Research and development laboratories	6
National Bioscience Resource Project	http://www.bnrbo.org/	Department of Homeland Security	http://www.dhs.gov/	Science and Technology Directorate	http://www.dhs.gov/about-structure/directorial_0530.shtm	Battelle National Biodefense Institute	http://www.bnbi.org/	nonprofit institutions other than universities and colleges	Federick, MD	Maryland	Study and analysis centers	0
Frederick National Laboratory for Cancer Research	http://web.nfcrf.gov/	Department of Health and Human Services	http://www.dhhs.gov/	National Institutes of Health	http://www.nih.gov/	SALC-Frederick, Inc., a subsidiary of the Science Applications Corporation		industrial firms	Federick, MD	Maryland	Research and development laboratories	13
National Center for Atmospheric Research	http://www.ncar.edu/	National Science Foundation	http://www.nsf.gov/			University Corporation for Atmospheric Research	http://www.ucar.edu/	universities and colleges, including university consortia	Boulder, CO	Colorado	Research and development laboratories	0
National Defense Research Institute	http://www.ndri.org/	Department of Defense	http://www.defenseresearchinstitute.mil/	Office of the Under Secretary of Defense for Acquisitions, Technology and Logistics	http://www.acq.osd.mil/	RAND Corp.	http://www.rand.org/	nonprofit institutions other than universities and colleges	Santa Monica, CA	California	Study and analysis centers	23
National Optical Astronomy Observatory	http://www.noao.edu/	National Science Foundation	http://www.nsf.gov/			Association of Universities for Research in Astronomy, Inc.	http://www.aui.edu/	universities and colleges, including university consortia	Tucson, AZ	Arizona	Research and development laboratories	15
National Radio Astronomy Observatory	http://www NRAO.edu/	National Science Foundation	http://www.nsf.gov/			Associated Universities, Inc.	http://www.aui.edu/	universities and colleges, including university consortia	Charlottesville, VA	Virginia	Research and development laboratories	0

National Renewable Energy Laboratory Oak Ridge National Laboratory	http://www.nrel.gov/	Department of Energy	http://www.energy.gov/						
Pacific Northwest National Laboratory	http://www.pnl.gov/	Department of Energy	http://www.energy.gov/						
Princeton Plasma Physics Laboratory	http://www.pppp.gov/	Department of Energy	http://www.energy.gov/						
Project Air Force	http://www.rand.org/paf.html	Department of Defense	http://www.defenselink.mil/	Department of the Air Force	http://www.af.mil/				
Sandia National Laboratories	http://www.sandia.gov/	Department of Energy	http://www.energy.gov/						
Savannah River National Laboratory Science and Technology Policy Institute	http://ert.doe.gov/	Department of Energy	http://www.energy.gov/						
SLAC National Accelerator Laboratory	http://www.slac.stanford.edu/	Department of Energy	http://www.energy.gov/						
Software Engineering Institute	http://www.sei.cmu.edu/	Department of Defense	http://www.defenselink.mil/						
Studies and Analysis Center	http://www.dau.org/about/center/analysis/center.php	Department of Defense	http://www.defenselink.mil/						
Thomas Jefferson National Accelerator Facility	http://www.jlab.org/	Department of Energy	http://www.energy.gov/						
Altitude for Sustainable Energy, LLC		nonprofit institutions other than universities and colleges	http://www.altitudeforsustainableenergy.org/	Golden, CO	Colorado	Research and development laboratories		11	
UT-Battelle, LLC		nonprofit institutions other than universities and colleges	http://www.ut-battelle.org/	Oak Ridge, TN	Tennessee	Research and development laboratories		12	
Battelle Memorial Institute		nonprofit institutions other than universities and colleges	http://www.battelle.org/	Richard, WA	Washington	Research and development laboratories		0	
Princeton University		universities and colleges including university consortia	http://www.princeton.edu/	Princeton, NJ	New Jersey	Research and development laboratories		0	
RAND Corp.		nonprofit institutions other than universities and colleges	http://www.rand.org/	Santa Monica, CA	California	Study and analysis centers		1	
Sandia Corporation, a subsidiary of Lockheed Martin Corp.		industrial firms and colleges	http://www.sandia.gov/	Albuquerque, NM	New Mexico	Research and development laboratories		0	
Savannah River Nuclear Solutions, LLC		industrial firms	http://savannahriver.nuclearsolutions.com/	Aiken, SC	South Carolina	Research and development laboratories		7	
Institute for Defense Analysis		nonprofit institutions other than universities and colleges	http://www.ida.org/	Washington, DC	District of Columbia	Study and analysis centers		16	
Lawrence Livermore National Laboratory		universities and colleges including university consortia	http://www.llnl.gov/	Menlo Park, CA	California	Research and development laboratories		19	
Carnegie Mellon University		universities and colleges including university consortia	http://www.cmu.edu/	Pittsburgh, PA	Pennsylvania	Research and development laboratories		3	
Institute for Defense Analysis		nonprofit institutions other than universities and colleges	http://www.ida.org/	Alexandria, VA	Virginia	Study and analysis centers		21	
Jefferson Science Associates, LLC		universities and colleges including university consortia	http://www.jscas.org/	Newport News, VA	Virginia	Research and development laboratories		0	

Securities and Exchange Commission (SEC) Statement:
FASAB Public Hearing on exposure draft, *Reporting Entity*,
August 28, 2013

Speakers:

Caryn Kauffman, SEC Deputy CFO

Eileen Parlow, SEC Senior Staff Accountant

Informal Discussion Guide

Due to the time constraints of this 30-minutes session, Caryn Kauffman's oral statement will include only the highlighted material.

Questions for the Board are shown in text boxes, in which the terms "staff" and "we" refer to SEC staff members Caryn Kauffman and Eileen Parlow and not FASAB staff.

Disclaimer:

The views expressed today are those of the speakers and do not represent official views of the SEC.

Introduction:

In today's discussion, we would like to focus on three organizations that are currently included in the SEC's section of the *Budget of the United States Government: Analytical Perspectives – Supplemental Materials*, schedule entitled "Federal Programs by Agency and Account" ("the Budget"). Those organizations are:

- Financial Accounting Standards Board (FASB), budget account titled "Payment to Standard Setting Body"
- Securities Investor Protection Corporation (SIPC)
- Public Company Accounting Oversight Board (PCAOB)

Objective of this discussion:

The staff believe that it is not the Board's intent to establish a non-rebuttable presumption that inclusion in the Budget always requires consolidation. The staff also believe that the proposed additional principles for inclusion would not require the consolidation of FASB, SIPC or PCAOB into the SEC or the government-wide financial statements. We want to discuss our understanding of the inclusion principles with you.

The staff also believe that the proposed disclosure requirements would not require the SEC to report financial data for those three organizations in its notes. At today's public hearing, we want to discuss our understanding of the proposed disclosure requirements with you. We also want to suggest edits that the staff believe might clarify several of the disclosure requirements.

Financial Accounting Standards Board (FASB), budget account title “Standard Setting Body”

The staff believe that neither consolidation nor extensive disclosure would be appropriate for FASB. Here is how the staff believe that each of the Board’s proposed three major principles would relate to FASB:

Principle 1. “In the Budget”

The Budget Appendix for Fiscal Year (FY) 2014 includes line item 95-5377, “Payment to Standard Setting Body.” The text of this section (**bold added**) states:

The Sarbanes-Oxley Act of 2002 (P.L. 107–204) authorizes the Securities and Exchange Commission (SEC) to designate a **private entity** as a standard setting body. This standard setting body will set accounting principles that will be “generally accepted” for the purposes of federal securities laws. Funding for the standard setting body comes from Accounting Support Fees, paid by public companies. The **private entity currently designated as the standard setting body** is the Financial Accounting Standards Board (FASB).

1. Because the Budget clearly indicates that FASB is a private entity, staff believe that FASB does not meet the Board’s intent for the “in the Budget” principle. Does the Board agree?

Principle 2. “Majority Ownership Interest”

The staff believe that the FASB is not owned by the SEC or by the U.S. Government. As noted by the response letter from the FAF (response letter #35) (**bold added**):

... as the circumstances of the FASB indicate, there may be accounts included in the Budget which do not receive federal appropriations, for which elected officials are not accountable, and in which **the federal government has no ownership interest** and little or no operational control.¹

The accounting support fees paid by for FASB - Section 109 of SOX² states that “[a]ccounting support fees and other receipts of ... such standard-setting body **shall not be considered public monies of the United States.**” Moreover, the Rules of Construction set forth in Section 109 provide that “[n]othing in this section shall be construed to render [the FASB] subject to procedures in Congress to authorize or appropriate public funds....”³

2. Staff believe that FASB does not meet the criteria for “majority ownership interest.” Does the Board agree?

¹ Also see the Financial Accounting Foundation (FAF) comment letter, page 4.

² Sarbanes-Oxley Act of 2002

³ FAF comment letter, page 2.

Principle 3. “Control with Risk of Loss or Expectation of Benefit”

Indicators that control does not exist include but are not limited to:

1. The SEC has no final decision regarding appointment of FASB members or selection of FASB staff.
2. The SEC has no involvement in FASB's daily operations.
3. FASB is organized as a private-sector entity, as part of the Financial Accounting Foundation, a non-profit organization. FASB employees are private sector employees, not subject to civil service hiring rules or eligible for federal employee benefits.
4. FASB is not funded by general tax revenues; it is funded by accounting support fees, investment income, and sales of subscriptions and publications.
5. FASB is not required to report in accordance with FASAB standards as described in paragraphs 5-7 of Statement of Federal Financial Accounting Standards (SFFAS) 34.

Indicators of control

- The SEC has the authority to designate FASB as “generally accepted” for purposes of the federal securities laws.
- The Sarbanes-Oxley Act of 2002 provides the authority for FASB to collect accounting support fees. The accounting support fee is subject to review by the SEC. However, as noted in the Financial Accounting Foundation (FAF) comment letter, the intent of the funding provisions in the legislation was to strengthen FASB's independence by providing for mandatory accounting fees. Prior to 2002, FASB was funded by voluntary donations supplemented by sales of its publications and subscriptions.

3. Staff believe that the preponderance of control factors above indicate that FASB is not sufficiently controlled to be considered for inclusion as part of the U.S. government. Does the Board agree?

SEC staff comments for discussion on FASB: Disclosure requirements

The FAF's comment letter indicated that: “If there is no federal governmental ownership or operational control of an entity, and the entity does not receive federal funds, there would be no justification for including the entity within the scope of the GPFFRs; indeed, to do so would be misleading.” The staff agree with the FAF's comments.

The staff believe that the proposed objectives for disclosure listed in paragraph 72 of the ED⁴ should be clarified as follows:

⁴ Paragraph 72 of the ED lists the following objectives for disclosures:

- a. Relationship and Organization: The nature of the federal government's relationship with the disclosure organization(s)
- b. Relevant Activity: Nature and magnitude of relevant activity during the period and balances at the end of the period
- c. Future exposures: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure organization

- Objective 72(b) should be clarified to indicate that the “nature and magnitude of relevant activity” and “balances at the end of the period” explicitly refer to (a) financial relationships or transactions between the disclosure organization and the federal reporting entity and/or (b) situations where there may be a potential exposure to loss (or gain) by the federal government. Reason: Otherwise, objective 72(b) may be interpreted as requiring extensive reporting on the financial activities of non-federal organizations, which would be confusing and/or misleading for financial statement readers.
- Example 73(e), “a discussion of the disclosure organization’s key financial indicators and changes in key financial indicators” also should be clarified to refer to relevant situations, for example where the disclosure organization may potentially expose the federal government to future losses or gains. Reason: In other situations presenting information about “key financial indicators” of nonfederal organizations would be confusing and/or misleading for financial statement readers. This comment also applies to the “subsequent events” requirement in paragraph 76.⁵

<p>4. Does the Board agree with the above recommendations?</p>

⁵ Paragraph 76 of the ED proposes that : Significant changes in information occurring from the end of the disclosure organization’s reporting period should be reported consistent with the requirements of SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

Securities Investor Protection Corporation (SIPC)

The staff believe that neither consolidation nor extensive disclosure would be appropriate for SIPC. Here is how the staff believe that each of the Board's proposed three major principles would relate to SIPC:

Principle 1. "In the Budget"

The Budget Appendix for FY 2014 includes line item 95–5600, Securities Investor Protection Corporation. The text of this section of the Budget states:

SIPC was created when Congress passed the Securities Investor Protection Act of 1970 (SIPA). Its purpose is to afford certain protections to customers against loss resulting from broker-dealer failure and, thereby, to promote investor confidence in the nation's securities markets. SIPC is a non-profit membership corporation. Its members are, with some exceptions, all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange. SIPC receives funds through assessments on its membership and from interest earned on its investments in U.S. Government securities.

SIPC may borrow up to \$2.5 billion from the U.S. Department of the Treasury, through the Securities and Exchange Commission, in the event that the fund maintained by SIPC is insufficient to satisfy the claims of customers of failing brokerage firms. SIPC has not accessed these loans to date, and the Budget does not project that SIPC will require use of these loans over the next ten years.

As noted in SIPC's comment letter (letter #5):

Throughout SIPC's history, SIPC has been both excluded and included in the Appendix of the Budget. For example, in FY 2007, SIPC's line of credit with Treasury had a line in the budget. In FY 2008, the line of credit was removed from the Budget and replaced with a paragraph explaining the role of SIPC. In FY 2011, the SIPC Fund was included as an account in the Budget, with adjustments going back to FY 2009. As far as SIPC is aware, no legislative changes in those years led to these changes in treatment.

5. Staff believe that because of the inconsistent "in and out of the Budget" treatment of SIPC, the application of this principle is uncertain, but we believe that SIPC does not meet the Board's intent regarding "in the Budget." Does the Board agree?

Principle 2. "Majority ownership interest"

- SIPC is organized as a separate legal entity, a non-profit organization that issues annual audited financial statements. SIPC's legislation states that SIPC "shall not be an agency or establishment of the United States Government."⁶
- As of December 31, 2012, SIPC had approximately \$1.5 billion in investments in Treasury securities. Those securities are valued in accordance with private-sector

⁶ 15 U.S.C. 78 ccc (a)(1)

(FASB) accounting principles,⁷ which is a different valuation basis from the valuation method used by federal agencies for intra-governmental investments in Treasury securities. If proposed reporting requirements should require reclassification of SIPC as a part of the federal government, the valuation of SIPC's Treasury investments would present significant challenges, because the Treasury Department would be required to reclassify those securities as intra-governmental debt and eliminate them in the process of consolidating the government-wide financial statements.

6. Staff believe that SIPC is not currently consolidated into the government-wide financial statements and that accordingly the Treasury Department is currently reporting SIPC's investments in Treasury securities as "debt held by the public" and not as intragovernmental debt. We believe that this is an indicator that the U.S. government does not own SIPC, and that accordingly SIPC does not meet the "majority ownership" criterion. Does the Board agree?

Principle 3. Control with Risk of Loss or Expectation of Benefit"

Indicators that control does not exist

The most important indicators of a lack of control are:

- The SEC has only limited control over SIPC's operations. An example of the limits of the SEC's control over SIPC's operations is described in SIPC's Annual Report for 2012, financial statement Note 10, which describes a lawsuit between the SEC and SIPC regarding a specific action that the SEC believes that SIPC should take.⁸
- Unlike the FDIC, SIPC does not provide a guarantee of government-backed insurance.⁹ The consolidation of the SIPC into the federal government's financial statements, or even the disclosure of SIPC's liabilities in the financial statements of a federal reporting entity, may imply to some readers that the SIPC provides federally-backed insurance for investments and/or that its liabilities are backed by the full faith and credit of the federal government.

Other factors indicating a lack of control:

- SIPC is not funded by general tax revenues; it is a membership corporation, whose members are brokerage firms, and is funded entirely by membership assessments. Its

⁷ SIPC's footnote 6 states that: The fair value of the U.S. Government securities is based on the Federal Reserve Bank of New York bid quote as of December 31, 2012. As a bid quote on U.S. Government securities vary substantially among market makers, the fair value bid quote is considered a level 2 input under the guidance. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. As of December 31, 2012 all securities held within the portfolio are priced using level 2 input.

⁸ SIPC's 2012 Annual Report is available at <http://www.sipc.org/Portals/0/PDF/2012AnnualReport.pdf>

⁹ See SIPC's discussion, "Why we are not the FDIC" at <http://www.sipc.org/Who/NotFDIC.aspx>

resources are not available to the Treasury general fund, the SEC, or any other federal entity.

- SIPC is organized as a private-sector entity, as a non-profit membership organization. SIPC employees are private sector employees; they are not subject to federal civil service hiring rules or eligible for federal employee benefits.
- SIPC is not required to report in accordance with FASAB standards as described in paragraphs 5-7 of SFFAS 34. SIPC issues annual audited financial statements in accordance with private-sector accounting principles.

Indicators of control

- **(Important note: This indicator is an indicator of control by the Treasury Department and/or the federal government as a whole, but not the SEC, because the SEC has no authority to appoint any of the SIPC's directors.)** One of SIPC's directors is appointed by the Secretary of the Treasury, one is appointed by the Federal Reserve Board, and the other five are appointed by the President, subject to Senate approval.
- The legislation establishing SIPC provides some limited control over SIPC by the SEC. For example, although the legislation allows SIPC to determine its own fiscal year in its bylaws, it also allows the SEC, under certain circumstances, to require SIPC to amend its bylaws or rules.¹⁰

7. Staff believe that the preponderance of control factors indicate that SIPC is not sufficiently controlled by the SEC to be included in the SEC's financial statements. Staff also recommend that the question of whether SIPC is sufficiently controlled by the Treasury Department or by the U.S. government as a whole to be either consolidated or subject to disclosures should be further researched. Does the Board agree?

SEC staff comments for discussion on SIPC:

Comments for discussion on SIPC include the same comments on FASB, with one additional issue that is unique to SIPC:

As of December 31, 2012, SIPC held approximately \$1.5 billion in Treasury securities. Because SIPC operates as a private-sector organization, it does not hold funds as "Fund Balance with Treasury" or purchase Treasury securities via an intra-governmental transaction, as if it were an actual federal component entity. SIPC also appropriately uses FASB accounting standards in reporting the value of its Treasury investments. If SIPC were to be reclassified as a federal entity for financial reporting purposes, there would be a considerable implementation burden on the Treasury Department, in order to reclassify SIPC's investments as intra-governmental

¹⁰ The *Securities and Investor Protection Act of 1970*, 15 U.S.C Section 78ccc.(e)3states that, "The Commission may, by such rules as it determines to be necessary or appropriate in the public interest or to carry out the purposes of this chapter, require SIPC to adopt, amend, or repeal any SIPC bylaw or rule, whenever adopted."

investments, adjust their valuation in accordance with FASAB reporting requirements, and eliminate them in the consolidation process. It is unclear what additional benefit would be provided by the additional costs. More importantly, such a procedure would result in financial reporting that may be misleading for readers of the government-wide federal financial statements.

8. Staff believe that this issue should be further researched. Does the Board agree?

Public Company Accounting Oversight Board (PCAOB)

Staff believe that neither consolidation nor extensive disclosure would be appropriate for PCAOB. Here is how the staff believe that each of the Board's proposed three major principles would relate to PCAOB:

9. As noted in the comments on Principle 2 below, staff are requesting that our discussion on the implications of the FY 2013 sequester should be deferred until after the Department of Justice responds to PCAOB regarding whether the PCAOB is properly subject to sequestration.

Because of the significance of this question, as well as time constraints for this 30-minute session, perhaps the overall discussion of whether PCAOB meets the Board's intent for the criteria of "in the Budget," Majority Ownership Interest" and/or "Control with Risk of Loss or Expectation of Benefit" should also be deferred. We look forward to discussing this with the Board in the future. We believe that the background information in the following section will be useful to the Board in future discussions.

Principle 1. "In the Budget"

The Budget Appendix for FY 2014 includes line item 95–5376, Public Company Accounting Oversight Board. The text of this section of the Budget states:

The Sarbanes-Oxley Act of 2002 (P.L. 107–204) established the Public Company Accounting Oversight Board (PCAOB) to oversee the audit of public companies that are subject to federal securities laws. PCAOB was created to protect the interests of investors by regulating the preparation of informative, accurate, and independent audit reports for companies whose securities are sold to, and held by and for, public investors. Funding for PCAOB comes from registration fees paid by public accounting firms and accounting support fees paid by public companies.

Principle 2. "Majority ownership interest"

Section 101(b) of the Sarbanes-Oxley Act states that:

The Board shall not be an agency or establishment of the United States Government, and, except as otherwise provided in this Act, shall be subject to, and have all the powers conferred upon a nonprofit corporation by, the District of Columbia Nonprofit Corporation Act. No member or person employed by, or agent for, the Board shall be deemed to be an officer or employee of or agent for the Federal Government by reason of such service.

Section 109 (c) 1 of the Sarbanes-Oxley Act (**bold added**) states that:

“Accounting support fees and other receipts of the Board and of such standard-setting body **shall not be considered public monies of the United States**.

Based on the above legislation, it does not appear that the Treasury Department or any other federal entity has any claim on or access to the PCAOB’s receipts or assets.

It should be noted that notwithstanding the explicit statutory language providing that the accounting support fees and other receipts of the PCAOB “do not constitute public monies or public funds,” in FY 2013 the OMB determined that the PCAOB is subject to sequestration.¹¹ Further research would be needed to determine the significance of the FY 2013 sequestration relative to the question of “majority ownership interest.” The PCAOB has stated in Note 9 of its FY 2012 audited financial statements that it does not agree with OMB’s determination that the PCAOB’s resources should be subject to sequestration and has consulted the Department of Justice on the legal issue of whether the PCAOB is properly subject to sequestration. Because of this pending legal issue, staff requests that our discussion of this issue with FASAB be deferred until after the Department of Justice has provided a response to the PCAOB.

Principle 3. “Control with Risk of Loss or Expectation of Benefit”

Indicators that control does not exist

- PCAOB is not funded by general tax revenues. The Sarbanes-Oxley Act, as amended by the Dodd-Frank Act, established funding for PCAOB activities, primarily through the annual accounting support fees assessed on public companies and on brokers and dealers.
- PCAOB is organized as a private-sector non-profit membership organization.
- PCAOB is not required to report in accordance with FASAB standards as described in paragraphs 5-7 of SFFAS 34. PCAOB issues audited financial statements in accordance with private-sector accounting principles.

Indicators of control

- All five of the PCAOB Board members are appointed by the Securities and Exchange Commission, after consultation with the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury.¹²
- The SEC must approve the PCAOB’s budget and accounting support fee.¹³
- The SEC can relieve the PCAOB of its authority.¹⁴

¹¹ This notes applies to FASB and SIPC as well, which were also not exempted from the FY 2013 sequester. Notwithstanding OMB’s position on sequestration, staff does not believe that OMB has indicated that the SEC or the USA has any right to the monies that the PCAOB collects, or those of the SIPC, or FASB.

¹² Sarbanes-Oxley Act, Section 101(e)(4).

¹³ Sarbanes-Oxley Act, Section 109.

¹⁴ Sarbanes-Oxley Act, Section 107.

- The SEC has authority to issue binding rules for the PCAOB and to approve or amend proposed rules or other actions of the PCAOB.¹⁵

SEC staff comments for discussion on PCAOB:

Comments for discussion on PCAOB include the same issues described on FASB on page 3 of this document.

Although the staff believe that it would be misleading to consolidate PCAOB as if it were part of the federal government,¹⁶ we believe that it would be appropriate to include a description of the SEC's oversight responsibilities regarding PCAOB in the SEC's MD&A and/or in its financial statement notes. The staff believe that this would provide useful information for the SEC's financial statement readers.

¹⁵ Sarbanes-Oxley Act, Section 107.

¹⁶ See Appendix A of this document for discussion topics relative to consolidation.

Appendix A: Additional discussion points regarding consolidation

The staff believe that it is not the Board's intent to establish a non-rebuttable presumption that inclusion in the Budget always requires consolidation.

The staff also believe that the proposed additional principles for inclusion would not require the consolidation of FASB, SIPC or PCAOB. The following comments for discussion support narrative disclosure rather than consolidation of those organizations.

Inconsistent with definitions in SFFAC 5 and SFFAS 1. SFFAC 5, paragraph 18 states that, "An asset is a resource that embodies economic benefits or services that the federal government controls." The consolidation of the assets of private-sector non-profit organizations such as FASB, SIPC and PCAOB into the financial statements of the SEC or any other federal entity would not appear to be consistent with this definition of an asset. In addition, their assets could not be classified as either "entity assets" or even "non-entity assets" as defined in SFFAS 1, paragraph 25, because their assets are neither "available for use" nor "held by" the SEC or any other federal agency.

Misleading reporting on liabilities. The consolidation of such entities into the federal government's financial statements, or even reporting their liabilities in the notes, might imply to some that their liabilities are backed by the full faith and credit of the federal government. It should be researched whether this implication may create risk by exposing the federal government to future losses.

Cost/benefit considerations. In the Board's consideration of the federal government's reporting on organizations such as FASB, SIPC, and PCAOB, it should be noted that the process of consolidating such organizations, either into a federal component entity or directly into the federal government-wide financial statements, would present very significant implementation challenges, as noted in the Treasury Bureau of the Fiscal Service response letter, Letter #33, item 5:

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?

Resolving this issue would require such organizations to report in accordance with FASAB standards, including providing data for budgetary and proprietary balances that correspond to the federal government's fiscal year-end and in compliance with the OMB's required due dates for the issuance of audited financial statements. In many cases this would impose significant additional costs. In the current environment of budget austerity, cost/benefit considerations should be included among the many factors for the Board to consider in proposing reporting requirements. In instances where such organizations already issue audited financial statements, it is unclear what added benefit such additional costs would provide.

Misleading and confusing reporting

The organizations and individuals that pay member assessments to SIPC expect SIPC to issue annual audited financial statements in accordance with private-sector reporting standards for

non-profit organizations. If SIPC were required to issue audited financial statements in compliance with FASAB standards, which would be necessary for Treasury and/or the SEC to be able to consolidate them, SIPC would need to either (a) discontinue issuing annual private-sector basis audited financial statements or (b) continue issuing them and create the appearance that they are “keeping two sets of books.” For example, as noted in the discussion comments on SIPC, the value of SIPC’s Treasury investments would need to be calculated differently, and the difference may be material. Either action would likely create confusion for financial statement users.

Inconsistent inclusion/exclusion

- Paragraph 63a of the ED appears to assume that organizations included in a component federal entity’s section of the budget are also included in that entity’s budget justification. This is not always the case. FASB, SIPC and PCAOB are not included in the SEC’s budget justification.
- As previously noted, SIPC has been in and out of the Budget during its 40+ years of existence.

Appendix B: References:

The following comment letters are relevant to this discussion:

#23 Securities and Exchange Commission

#35 Financial Accounting Foundation

#5 Securities Investor Protection Corporation