



**February 15, 2013**

Memorandum

To: Members of the Board

*Wendy M. Payne*

From: Wendy M. Payne, Executive Director

Subj: Technical Agenda – **Tab F<sup>1</sup>**

**MEETING OBJECTIVES**

- To review the status of ongoing projects
- To review the three-year plan including any responses

**BRIEFING MATERIAL**

This memo updates members regarding active project progress, summarizes suggestions provided in response to our three-year plan, and poses questions for discussion at the meeting.

Attachments provide:

1. *Responses to the FY2013-2015 Three-Year Plan*
2. *Updated Three-Year Plan for FY2014-2016 based on current status and staff proposals*
3. *Excerpt from Risk Assumed Staff Memo – August 2012*

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<sup>1</sup> 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.

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## BACKGROUND

On November 15<sup>th</sup>, Chairman Allen released our *FY2012 Annual Report and Three-Year Plan for FY2013-2015*. The release included a formal request for comments and was publicized to our listserv and press contacts.

To date, four responses have been received. (Responses indicating “no comment” are not reflected in this total.) In addition to the direct responses to the report, staff hosted a roundtable discussion with CFO office representatives on January 29th. The feedback received during that discussion addressed the need for implementation guidance relating to recently released standards as well as priorities for future work. The feedback is discussed in appropriate sections of the staff analysis below.

While the availability of staff should not limit the Board’s expression of priorities, I will be requesting input regarding relative priorities given staff turnover. As you know, a vacancy has existed since July 2012. More recently, I learned that another staff member – Julia Ranagan – will be leaving soon. I expect to fill one of these two vacancies before June 2013 but have been denied authority to recruit for the second vacancy.

## STAFF ANALYSIS

### Status of Current Projects

The currently active projects are identified on pages 3 and 4 of the three-year plan (see attachment 2). I have updated the timelines for progress since November 2012 – where changes were notable the text is highlighted. The following additional explanations and references to outside input will assist you in considering the changes I highlighted in the plan:

- **Federal reporting entity** – we anticipate release of the exposure draft before the June meeting and a public hearing at the August meeting. Extensive outreach will ensure that potentially affected entities are aware of the proposal. (Note that the AGA Financial Management Standards Board encouraged members to identify “additional entities that have been or are being considered for inclusion in the Federal Reporting Entity and why they are being considered...likewise discuss what specific entities, if any, are not being considered as an addition...and why.” Further, the AGA FMSB repeated their concern that the risk assumed project may not be sufficiently integrated with this project.)
- **Risk assumed** – the Board last considered decisions regarding risk assumed in August 2012. Staff noted the breadth of the project and initial research findings. The memo identified nine risk areas and explained that the term “risk assumed” is not well understood by individuals outside the insurance and guarantee program areas. (See Attachment 3.) Given the challenges inherent in addressing such a broad topic, I am recommending a three-phase approach which sequences the areas to allow development of principles for measuring and

reporting risk where risk is most clearly identifiable—insurance and guarantees providing explicit indemnification to identified parties. There are established measures of risk assumed in such cases which can be considered for recognition and/or disclosure. The first phase will allow us to develop a framework for use in later phases. I am also recommending that risks arising from intervention investments be addressed in the investments project but be closely coordinated with the risk assumed project. (My hope is to begin work in the investments area once the reporting entity project is completed.) Risks that are largely operational (technology) or political (intergenerational debt) are not specifically identified with a phase and may be excluded pending progress in the first three phases. Attachment 3 shows how we would address the nine risk areas in the three phases.

- **Leases** – the Financial Accounting Standards Board plans release of a second exposure draft in the coming quarter (April – June). The January 29<sup>th</sup> roundtable participants identified this as an area where guidance was needed. In particular, some noted that they rely on existing FASB guidance to fill voids (consistent with our October 2003 study) and were concerned about how those voids could be filled if the FASAB standards do not align with the FASB standards.
- **Public-private partnerships (P3)** – the task force met last week and discussed the increasing reliance on P3s, the diverse types, and the need for guidance. Task force members agreed more needed to be done to identify P3s so that the scope is better understood. In addition, case studies will be developed. In many cases, P3s involve leases so that progress may be dependent on how lease issues unfold.
- **Federal reporting model** – Mr. Simms provided options for consideration in his memo at Tab C. Note however, that the AGA FMSB requested information regarding the status of the December 2010 recommendations. The list of recommendations is presented below for ease of reference. We continue to refer back to these recommendations and I will work with Mr. Simms to draft a report on the status and plans relating to each recommendation as appropriate. The draft will be provided for discussion at our April meeting.

	<b>December 2010 Reporting Model Task Force Recommendations Regarding Government-wide Financial Report</b>
1	Adopt an Electronic, Web-Based Reporting Method
2	Explore How Best to Report Additional Government-wide Performance Information
3	Present a Functional Statement of Net Cost in the CFR with Departmental Net Cost by Function as RSI

	<b>December 2010 Reporting Model Task Force Recommendations Regarding Government-wide Financial Report</b>
4	Establish Minimum Requirements for a Statement of Spending
5	Include Intergovernmental Financial Dependency in RSI
6	Enhance the Information Value of the Reconciliation of Net Operating Cost and Unified Budget Deficit Statement through Re-labeling
7	Reclassify the Information in the Statement of Changes in Cash Balance from Unified Budget and Other Activities
8	Re-orient the Balance Sheet Display and Enhance Related MD&A Discussion
9	Explain the Difference Between Net Position and Fiscal Gap
10	Establish a Federal Financial Information Web Site and Raise Awareness of Federal Financial Information

### Status Summary

Progress on most projects is delayed. Delays are arising because of resource availability, progress by other standard-setters, or the complexity of issues. At this time, no staff members are available to take up new projects and some priority projects are being deferred. Also, at our January 29<sup>th</sup> roundtable, participants identified a need for implementation guidance relating to deferred maintenance and repairs. We will be unable to fully support development of that guidance at our current staffing levels. This will delay progress on implementation guidance since a greater burden will fall on AAPC task force volunteers—who are also facing resource constraints.

Until additional staff resources are available, we will pursue the Reporting Entity, Reporting Model, P3, and Risk Assumed projects. The leases project and the investments projects have been deferred until vacancies are filled or a current project completed.

In addition to the feedback received on the three-year plan, including the potential projects, the Board should consider contingencies. I am aware of two possible emerging issues.

1. We have been notified that the Department of Defense plans to request amendments relating to military equipment. I recently confirmed that their plans

have not changed but no timeline exists for submitting a proposal. If a proposal is received, the Board will have to weigh it against ongoing projects and possibly revise its priorities.

2. The Department of Treasury is developing plans to include more information about the general fund's activities in its financial statements. No specific issues have been identified for action but I believe we can reasonably expect some standards level issues to arise.

Any emerging issues at this stage could not be addressed without substantial adjustment of priorities.

#### Input Received Regarding Three-Year Plan

The individual letters are available for review at Attachment 1 and are brief enough that no summary is needed. The participants in the January 29<sup>th</sup> roundtable identified the following areas of concern (in no particular order):

- Leases – potential inconsistency in practice especially regarding disclosure of scheduled future payments, structuring arrangements to avoid scoring as a capital lease, and reliance on FASB standards to fill voids in federal guidance
- Exchange Revenue – the FASB is developing new standards and provide more detailed guidance than SFFAS 7 – may FASB standards be used to fill voids given that SFFAS 7 addresses exchange revenue? The new FASB guidance may result in a change in practice that is more detailed but better matches revenue and costs.
- Internal Use Software – issues relating to determining “full cost” and useful life - see also page 25 of attachment 2 for a brief synopsis of the concerns as well as the response from the Transportation Security Administration (Attachment 1).
- Investments (not arising from interventions) – guidance for derivatives, Exchange Stabilization Fund holdings, etc.
- Statement of Custodial Activities – is it necessary?
- Statement of Net Cost – a need for guidance relating to the cost of department management – should it be allocated to strategic goals or reported separately and should this be consistent across departments and agencies?

At the February meeting, members are asked to share their thoughts on the plan and input received. The three-year plan will be revised accordingly and considered again at the April meeting. Specific questions are posed below to frame discussion at the meeting. Please feel free to contact me before the meeting with questions or concerns.

## **QUESTIONS**

**Question 1: Do members agree that the leases and investments projects should be deferred pending availability of resources? Further, do you agree that “leases” has a higher priority than “investments”?**

**Question 2: Do members have suggestions for improving the risk assumed project plan?**

**Question 3: Does the Board wish to adjust its existing priorities?**

## Three-Year Plan

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January 17, 2013

Ms. Wendy Payne  
Federal Accounting Standards Advisory Board  
441 G Street NW  
Mailstop 6K17V  
Washington DC 20548

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's Three Year Plan for the Technical Agenda for the 2013 through 2015 period (Plan). The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed changes to standards and regulations of interest to AGA members. (Local AGA chapters and individual members are also encouraged to comment separately.)

The FMSB has reviewed the 2013 through 2015 Plan and concurs with most of the content and relative prioritization of the projects on the agenda. We have some questions regarding some items as well as some concerns that we would like the FASAB to consider. We also have some additional comments and suggestions that we wish the FASAB to consider as it moves forward. We have grouped our comments by project as shown on page 12 of the Plan document. Our overall comments have been provided at the end of this letter.

Federal Reporting Entity Project - We support the continuation of this project and believe that this is one of the higher priority projects in the Plan for the FASAB. The FMSB had the same conclusion last year when it reviewed the 2012 through 2014 Technical Agenda. Last year, we recommended that this project be merged with the project on Risk Assumed because we believe that they were interrelated. However, it appears that this suggestion was not adopted and the projects are continuing on separate lines as proposed last year.

We continue to believe that some of the factors that will influence decisions regarding what, if any, additional entities should be included in the consolidated Federal Reporting Entity will be influenced by the decisions made under the Risk Assumed project and vice versa. In our letter of comments from last year, we stated that...*"We strongly agree with FASAB's plan to review the Federal Reporting Entity. We believe this project should be integrated closely with the project on Risk Assumed as the 2008 recession illustrated how many implicit*





*assumptions of risk became explicit assumptions of risk, raising concerns about to what degree these resulting investments created control and/or ownership sufficient to change their status as a “core” or “non-core” entity. FASAB should help readers better understand how the concept of risks assumed is different from “commitments and contingencies” in the traditional financial accounting sense.”*

The Plan, as now constructed, shows the Federal Reporting Entity Exposure Draft being issued in 2013 and finalized in 2014 while the Risk Assumed project shows an Exposure Draft being issued in 2014 and finalized in 2015. Because the FASAB will have substantially completed the Federal Reporting Entity project at the time it is deliberating and finalizing an Exposure Draft on the Risk Assumed Project, we are concerned that the opportunity for Risk Assumed matters to fully influence the decisions made related to the Federal Reporting Entity Project will have passed.

We continue to believe that these projects should be aligned if they are not merged. This would allow the FASAB to test the impact of tentative decisions made in one project against tentative decisions made in the other project. We believe that this would avoid unnecessary changes going forward.

We also recommend that the FASAB issue, as soon as possible, some form of advisory or other correspondence regarding what additional entities have been or are being considered for inclusion in the Federal Reporting Entity and why they are being considered. This same document should likewise discuss what specific entities, if any, are not being considered as an addition to the Federal Reporting Entity and why. This would assist interested parties in understanding the project and its ramifications.

Asset Impairment Project - The FMSB has no additional comments at this time.

Financial Reporting Model Project - In our letter of comment on last year’s Technical Agenda, we expressed concern regarding the scope of the Financial Reporting Model project. It appeared that the project was limited to addressing the Statement of Spending and would not address other significant recommendations made by the Financial Reporting Model Task Force in December 2010. We suggested that the project be broadened to address other matters raised by the Reporting Model Task Force. Our review of the 2013 through 2015 Plan shows that the project has been expanded to cover additional areas and we applaud the FASAB in this regard. We would also like to understand how the FASAB considered and disposed of all of the recommendations made by the Financial Reporting Model Task Force and what specific tasks the FASAB wishes to actively consider during the period of the Plan. This would be helpful to the federal financial community to understand the current status of the recommendations of the Task Force and provide further comments.

We also believe that the project could be expanded to develop improvements in the Statement of Net Cost and the Statement of Budgetary Resources so that better information is provided to administrators and the general public. For example, these Statements would become more meaningful if federal entities were required to report how they are consuming appropriated resources on a functional level by each major program and be required to reconcile actual spending with budgetary resources at a functional level. We believe this will enable administrators and the general public to gain a better understanding regarding the efficient use of resources.

We also believe that it is important to continue research on the needs of decision makers, particularly those of members of Congress and their staff. We understand that the FASAB has reached out to Congressional committees in the past and that committee staff have not always been forthcoming with ideas and concerns. In the same vein, we believe that the Congressional Budget Office’s decision to discontinue its membership on the FASAB was unfortunate. However, Congress remains one of, if not, the most important users of federal financial information and therefore its needs must be considered and addressed. Perhaps the FASAB might consider establishing an on-going liaison group that meets with the

key Congressional committees such as Senate Finance and the House Ways and Means to discuss their needs. This liaison group would endeavor to create an atmosphere where the demand for new forms of information would provide regular input into the FASAB's research. We believe that a continuous dialogue must be established between FASAB and such committees as the Senate Finance Committee and the House Ways and Means Committee to discuss and identify their need for information.

Leases Project - The FMSB agrees that this project should be on the Technical Agenda as standards need to be updated in this area. The FASB also has a lease project underway and in October 2012, they agreed to reissue an exposure draft on leases to allow concerned parties to see the impact of their earlier comments on FASB thinking. Given this delay, the FASAB might also consider a change to their timeline to allow for consideration of the FASB's final product.

Risk Assumed Project - In our letter of comments on the 2012 through 2014 Technical Agenda we recommended that the Risk Assumed Project be merged with the Federal Reporting Entity Project. The current Technical Agenda shows they have not been merged. We believe that at a minimum, the schedule for the two projects should be aligned. (See our previous comments regarding the Federal Reporting Entity Project)

Public-Private Partnerships Project - The FMSB also reviews and comments on exposure materials issued by GASB. We are aware of the increased efforts on the parts of some state and local governments to increase the use of public private partnerships. Many of these increased efforts have been founded on the difficult financial straits brought on by the 2008 Recession. Given this knowledge of state and local efforts, we believe that the FASAB might consider including additional information in the Plan materials on the efforts being undertaken at the federal level to form public private partnerships. This would increase appreciation of the efforts being undertaken and provide better context for future comments by the federal financial community. We also believe that since the Public- Private Partnerships are having a long term timeframe and involvement of various types of organizations, the Project should identify the necessary accounting treatments and disclosures to provide comprehensive and understandable information on cost and benefits, valuation of assets and liabilities, and impact to the budget.

Investments in Non-Federal Securities Project - The FMSB agrees that this project is needed and also agrees with the actions taken by the FASAB to narrow scope of the project in 2011. As indicated in the FASAB's document, this project is on hold pending staff resources. We would hope this resource issue would be addressed and the project started by the time our letter of comment is submitted. If this is not addressed, we recommend that the FASAB reconsider the priority assigned to this project and consider reallocating resources from other non-related projects to this one. We believe that this project addresses issues related to the Risk Assumed and the Federal Reporting Entity Projects in so much as investments held for financial stabilization will continue to be included and possibly new ones added as a result of changes in the federal reporting entity. Standards are needed to assist management in their efforts to value these investments and to estimate any gain or loss when there is limited information in the public domain to assist them. The development of guidance for Non-Federal Securities will improve transparency, insure adequate disclosure and assist management in making judgments related to their value.

Natural Resources Project -The FMSB has no comments regarding this project at this time.

Other Projects For Technical Agenda – Should there be changes to the Technical Agenda or an increase in the FASAB’s capacity to begin additional projects, the FMSB believes that certain projects warrant additional consideration by the FASAB. We would recommend that if possible the Electronic Reporting and Financial/Economic Condition projects be added to the Technical Agenda. Both of these projects are aimed at a key issue, providing information in a meaningful, understandable, and timely manner.

Concluding Comments - In reviewing the Three-Year Plan for 2013 through 2015, as well as the Technical Agenda from last year, it is apparent that the list of potential projects is growing longer, the topics are more complex and the resources are limited. For example, in our comments on the Federal Reporting Model, we suggested that a new mechanism be established to obtain Congressional input on their need for information. This is important as Congress will be a key, if not the key, group of decision makers going forward on financial and budget matters. This alone will be a complex undertaking.

Based on the review of the annual report, we observed that the participation by Non-federal Members in various Task Forces seems inadequate. There were nine Task Forces with a participation of a total of 290 members. The participation from Federal Agency, Federal Members and Non-federal Members were 53%, 29% and 18%, respectively. We believe the importance of active participation from various types of professional and academia is an important ingredient in the process to improve the Standards and Technical Guidance. FASAB should consider improving the awareness of various types of professional and academia community and seek their increased participation in task forces so that comprehensive guidance could be developed.

Given the challenges before the FASAB, we believe and strongly encourage the FASAB to consider establishing a formal advisory group similar to the Government Accounting Standards Advisory Committee (GASAC) used by GASB. The GASAC is responsible for consulting with the GASB on technical issues on the Board's agenda, project priorities, matters likely to require the attention of the GASB, selection and organization of task forces, and such other matters as may be requested by the GASB or its chairman. We believe that this would be helpful to FASAB.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric S. Berman', with a stylized, flowing script.

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

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

**Association of Government Accountants  
Financial Management Standards Board**

**July 2012 – June 2013**

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Craig M. Murray  
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Sheila Weinberg

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)  
Steven E. Sossei, Staff Liaison, AGA



# Greater Washington Society of CPAs and GWSCPA Educational Foundation

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January 31, 2013

Wendy Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mail Stop 6K17V  
441 G Street, NW – Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Three-Year Plan (Plan).

The GWSCPA consists of approximately 2,000 members, and the FISC includes 27 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members.

FASAB's Three-Year Plan is an ambitious agenda, and includes the key topics that the FISC members believe should be priorities of the Board. We also provide the following suggestion:

*Reporting of USG-Financed Fixed Assets of State and Local Governments:* Since the 1950s, the USG has instituted a number of programs whereby part or all of the cost of certain fixed assets are paid for by a Federal agency. These projects include the interstate highways, airports, harbors, canals, locks, water and wastewater treatment plants, and transit systems. State and local governments record these fixed assets on their financial statements, thereby increasing their net equity, while the Federal government generally issues debt to fund a portion of these projects and does not record any corresponding asset to offset the Federal government's debt. This transfer of wealth complicates the ability of the Federal financial statement user in understanding the composition of the accumulated net deficit of our nation. This may only be a disclosure issue, but the FISC believes that it deserves study during the next three years.

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This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

Andrew C. Lewis  
FISC Chair



FEB -4 2013

Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814 (Mailstop 6k17V)  
Washington, DC 20548

Dear Ms. Payne:

In response to the November 15, 2012 news release, FASAB Issues its Annual Report and Three-Year Plan, and request for comment regarding the Board's three-year project priorities, we believe that several potential projects, listed on Page 22, warrant strong consideration for review at this time. Those projects are:

Managerial Cost Accounting  
Linking Cost and Performance  
Evaluating Existing Standards  
Asset Retirement Obligations  
Derivatives

Our listing reflects the order of importance we consider these projects to have in relation to Federal Government accounting standards necessary for proper use and financial recording in US Governments operations.

Thank you for the opportunity to comment. If you have any questions or need additional information, please contact Joseph L. Donovan, Jr. at 202-693-5248.

Sincerely,

A handwritten signature in cursive script that reads "Elliot P. Lewis".

Elliot P. Lewis  
Assistant Inspector General for Audit

FEB - 7 2013



Transportation  
Security  
Administration

Wendy Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mail Stop 6K17V  
441 G Street, NW – Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The TSA appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Three-Year Plan (Plan). The FASAB Plan is an ambitious agenda, and includes the key topics that the FISC members believe should be priorities of the Board. We also provide the following suggestion:

Accounting for Internal Use Software (IUS)

**Switch in Software Development Model**

SFFAS 10, Accounting for Internal Use Software, was issued by the FASAB in June, 1998. The purpose of this pronouncement was to provide accounting standards for internal use software used by federal entities. The pronouncement applies to commercial off the shelf software (COTS), as well as to internally and contractor developed software. This pronouncement was effective for periods beginning after September 30, 2000.

Since 1998, significant changes have occurred in the software development industry. At that time, most development efforts used a waterfall based software development lifecycle and IT investment model. The waterfall approach delivered IT projects based on discreet, time boxed phases. Development efforts generally progressed from one phase to the next according to a set plan and easily identifiable dates of phase shift. The framework contained in SFFAS 10 works with a waterfall based approach to software development.

Lately, the waterfall approach to software development activities is being replaced with a more dynamic approach. This new approach – an agile software development approach – is no longer constrained by specific development phases and is much more responsive to program needs and requirements. This approach is much more iterative in nature, and often times has activities being performed simultaneously to create new functionality, to enhance existing functionality, and to upgrade common platforms being used to run multiple independent applications. The

agile software development approach does not adapt well to the financial reporting framework contained in SFFAS 10.

This is a problem in the private sector and is being considered by other accounting standard setting bodies. The FASB issued SOP 98-1, ASC 350-40, Accounting for Costs of Computer Software Developed or Obtained for Internal Use, on March 4, 1998. The SOP discusses the financial reporting of software development costs applicable to all nongovernmental entities and many of its provisions are comparable to the SFFAS 10. The FASB also used the waterfall software development model in drafting the SOP. There is currently an industry effort to have the Emerging Issues Task Force of the FASB consider a new technical guidance that will specifically address software development efforts being performed under an agile development method.

Many of the recent software development contracts at TSA are using an agile development model. We do not believe that the TSA is unique in this respect. TSA encourages the FASAB to consider the agile method of software development and to provide technical guidance to the entire federal reporting community on the proper financial reporting of such development activities.

### **Estimating the Historical Cost of IUS Assets**

TSA applauds the FASAB issuance of Technical Release 13, Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment, which is specifically applicable to IUS assets. We believe that this release provides well-needed guidance to federal entities on using estimates to determine the cost of IUS assets.

In our experience, it is becoming increasingly difficult to trace software development costs to specific vendor invoices. Much of this problem is related to the switch to an agile development approach (discussed above) and also to the types of contracts being used by federal agencies to acquire such contractor development talent. TSA hopes that the FASAB will provide additional guidance and detailed examples in this area – specifically related to IUS assets – for using estimates (Contracts, Project Plans, etc) to determine the historical cost of assets.

### **Accounting for Pooled Software Development Costs**

An additional area that TSA believes needs clarification from FASAB involves the appropriate accounting treatment for pooled development costs. Specifically, we are finding it difficult to allocate certain software development costs to discreet IUS applications. As mentioned above, many software development efforts are focused on making enhancements or other modifications to common platforms being used to run multiple software applications. In other instances, costs are being incurred which benefit multiple applications – but where no clear documentation exists for allocating the development costs between the benefitting IUS applications.

TSA respectfully requests that the FASAB consider allowing a pooled approach to recording capitalizable software development costs incurred within a fiscal year. For those situations where it is not possible to identify a single IUS application or where no clear cost allocation



method is appropriate, it is nearly impossible to effectively allocate costs under the existing framework contained in SFFAS 10.

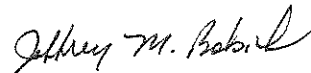
One solution might be the creation of a common software development cohort asset for each fiscal year. The cohort asset would capture all of the common development costs incurred during a fiscal year into a single IUS asset. Amortization of the cohort asset could then be calculated based on a common useful life and a composite depreciation method. This would greatly remediate the difficulties being encountered in identifying capitalized software development costs to a specific application and would still meet the spirit of the requirements contained in SFFAS 10. This type of cost allocation approach might work well, especially with development efforts happening under an agile development approach.

### **Cost Benefit Analysis of Recording Software Development Costs**

Finally, TSA is requesting the FASAB to reconsider the overall requirement to capitalize software development costs. As pointed out several times above, it is becoming increasingly difficult to specifically and accurately identify the development phase of IUS assets. At TSA, an incredible amount of resources are being consumed to monitor the completeness of IUS activities and to accurately identify and record development costs related to software development activities. While SFFAS 10, paragraph 6, specifically states that the requirements need not be applied to immaterial items, it appears that the cost of IUS accounting activities exceeds the benefit that the associated data provides to management and other users of our financial statements. This cost versus benefit consideration is particularly relevant in light of the severe budget constraints facing federal agencies such as the TSA.

Thank you for considering these comments in developing your upcoming Plan related to accounting for IUS. We look forward to the results of your deliberations, and hope to see either a technical release or an amendment to the existing standard, which will address alternatives for financial reporting of IUS assets under the current software development approaches.

Sincerely yours,



Jeffrey M. Bobich  
Director, Financial Management Division  
Transportation Security Administration



***FEDERAL  
ACCOUNTING STANDARDS  
ADVISORY BOARD***

***THREE-YEAR PLAN  
Fiscal Years 2014-2016***

# THREE-YEAR PLAN FOR THE TECHNICAL AGENDA

The board's three-year plan should help those who use, prepare, and audit financial reports to:

- Participate fully in the standards-setting process, and
- Plan for changes in generally accepted accounting principles (GAAP).

The board prioritizes projects based on the following factors:

- a. the likelihood a potential project will significantly contribute to meeting the operating performance and stewardship reporting objectives established in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*;
- b. the significance of the issue relative to meeting reporting objectives;
- c. the pervasiveness of the issue among federal entities; and
- d. the potential project's technical outlook and resource needs.

Additional factors considered significant by individual members in planning the technical agenda include (1) a focus on citizens and citizen intermediaries as the primary users of the financial report of the US government, (2) impacts on preparers and auditors due to declining real budgets, (3) increasing risks due to fiscal uncertainty and operational complexity, and (4) more electronic reporting.

This document presents the three-year plan in brief on page 3. A project plan for each active project follows. The final item in the document is a list of potential projects considered by the board.

**Table 2: THREE-YEAR PLAN IN BRIEF**

Project and Objective	FY2013	FY2014	FY2015	FY2016	FY2017 – and Later
<b>The Federal Entity</b> Consider what organizations and relationships should be included in federal entity reports and how information is to be presented	Issue Exposure Draft	Finalize Standards and Implementation Guidance as Needed			
<b>Financial Reporting Model</b> Consider whether the existing model meets user needs and reporting objectives Segments may include consideration of improvements in: - Cost information - Performance reporting - Budget presentation - Other areas such as the articulation of the financial statements	Results of Pilots led by CFO Council Develop Issues and Options Decide Vehicle for Guidance and Draft Guidance	Develop and Issue Exposure Drafts and/or Other Drafts for Comment	Finalize Guidance		
<b>Leases*</b> Evaluate existing standards to improve comparability and completeness of reporting	Develop Exposure Draft	Issue Exposure Draft, Public Hearing and	Redeliberate	Finalize Standards	
<b>Risk Assumed</b> Develop standards so that information about risks assumed by the federal government and their potential financial impacts are available	Develop	Issue Phase 1 Exposure Draft(s) Public Hearing Finalize Phase I Standards Begin Phase II and III	Develop Proposals for Phase II and III	Exposure Drafts for Phase II and III	Finalize Phases II and III Implementation Guidance as Needed

Project and Objective	FY2013	FY2014	FY2015	FY2016	FY2017 – and Later
<b>Public-Private Partnerships</b> Consider how financial reporting objectives are met with regard to public private partnerships	Develop Project Plan and Begin Research	Develop and Issue Exposure Draft	Finalize Standards		Finalize Standards or Technical Bulletin
<b>Investments in non-federal securities*</b> Consider how the financial effects of such investments should be measured, recognized, and reported		Begin Research and Develop Exposure Draft	Issue Exposure Draft	Finalize Standards	
<b>Natural Resources*</b> Consider implementation guidance and recognition requirements for information reported during experimental period as Required Supplementary Information	Implementation Guidance as Needed	Develop project plan	Begin Review to Reclassify Information		

\*Project deferred pending action to fill current staff vacancies.

# CURRENT PROJECTS

## THE FEDERAL REPORTING ENTITY

### Purpose:

FASAB addresses the reporting entity issue in its Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*. SFFAC 2 addresses:

- Reasons for Defining Reporting Entities
- Structure of the Federal Government
- Identifying the Reporting Entities for General Purpose Financial Reporting
- Criteria for Including Components in a Reporting Entity
- Other Issues Concerning the Completeness of the Entity

The board is aware of a number of entity issues. While SFFAC 2 provides criteria for determining if an entity should be included in the federal reporting entity, questions continue regarding whether certain organizations should be included. The Federal Reporting Entity project will address both the conceptual framework and standards issues. This phase will result in both proposed amendments to SFFAC 2 and one or more proposed standards.

### Applicability:

This project applies to the government-wide reporting entity and to component reporting entities that prepare and present general purpose financial reports in conformance with Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### Objectives:

Identify organizations that should be included in the financial reports of the government-wide reporting entity and each component reporting entity to meet federal financial reporting objectives.

Guide preparers of general purpose federal financial reports (GPFFR) in determining whether included entities are entities to be consolidated or entities to be disclosed, and what information should be presented. This guidance will ensure that users of GPFFR are provided with comprehensive financial information about entities and their involvements with organizations so that federal financial reporting objectives are met.

Develop a definition of ‘related party’ and establish relevant disclosure requirements.

Assigned  
staff:

Melissa Loughan

Other  
resources:

Staff has engaged a task force to help accomplish the project objectives.

Project page: <http://www.fasab.gov/projects/active-projects/concepts-federal-entity/>

**Revised**

Timeline:

**October - December 2012 February - April 2013 Meeting**

- Review and approve final ED
- Issue ED for comment

**August 2013 Meeting**

- Public hearing
- Discuss analysis of ED comments and options for revising proposed standards

**October and December 2013 Meetings**

- Discuss draft standards and approve a final Statement
- Submit standards to sponsors in January 2014

**March/April 2014**

- Issue standards
- Consider the need for implementation guidance

# THE FINANCIAL REPORTING MODEL

## Purpose:

This project is being undertaken by the board because of increased demands for financial information to facilitate decision-making and demonstrate accountability, and the changes in how users expect financial information to be delivered. For example, our research has noted that:

- Decision-makers are seeking information on the full cost of programs and citizens are accessing detailed information on spending, such as who received federal funds and what was accomplished with those funds.<sup>1</sup>
- Decision-makers also want additional information about the budget and projections of future receipts and expenditures.
- Citizens expect financial information about component entities but they have difficulty understanding current financial reports.<sup>2</sup>
- The public is relying increasingly on electronic media (digital devices, complex networks, and interactivity) to obtain information on demand.<sup>3</sup>

In addition, component entities are experimenting with a schedule of spending and the board may consider whether that schedule should become a basic financial statement. If so, guidance may be needed to help ensure that users understand the information presented and how it relates to existing financial statements.

## Applicability:

This project applies to the government-wide reporting entity and to component entities that prepare and present general purpose financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

Also, any conceptual guidance developed as a result of the project would guide the board's development of accounting and reporting standards. Knowledge of the concepts that the board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards understand the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.

## Objectives:

The primary objectives of this project are to:

- a. Determine what financial information would be helpful for decision-making, demonstrating accountability, and achieving the reporting objectives.

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<sup>1</sup> Preparers Focus Group Discussion, February 10, 2009.

<sup>2</sup> FASAB, *User Needs Study: Citizens*, April 2010.

<sup>3</sup> FASAB Reporting Model Task Force, *Report to the FASAB*, December 22, 2010.



- b. Determine how financial information should be presented to be most responsive to users and the manner in which they obtain information.
- c. Consider how a schedule of spending should relate to other financial statements and financial information presented in reports.

Assigned  
staff.

Ross Simms

Other  
resources:

Staff has been engaging a task force to help accomplish the project objectives. Also, staff plans to consider the schedule of spending pilot efforts. Optional resources include access to Web-based meeting software like Webex to reduce meeting logistics issues and permit wide participation.

Project page: <http://www.fasab.gov/projects/active-projects/concepts-the-financial-report/>

Timeline:

**October - December 2012 Meeting**

- Discuss plans for separate projects to improve cost, budget, and performance information in financial reports.

**February - October 2013**

- Draft ED(s) or other proposals, field testing

**December 2013 – April 2014 Meetings**

- Review ED(s) or other proposals

**June 2014 Meeting**

- Issue ED(s) or other proposals for comment

**October and December 2014 Meetings**

- Discuss analysis of comments on ED(s) or other proposals

**February and April 2015**

- Draft standard(s) or other guidance

**May 2015**

- Submit standard(s) to sponsors or publish other guidance

**July 2015**

- Issue standard(s)

# LEASES

## Purpose:

This project is being undertaken by the board primarily because the current lease accounting standards, SFFAS 5, *Accounting for Liabilities of the Federal Government*, and 6, *Accounting for Property, Plant, and Equipment*, have been criticized as ineffective because they do not make meaningful distinctions between capital and operating leases regarding the substance of lease transactions. In addition, the lease accounting standards in SFFAS 5 and 6 are based on Financial Accounting Standards Board (FASB) lease accounting standards which are currently being revised. The FASB and International Accounting Standards Board (IASB) have undertaken a joint project on lease accounting that focuses on the conveyance of rights to future economic benefits (such as the right of use). In addition, the Governmental Accounting Standards Board is undertaking a project to address lease standards.

## Applicability:

This project applies to all federal entities that present general purpose financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

## Objectives:

The primary objectives of this project are to:

- a. Develop an approach to lease accounting that would ensure that all assets and liabilities [consistent with SFFAC 5 definitions] arising under lease contracts are recognized in the statement of financial position and related costs are recognized in the statement of net cost.
- b. Evaluate and revise as needed the current lease-related definitions and recognition guidance in SFFAS 5 and 6, including consideration of the advantages and disadvantages of applying the FASB/IASB lease standard in the federal environment.
- c. Ensure that the standards to be developed fully address the various lease transactions/activities currently being used in the federal community (e.g. enhanced use leases).
- d. Consider the differences between lease accounting and the budgetary treatment of lease-purchases and leases of capital assets as outlined in Office of Management and Budget (OMB) Circular A-11.

## Assigned staff:

NOT ASSIGNED due to staff vacancy

## Other resources:

Staff will consult with both FASB and GASB staff members assigned to their board's respective lease accounting projects. Staff will also organize a task force of knowledgeable federal and non-federal participants who have relevant experience or interest in lease accounting within the federal government.

Project page: <http://www.fasab.gov/projects/active-projects/leases/>

## Timeline:

*Note: Many of the proposed steps in this timeline are subject to the timing of the release of the FASB/IASB revised exposure draft and the final release of their standards. This project will become active when the first staff vacancy is filled.*

### **December 2011– December 2012**

- Identify individual task force participants
- Develop a task force plan
- Send out questionnaire to agency officials

#### **Initial 2013 Meeting**

- Present final data gathered from federal entities on their leasing practices.

#### **February 2013 Meeting\* Dates not adjusted going forward but provide a representative timeline**

- Analyze FASB/IASB revised lease accounting proposal
- Present an overview of revised FASB/IASB lease accounting proposals

#### **February – May 2013**

- Work with task force and GASB staff to identify lease activities and lease accounting issues, including FASB/IASB proposal

#### **June – August 2013 Meetings**

- Present identified lease accounting issues for board consideration
- Analyze final FASB/IASB lease accounting standard; working in conjunction with task force and FASB staff

#### **October 2013 Meeting**

- Present full analysis of issues and recommendations for board decisions

#### **December 2013 Meeting**

- Present first draft Exposure Draft (ED) for board review

#### **February – June 2014 Meetings**

- Develop and issue ED

#### **October 2014 Meeting**

- Present initial analysis of ED comment letters received

#### **December 2014 Meeting**

- Present full analysis of ED comment letters received along with issues identified for board consideration
- Conduct public hearing

#### **February - June 2015 Meeting**

- Present drafts of final standards for board consideration

#### **August 2015 Meeting**

- Present ballot draft standards for board approval

#### **December 2015**

- Issue SFFAS

# RISK ASSUMED

## Purpose:

This project is being undertaken by the board because existing FASAB standards on risk assumed are limited to insurance contracts and explicit guarantees (other than loan guarantees). Because the federal government has a variety of responsibilities and consequently assumes a range of risks, it is important that FASAB revisit its existing standards. For example, when implementing policy initiatives to stabilize financial markets and the economy, the federal government explicitly assumed risks previously considered by some to have implied backing of the federal government. It provided financial support to government-sponsored enterprises (GSE) and private sector institutions and purchased or guaranteed troubled assets.

In order to meet the stewardship and operating performance objectives of federal financial reporting,<sup>4</sup> it is important that the federal government reports all significant risks assumed, not just risks related to insurance contracts and explicit guarantees.

## Applicability:

This project applies to the federal government as a whole and all component entities that present general purpose federal financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles (GAAP), Including the Application of Standards Issued by the Financial Accounting Standards Board (FASB)*.

## Objectives:

The primary objective of this project is to study the significant risks assumed by the federal government and develop (a) definitions of risk assumed, (b) related recognition and measurement criteria, and (c) disclosure and / or required supplementary information (RSI) guidance that federal agencies can apply consistently in accordance with GAAP.

## Assigned staff:

Monica Valentine

## Other

## resources:

Multi-disciplinary task force, including sub-groups to address specific topics.

Project page: <http://www.fasab.gov/projects/active-projects/risk-assumed/>

## Timeline:

### **February 2013 – May 2013**

- ~~Utilizing task force input, as appropriate, develop risk assumed definitions, measurement and recognition criteria, and disclosure and / or RSI guidance~~
- ~~Consider whether a phased approach may be more appropriate~~
- ~~Report to the board as issues are developed that require board decisions~~
- **Phase I: Explicit Indemnification Arrangements (insurance and guarantees other than loans):**
  - Identify alternative measures of loss exposure (value at risk)
  - Consider recognition of elements in accrual financial statements (measurement and recognition guidance)
  - Consider needed disclosures and/or RSI

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<sup>4</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, pars. 100, 122, and 141

**June – October 2013**

- Begin developing an exposure draft (ED) or other request for feedback with board input and feedback

**November – December 2013**

- Issue ED or other request for feedback on Phase I
- Conduct pilot testing on Phase I
- Begin Phase II: Consider applicability to other types of risks assumed (entitlements other than social insurance, natural disasters, implicit, or other explicit such as through governmental partnerships or treaties) and contingencies – follow steps similar to Phase I but completion expected 18 – 24 months following completion of Phase I.

**February 2014**

- Hold public hearing on Phase I

**March - May 2014**

- Finalize standard on Phase I
- Phase III: Consider implications for reporting on commitments (for example, is commitment reporting for grants, contracts, and other long-term agreements complete and consistent?)

**June 2014**

- Transmit proposed Phase I SFFAS to sponsors for 90-day review

**September 2014**

- Issue final Phase I SFFAS

**October 2014 – February 2015**

- Develop implementation guidance for Phase I, if necessary

**December 2015 – December 2016**

- Complete Phase II and III SFFASs

# PUBLIC-PRIVATE PARTNERSHIPS

## Purpose:

This project was added to the agenda because federal agencies have increasingly turned to public-private partnerships (e.g., PPPs, P3s) to accomplish goals. Budget pressures are likely to further increase the use of P3s. Making the full costs of such partnerships transparent would be the overall objective of the project. A detailed project plan along with active work on this project would not begin until FY2013 with final standards following a two to three year effort.

Specific objectives could include:

- Defining terms (e.g., service concession arrangements, P3s)
- Providing guidance for the recognition and measurement of:
  - assets and liabilities
  - revenues and expenses
- Considering implications for other arrangements related to P3s (sale-leaseback or other long-term arrangements).

## Applicability:

This project applies to the federal government as a whole and all component entities that present general purpose federal financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles (GAAP), Including the Application of Standards Issued by the Financial Accounting Standards Board (FASB)*.

## Objectives:

Because fairly robust FASAB guidance exists regarding the recognition and measurement of assets/liabilities and revenues/expenses, the primary objective of this project would be to consider issuing either a Technical Bulletin or standards. Technical Bulletins provide guidance for applying FASAB Statements and Interpretations and resolving accounting issues not directly addressed by either the Statements or Interpretations.

## Assigned staff:

Domenic Savini

## Other resources:

After a brief initial research phase, staff plans to utilize a multi-disciplinary task force, including sub-groups to address specific topics.

Project page: N/A

## Timeline:

### **October 2012**

- Develop Project Plan and Begin Research

### **October 2013**

- Develop and Issue Exposure Draft

### **October 2014**

- Finalize Guidance or Standards

## NON-FEDERAL INVESTMENTS

### Purpose:

This project is being undertaken by the board because existing FASAB standards are silent on the valuation of investments (“Non-Federal Investments”), other than investments in Treasury securities, that meet the definition and essential characteristics of assets in SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*.

Federal reporting entities are currently determining valuation by applying, by analogy, principles that were established by FASAB for other types of assets or by applying principles established by other standard setters. This project will consider whether a significant factor in the valuation of investments should be the purpose and intended use of the investments. For example, private sector standards assume that investments are held to maximize profits. However, in many instances the U.S. Government purchases investments to achieve other objectives—for example, to promote liquidity, to stabilize the financial markets, or to preserve the solvency of financial institutions or industries that are important to the U.S. economy. These objectives are unique to the government and do not occur in the private sector and warrant consideration.

### Applicability:

This project applies to all federal entities that present general purpose financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### Objectives:

The primary objectives of this project are to address how non-federal investments should be reported in order to assist report users in determining:

- a) Operating Performance: What and where are the important assets of the U.S. government, and how effectively are they managed?
- b) Stewardship: Did the government’s financial position improve or deteriorate over the period?

The specific objectives of this project are:

- a) Establish definitions and meaningful categories of investments
- b) Develop recognition and measurement guidance, including remeasurement as well as risk assumed information (consistent with the principles established in the risk assumed project)
- c) Develop disclosure requirements

Assigned staff:

Not Assigned due to staff vacancy

Other resources:

Staff will work with a task force with the proposed representatives:

- One representative from the Government Accountability Office (GAO) with audit expertise in the government's non-federal investments
- One representative from the Office of Management and Budget (OMB) with subject-matter expertise, in particular credit reform expertise
- One representative from Treasury Office of Financial Stability
- One representative from the Congressional Budget Office (CBO) with subject-matter expertise
- One representative from Railroad Retirement Board/NRRIT
- Other federal subject matter experts TBD
- Non-federal subject matter experts TBD

The task force would consider existing FASAB concepts and standards as well as relevant legislation.

At the August 2011 meeting, the board indicated that this project should focus primarily on investments that are related to government interventions that were made to promote economic stability.

The task force may also consider relevant standards in other domains such as the international public sector and US state/local governments.

Project page: <http://www.fasab.gov/projects/active-projects/investments-and-other-equity-interests/>

Timeline:

Per the planning discussion at the April 2011 board meeting, the initial estimate for the completion of this project was three years. At the August 2011 meeting, the board indicated that the scope of this project should be narrowed to focus on investments that relate to the government's intervention activities, where the objective of the action is to promote economic stability.

This project will become active when the second staff vacancy is filled. Estimated time to completion is three years.



## NATURAL RESOURCES

### Purpose:

SFFAS 38, *Accounting for Federal Oil and Gas Resources*, was issued as final on April 13, 2010. It requires the value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves to be reported in a schedule of estimated federal oil and gas petroleum royalties. In addition, it requires the value of estimated petroleum royalty revenue designated for others to be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others. These schedules are to be presented in required supplementary information (RSI) as part of a discussion of all significant federal oil and gas resources under management by the entity. Due to a deferral (SFFAS 41), the Statement is effective as RSI for periods beginning after September 30, 2012.

It is the board's intent that the information required by the Statement transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the board plans to decide whether such information should be recognized in the financial statements or disclosed in notes. This Statement will remain in effect until such time a determination is made.

The purpose of this project is to consider the results of the three-year RSI period and develop standards regarding any transition of information to basic information.

### Applicability:

This project applies to the government-wide reporting entity and to component entities that prepare and present general purpose financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### Assigned staff:

Not assigned due to staff vacancy

### Timeline:

A project plan – including a complete timeline – will be developed in early FY2014 to ensure timely evaluation of the initial RSI reporting period.

Project Page: <http://www.fasab.gov/projects/active-projects/natural-resources/>

# POTENTIAL PROJECTS

After considering factors that may influence project priorities, the board begins its planning by reviewing potential projects identified by the Executive Director (see Figure 1 for the rules of procedure governing agenda setting). Note that the list accumulates over time. Generally, potential projects are only removed if the issue has clearly been addressed through other projects.

Stakeholders are encouraged to contact the Executive Director to suggest potential projects or to provide insight regarding the projects identified here. Instructions for submitting comments are presented on page 2.

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## ASSET RETIREMENT OBLIGATIONS

In some circumstances entities may be required to incur costs to retire assets. The board has established general standards for liability recognition and specific standards for liabilities associated with environmental cleanup (in SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant and Equipment*, respectively). However, there is no specific guidance regarding asset retirement obligations other than cleanup costs (e.g., hazardous materials required by law to be cleaned up). GAAP for the private sector includes specific guidance regarding asset retirement obligations developed since issuance of SFFAS 6. Financial Accounting Standards Statement No. 143, *Accounting for Asset Retirement Obligations* (issued 6/01) requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This creates three inconsistencies between entities following federal GAAP and those following FASB GAAP. One, certain liabilities recognized under FASB standards would not be recognized in the federal sector. Two, FASB standards require that liabilities be recognized in full when the obligation occurs while FASAB standards provide for incremental recognition so that the full liability is recognized at the end of the useful life of the asset requiring environmental cleanup. Three, the asset retirement costs are added to the total cost of the asset under FASB standards and are not in the federal sector; instead these costs are expensed as the liability is recognized.

### CLEANUP COSTS - EVALUATING EXISTING STANDARDS

SFFAS 6, *Accounting for Property, Plant and Equipment*, addresses cleanup costs. Issues regarding existing standards for cleanup costs include:

- 1) Whether the existing liability recognition provisions are consistent with element definitions established in SFFAC 5.

#### Figure 1: Rules of Procedure Regarding Agenda Setting

The FASAB consults with the Executive Director to prioritize its potential projects. New projects are added to the active agenda based on periodic prioritization by the board. The Executive Director ensures that agenda decisions are initiated in advance of staff becoming available to take on new work so that pre-agenda research will be conducted. All agenda decisions are made at meetings of the FASAB by oral polling with agreement of at least a majority of members polled required for approval.

To prepare for the FASAB consultation, the Executive Director solicits timely suggestions from other individuals and organizations. The Executive Director, after consultation with the Chairperson, may publish brief descriptions of potential projects and request input from selected individuals and groups on the potential projects and other emerging issues. In addition, the Chairperson may decide to convene an agenda hearing to discuss potential projects with stakeholders. ...

In addition to agenda setting initiated by FASAB, any individual or organization may request in writing or at an open meeting that the FASAB address a new issue, or review or reexamine any effective Statement of Federal Financial Accounting Standards, Statement of Federal Financial Accounting Concepts, or other effective provision of federal accounting principles. The FASAB will respond to such communications and explain its disposition of the request.

- a) The liability may be understated because the obligation is to clean up the entire hazardous waste but SFFAS 6 provides for a gradual build up of the liability balance as the related PP&E is consumed in service (the full cleanup cost is disclosed in a note).
  - b) The cost of PP&E may be understated because the SFFAS 6 requirement is to capitalize its acquisition cost; the later cost to retire the asset is excluded.
  - c) The scope of liability recognition is limited to costs to clean up hazardous substances rather than the full asset retirement obligation.
- 2) Cost-benefit issues relating to the level of precision required for estimates and ongoing concerns regarding the timing of recognition of asbestos liabilities (generally when asbestos exists rather than when it is to be removed) have been raised.

## COST OF CAPITAL

The opportunity cost of making an investment in assets is not recognized in the financial statements of agencies using the assets. Some other national governments have incorporated a capital use charge into the determination of the cost of agency operations as a management tool. The board considered this issue in connection with SFFAS 6 and issued an invitation to comment. Ultimately the board deferred further work on this project. In doing so, the board noted that there was interest in incorporating a cost of capital in the budget and that progress in this area would benefit the board's work. If this project were undertaken, the board would need to consider the likely effectiveness of incorporating a capital charge in agency financial statements, the appropriate capital base on which to assess the charge, and the selection of an interest rate to apply.

## DERIVATIVES

Staff has not researched the use of derivatives by federal agencies and has not had any inquiries by agencies or their auditors regarding appropriate accounting for derivatives. This is an area generally addressed in other domains. The GASB issued Statement No 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, on the topic. Selected material from the GASB's plain language explanation is presented below as background.

### WHAT IS A DERIVATIVE?

A derivative is a unique and often complex financial arrangement that a government may enter into with another party, typically a private-sector financial firm. The value of a derivative or the cash it provides to a government (or that it requires a government to pay) is based on changes in the market prices of an item that is being hedged, such as interest rates on long term bonds or commodity prices. In other words, the value or cash flows of a derivative are derived from (are determined by) how the market prices of the hedged item change.

Governments enter into derivatives for at least four reasons:

- Governments often intend derivatives to be *hedges*. This type of derivative is an attempt to significantly reduce a specific financial risk that a government identifies, such as the risk of increasing commodity costs.
- Some governments find that they can *lower their borrowing costs* by entering into a derivative in connection with debt they issue.

- Some governments engage in derivatives that are investments—governments are trying to *generate income*, as they would by buying other financial instruments.
- Some governments enter into derivatives to *manage their cash flows*. These derivatives may include an up-front cash payment to the government from the other party. The payment arrangements or terms of the derivative agreement essentially provide for the repayment of the up-front cash.

## ELECTROMAGNETIC SPECTRUM

The Federal Communications Commission (FCC) manages the electromagnetic spectrum – a renewable natural resource excluded from coverage in Technical Bulletin 2011-1. The technical bulletin requires entities to report the federal government’s estimated royalties and other revenue from federal natural resources that are (1) under lease, contract or other long-term agreement and (2) reasonably estimable as of the reporting date in required supplementary information.

The FCC’s goal is to:

Ensure efficient allocation and management of assets that government controls or influences, such as spectrum, poles, and rights-of-way, to encourage network upgrades and competitive entry.

This project would consider what information may be needed to allow citizens to monitor the management of this asset. It is not addressed by other accounting standards at this time. Based on the Fiscal Year 2013 Budget Estimates submitted by the FCC to Congress in February 2012, receipts in excess of \$30 billion are anticipated over the next ten years.

Excerpt from Congressional Research Service Report: *Spectrum Policy in the Age of Broadband: Issues for Congress* (Linda K. Moore, Specialist in Telecommunications Policy, August 29, 2012 (R40674))

The convergence of wireless telecommunications technology with the Internet Protocol (IP) is fostering new generations of mobile technologies. This transformation has created new demands for advanced communications infrastructure and radio frequency spectrum capacity that can support high-speed, content-rich uses. Furthermore, a number of services, in addition to consumer and business communications, rely at least in part on wireless links to broadband (high-speed/high-capacity) infrastructure such as the Internet and IP-enabled networks. Policies to provide additional spectrum for mobile broadband services are generally viewed as drivers that would stimulate technological innovation and economic growth.

The Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96, signed February 22, 2012) included provisions to expedite the availability of spectrum for commercial use. These include expediting auctions of licenses for spectrum designated for mobile broadband; authorizing incentive auctions, which would permit television broadcasters to receive compensation for steps they might take to release some of their airwaves for mobile broadband; requiring that specified federal holdings be auctioned or reassigned for commercial use; and providing for the availability of spectrum for unlicensed use. The act also includes provisions to apply future spectrum license auction revenues toward deficit reduction; to establish a planning and governance structure to deploy public safety broadband networks, using some auction proceeds for that purpose; and to

## ELECTRONIC REPORTING

Electronic reporting is increasingly viewed as a means to convey financial information about government. This is evidenced not only by sites such as Recovery.gov but also by the universal practice of posting annual financial reports to federal websites and the emerging practice of providing a written highlights document accompanied by an electronic copy of the full report. More recently, a requirement that performance reports be provided electronically rather than in printed form was established in law. In addition, there is a growing expectation that machine readable data be provided. This is an area of great interest to the profession and the Association of Government Accountants issued Research Series Report No. 32 on *e-Reporting* in July 2012. The full report is available at [http://www.agacgfm.org/Research-\(1\)/Research-Publications.aspx](http://www.agacgfm.org/Research-(1)/Research-Publications.aspx). The AGA report revealed a desire for common definitions, formats, and content among survey participants. Useful information regarding desired reporting and the need for standards and/or best practice guidance was provided through the research report.

The AGA report recommends, among other actions, the following actions relevant to standards-setting:

1. “An organization, group or taskforce of stakeholders should be appointed from the standard-setting community, federal, state and local government preparers, representatives from various public interest groups, and citizen-users — all with the collective charge to develop guidelines through an open dialogue and with a shared vision for data formatting and common reporting. This group should also encourage the discovery and recommendation of and reward for best practices in government financial, non-financial and performance information reporting.”
2. The above group should “set definitions and strategies and create uniform standards for data content, database design and logical data model constructs for easier extraction, transformation and processing. Integrating federal, state and local information is critical. Standardization must be stable and able to survive challenges from preparers, data providers, systems vendors and users among others who are wedded to their existing systems and approaches.”
3. “Going for “low-hanging fruit” creates small successes that can be celebrated early and often. Do not get too bogged down in the oversight and linkage of data within and across old legacy systems. Consider the “restaurant approach” and develop a menu of reports that may be used across governments to report similar information. Consider using existing formats, such as AGA’s Citizen-Centric Reporting model, for reporting relevant information to citizens in plain language. Create an interactive financial reporting model starting with audited financial statements with simple drill-down links to data and reconciled reports beneath the audited financial statements that focus on the basic information citizens want. Focus on efficiency and results with five or six key standard metrics common across governments. Provide context to help make the information both understandable and meaningful.”

4. “Policy makers and standard setters should capitalize on the convening power of AGA. Use AGA to continue to explore and research best practices, as well as to construct bridges across the local, state and federal governments.”<sup>5</sup>

A summary of the concerns/practices that might be addressed through guidelines – perhaps as recommended practices - follows and matters of particular relevance to FASAB are underlined.<sup>6</sup>

- 1) Should financial information be complete even when reported electronically?
  - a) How might boundaries and completeness of an electronic report be made clear to the user?
    - i) A warning message showing when you are leaving the financial report
    - ii) Information regarding the contents and structure of a generally accepted accounting principles (GAAP) basis financial report should be provided when GAAP basis financial reports are accessed
  - b) Should information provided outside of the GAAP basis financial report be clearly marked as such and any departure from the principles established for the financial report disclosed?
    - i) Any excerpts from a GAAP basis financial report might provide a reference to the complete financial report.
    - ii) Accounting principles might be explained (whether GAAP or another basis) and linked to discrete items of information including disclosures (e.g., if a line item is accessed, an explanation of the accounting policies related to the line item as well as any related disclosure can be easily accessed).
  - c) Whether financial information presented on a web page is audited should be noted.
  - d) Should electronic reporting beyond GAAP basis financial reports supplement or complement these reports?
    - i) Explanations of differences in principles should be provided.
    - ii) Non-GAAP basis pages should include a link to GAAP basis financial reports.
- 2) Should Web pages be clearly dated and timely?
- 3) Communication with users (Interactive websites)
  - a) Are financial terms adequately defined and appropriately used on websites?
  - b) Is adequate announcement of the availability of electronic financial reports made?
  - c) Can financial reports be easily located?
    - i) Search features may need to be enhanced to help users locate the e-report
    - ii) A common “portal” to access all financial reports may be useful. For example, the Financial Report of the US Government could serve as the portal to component reports.
  - d) Automated e-mail alerts to interested users
  - e) A single point of contact at each entity to respond to questions
  - f) What constitutes good practice regarding posting of relevant links for the interested user? (considering both benefits and drawbacks of links)
  - g) Many technology related issues emerge such as
    - i) Speed of download
    - ii) Use of pictures (thumbnails)
    - iii) When should “plug-ins” be used?
- 4) Accessibility issues to consider include:

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<sup>5</sup> Association of Government Accountants, *e-Reporting*, July 2012, pages 20-21.

<sup>6</sup> Note that it is not suggested that each of these is a matter of concern that FASAB should address through standards. For example, some members suggested educational materials such as best practices.



- a) Is the data downloadable to facilitate analysis?
- b) Are appropriate historical data available?
- c) Are internal and external links maintained (no broken links)?
- 5) Are security/control measures adequate?
  - a) Process of posting data prevents errors
  - b) Appropriate authorization to edit data
  - c) Controls to prevent unauthorized access (both internally and externally)
  - d) Hyperlinks to unaudited data – is adequate disclosure in place and does security extend to the unaudited data? Is the user able to differentiate between complete and incomplete data?
  - e) Auditor relationship with electronically published data
    - i) Relationship with existing GAAP based financial reports
    - ii) Assurance over real-time electronic reporting?
  - f) Quality assurance over unaudited data
    - i) Source of data (e.g., financial systems, procurement data base, cuff records)
    - ii) Controls
    - iii) Reconciliation to other data sources

#### Sources:

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## EVALUATING EXISTING STANDARDS

A general concern expressed by members of the board and the federal financial management community has been that resources are increasingly constrained. Because of competing demands, existing requirements should be evaluated and any unnecessary requirements eliminated. This has been a long-standing concern that the board considers carefully in existing projects.

To explore burden reduction in a targeted fashion, project objectives could include:

1. provide forums for preparers, auditors, and users to identify requirements they believe are unnecessary (this could be done through an open ended written request for input or roundtable discussions)
2. evaluate the requirements identified against the reporting objectives
3. prepare an omnibus exposure draft to adjust or eliminate requirements

The challenge in this approach is that the relevance of requirements varies among agencies. For example, agencies for which certain requirements are immaterial may not find the information relevant but may find



the steps necessary to omit the required information based on materiality too burdensome. They may simply comply with the requirement. To reduce the burden on this agency would mean that the requirement also would be eliminated at an agency for which the information is material. In addition, the burden is likely different between agencies with and without strong systems and controls.

## FINANCIAL/ECONOMIC CONDITION

The board provided standards regarding fiscal sustainability reporting. However, a broader focus on financial condition reporting might result in additional reporting such as key indicators of financial condition at the agency or government-wide level. GASB has addressed key indicators and is currently undertaking a project to address financial projections.

Questions such as the following could be addressed in the project:

- What key financial ratios are useful in assessing the financial health of the entity?
- What information about the tax system is viewed as an indicator of financial health? (e.g., tax gap, tax expenditures, changes in the tax base/structure)
- Is cost trend information needed at disaggregated levels? (e.g., trends in construction costs for capital intensive operations or personnel costs for labor intensive operations)
- Are there external reports/measures that should be reported such as rating agency reports regarding sovereign nations?
- Are benchmarks against other nations/departments needed?
- Are measures of risk assumed due to inter-governmental financial dependency needed?

## INSURANCE

The International Accounting Standards Board (IASB) is developing standards for insurance contracts and it is feasible that new approaches will emerge. While FASAB has addressed insurance as one component of SFFAS 5, a thorough review of emerging practice may be warranted.

## INTANGIBLES

The FASAB standards do not address intangible assets other than internal use software. Staff has been contacted by a few individuals with respect to intangibles such as census data and rights to use of inventions. The GASB issued *Accounting and Financial Reporting for Intangible Assets*. The issuance is described as follows on the GASB website:

Statement No. 51 identifies an intangible asset as having the following three required characteristics:

- It lacks physical substance—in other words, you cannot touch it, except in cases where the intangible is carried on a tangible item (for example, software on a DVD).
- It is nonfinancial in nature—that is, it has value, but is not in a monetary form like cash or securities, nor is it a claim or right to assets in a monetary form like receivables, nor a prepayment for goods or services.
- Its initial useful life extends beyond a single reporting period.

The standard generally requires intangible assets to be treated as capital assets, following existing authoritative guidance for capital assets, although certain intangible assets are specifically excluded from the scope of the statement. One key exclusion relates to intangible assets that are acquired or created primarily for the purpose of directly obtaining income or profit. Such intangible assets should be treated

as investments. The standard also provides guidance for issues specific to intangible assets. For instance, to report the historical cost of an intangible asset in the financial statements, the asset has to be *identifiable*. That means that the asset is *separable*—the government can sell, rent, or otherwise transfer it to another party. If it is not separable, the asset has to arise from contractual or other legal rights, such as water rights acquired from another government through a contract that cannot be transferred to another party.

## INTERNAL USE SOFTWARE

SFFAS 10 provides standards for internal use software. Since its implementation, federal preparers have expressed concerns regarding (1) the relevance of capitalized costs which are limited to the development phase (both OMB guidance and GAO’s cost estimating guide focus broadly on project – or life-cycle – costs), (2) the need to assign full costs – which include general and administrative costs – to software, and (3) the ability to identify phases under current IT practices. The objectives of the project would be to:

- Evaluate whether restricting capitalized costs to the development phases is useful and, if not, consider changes such as allowing capitalization from project inception to completion or expensing costs.
- Consider alternatives to the current full cost requirements and/or guidance to support efficient agency implementation

## LINKING COST AND PERFORMANCE

While performance reporting can be viewed as a stand-alone project, the board has a potentially separate interest in the cost information included in performance reports. SFFAS 4 established managerial cost accounting concepts and standards. At the time, the board expressed the view that standards and practices would “evolve and improve as agencies gain experience in using them.” (par. 24 of SFFAS 4) The objective of a project on cost information might be “to assess the effectiveness of SFFAS 4 in improving the quality and availability of cost information related to programs and consider options for improving the effectiveness of SFFAS 4.” If improvements are needed to link cost and performance information, the board might then consider whether improvement can be obtained through standards, educational efforts, or other means.

## LONG-TERM CONSTRUCTION/DEVELOPMENT/PROCUREMENT CONTRACTS

In its work on National Defense PP&E (ND PP&E), the board considered the need for disclosures regarding complex, long duration contracts for the development and acquisition of weapons systems. One proposal included a disclosure of the ten largest acquisition programs showing budgeted amounts, expected amounts, cost to date and progress to date. Exposure of this proposed disclosure requirement revealed a number of technical areas that required clarification as well as resistance to this non-traditional disclosure among some commentators. The board elected to move forward to eliminate the special category ND PP&E and any disclosures unique to the category. As a result, the board set aside its work in this area. However, the board noted (in the Basis for

Conclusions to a subsequent ED and SFFAS 23 – *Eliminating the Category National Defense PP&E*) its intention to return to this proposal on a government-wide basis in the future.

## **MANAGERIAL COST ACCOUNTING**

In 2010, FASAB staff researched managerial cost accounting including a survey of agencies. Results indicated that a guide to using, developing, and reporting cost information may be helpful. The guide could explore best practices regarding the level of detail in the statement of net cost as well as aspects of developing effective internal development and use of cost accounting. The guide would be developed collaboratively by a task force supported by FASAB staff. Assistance from outside government, such as relevant professional associations and other experts, would be sought.

## **OMNIBUS AICPA**

The initial objective of the project was to consider incorporating accounting and financial reporting standards that are included in current and recently modified Statements on Auditing Standards (SASs) to more effectively present those standards so that these requirements become the responsibility of the financial statement preparers. The scope included analysis of current and recently modified SASs to identify accounting and financial reporting standards. The board then analyzed that guidance to determine if that guidance should be incorporated into the FASAB literature.

The primary research issue is identifying, in the SASs, the various accounting and financial reporting requirements. Of the topics initially identified, the following topics have been addressed:

- 1) Hierarchy of generally accepted accounting principles
- 2) Subsequent events requirements

The board is currently addressing related party transactions in its project on the federal reporting entity.

These topics have not yet been addressed and are not within the scope of another project:

- 3) Materiality consideration (rollover versus iron curtain approaches)
- 4) Going concern

At this time, the board does not anticipate resuming work on the project in the near future.

## **PROPERTY WITH REVERSIONARY INTEREST**

The federal government sometimes retains an interest in PP&E acquired with grant money. In the event that the grant recipient no longer uses the PP&E in the activity for which the grant was originally provided the PP&E reverts to the federal government. These arrangements are specifically excluded from PP&E accounting. Some have suggested that a review of this exclusion is needed to ensure that similar arrangements are accounted for similarly and that adequate information is reported in such circumstances.

## RESEARCH AND DEVELOPMENT

Research and development (R&D) costs are presented as required supplementary stewardship information (RSSI) and include both direct R&D spending by agencies and spending which supports non-federal research and development. Generally, staff has found that FASB standards for R&D are referenced to determine what spending qualifies as R&D (for example, to identify when to begin capitalizing costs as new assets are developed). Given the significant federal investment in R&D (\$136 billion in 2011) and the possible differences between sectors, a review of practices in this area may be warranted. Alternatively, R&D reporting may be explored as a component of an overall project focusing on Stewardship Investments.

## STATEMENT OF CHANGES IN CASH

The Association of Government Accountants Research Report No. 31, *Government-wide Financial Reporting* (July 2012), recommended that the statement of changes in cash be modified to include information on (1) cash flow from operations, (2) debt financing activities and (3) investing activities. The report indicated that information regarding cash flows and whether the Treasury can fund operations within the operating cycle merits disclosure. Further, they found that “information on gross cash flows related to such matters as the making and collection of direct loans, purchase and disposal of investments (including activities to stabilize the economy) and flows needed to fund ongoing deficits is important to allow users to put results in perspective and understand future financing needs.” The recommendations also include consideration of the status of this statement as basic or required supplementary information.

## STEWARDSHIP INVESTMENTS

The board undertook the effort to reclassify all required supplementary stewardship information (RSSI) several years ago. The reclassification would resolve questions regarding the desired audit status of the information absent designation of the information within a specific category. The board completed work on two of three categories of information – stewardship responsibilities and stewardship property, plant and equipment. The remaining RSSI category is stewardship investments including human capital, R&D, and non-federal physical property. The board deferred addressing this category so that it could devote additional resources to higher priority projects. The consequence is that this information remains as required supplementary information.

## SUMMARY OR POPULAR REPORTING

Agencies are issuing summary reports and some view these as the primary report for citizen users. Whether there is a need for guidance or standards has not been explored by staff. However, citizens participating in focus groups provided valuable insights regarding their interests and expectations.

## **TAX EXPENDITURES**

Presently, accounting standards do not require information regarding tax expenditures. SFFAS 7 provides that :

Information on tax expenditures that a reporting entity considers relevant to the performance of its programs may be presented, but should be qualified and explained appropriately to help the reader assess the possible impact of specific tax expenditures on the success of the related programs.

Tax expenditures are defined under the Congressional Budget and Impoundment Control Act of 1974 (the “Budget Act”) as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” Thus, tax expenditures include any reductions in income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers. Special income tax provisions are referred to as tax expenditures because they may be considered to be analogous to direct outlay programs, and the two can be considered as alternative means of accomplishing similar budget policy objectives. Tax expenditures are similar to those direct spending programs that are available as entitlements to those who meet the statutory criteria established for the programs. Tax expenditure analysis can help both policymakers and the public to understand the actual size of government, the uses to which government resources are put, and the tax and economic policy consequences that follow from the implicit or explicit choices made in fashioning legislation. (from the Joint Committee on Taxation, Report JCX-15-11)

## **SUPPORT AND OUTREACH THROUGH GUIDANCE AND EDUCATION**

While this item would best be considered in the context of strategic planning, it is listed here as a reminder of alternatives other than addition of major technical projects. Staff provides advice to preparers and auditors on an informal basis and supports education through review of textbooks, public speaking and other educational avenues (such as the CGFM program). Allocation of additional resources to this area might include (1) development of user guides, (2) more formal implementation guidance, or (3) evaluation of user needs and focus groups on communicating effectively through financial reports.

**Tab E – Risk Assumed Staff Analysis and Recommendations****3: BROADER SCOPE – The term “risk assumed” may not be the appropriate terminology to address broad reporting on future outflows of the federal government.**

The primary objective of the risk assumed project is to study the significant risks assumed by the federal government and develop (a) definitions of risk assumed, (b) related recognition and measurement criteria, and (c) disclosure and / or RSI guidance that federal agencies can apply consistently in accordance with GAAP.

At the recommendation of two members at the February 2011 technical agenda-setting session, the board agreed to approach the project on risks assumed by the federal government from a broad perspective to include commitments and/or inter-governmental dependency, and then narrow down as appropriate.

Staff has been researching the broad types of exposures that would result in future outflows for the federal government, including the following:

- Phase I
  - Insurance and guarantees, including pension , flood, crop, deposit, share, terrorism risk, airline war risk, overseas investment, and veterans life insurance, loan guarantees, and agricultural guarantees;
- Investments in Non-federal securities - Interventions
  - Direct loans and securitizations, including agricultural, student, and small business loans and mortgage and government-sponsored enterprise (GSE) securitizations;
  - Market and other financial-related risk, such as market risk (interest rate risk, currency risk, or other price risk), liquidity risk, risk premium, volatility risk, default risk, credit risk (credit default risk, concentration risk, or country risk), systemic risk, and derivatives;
- Phase III
  - Entity, dependency, and strategic risk, including operational risk, enterprise risk, intergovernmental financial and programmatic dependency, public debt held by foreign countries, intergenerational debt, opportunity cost, and related-party involvements;
- Phase II
  - Entitlement programs, such as Social Security, Medicare, Medicaid, Temporary Assistance to Needy Families (TANF), Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP, formerly known as Food Stamps), Unemployment Insurance (UI), Child Support Enforcement and Family Support, Grants for Specified Energy Property, Grants for Low Income Housing Projects, and the Agricultural Disaster Relief Fund (DRF);
- Phase III
  - Commitments and obligations, including contracts, grants, treaties and other international agreements, undelivered orders, and long-term leases;

Consider outside scope

**Tab E – Risk Assumed Staff Analysis and Recommendations****Phase II**

- National defense, security and disaster response, such as natural disasters (e.g., disaster relief), environmental remediation (e.g., oil spills), terrorism, war (e.g., national defense and cost of active war), and security for mass transit;
- Technology, including cyber security and changing technology (e.g., global drone proliferation and deferred technology); and,
- Other potential effects on future outflows, such as regulatory actions, Government-Sponsored Enterprises (non-securitized), Economic Stabilization and Recovery, and recipient behavior (e.g., risk-taking).

Federal agencies are beginning to focus more on risk management (e.g., appointing chief risk officers and creating offices specifically focused on risk management) and incorporate discussions of the above exposures in their general purpose federal financial reports, but most discussions are far from robust.

As noted in staff's April 2012 update to the board, staff has focused on two particular groupings of risk assumed first: (a) insurance and guarantees and (b) commitments and obligations (e.g., grants, contracts, treaties, and other undelivered orders beyond grants and contracts). These two groupings were chosen to be addressed first because of the explicit nature of the exposures. Staff held two separate task force meetings on commitments and obligations and insurance and guarantees on Wednesday, May 9, 2012, and Tuesday, June 12, 2012, respectively.

**Optional Reading for More Information**

- Appendix 3 – May 9, 2012 Meeting on Commitments and Obligations beginning on page A178 for detailed minutes from the meeting.
- Appendix 4 – June 12, 2012 Meeting on Insurance and Guarantees beginning on page A199 for detailed minutes from the meeting.

At those first two task force meetings, staff requested feedback on the following draft definition of risk assumed developed by staff:

The possible or probable risk of future outflows that the federal government is expected to incur, in the judgment of a reasonable person, as a result of its mission, operations, and current or past actions. The population of risk assumed may be determined through a review of varied information, including, but not limited to, obligations incurred, commitments undertaken, contracts signed, agency policy, legislative history, economic projections, programmatic responsibility, and risk analysis.



**Tab E – Risk Assumed Staff Analysis and Recommendations**

Risk assumed is generally measured by the present value of unpaid expected outflows net of associated inflows (e.g., premiums), if any, based on management's best estimate of the total risk assumed.

(Source: Staff Draft, April 2012)

The above draft definition was intended to be broad and address reporting about all future outflows, not just those related to insurance and guarantee programs.

While the insurance and guarantees task force participants were more accepting of the definition because they were already familiar with the term “risk assumed” and the use of present value (PV) to measure risk assumed, the commitments and obligations task force meeting found the term “risk assumed” and PV to be troubling. Comments and concerns about the draft definition included the following:

- “risk” has a bad connotation and when making a grant, spending in the future is what was intended and is actually a good thing; the term should be more descriptive such as “expected outflows of obligated grants;”
- future outflows are being exchanged for goods and/or services so they are not considered losses like those arising through risk assumed related to insurance and guarantees;
- it is not clear how the obligated amount for a grant or contract would be different than a contingency, whereby the government has an obligation that is contingent upon receiving the goods and/or services;
- the term “risk assumed” is archaic, the terminology that will be used should give the reader a better inclination as to what exactly is being reported such as “fiscal exposure;” and,
- the definition should not refer to PV because PV adds a level of complexity that would not enhance the disclosure (one participant disagreed with this comment, noting that it would seem appropriate to use a relevant discount rate when reporting on multi-year cash flows).

The term “risk assumed” is closely associated with insurance and guarantee programs and risk of loss. As a result, confusion from the community about the true scope of the project and what exactly is intended to be addressed from a broad perspective has led staff to the conclusion that risk assumed is really only one part of a broader scope and a more appropriate term is necessary that would encompass reporting about risks assumed as well as other fiscal exposures that are facing the federal government.



**Tab E – Risk Assumed Staff Analysis and Recommendations**

A good example of why staff believes the term “risk assumed” does not apply broadly to other programs would be social insurance. The statement of social insurance is a perfect example of detailed reporting on estimated net future outflows. These outflows are contingent upon many future events including continued authorization and funding of the program and participant eligibility. While this reporting embodies the spirit of reporting on risk assumed, the program is considered a social benefit and not a risk of loss. While there are many risks that affect the program and related future outflows (interest rate, morbidity rate, beneficiary behavior, etc), this program is a long-term commitment to provide retirement and disability benefits, with benefits being provided to society in direct proportion to the costs being incurred, not a risk that would result in a loss to the federal government.

Alternative Project Names

Through communications with members of the federal community and review of federal financial statements and other reports, staff has considered the following alternative project names:

- **Risk Assumed and Other Contingencies**. If the board agrees to pursue broadening contingent liability disclosures to include more forward-looking outflows such as risk assumed as proposed in the second issue above, the disclosures could include a broad spectrum of contingencies that would be reported in a basic financial statement, note disclosure or as RSI, depending on the factors to consider in distinguishing basic information from RSI.<sup>9</sup> The word “contingent,” defined in the most generic sense, means “dependent on something else.” Almost all future outflows of the federal government are contingent upon something (e.g., grant payments are contingent upon the grantee incurring eligible expenses, contract payments are contingent upon satisfactory delivery of goods and/or services, disaster relief is contingent upon a disaster occurring, entitlement payments are contingent upon participants meeting eligibility requirements, etc.).
- **Risk Assumed and Other Fiscal Exposures**. The term “fiscal exposures” has long been used by the Government Accountability Office (GAO) to describe the range of federal responsibilities that obligate the government to future spending or create an expectation of

<sup>9</sup> See Table 1: Factors to Consider in Distinguishing Basic Information from RSI in Statement of Federal Financial Accounting Concepts (SFFAC) 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, available online at [http://www.fasab.gov/pdffiles/handbook\\_sffac\\_6.pdf](http://www.fasab.gov/pdffiles/handbook_sffac_6.pdf); last accessed August 8, 2012.

**Tab E – Risk Assumed Staff Analysis and Recommendations**

future spending.<sup>10</sup> This term found favor with several task force participants.

- **Risk Assumed and Other Off-Balance-Sheet Exposures.** The term “off-balance-sheet exposure” is used in FDIC note 14: Commitments and Off-Balance-Sheet Exposure (see page A17) to disclose total estimated insured deposits (“insurance in force”).
- **Risk Assumed and Other Possible Future Costs.** The National Science Foundation (NSF) uses the term “possible future costs” in Note 1P: Contingencies and Possible Future Costs (see page A92) with respect to its disclosures about the potential for termination claims if a cooperative agreement is terminated and the possibility that NSF may choose to accept responsibility for environmental cleanup in Antarctica.

### **Staff Recommendation**

Staff recommends renaming the project on risk assumed to more appropriately encompass the scope of reporting on risks assumed as well as other risks and fiscal exposures that are facing the federal government. Staff favors the title “Risk Assumed and Other Contingencies” because staff believes it would be broad enough to encompass discussions about all types of future outflows and risk beyond risk assumed such as outstanding commitments, active treaties, changing economic conditions, market risk, enterprise risk, and systemic risk.



### **Question 3**

**Does the board approve the staff recommendation to rename the project “Risk Assumed and Other Contingencies” to encompass reporting about risks assumed as well as other risks and fiscal exposures that are facing the federal government?**

<sup>10</sup> For example, see GAO Report D-03-213, *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties*; available online at <http://www.gao.gov/new.items/d03213.pdf> ; last accessed August 8, 2012.