



Federal Accounting Standards Advisory Board

February 15, 2005

To: Members of the Board

Wendy M. Comes

From: Wendy M. Comes, Executive Director

Subj: Objectives – Outline of White Paper¹ - Tab A

While Bob Bramlett will not be available for the March meeting due to his February 28th retirement, we have elected to continue the discussion of reporting objectives. I am exploring options for staffing this project in the long run.

The attached outline was developed based on the issues discussed previously. It provides a broad framework that I hope builds towards the objectives of the white paper. I view the white paper as a document that would inform and support any decisions you may make regarding changes to Statement of Federal Financial Accounting Concepts 1 and provide a basis for developing a strategic plan. I envision beginning a strategic planning effort shortly after completion of the white paper.

I hope that your input on the outline will aid in transitioning to a new project manager in the coming months. At the meeting, the following questions will be addressed:

- a) Section II of the outline presents the objective of the white paper. Is this objective consistent with your expectations?
- b) Section III presents an outline of the body of the paper.
 - a. Does the outline of the body of the paper cover all the issues you wish to explore?
 - b. Are the issues presented in a logic sequence?
 - c. Are any issues of less significance than suggested by the outline?
 - d. Do you wish to omit coverage of any issues?

If you have any questions or concerns before the meeting, please feel free to contact me at 202 512-7357 or comesw@fasab.gov.

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

OUTLINE FOR THE WHITE PAPER ON OBJECTIVES

I. Concepts Project Objective:

A. To ensure that federal financial accounting standards are based on a sound framework of objectives and concepts regarding the nature of accounting, financial statements, and other communications methods. The framework should:

1. **provide structure by describing the nature and limits of federal financial reporting,**
2. **identify objectives that give direction to standard setters,**
3. define the elements critical to meeting financial reporting objectives and describe the statements used to present elements,
4. identify means of communicating information necessary to meeting objectives and describe when a particular means should be used, and
5. enable those affected by or interested in standards to understand better the purposes, content, and characteristics of information provided in federal financial reports.

B. The conceptual framework will refine and build on the current concepts promulgated by FASAB.

II. White Paper Objective:

A. The Board's white paper expresses its views on selected aspects of a sound conceptual framework. The white paper focuses on the bolded text above (items a and b). The white paper draws from the existing Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Federal Financial Reporting Objectives*, concepts promulgated by other accounting standards setters, and other literature as needed. Ultimately, the white paper informs the Board in its efforts to (1) amend or augment concepts statements regarding objectives of federal financial reporting in the future and (2) develop a strategic plan.

III. White Paper Outline:

A. SFFAC 1 Status

1. The Board relies on SFFAC 1 to support its deliberations on financial reporting issues. Briefly, SFFAC 1 provides:

- a) *Background information on federal financial reporting, its environment, and the role of the Board,*
- b) *User needs*
- c) *Objectives (Chapter 4)*

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- d) Cost and benefit considerations*
- e) Qualitative characteristics of information in financial reports*
- f) Relationships between accounting and financial reporting including operating performance*

2. SFFAC 1 acknowledges that many information sources other than financial statements help to attain the stated objectives. Further, FASAB does not – in SFFAC 1 – assert that it will attempt to meet all the stated objectives. Simply that “FASAB will consider where new accounting standards could make a useful and cost-effective contribution to improving the extent to which these objectives are attained.”

3. Currently the Board is evaluating the objectives presented in chapter 4 of SFFAC 1 because the broad nature of the objectives makes it difficult to (1) assess alternative accounting standards and (2) prioritize the Board’s technical agenda options. Thus, the primary focus of this white paper is on the four reporting objectives presented in SFFAC 1, chapter 4. Ultimately, the white paper presents the consensus views of the Board regarding specific objectives or sub objectives established in SFFAC 1, chapter 4:

- a) Determined to be outside the scope of the Board’s mission,*
- b) Not a high priority for the Board in the near-term (five to ten years) because:*

c) Others are making progress in meeting the objective or sub objective,

- (1) The Board’s comparative advantages do not support meeting the objective or sub objective, or*
- (2) Other objectives or sub objectives are deemed to be more important.*

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4. Before considering the four reporting objectives, the Board believes it is useful to develop further its views regarding FASAB's role as well as the nature and limits of federal financial reporting. Given the changes in the federal financial reporting environment since SFFAC 1 was issued in 1993, the Board believes an up to date statement of views on these matters is helpful.

B. Evolution in FASAB's Role

1. Chapter 1 of SFFAC 1 describes FASAB's role (par. 23-29). Present a summary or excerpt.
2. GAAP status was attained in 1999. GAAP status – which is conveyed by the AICPA – is awarded based on five criteria. List these criteria and emphasize the credibility and acceptability conveyed by standing as a GAAP body.
3. Based on our current composition, describe the advantages the Board has in establishing GAAP.
 - a) *Credibility*
 - b) *Ability to set a common framework for debate*
 - c) *Impact on external decision makers through ability to require unbiased information (to send "bad news") due to independence*
4. If any changes in the role described in SFFAC 1 are needed, present them here.

C. Nature and Limits of Federal Financial Reporting

1. A brief summary of developments since 1993 will be provided. An appendix will list laws and regulations in a topical arrangement and summarize the requirements relevant to the topic.
2. SFFAC 1, Figure 1 (Chapter 4, preceding par. 167) depicts how accounting contributes to information used by internal and external users.
 - a) *This figure will be updated for any changes due to post-SFFAC 1 laws and regulations.*
 - b) *Chapter 7 asserts that it "explains the focus of FASAB's concern by showing how accounting supports financial reporting and thus how accounting standards [promulgated] by the FASAB can influence federal financial reporting." A summary statement of the key points in Chapter 7 with updates as needed to reflect the current thinking of the Board will be provided.*
3. SFFAC 3, *Management's Discussion and Analysis*, FIGURE 1: Schematic Diagram of a Sample General Purpose Federal Financial

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Report (preceding par. 9) depicts the content of a general purpose federal financial report.

- a) *This figure will be updated for any changes post-SFFAC 1.*
- b) *An explanation or statement regarding the relationship of GAAP and GAAS to the contents of the GPFFR.*
- c) *Benefits of the relationship of GAAS and GAAP to the GPFFR*
 - (1) *Independent standards for independent audit*
 - (2) *Audit is against GAAP developed through an accepted and monitored process: The underpinning of both GAAP and GAAS is independence. Independence is never total, but FASAB is relatively independent in its charter, structure and composition.*
 - (3) *The fundamental principles of accounting definition, recognition, display, and disclosure have evolved through centuries of application to the economic activities of business, government and not-for-profit entities and, in recent decades, through extensive and widely participative due process.*
 - (4) *All of the foregoing adds a degree of credibility and acceptability to FASAB's standards that does not exist elsewhere in the federal jurisdiction.*

4. Audited financial statements based on GAAP have an advantage in meeting users' needs due to:

- a) *Reliance on core financial data inherent in the financial transaction processing system,*
- b) *Impact of mandated periodic public reporting that is independent of the budget,*
- c) *Potential for regular audit, indirect advantages are created by the discipline introduced through established definitions, recognition and measurement guidance carrying over to internal reports and analyses.*
- d) *Qualitative Characteristics lead to Fair Presentation –*
 - (1) *“GAAP is founded on the concept of “fair presentation.” Fair presentation in turn is based on fundamental principles of accounting [enhanced by independent audit in accordance with GAAS. FASAB does not set standards for GAAS, but it determines the presentations that are subject to GAAS.”*

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(2) Discussion of each qualitative characteristic:

(a) Completeness (not included in current SFFAC 1)

(b) understandability, reliability, relevance, timeliness, consistency, and comparability (included in current SFFAC 1)

e) Use of non-monetary information

f) Limits of financial reporting

D. Objectives

1. Fundamental objectives – A discussion of the notion of decision useful information as well as accountability as foundations would be included here.

a) Key points made in SFFAC 1 highlighted here

b) Additional discussion of the varying meanings/uses of “accountability”

c) Discussion based on current Board views

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2. For each of the four objectives, we would review and make an assertion regarding the Board's role in meeting the objective. I envision a discussion of each objective that includes identification of relevant developments and how they impact the Board's role or priorities in working towards that objective. While this is the shortest of my subheadings – I expect it will be one of the longer sections. It will be important to distinguish “narrowing down” that is based on poor alignment with the Board's comparative advantages (likely permanent narrowing down) from de-emphasis of an objective due to the current efforts of others (room to return if and when needed). Justification of any staff proposals can come from the views expressed in earlier sections of the white paper.

a) Budgetary Integrity – state the objective, draw from the paper from December 2003 meeting, and make a staff proposal regarding any strategic or permanent changes.

b) Operating Performance - state the objective, discuss any changes in the environment since 1991, summarize what we've done so far that furthers stewardship, and make a staff proposal regarding any strategic or permanent changes

c) Stewardship - I would state the objective, discuss any changes in the environment since 1991, summarize what we've done so far that furthers stewardship , and make a staff proposal regarding any strategic or permanent changes.

d) Systems and controls -I would state the objective, discuss the indirect approach versus the direct approach, summarize current direct approaches from other sources (e.g., A-123, FFMIA and FMFIA), make a staff proposal regarding any strategic or permanent changes.

E. Deliverables from FASAB

1. Both for external education and FASAB deliberation of its mission and strategic plan, describe and discuss the array of potential FASAB “deliverables.”

a) Basic GAAP financial reporting information, subject to full GAAS audit:

(1) Primary/basic GAAP financial statements

(2) Primary/basic GAAP disclosures

(3) Supplemental GAAP disclosures or RSI

(a) Subject to limited audit

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(b) Subject to no audit, but still required [if this is conceivable]

b) Internal control and systems requirements underlying the foregoing

c) Educational material

d) Other?

Possible future additional topics:

F. Role of Elements

G. Reporting Model