



April 4, 2019

Memorandum

MEMBER ACTIONS REQUESTED:

- Respond to staff questions (p.9) by April 15th

To: Members of the Board

From: Melissa L. Batchelor, Assistant Director

Wendy M. Payne

Monica R. Valentine

Through: Wendy M. Payne, outgoing Executive Director, and Monica R. Valentine, incoming Executive Director

Subj: ***Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5–Comment Letters¹ – Tab A***

MEETING OBJECTIVE

To review responses to the exposure draft, *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5* and consider the staff analysis and recommendations.

BRIEFING MATERIAL

This memorandum provides the staff summary. The staff’s summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. This memo presents a Results & Analysis and Recommendations beginning on page 2 along with:

A. Tally of Responses By Question	10
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Attachment 1 provides the full text of each comment letter.

Attachment 2 provides a DoD paper, *Contingent Liabilities Arising From Litigation, Reporting Entity OCONUS Claims Adjudicated by Another Military Department*

Attachment 3 provides the original Exposure Draft

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.

A summary list of the staff questions is presented at the end of the narrative analysis on page 9.

BACKGROUND

SUMMARY OF OUTREACH EFFORTS

The exposure draft, *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5* was issued October 17, 2018 with comments requested by January 17, 2018. Upon release of the exposure draft in the FASAB Listserv, notices and press releases were provided to:

- a) The Federal Register;
- b) *FASAB News*;
- c) *The Journal of Accountancy, AGA Today, the CPA Journal, Government Executive, and the CPA Letter*;
- d) The CFO Council, the Council of the Inspectors General on Integrity and Efficiency; and
- e) Committees of professional associations generally commenting on exposure drafts in the past.

In addition, to encourage responses, a reminder notice was provided to our Listserv on January 8, 2019. However, in light of the partial government shutdown, some departments and agencies may not have been able to respond by the deadline; therefore, FASAB extended the comment deadline to March 11, 2019. An additional reminder notice was provided to our Listserv on March 4, 2019.

RESULTS AND ANALYSIS

As of April 4, 2019, we have received 15 responses from the following sources:

Association/Industry	2
Auditors	1
Preparers and financial managers	12

The full text of the comment letters is provided as Attachment 1. Attachment 1 includes a table of contents and identifies respondents in the order their responses were received. The comment letters appear as an attachment to facilitate compilation and pagination. However, staff encourages you to read the letters in their entirety before you read the staff summary below.

Staff determined the following from the comment letters.

1. Respondents generally disagreed with the contingent liability proposal

- The majority of respondents **generally disagreed** with the proposal that the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity. Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.
 - Four respondents agreed, seven respondents disagreed, three partially agreed and one respondent stated the issue was not applicable. Staff notes certain respondents that agreed also provided comments for consideration.

Instead, the majority of the respondents agreed with the alternative that the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5. In fact, even some respondents agreeing with the interpretation proposal also agreed with the alternative.

- 10 respondents agreed that the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5. Staff notes that five respondents did not specifically answer the question.
- Key reasons for not supporting the proposal:
 - The majority of the respondents agreed with the alternative that the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5. No respondents disagreed with the alternative. In fact, even some respondents agreeing with the interpretation proposal also agreed with the alternative.
 - Several respondents believed that if the managing component reporting entity has enough information to determine the contingent liability according to SFFAS 5 then it can determine what sub-component entity gave rise to the litigation.
 - Respondents believed this situation is no different than communicating with an external counsel to determine contingent liabilities.

- Respondents believed reporting entities should follow existing standards, specifically SFFAS 4 to determine which component or sub-component reporting entity should report the contingent liabilities.
- Respondents indicated the interpretation is restrictive and should not be an absolute. They believed reporting entities need to determine the proper treatment of contingent liabilities and there should be flexibilities. In addition, certain respondents indicated the proposal removed management's judgement.
- There were several other reasons provided by respondents, but staff did not view these as substantive because there was a reasonable explanation.
 - For example, certain respondents noted that SFFAS 55, *Amending Inter-entity Cost Provisions*, eliminated the requirement for entities to report certain inter-entity costs. However staff notes SFFAS 55 did not prohibit reporting entities from electing to recognize inter-entity costs, it no longer requires that all reporting entities recognize them. Specifically, recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by the Office of Management and Budget (OMB). It is still required by business-type activities.
 - In addition, certain respondents stated that the proposed interpretation should address required disclosures. Interpretations clarify SFFAS and therefore do not offer new disclosure requirements. Staff notes the proposed Interpretation provides a discussion in the Basis for Conclusions under "Disclosures" that details existing GAAP provides sufficient guidance to ensure proper disclosures.
- In addition, there were several detailed comments provided that Board members may review when reading the comment letters and reviewing the accompanying tables prepared. For example, many respondents requested additional clarification regarding the respective journal entries and how the proposal was similar to transactions presented in the Treasury Judgement Fund Interpretation.

STAFF RECOMMENDATION: There were substantial comments related to the proposal to address contingent liabilities involving multiple component reporting entities. The majority of the respondents agreed with the alternative that the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in

accordance with SFFAS 5. In fact, even some respondents agreeing with the interpretation proposal also agreed with the alternative. No respondent disagreed with this, which is basically keeping the status quo.

Staff believes it is reasonable that respondents would support that the sub-component reporting entity whose actions gave rise to the litigation should be the one to recognize the expense and report information in accordance with SFFAS 5. Further, in cases where information is only available to the managing sub-component reporting entity, that entity should provide the information to the other sub-component reporting entity.

Conceptually, this is a sound basis and consistent with full cost concepts in SFFAS 4; one can't dispute the points made by the respondents on other than a cost-benefit basis. This is similar to an external counsel determining contingent liabilities. The sub-component entity responsible for managing the litigation would have the information needed to recognize contingent liabilities and would communicate that information with the sub-component reporting entity whose actions gave rise to the litigation for them to report.

In addition, TB 2002-1, Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government provides the general principle "All liabilities and costs must be attributed to the component entities responsible for the programs or activities that contributed to the claims or to their successor component entities. This attribution follows the general principle that all transactions or events reported on the consolidated statements should be attributed to some Federal component entity."

Based on the majority of respondents agreed that the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5, staff does not believe the proposal regarding contingent liabilities should be addressed in the interpretation. There were substantial comments from those disagreeing and even among those that agreed with the proposal some agreed with the alternative and provided requests for clarifications.

The interpretation was intended to provide clarification for contingent liabilities when one or more sub-component reporting entities within a single component reporting entity are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. However, based on the comments, while it appears that it may assist certain complex reporting entities, others view it as restrictive and not in accordance with existing practice under GAAP.

An alternative would be to allow agencies the option to choose reporting between the sub-component reporting entity that manages litigation or the sub-component reporting entity whose actions gave rise to the litigation.

Both could be considered acceptable and equal options for the reporting entity.

However, offering options or two alternatives (either reporting by the sub-component reporting entity that manages litigation or by the sub-component that gave rise to the contingent litigation) in an Interpretation may not solve the problems that currently exist and may lead to greater issues. It may lead to more inconsistent treatment and double reporting. Depending on how the option is written in the interpretation, it may also lead to questions by auditors as to why one method of reporting was chosen over another.

Therefore, staff recommends removing the contingent liability portion from the interpretation. Note that the counter argument of cost-benefit would align with the Board's decision in SFFAS 55, Amending Inter-entity Cost Provisions, to rescind requirements to impute inter-entity costs. This decision was due to the cost arising from imputing significant inter-entity costs among the sub-component reporting entities within the Department of Defense when contrasted with the "challenge of identifying outputs and associating outputs with a single reporting entity"² such as a military service.

However, SFFAS 4 (as amended) does require components to recognize contingent liabilities to be settled by the Treasury Judgment Fund and allows other inter-entity costs to be imputed:

Activities that are not business-type activities are not required to recognize inter-entity costs other than inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB. Notwithstanding the absence of a requirement, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs. (SFFAS 4, par. 111 as amended)

As noted, the interpretation was intended to provide clarification for contingent liabilities for complex entities when one or more sub-component reporting entities within a single component reporting entity are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. The example provided by DoD related to the responsibility for adjudicating overseas claims in a given country to a sub-component reporting entity, see Attachment 2. Based on this paper, it appears they believe the overseas claims are not material. Considering the cost/benefit, while DoD may have

² SFFAS 55, par. A3.

to do the work to prove that each year, that would seem less costly than imputing the cost to each military service.

In addition to the general disagreement with the proposal, staff noted that some component reporting entities were concerned about the effect on reporting for responsibility segments within their consolidated financial statements. The proposal was not intended to affect disaggregated information within a single audited financial statement for a component reporting entity with multiple responsibility segments. However, some believe the same principles would or should apply to assigning costs to responsibility segments.

The staff recommendation is to require sub-components to recognize and/or disclose contingent liabilities arising from litigation consistent with SFFAS 5, Interpretation 2, and TB 2002-1. With this, the sub-component reporting entity whose actions gave rise to the litigation would report and then transfer to the paying sub-component entity.

QUESTION 1: Does the Board agree with the staff recommendation to remove guidance for contingent liabilities from the interpretation?

2. Respondents generally agreed with the cleanup cost liability interpretation

- The majority of respondents (13 out of 15) ***generally agreed*** that for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.
 - 1 respondent disagreed with the proposal and one responded deferred answering to complex agencies where this guidance would apply. The respondent that disagreed believed the proposal does not sufficiently address issues agencies face when multiple components are involved with cleanup cost liabilities. They also take exception to the sentence, “Instead, the component reporting entity receiving the asset upon its removal from service will be responsible for settling the cleanup cost liability.” They believe it leaves open a door for a land holding agency reporting property as excess to GSA to assert that GSA has assumed responsibility for environmental liabilities when it accepts the report of excess.

STAFF RECOMMENDATION: *There was overwhelming agreement and support for the cleanup cost liability interpretation. One respondent disagreed because*

they did not believe the proposal sufficiently addressed issues agencies face when multiple components are involved. However, feedback was positive from all other agencies.

As for the specific comments from the respondent that disagreed, staff notes that the Board had discussed the issue of assets that have been partially transferred and determined that included a reference to Technical Release (TR) 14, Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment would be sufficient. It provides guidance on the disposal, retirement, or removal from service of general PP&E as well as related cleanup costs. It differentiates between permanent and other than permanent removal from service of general PP&E and delineates events that trigger discontinuation of depreciation and removal of general PP&E from accounting records.

In addition, staff believes that facts and circumstances in each case should determine whether the entity receiving the asset has assumed responsibility for associated environmental liabilities or not. Additional guidance would not eliminate the need to ascertain which entity is responsible for settling environmental liabilities.

Staff recommends moving forward with the interpretation for cleanup cost liabilities.

QUESTION 2: Does the Board agree with the staff recommendation to move forward with the interpretation for cleanup cost liabilities?

3. Respondents did not believe a general principle should be included

- The majority of respondents (11 out of 15) **generally disagreed** that there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs.
 - Three respondents stated there were other examples, but only one provided a specific example, workers compensation. The other respondents suggested that hypothetical examples may exist. One respondent did not answer the question.
 - The majority of respondents **generally disagreed** that an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability. Specifically, five respondents disagreed, three agreed, three partially agreed and four did not specifically answer the question.

STAFF RECOMMENDATION: Staff notes the majority of respondents did not believe that there were other liability situations or example when similar conditions occur or that a general principle should be included.

Staff does not believe any other areas needs to be addressed and no additional principle should be included.

QUESTION 3: Does the Board agree with the staff recommendation that no other areas be addressed and that no additional should principle be included?

SUMMARY OF STAFF QUESTIONS

QUESTION 1: Does the Board agree with the staff recommendation to remove guidance for contingent liabilities from the interpretation?

QUESTION 2: Does the Board agree with the staff recommendation to move forward with the interpretation for cleanup cost liabilities?

QUESTION 3: Does the Board agree with the staff recommendation that no other areas be addressed and that no additional should principle be included?

NEXT STEPS

Much will depend on Board member comments and results of the April Board meeting. If feedback is positive and members agree with staff recommendations, staff believes a draft document (near pre-ballot) will be ready at the June 2019 meeting considering there were minimal comments on the environmental liability section. However, if members disagree and prefer to take a different direction then the document may require additional deliberation.

MEMBER FEEDBACK

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-5976 or by e-mail at batchelorm@fasab.gov with a cc to paynew@fasab.gov and valentinem@fasab.gov.

STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question

A. Tally of Responses By Question

QUESTION	AGREE/YES	DISAGREE/NO	PARTIAL AGREEMENT	NO COMMENT NO SPECIFIC ANSWER
<p>Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, <i>Accounting for Liabilities of the Federal Government</i>.</p> <p>Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.</p>				

STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question

QUESTION	AGREE/YES	DISAGREE/NO	PARTIAL AGREEMENT	NO COMMENT NO SPECIFIC ANSWER
<p>Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.</p> <p>a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.</p> <p>b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.</p>	<p>4</p> <p>10</p>	<p>7</p> <p>0</p>	<p>3</p> <p>0</p>	<p>1</p> <p>5</p>

STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question

QUESTION	AGREE/YES	DISAGREE/NO	PARTIAL AGREEMENT	NO COMMENT NO SPECIFIC ANSWER
<p>Q2. The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.</p> <p>Do you agree or disagree with the guidance? Please provide the rationale for your answer.</p>	13	1	0	1
<p>Q3. The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may</p>				

STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question

QUESTION	AGREE/YES	DISAGREE/NO	PARTIAL AGREEMENT	NO COMMENT NO SPECIFIC ANSWER
<p>Q4. Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.</p>	6	5	0	4

STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question- A or Y=Agree/Yes, D or N=Disagree/No, T-Respondent provided explanation but did not SPECIFICALLY agree or disagree, P= Partial Agreement, NA= No Comment, No Answer or Not Applicable

B. Quick Table of Responses By Question

COMMENT LETTER #	Q1a. Sub-CRE managing litigation report in accord w/ SFFAS 5?	Q1b. Sub-CRE whose actions gave rise report in accord w/ SFFAS 5?	Q2. Liability reported on B/S of CRE recognizing the PP&E until transferred for cleanup?	Q3a. Other liability examples?	Q3b. general principle re:which CRE should recognize the liability?	Q4. Other comments?
#1 GWSCPA-FISC	D ³	A	A	N	N/A	N/A
#2 SSA	N/A	N/A	N/A	N/A	N/A	N/A
#3 OGA	A ⁴	A	A	Y	A	Y
#4 AGA	D ⁵	A ⁶	A	N	D ⁷	N/A
#5 VA	A	T ⁸	A	N	A	N/A
#6 DoD	A	T ⁹	A	N	A	Y

³ GWSCPA did not specifically say they “disagreed” with this portion of the question. However, based upon the detailed response this appears the intent because of the statement “FISC believes that reporting entities should follow existing FASAB standards, including the standards in SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended (SFFAS No. 4), to determine which component or sub-component reporting entity should report the contingent liabilities in accordance with SFFAS No. 5.”

⁴ OGA agreed with the guidance but offered clarifying language.

⁵ AGA believes believe that if the managing component reporting entity has enough information to determine the contingent liability according to SFFAS 5 that it can determine what sub-component entity gave rise to the litigation.

⁶ AGA indicates they “the liability and associated expense should be recorded at the level that gave rise to the liability” so, that is agree.

⁷ AGA doesn’t believe an additional general principle should be included. AGA believes Generally Accepted Accounting Principles should be followed when recognizing the liability at the level that gave rise to the liability and not at the sub-component entity that has been designated to handle the management of the liability.

⁸ VA did not indicate agreement or disagreement. VA stated the parent entity should determine which sub-component entity would be most appropriate to report the information in accordance with SFFAS 5. If the contingent liability is tracked by a different entity than the entity that is responsible for the liability, the sub-component tracking the liability may be more appropriate to report the liability as stated in “a” above.

⁹ DoD did not indicate agreement or disagreement. DoD stated the component reporting entity responsible for recognizing the liability should be determined by management and any related disclosures should be provided to avoid misleading the financial statement users.

STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question- A or Y=Agree/Yes, D or N=Disagree/No, T-Respondent provided explanation but did not SPECIFICALLY agree or disagree, P= Partial Agreement, NA= No Comment, No Answer or Not Applicable

COMMENT LETTER #	Q1a. Sub-CRE managing litigation report in accord w/ SFFAS 5?	Q1b. Sub-CRE whose actions gave rise report in accord w/ SFFAS 5?	Q2. Liability reported on B/S of CRE recognizing the PP&E until transferred for cleanup?	Q3a. Other liability examples?	Q3b. general principle re:which CRE should recognize the liability?	Q4. Other comments?
#7 GSA	D ¹⁰	A	D ¹¹	Y	P ¹²	Y
#8 Treasury	A	NA	A	N	NA	N
#9 HHS	D ¹³	A	A	N	D	Y
#10 DOC	D ¹⁴	A	A	N	D	N
#11 DOL	D ¹⁵	NA	A	N	D	Y
#12 DHS	P ¹⁶	A	A	N	NA	N

¹⁰ GSA disagrees because they believe the legal staff of an agency (such as an Office of General Counsel in many agencies), or even components of the Department of Justice, who likely had no part in causing underlying liabilities to arise may have the best information but may not be likely to provide the source of funding to liquidate the liabilities. Further, legal staffs often have the best insight for developing reasonable estimates of probable, possible, or remote contingent liabilities and cleanup costs, we believe such estimates can be readily shared with management of other sub-component entities for purposes of reporting or disclosing such liabilities

¹¹ GSA disagrees and believes the proposal does not sufficiently address issues agencies face when multiple components are involved with cleanup cost liabilities. They also take exception to the sentence, “Instead, the component reporting entity receiving the asset upon its removal from service will be responsible for settling the cleanup cost liability.” They believe it leaves open a door for a land holding agency reporting property as excess to GSA to assert that GSA has assumed responsibility for environmental liabilities when it accepts the report of excess.

¹² GSA agrees there should be another general principle but does not agree with the principle suggested.

¹³ HHS disagrees because they believe it is clear which sub-component is responsible for a legal liability and therefore who should record and report the legal liability. They are reluctant to agree that an exception should be made to the long standing general rule of reporting liabilities by the component entity for which the future outflow or sacrifice of resources is probable and measurable

¹⁴ DOC disagrees because they believe the interpretation is restrictive and reporting entities need appropriate flexibilities to determine the best/preferred proper treatments of individual cases of contingent liabilities involving more than one sub-component in accordance with SFFAS 5.

¹⁵ DOL disagrees and believes the standard for full cost, management’s judgment, and materiality should be used to determine which sub-component should report the estimated cost and corresponding contingent liability; FASAB could instead issue general guidelines for determining which sub-component should do the reporting.

¹⁶ DHS generally agrees that this assignment should be an option available to the sub-component entity but not an absolute requirement. DHS also agrees with the alternative.

STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question- A or Y=Agree/Yes, D or N=Disagree/No, T-Respondent provided explanation but did not SPECIFICALLY agree or disagree, P= Partial Agreement, NA= No Comment, No Answer or Not Applicable

COMMENT LETTER #	Q1a. Sub-CRE managing litigation report in accord w/ SFFAS 5?	Q1b. Sub-CRE whose actions gave rise report in accord w/ SFFAS 5?	Q2. Liability reported on B/S of CRE recognizing the PP&E until transferred for cleanup?	Q3a. Other liability examples?	Q3b. general principle re:which CRE should recognize the liability?	Q4. Other comments?
#13 Kearney & Company	D ¹⁷	A	A	N	D	N
#14 DOI	P ¹⁸	A	A	N	P ¹⁹	Y
#15 HUD	P ²⁰	A	A	Y ²¹	P ²²	N

¹⁷ Kearney & Company disagrees and believes the sub-component entity responsible for managing the litigation would have the information needed to recognize contingent liabilities and should communicate and share that information with the sub-component reporting entity whose actions gave rise to the litigation for them to report. They believe this is no different than communicating with an external counsel to determine contingent liabilities.

¹⁸ One DOI bureau disagreed and believes the proposal assumes that organizational structure dictates the reporting structure and appears to be more of an operational than an accounting issue. Reporting entities with adequate communication processes may prefer to have the reporting remain within the entity whose actions gave rise to the litigation.

¹⁹ While DOI agreed, there was caution that component reporting entities have reporting flexibility and the Interpretation should not be prescriptive.

²⁰ HUD OCFO's Office of Accounting expressed some disagreement with the exposure draft's proposal that one component or sub-component reporting entity may record a liability that was caused by, and should be paid by, another component entity, citing apparent contrariness to the sound generally accepted accounting principle in SFFAS 5.

²¹ HUD stated they were not aware of any other liability situations or examples, but did offer potential "hypothetical" examples.

²² HUD offered differing opinions on the inclusion of an additional general principal. Some believed existing guidance was appropriate while others agreed with the additional principle.

STAFF SUMMARY OF RESPONSES – Table C: Full Text of Answers and Comments by Question

C. Full Text of Answers and Comments by Question and by Respondent-

	<p>QUESTION #1 The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government.</p> <p>Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.</p> <p>Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.</p> <p>a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.</p> <p>b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.</p>
<p>#1 GWSCPA-FISC</p>	<p>The FISC believes that reporting entities should follow existing FASAB standards, including the standards in SFFAS No. 4, <i>Managerial Cost Accounting Concepts and Standards</i> for the Federal Government, as amended (SFFAS No. 4), to determine which component or sub-component reporting entity should report the contingent liabilities in accordance with SFFAS No. 5. SFFAS No. 4 provides the standards for the reporting entities to define responsibility segments and to determine full cost of goods and services to report, including inter-entity costs. Although SFFAS No. 55, <i>Amending Inter-entity Cost Provisions</i>, eliminated the requirement for entities to report certain inter-entity costs, SFFAS No. 55 did not prohibit entities from electing to report such costs. It is not clear from the ED how the proposed interpretation is consistent with the requirements that currently exist in FASAB standards, including SFFAS No.4.</p> <p>Staff response: While true SFFAS 55 did not prohibit reporting entities from electing to recognize inter-entity costs, it no longer requires that all reporting entities recognize them. Specifically,</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p><i>recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by the Office of Management and Budget (OMB). Although not all inter-entity costs are recognized by the receiving entity, this interpretation recognizes relationships creating inter-entity costs exist and often involve multiple component reporting entities.</i></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p>
<p>#2 SSA</p>	<p>SSA does not have multiple component reporting entities nor sub-component reporting entities within a single component reporting entity; thus, this proposed Interpretation is not applicable to our agency and we defer to those agencies who are involved in these types of transactions.</p> <p><i>No staff response necessary.</i></p>
<p>#3 OGA</p>	<p>Majority of the stakeholders agree with the guidance in response to FASAB Question 1a, but stress the importance of communication. Additionally, as the entity responsible for managing the litigation it seems logical they would have all the necessary information to report the liability. Stakeholders provide the following rationales/questions:</p> <ol style="list-style-type: none"> 1. Recommend clarifying and/or revising paragraph 10 to address the following: <ol style="list-style-type: none"> a. What specific paragraphs are considered the “general provisions of Interpretation 2?” b. Currently, entities recognize an expense and liability at the time they recognize a contingent liability and reverse those entries if the contingent liability is not realized (no payment required). Why would the entity managing the litigation recognize an “other financing source” at the time they remove the liability, in the event a different entity is identified to pay the liability? This guidance does not appear to meet the definition of other financing sources per SFFAS 7, paragraph 70. c. If the managing entity reports an expense (e.g. general ledger account 679000) at the time they recognize the contingent liability, then subsequently report an “other financing source” upon removal of the liability, this will impact the managing agency’s net cost of operations although the managing entity incurred no actual costs. Instead, reversing the original entry would ultimately result in no impact to the managing entity’s net cost of operations and would not require eliminations between the managing and funding entities for the consolidated report. See SFFAS 7, paragraph 43 related to the components of net cost of operations. <p><i>Staff response: Staff will add additional language, including example entries to the Basis for conclusions. The other financing source recognized by the managing sub-component would be</i></p>

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	<p><i>eliminated at the consolidation level by the expense of the sub-component paying the liability.</i></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p> <p>2. The interpretation guidance is based on an assumption there is a lack of available contingent liability information for a subcomponent entity to report liabilities they incurred when multiple subcomponents are involved. However, we recommend the Interpretation address the situation where a subcomponent entity has such information available. For example, multiple DoD entities are sometimes grouped on the Treasury judgment fund website as “Office of the Undersecretary of Defense –Agencies.” The Defense Finance and Accounting Service provides information to DoD subcomponents to identify their portion of litigation under this summary category.</p> <p><i>Staff response: As explained in par. 8, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize or disclose contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities should not report information on contingent liabilities managed by another sub-component reporting entity. Therefore, although the information may be available, the interpretation wanted to ensure it would not be reported by two sub-components and provided that no other sub-component should report. However, recognizing this may be somewhat different and asked respondents if they believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5.</i></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p> <p>3. Paragraph A17 introduces a separate scenario where the reporting entity managing litigation is also responsible for paying such litigation and does not seek reimbursement for claims paid on behalf of other sub-component reporting entities. We recommend guidance on how this should be reported by both involved entities in the “Guidance on Contingent Liabilities” section of the Interpretation.</p> <p><i>Staff response: The interpretation provides the sub-component reporting entity responsible for managing litigation would have the information needed to recognize or disclose contingent liabilities and should report information in accordance with SFFAS 5. If the managing sub-</i></p>
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	<p><i>component reporting entity is also responsible for paying, there would be no other affected sub-component reporting entity or entries to reverse. Meaning the managing sub-component reporting entity is also the source for the payment of the claim and the liability does not have to be removed the financial statements. However, staff will add an explanation to the basis for conclusions.</i></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p> <p>4. Recommend that FASAB include information related to reporting disclosures in the Interpretation. Per SFFAS 55, "...component reporting entities should identify the costs of the providing entity that are not fully reimbursed..." How does this apply to subcomponent reporting entities? If a subcomponent reporting entity does not have enough information to report a contingent liability, how would they have enough information to report a related disclosure?</p> <p><i>Staff response: Interpretations clarify SFFAS and therefore do not offer new disclosure requirements. Staff notes the proposed Interpretation provides a discussion in the Basis for Conclusions under "Disclosures" that details existing GAAP provides sufficient guidance to ensure proper disclosures.</i></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p> <p>5. Consider revising verbiage in SFFAS 5, to clarify the guidance is applied at the component entity level. For example, SFFAS 5, paragraph 19 defines a liability as "a probably future outflow or other sacrifice of resources as a result of a past transaction or event." If a subcomponent that is managing litigation recognizes the contingent liability, but a different subcomponent ultimately will pay any required liability, then the managing subcomponent will appear to be noncompliant with SFFAS 5 (i.e., no probably future outflow or other sacrifice of resources will be incurred by the subcomponent managing the liability).</p> <p><i>Staff response: Interpretations clarify SFFAS and therefore do not amend SFFAS. A project to amend SFFAS 5 is not necessary considering the narrow focus and if the topic can be addressed through an Interpretation. Additionally, no other scenarios or examples have been provided and there doesn't appear to be support for adding a general liability principle.</i></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p>
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	<p>Majority of the stakeholders agree with the guidance in response to FASAB Question 1b. Stakeholders provide the following rationales/questions:</p> <p>1. The key to this proposed interpretation generally relates to the guidance found in SFFAS 5, “To recognize and disclose contingent liabilities in accordance with SFFAS 5, a component reporting entity must have information about ongoing litigation and be able to exercise judgment regarding the possible outcomes.” OGA thinks that the key to this standard is that all the entities involved (entity managing the claim and the one paying the claim) must communicate with each other to ensure the responsibilities of each entity are clear to avoid inaccurate reporting on the financial statements.</p> <p><i>No staff response necessary.</i></p> <p>2. If the entity whose action gave rise to the litigation has the necessary information to report the liability, it should be allowed to report the liability on their financial statements. The need for another entity reporting the liability should be lack of information available to report. Communication should be a key when an entity is managing litigation.</p> <p><i>Staff response: Staff understands and appreciates this viewpoint because it is consistent with current GAAP. However, offering options or two alternatives (either reporting by the sub-component reporting entity that manages litigation or by the sub-component that gave rise to the contingent litigation) in an Interpretation may not solve anything and potentially lead to greater issues. It may lead to inconsistent and double reporting. Depending on how the option is written in the interpretation, it may also lead to questions by auditors as to why one method of reporting was chosen over another. If included, it would have to be clear that both are acceptable and equal options for the reporting entity.</i></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p> <p>3. Please clarify what “report” means. Does this mean the recognition of the liability/expense in the subcomponent reporting entity’s financial statements or could reporting include a disclosure that existing litigation is managed by another entity, which may ultimately require payment by the subcomponent reporting entity that incurred the liability?</p> <p><i>Staff response: Staff is unclear as to the purpose of this question. Paragraph 8 states “Generally,</i></p>
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	<p><u>the sub-component reporting entity responsible for managing litigation would have the information needed to recognize or disclose contingent liabilities and should report information in accordance with SFFAS 5.”</u></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p>
<p>#4 AGA</p>	<p>1a. We respectfully disagree. We understand the complexity dealing with litigation with the associated component reporting entities and sub-component reporting entities. But we struggled with the concept that the managing component reporting entity should report the contingent liability based more on convenience than based on Generally Accepted Accounting Principles. We believe that if the managing component reporting entity has enough information to determine the contingent liability according to SFFAS 5 that it can determine what component or sub-component entity gave rise to the litigation. Therefore, the liability and associated expense should be recorded at the level that gave rise to the liability. Additionally, it seemed to be confusing as well as misleading to the reader to recognize a liability for the managing component reporting entity in one period and a corresponding other financing source in another period when the liability is finalized, and the specific sub-component is identified. The reader may also be misled if the same contingent liability is reported in multiple levels of reporting entities. It also may lead to a heightened risk of material misstatement. We therefore believe that management of the reporting entity should have the opportunity to utilize professional judgment to determine the extent of reporting a contingent liability at any component or sub-component reporting entity.</p> <p>However, if the FASAB affirms the primary alternative, we disagree that the other involved sub-component reporting entities should not report information on the contingent liabilities. As noted above we believe that if enough information is available to determine a contingent liability that there is enough information to identify the specific sub-component and the sub-component should disclose, not record, the contingent liability being managed by another component. We encourage the FASAB to reconsider the wording in the interpretation that does not allow the other entities to provide disclosure.</p> <p>1b. Please see our above answer to Q1.a. If the FASAB affirms the alternative, we recommend the FASAB provide illustrative guidance as to what disclosures the managing component reporting entity should include in their financial statements regarding the liability.</p> <p><i>Staff response: Staff agrees with the respondent that it would be confusing and misleading if the same contingent liability was reported in multiple levels or by separate sub-component reporting</i></p>

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	<p><i>entities. The purpose of including the wording to suggest only the managing entity report is to prevent duplicate reporting.</i></p> <p><i>Interpretations clarify SFFAS and therefore do not offer new disclosure requirements. Staff notes the proposed Interpretation provides a discussion in the Basis for Conclusions under “Disclosures” that details existing GAAP provides sufficient guidance to ensure proper disclosures.</i></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p>
<p>#5 VA</p>	<p>1a. VA – Agree with the proposed guidance because if there is a separate component entity managing contingent liabilities it may be best equipped to report the contingent liability.</p> <p>1b. The parent entity should determine which sub-component entity would be most appropriate to report the information in accordance with SFFAS 5. If the contingent liability is tracked by a different entity than the entity that is responsible for the liability, the sub-component tracking the liability may be more appropriate to report the liability as stated in “a” above.</p> <p><i>Staff response: Staff understands and appreciates this viewpoint because it is consistent with current GAAP. However, offering options or two alternatives (either reporting by the sub-component reporting entity that manages litigation or by the sub-component that gave rise to the contingent litigation) in an Interpretation may not solve anything and potentially lead to greater issues. It may lead to inconsistent and double reporting. Depending on how the option is written in the interpretation, it may also lead to questions by auditors as to why one method of reporting was chosen over another. If included, it would have to be clear that both are acceptable and equal options for the reporting entity.</i></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p>
<p>#6 DoD</p>	<p>1a. The DoD agrees with the Board's proposed guidance.</p> <p>Rationale: The proposed guidance is reasonable and should be incorporated. However, it may be appropriate to address the need to true-up the liability, once a settlement is reached or a judgment ordered by a court. If the sub-component managing the litigation records the liability and expense, the</p>

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	<p>liability should be trued-up before it is transferred to the sub-component that is designated to pay the liability.</p> <p>1b. DoD neither agrees nor disagrees with the guidance.</p> <p>Rationale: The DoD needs additional clarification in order to formulate a position. The three referenced parties should be clearly identified as they may be separate parties or a single reporting entity serving multiple roles: (1) the entity whose action(s) gave rise to the litigation, (2) the entity managing the litigation and, (3) the entity designated to pay the liability. The component reporting entity responsible for recognizing the liability should be determined by management. FASAB should codify this along with any related disclosures needed to avoid misleading the financial statement users.</p> <p>Additionally, if the entity whose actions gave rise to the litigation does not record any liability based on this new guidance, DoD recommends adding a disclosure note requirement regarding such litigation.</p> <p>Staff response: Interpretations clarify SFFAS and therefore do not offer new disclosure requirements. Staff notes the proposed Interpretation provides a discussion in the Basis for Conclusions under “Disclosures” that details existing GAAP provides sufficient guidance to ensure proper disclosures.</p> <p>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</p>
<p>#7 GSA</p>	<p>1a. We do not agree with the guidance as written, respective to the direction in paragraph 8 of the Exposure Draft (ED), where a sub-component entity that is only involved to manage litigation should report the cost and liability balances on its sub-component financial statements. Sub-components managing litigation may be the legal staff of an agency (such as an Office of General Counsel in many agencies), or even components of the Department of Justice, who likely had no part in causing underlying liabilities to arise, nor are these sub-components likely to provide the source of funding to liquidate the liabilities. While such legal staffs often have the best insight for developing reasonable estimates of probable, possible, or remote contingent liabilities and cleanup costs, we believe such estimates can be readily shared with management of other sub-component entities for purposes of reporting or disclosing such liabilities. If such reporting were applied to GSA, its Office of General Counsel, operating under GSA’s Working Capital Fund would be required to carry substantial liabilities that are directly associated with other GSA sub-components. One GSA sub-component in particular, the activities of the Public Buildings Service’s Federal Buildings Fund (FBF), which produces stand-alone audited financial statements, would be missing substantial liabilities and costs that arise from PBS activities. It is not clear how the financial statements of the FBF can be considered complete without</p>

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	<p>recognition of its legal liabilities and environmental clean-up costs.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p> <p>1b. Yes, we do agree with this alternative. We suggest reporting of costs and liabilities discussed in the ED are more properly reported by sub-components with the most direct cause-and-effect relationship to activities that generated the liability. To meet the full-cost accounting requirements of SFFAS 4, Managerial Cost Accounting Standards and Concepts, we believe the recognition, especially of the cost associated with such liabilities, should be reported on books of the sub-component entity that caused the liability. To address the issue that funding or activities to clean-up or mitigate hazardous materials to extinguish the liability may be assigned to a sub-component other than the entity that caused the liability to arise, we would suggest that reassignment of the liability from one entity to another be accomplished via liability transfer transactions between sub-components.</p> <p>Further, we would consider it appropriate even after a liability transfer, that financial events continue to be communicated between the sub-components, such as when liabilities are settled for different amounts than estimated when the liabilities were transferred. We believe information would be exchanged between sub-components so that the original sub-component causing the liability should adjust their cost up or down to reflect actuals, with corresponding adjustment to the liability transfers. This would keep the cost recognition properly placed to the sub-component causing the liability, and prevent cost recognition from being assigned to the secondary sub-component who manages the liquidation or resolution of the liability.</p> <p>Staff response: Staff understands and appreciates this viewpoint because it is consistent with current GAAP. However, offering options or two alternatives (either reporting by the sub-component reporting entity that manages litigation or by the sub-component that gave rise to the contingent litigation) in an Interpretation may not solve anything and potentially lead to greater issues. It may lead to inconsistent and double reporting. Depending on how the option is written in the interpretation, it may also lead to questions by auditors as to why one method of reporting was chosen over another. If included, it would have to be clear that both are acceptable and equal options for the reporting entity.</p> <p>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</p>
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<p>#8 Treasury</p>	<p>Treasury does not have any objection to the guidance regarding contingent liabilities involving multiple component liabilities. The guidance is in line with current Treasury Standard Operating Procedure for component/ sub-component reporting and responsibility segmentation as required by the existing FASAB standards, which include but are not limited to SFFAS No. 4 (<i>Managerial Cost Accounting Concepts and Standards for the Federal Government</i>) & SFFAS No. 55 (<i>Amending Inter-entity Cost Provisions</i>).</p> <p>However, Treasury would like to add a comment to further clarify the ED SFFAS 55 guidance as-is. SFFAS No. 4 specifies the standards for reporting entity’s management to define and establish the responsibility segments (sub-components to process and pay claims), and method to measure full cost of goods and services provided, including inter-entity costs, to report for such litigation support function. The verbiage for this reference is as follows: “The inter-entity costs should also be assigned to the responsibility segments that use the inter-entity services and products.” (SFFAS No.4 par 122).</p> <p>Meanwhile, SFFAS No. 55 states that “Although recognition of inter-entity costs by activities that are not business-type activities is not required, non-business-type activities <u>may elect</u> to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.” (SFFAS No. 55 par 7). Our concern relates to the consistency among SFFAS No. 4 and SFFAS No. 55, with respect to the new SFFAS No. 5 interpretation guidance. The proposed interpretation does not fully address possible discrepancies among various SFFASs with regards to the requirement of imputed cost/ financing recognition, as the SFFAS No. 55 verbiage language indicates electing options. We suggest striking out the relevant portions of the SFFAS No. 4 verbiage, where any potential inconsistency with SFFAS No. 55 guidance exists.</p> <p><i>Staff response: SFFAS 55 did not prohibit reporting entities from electing to recognize inter-entity costs, it no longer requires that all reporting entities recognize them. Although not all inter-entity costs are recognized by the receiving entity, this interpretation recognizes relationships creating inter-entity costs exist and often involve multiple component reporting entities.</i></p> <p><i>Paragraphs 120-125 of SFFAS 4 discusses cost assignments in relation to the process that identifies accumulated costs with cost objects (services or products) by responsibility segments. Within this section, par. 122 states “<u>Also, in accordance with the inter-entity cost standard discussed in the preceding section, an entity should recognize inter-entity costs for goods and services received from other federal entities. The inter-entity costs should also be assigned to the responsibility segments that use the inter-entity services and products.</u>”</i></p>

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	<p><i>Considering the paragraph refers to and states in accordance with the inter-entity cost standard, staff does not believe there is an inconsistency. For those reporting entities required (business types activities) or those reporting entities that elect to recognize, the inter-entity costs should be assigned to responsibility segments.</i></p> <p><i>Updated-After reviewing additional responses, staff has recommended that the contingent liability portion be removed from the interpretation.</i></p>
<p>#9 HHS</p>	<p>1a. HHS follows and appreciates the argument that is being made in this interpretation of SFFAS 5, however, we respectfully disagree with the conclusion of assigning sub-component reporting of contingent legal liabilities to the component where the court proceedings and/or litigation is managed. We wonder if the situation where two or more sub-components share a legal liability, while a third sub-component handles the litigation, is common. We believe that the exposure draft is not clear and raises doubt over who should record the liability. HHS's Office of General Counsel handles all legal matters for the Department. It's clear to us which sub-component is responsible for a legal liability and therefore who should record and report the legal liability. We are reluctant to agree that an exception should be made to the long standing general rule of reporting liabilities by the component entity for which the future outflow or sacrifice of resources is probable and measurable.</p> <p>Based on Section 4, quoting SFFAS 47, paragraph 10, FN 7, it appears that this standard also applies to components of the government-wide entity. Department of Justice litigates cases on behalf of HHS and many other agencies. The standard as written seems to imply that Justice could record the liability on behalf of HHS until the cases are settled.</p> <p><i>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</i></p> <p>1b. Yes, HHS believes that the subcomponent reporting entity whose actions gave rise to the litigation should be permitted to report the legal liability in accordance with SFFAS 5. At a minimum, they should not be prohibited from recording the legal liability. As an alternative, either sub-component could be permitted to report contingent legal liability. This would allow sub-components to communicate with the reporting entity to discuss who should record the contingent liability and the level of detail that should be disclosed by all involved parties.</p> <p><i>Staff response: Staff has recommended that the contingent liability portion be removed from the</i></p>

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	<p><i>interpretation.</i></p>
<p>#10 DOC</p>	<p>1a. The Department disagrees with the draft Interpretation of SFFAS 5 regarding guidance on contingent liabilities. The draft guidance in the Department’s opinion does not provide the appropriate level of flexibility to reporting entities as to the manner it may want to properly in accordance with SFFAS 5 distribute the recording of contingent liabilities in cases where there is more than one sub-component reporting entity involved. For example, a reporting entity may prefer that the sub-component reporting entity designated to manage litigation also further be responsible for communicating the needed information to the other applicable sub-component reporting entity(ies) (the sub-component(s) where the liability/payment will ultimately be incurred) so that this applicable sub-component reporting entity(ies) can record the contingent liability. This treatment would be in accordance with Paragraph 5.a. of the draft guidance which states, “Liabilities generally should be reported by the component reporting entity for which the future outflow or sacrifice of resources is probable and measurable.”</p> <p>The reporting entity may strongly prefer that the above described alternative process be in place rather than the draft guidance requirement that the sub-component responsible for managing litigation record all of the contingent liabilities. Furthermore, the sub-component reporting entity(ies) where the liability/payment will ultimately be incurred may strongly believe that it should record the contingent liability for completeness and accuracy of its financial data, including for purposes of reporting to management. The Department therefore believes that the interpretation should also allow for a contingent liability to be recorded by the appropriate subcomponent(s) and not only by the sub-component that manages the liability. The Department accordingly believes that Paragraph 8 is inappropriately restrictive to reporting entities where it states, “Other involved sub-component reporting entities should not (Departmental emphasis please on key words “should not”) report information on contingent liabilities managed by another sub-component reporting entity.” Reporting entities need appropriate flexibilities to determine the best/preferred proper (in accordance with SFFAS 5) treatments of individual cases of contingent liabilities involving more than one sub-component, in order to meet the reporting entity's and component reporting entities’ proper specific needs and preferences.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p> <p>1b. See the Department’s response to 1a. The Department believes that both approaches as set forth in its response to question 1a. should be allowable as the Department believes that both approaches are</p>

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	<p>proper in accordance with SFFAS 5. Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p>
#11 DOL	<p>1a. Disagree. The standard for full cost, management’s judgment, and materiality should be used to determine which sub-component should report the estimated cost and corresponding contingent liability; FASAB could instead issue general guidelines for determining which sub-component should do the reporting. It is also possible that an estimated cost and contingent liability may be not insignificant for a sub-component, but be immaterial or reported as “costs not assigned” and an “other liability” on the component reporting entity’s (consolidated) GPFFR and due to immateriality would not be disclosed. The legal letter provided by the component reporting entity’s attorney may provide information needed for the sub-component (whose actions gave rise to the litigation) to record and disclose the contingent liability.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p> <p>1b. Refer to response in 1a.</p>
#12 DHS	<p>1a. The Department generally agrees. The additional guidance should provide flexibility for sub-component entity to assign the reporting responsibilities for contingent liabilities (in compliance with SFFAS 5) to another sub-component entity designated to manage litigation and/or make the related payments. However, this assignment should be an option available to the sub-component entity and not an absolute requirement.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p> <p>1b. The Department agrees that a sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5. A user of the financial statements would want to know what contingent legal liability the sub-component entity that caused the litigation is facing regardless of another entity managing the litigation on its behalf.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p>
#13 Kearney &	<p>1a. Disagree. The sub-component reporting entity whose actions gave rise to the litigation should be the</p>

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<p>Company</p>	<p>one to recognize the expense and report information in accordance with SFFAS 5. The sub-component entity responsible for managing the litigation would have the information needed to recognize contingent liabilities and should communicate and share that information with the sub-component reporting entity whose actions gave rise to the litigation for them to report. Conceptually, this is no different than communicating with an external counsel to determine contingent liabilities. The sub-component entity responsible for managing the litigation is working on behalf of the other sub-component but should not be responsible for recognizing the costs in their financial statements. The proposed changes equate fiduciary and/or agency actions with economic events. This is not consistent with the accrual accounting framework and SFFAS 5. The component responsible for the events which give rise to the liability should be responsible for the original recognition. Subsequent transfers of the liability could occur without affecting the integrity of the statement of net costs.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p> <p>1b. Yes. The sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5 because it is ultimately their cost to report. See additional discussion in answer to part a. above.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p>
<p>#14 DOI</p>	<p>1a. DOI bureaus generally agree with the proposed guidance. The sub-component managing the litigation would have all the pertinent information. Upon settlement, the sub-component designated to pay the liability should report it. This would prevent unnecessary elimination entries for the reporting entity.</p> <p>However, one DOI bureau disagrees with the proposed guidance and provided the following comments: The guidance assumes that a certain organizational structure dictates the reporting structure and appears to be more of an operational than an accounting issue. Reporting entities with adequate communication processes may prefer to have the reporting remain within the entity whose actions gave rise to the litigation; thereby managing the entire process from cradle to grave, which may reduce the accounting transactions required and thus reduce reporting errors including inadvertently omitting cases (perhaps due to the timing of the transfer between entities).</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p>

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	<p>1b. DOI bureaus agree that the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5 as long as the entity's guidance to the sub-component entities are clear. Some entities already have robust reporting processes for contingent liabilities. These entities should be allowed to keep the current efficient processes as no additional benefit would be realized and additional cost may be incurred. By allowing multiple entities to report during different stages of the processes, coordination between and among the entities will be required and may inadvertently add reporting risk that could be eliminated by the same reporting entity consistently reporting during the entire process as currently permitted in SFFAS 5.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p>
<p>#15 HUD</p>	<p>1a. The majority of responding HUD components agree with the guidance. As discussed in Appendix A of the proposed guidance, paragraphs A13 and A16, component reporting entities designated to pay certain liabilities of other federal entities may not have the information that the sub-component reporting entity, or entities, whose actions gave rise to the litigation, have at the time that the contingent liability arises. The sub-component entity with the required information available would be more likely to be able to capture the information on a timely basis and be able to provide the required assessments of the documentation to be recorded and audited, if warranted. As these costs are not currently funded, matching of the liability to its funding will occur once settlements occur and the liability is moved to the sub-component responsible. To ensure the timely recording of the contingent liability, the sub-component responsible for litigation should recognize the contingent liability.</p> <p>Somewhat conversely, HUD OCFO's Office of Accounting expressed some disagreement with the exposure draft's proposal that one component or sub-component reporting entity may record a liability that was caused by, and should be paid by, another component entity, citing apparent contrariness to the sound generally accepted accounting principle in SFFAS 5 guidance which states that liabilities generally should be reported by the component entity for which the future outflow of resources is probable and measurable. However, taking into consideration that it could cause some confusion and, likely, accounting errors when multiple sub component entities are a party to the same litigation which don't have all information and may even be in a different countries, we agree that it would be logical to allow the managing component entity to record the initial liability instead of the sub-component reporting entity whose actions gave rise to the litigation. The accuracy of the financial report is of utmost importance and minimizing confusion and errors is essential.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p>

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	<p>1b. HUD’s component entities expressed some nuance in response to this question. FHA stated that in cases where information is available for the sub-component reporting entity whose actions gave rise to the litigation to apply all provisions of SFFAS 5, that sub-component should recognize the liability, instead of another sub-component that is only responsible for litigation. FHA noted that the only reason why a sub-component not responsible for the actions that gave rise to the litigation from which a liability arose, would record a contingent liability, is if not enough information was available. When that obstacle is removed, it is the sub-component whose actions gave rise to the litigation, and hence the liability, that should ultimately record the liability. GNMA agreed that, in certain situations where information could be provided timely and appropriate judgments could be made about the documentation, the sub-component should be permitted to report the information in accordance with SFFAS 5.</p> <p>As eluded to in response to Q1 (a), HUD OCFO’s Office of Accounting stated SFFAS 5 guidance is the GAAP and preferred treatment with liabilities including contingencies due to litigation; doing anything otherwise does gave some pause. However, due to the exceptions and circumstances notes in the exposure draft, the OCFO Office of Accounting agreed with the managing sub-component entity recording the liability versus the component entity which gave rise to the litigation. It is believed that this will minimize confusion among the sub-component reporting entities and eliminate duplications or other errors when multiple entities are involved in one case. Again, the accuracy of the financial report is of utmost importance.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p>

QUESTION #2 The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

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#1 GWSCPA-FISC	<p>The FISC generally agrees with the guidance regarding cleanup costs for the reasons stated in the ED.</p> <p><i>No staff response necessary.</i></p>
#2 SSA	<p>As referenced in paragraphs A19 and A23 pertaining to cleanup costs, challenging issues exist when large complex departments, such as the Department of Defense, may have assets owned by one component reporting entity but used or funded by another component reporting entity. Assuming question 2 is geared towards paragraph A-23, multiple reporting components within a larger reporting entity, SSA does not have multiple reporting entities within a single component reporting entity; thus, we defer to those agencies who are involved in these types of transactions.</p> <p><i>No staff response necessary.</i></p>
#3 OGA	<p>Stakeholders agree with the guidance in response to FASAB Question 2. Stakeholders provide the following rationales:</p> <ol style="list-style-type: none"> 1. The liability should be associated with the actual PP&E until the property has been transferred. 2. This guidance agrees with the DoD Financial Management Regulation, which states that federal government accounting records are not duplicative. Components that possess and control (have preponderant use of) general property, plant and equipment (PP&E) assets that materially contribute to the components mission should maintain accounting and financial reporting for such PP&E regardless of the organization that originally acquired the items or provided the funding for the PP&E. If a component prepares financial statements, such PP&E assets to include cleanup liability related to the general PP&E asset should be reported in its financial statements. <p><i>No staff response necessary.</i></p>
#4 AGA	<p>We agree with the guidance regarding the liability should be matched with the general property, plant, and equipment (PP&E) that gave rise to the cleanup costs, assuming there is a statute, court judgment or past practice of the component taking responsibility for the action. Once the component reporting entity has been identified for the cleanup costs, the associated liability and the PP&E should be transferred accordingly. We recommend the FASAB require disclosure at the component reporting entity level when the liability is expected to be paid by another component reporting entity and the corresponding PP&E and liability will be transferred at that time.</p> <p>We also recommend the FASAB include in the final interpretation a paragraph for the cleanup costs like paragraph 10 in the contingent liability section providing guidance as to report and record the transactions. Currently paragraph 16 provides a general reference of the treatment of the derecognition and recognition of the PP&E and liability should be performed in accordance with existing standards</p>

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	<p>which is vague as to the proper treatment.</p> <p>Staff response: Interpretations clarify SFFAS and therefore do not offer new disclosure requirements. Staff notes the proposed Interpretation provides a discussion in the Basis for Conclusions under “Disclosures” that details existing GAAP provides sufficient guidance to ensure proper disclosures.</p> <p>Par. A24 provides the general journal entries. Typically this type of detail is best suited for the basis for conclusions instead of the authoritative sections.</p>
#5 VA	<p>Agree the liability for cleanup costs should be carried on the same balance sheet as the related general PP&E.</p> <p>No staff response necessary.</p>
#6 DoD	<p>DoD agrees with the proposed guidance.</p> <p>Rationale: There was an inherent conflict between TR11 and SFFAS 5 in cases where one component reporting entity carried an asset (and thus was required to accrue an Environmental Liability over time) and a different component reporting entity paid for the applicable costs of remediating the Environmental Liability. This Interpretation gives clear direction on how to apply the existing accounting literature to this situation.</p> <p>In addition, consideration should be given to this Interpretation recommending disclosure in the notes to the financial statements of the component accruing the liability. The disclosure would describe the fact that the liability related to the environmental liability recorded on the balance sheet will ultimately be funded and paid by a different federal component. DoD also suggests requiring disclosure, if amounts are significant, when the original reporting entity transfers the asset and the liability to the entity who will fund the clean-up.</p> <p>Staff response: Interpretations clarify SFFAS and therefore do not offer new disclosure requirements. Staff notes the proposed Interpretation provides a discussion in the Basis for Conclusions under “Disclosures” that details existing GAAP provides sufficient guidance to ensure proper disclosures.</p>
#7 GSA	<p>GSA does not agree with this cleanup cost guidance as written, respective to the direction in paragraph 13, 14 and 15 of the Exposure Draft (ED).</p> <p>1) The wording of paragraph 13 does not sufficiently address issues agencies face when multiple components are involved with cleanup cost liabilities. The component reporting entity recognizing the general PP&E may not be the potentially responsible party for the cleanup costs. (i.e. no anticipated</p>

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future outflow of resources). Multiple entities may meet this criteria as having recognized a particular PP&E asset “*during its useful life,*” especially with land. Further, transfers of PP&E often contain agreements requiring associated liabilities to be retained by the transferor entity. Accordingly, when multiple entities meet the criteria of having held the asset, it is unclear in this guidance whether the cleanup liability would be reported by: 1) the component currently recognizing the asset in its balance sheet; 2) the entity that carried the asset for the longest period of its useful life; 3) the entity that reported the asset while the majority of the environmental hazards requiring cleanup were created; 4) or some other trigger like legal decree or component providing environmental cleanup funding (obligation/expenditure driven) based upon potential assignment of costs via agreement among different agencies. We believe any entity accepting responsibility for associated liabilities should report those liabilities in its financial statements, rather than another entity that may currently be holding the land and reporting it on its Balance Sheet.

Based on our understanding of current FASAB standards, as a component reporting entity, GSA currently discloses in agency financial notes any cleanup costs (SFFAS 5 (par.36) and SFFAS 6 (par. 92)) for sites held by GSA, even when there is an agreement with another Federal agency to pay for cleanup. In such cases GSA discloses estimated costs as ‘reasonably possible,’ since GSA may have full responsibility for the cleanup should the other Federal agency fail to perform. This disclosure by GSA creates the risk of potential overlapping/duplication of such disclosures made by other agencies at the government-wide consolidated reporting level. Please see the GSA example below.

Example 1: Curtis Bay, MD (MD0665AL) - GSA includes this asset in its real property inventory and records the asset value for the land on the balance sheet, however the cleanup cost liability is **NOT** reported on balance sheet. GSA reports ‘reasonably possible’ \$5.6M in footnote disclosures, representing a potential risk that agencies currently funding costs may be unable to complete the efforts, and GSA as the holding agency could be named the PRP and have to assume responsibility for some cleanup costs.

Curtis Bay, MD was the original U.S. Army Depot built in 1918 on 798 acres of farmland. Additional acreage was acquired, making the site total 815 acres. The site was used by the U.S. Army for receiving, shipping, and storage, and as an ordnance Depot from 1918 until the mid-1950s. From 1919 until sometime in the 1950s, the function of the Depot was storage and maintenance of ammunition. Between 1958 and 1966, approximately 37 acres were reassigned to the U.S. Army Reserve. In the late-1950s, the National Defense Stockpile became a tenant and began storing strategic materials (bulk ores, minerals, and metals). Also, the Depot began receiving post-Korean War munitions for processing and/or disposal. **In 1965-1966, the remaining 778 acres were reported excess to the GSA which then decided to assume accountability for the facility.** Since that time there have been several transfers of land to Anne Arundel County and the Maryland Department of Transportation, resulting in the current

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	<p>Depot acreage of 463. In the early 1980s, the Stockpile Program assumed the management functions for the GSA property. In 1988, when the Stockpile function was transferred from GSA to the DLA, the Stockpile Program continued to manage the property for GSA. Beginning in FY12, DLA assumed management including funding of remediation efforts including studies.</p> <p>2) We disagree with this guidance as written under Par. 14 of this ED. We take exception to the sentence, <i>“Instead, the component reporting entity receiving the asset upon its removal from service will be responsible for settling the cleanup cost liability.”</i> The term ‘receiving’ arguably leaves open a door for a land holding agency reporting property as excess to GSA to assert that GSA has assumed responsibility for environmental liabilities when it accepts the report of excess. GSA is the disposal agent and is not an owner or operator as it relates to the CERCLA definition of a PRP and is therefore not responsible for the environmental liability of reported excess property. We request the Board further clarify how this FASAB document is intended to be applied, respective to and in conjunction with CERCLA.</p> <p>Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) (42 USC 9601 et seq.) – Federal statute (also known as Superfund) enacted in 1980 and reauthorized in 1986 that provides the statutory authority for cleanup of hazardous substances that could endanger public health, welfare, or the environment. CERCLA addresses the uncontrolled releases of hazardous substances to the environment and the cleanup of former or otherwise inactive waste sites.</p> <p>Potentially Responsible Party (PRP) An individual or company (e.g., an owner, operator, transporter, or generator of hazardous waste) that is potentially responsible for the contamination... problems at a Superfund site. Whenever possible, EPA requires PRPs to clean up hazardous waste sites they have contaminated.</p> <p>3) Under Par. 15 of this ED, we take exception to the sentence, <i>“Upon transferring the general PP&E it should also transfer the associated liability.”</i> See the comment above in reference to Par. 14. Regulatory agencies may identify a PRP through a Consent Order which then requires cleanup action by the PRP. When a Federal entity is the named PRP required to fund cleanup actions, we believe the named entity should report the liability for all funds obligated or anticipated in the future to comply with the Consent Order, regardless whether the PRP happens to be the current or last Federal land holding entity of record. Also, as was noted in our response to question 2, while PP&E may be transferred amongst Federal agencies, associated liabilities are normally specifically addressed in transfer agreements, with liabilities generally remaining the responsibility of the transferor. Accordingly, we do not concur that such associated liabilities should be reported by the transferee entity as required by this paragraph, but should instead remain on the books of the entity responsible to address and liquidate the</p>
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	<p>liability in accordance with a transfer agreement.</p> <p>Example 2: Lakeland, FL (FL0003ZZ) - GSA disposed of this asset and removed it from its asset inventory. Subsequently however the cleanup cost liability was reported on the balance sheet during 2015 through 2017, and closed out by end of 2017. GSA reported a 'probable' environmental liability of \$155k during Q1-Q3 in FY 2017.</p> <p>This 2.4 acre parcel of land is a former Federally owned GSA property. In 2002, GSA conveyed the property to the City of Lakeland as a Public Benefit Conveyance at no cost. Through a Consent Order between GSA and the Florida Department of Environmental Protection, as modified in 2015, GSA was responsible for completing a site assessment and to propose an appropriate remedial strategy to address all contamination at the site. On Sept 29, 2015, GSA awarded a contract to conduct a contamination study, with one option year to implement an approved remediation plan. (Feb. 10, 2017) Letter from FL DEP to City of Lakeland Re: Conditional Site Rehabilitation Completion Order. FL DEP reviewed the No Further Action with Conditions Proposal, dated Sept. 1, 2016, and stated that the City of Lakeland has met the criteria in Chapter 62-780, F.A.C., including commitments with respect to the institutional controls and recordation of institutional controls. That letter served as closure documentation for the cleanup liability at this site.</p> <p><i>Staff response: Staff notes that the interpretation par. 14 references Technical Release (TR) 14, Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment, provides guidance on the disposal, retirement, or removal from service of general PP&E as well as related cleanup costs. It differentiates between permanent and other than permanent removal from service of general PP&E and delineates events that trigger discontinuation of depreciation and removal of general PP&E from accounting records.</i></p>
<p>#8 Treasury</p>	<p>Treasury does not have any objection to the guidance regarding cleanup costs covered by this Exposure Draft.</p> <p><i>No staff response necessary.</i></p>
<p>#9 HHS</p>	<p>HHS agrees that a liability should be reported on the balance sheet of the component recognizing general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.</p> <p><i>No staff response necessary.</i></p>
<p>#10 DOC</p>	<p>The Department agrees with this portion of the draft Interpretation. Specifically, the Department supports the Board's proposed guidance and believes that its issuance would facilitate accurate financial statement presentation of cleanup costs at all reporting entity levels. Reporting the cleanup cost liability</p>

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	<p>on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup appears reasonable because per Paragraph 13, SFFAS 6 guidance presumes the cleanup cost and the associated general PP&E would be recognized by the same component reporting entity.</p> <p><i>No staff response necessary.</i></p>
#11 DOL	<p>Agree. Liabilities for environmental and disposal liabilities should be reported and disclosed for the component reporting entity that reports the PP&E on the balance sheet. The costs (clean-up costs) and associated liability should be matched to the benefits obtained from the use of the asset.</p> <p><i>No staff response necessary.</i></p>
#12 DHS	<p>The Department agrees. The additional guidance is consistent with the matching concept. The component reporting entity reporting the value of the assets (PP&E) should also report the clean-up liabilities related to those assets.</p> <p><i>No staff response necessary.</i></p>
#13 Kearney & Company	<p>Agree. The liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E because the liability is part of the cost to use the PP&E. The component using the PP&E would also have the best available information to update the liability over the underlying asset's useful life as required by SFFAS 5.</p> <p><i>No staff response necessary.</i></p>
#14 DOI	<p>DOI bureaus generally agree with the guidance. One DOI bureau, however, suggests that the guidance should only apply to "permanent" transfer of ownership of the General PP&E.</p> <p><i>No staff response necessary.</i></p>
#15 HUD	<p>HUD generally agrees with the interpretation that the entity that owns the general PP&E should recognize the liability until the PP&E and its associated liability is transferred to another entity for cleanup. Since it is the related PP&E that gave rise to the associated cleanup costs and resulting liability for those cleanup costs, it should be the component reporting entity which carries the PP&E on its balance sheet that should also recognize the associated cleanup liability until transferred. The proposed presentation aligns the asset, liability, expenses in the same component entity prior to and during cleanup ensuring the accuracy of the financial statements for all component entities involved throughout the process.</p> <p><i>No staff response necessary.</i></p>

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	<p>QUESTION #3 The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).</p> <p>a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.</p> <p>b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?</p>
<p>#1 GWSCPA-FISC</p>	<p>The FISC is not currently aware of other liability situations or examples when a similar condition occurs.</p> <p><i>No staff response necessary.</i></p>
<p>#2 SSA</p>	<p>SSA does not have multiple component reporting entities nor sub-component reporting entities within a single component reporting entity; thus, this proposed Interpretation is not applicable to our agency, and we defer to those agencies who are involved in these types of transactions.</p> <p><i>No staff response necessary.</i></p>

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<p>#3 OGA</p>	<p>Stakeholder(s) agree with the guidance in response to FASAB Question 3a. Stakeholder(s) provide the following rationale(s): Workers' compensation claims for other agency's employees when assigned to the Agency.</p> <p>Stakeholder(s) agree with the guidance in response to FASAB Question 3b.</p> <p><i>Staff response: Staff does not believe this would be appropriate for workers' compensation. Paragraphs 94-98 of SFFAS 5 addresses Other Postemployment Benefits (OPEB) which includes workers' compensation. The employer entity should recognize an expense and a liability for OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date.</i></p>
<p>#4 AGA</p>	<p>3a. We are not aware of any liability situations or examples when similar conditions occur. 3b. We don't believe an additional general principle should be included to allow for cases other than the two already discussed. We believe that Generally Accepted Accounting Principles should be followed when recognizing the liability at the level that gave rise to the liability and not at the sub-component entity that has been designated to handle the management of the liability.</p> <p><i>No staff response necessary.</i></p>
<p>#5 VA</p>	<p>3a. There are no special liability situations involving sub-component entities at VA. 3b. Concur with this approach.</p> <p><i>No staff response necessary.</i></p>
<p>#6 DoD</p>	<p>3a. The DoD does not have any additional liability situations to bring forward at this time. 3b. The DoD agrees with the inclusion of this general principle.</p> <p><i>No staff response necessary.</i></p>
<p>#7 GSA</p>	<p>3a. Yes, we believe there are additional situations where multiple components and/or subcomponents have overlapping or joint responsibilities for settlement of liabilities. This is not unusual for instances in complex acquisitions when multiple Federal entities are involved. One component may have primary lead responsibilities and management of an acquisition, with another component also receiving significant or substantial elements of the acquisition, and a certain amount of shared benefit or elements of joint-use. It is not always clear whether recognition of liabilities related to acquisition costs should always fall to the entities based on their funding splits, or another method, such as based on received benefit.</p> <p>Another area that may warrant clarity with this FASAB guidance are liabilities associated with projects or</p>

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	<p>activities where one component provides funding to another component for management and execution of activities via parent-child allocation accounts. Under OMB Circular A-136 and A-11, activities funded through allocation accounts are generally to be reported in the financial statements of the “parent” entity funding the activity, and not the “child” entity that is executing and managing the day-to-day program activity. There are very limited instances (such as where the original funding sources is from the Executive Office of the President or other accounts named by OMB) where the “child” entity includes the financial activity in its component financial reporting.</p> <p><i>Staff response: Staff understands and appreciates the comments, but without specific liability examples or scenarios, it can be difficult to justify the need for a principle.</i></p> <p>3b. Yes, we do believe additional general principles should be included to provide the Federal financial community with a basis for making determinations when other similar or complex liabilities arise and multiple components are involved. However, we do not believe the general statement quoted above in this question provides the clarity needed. With the wording in that quote that, “the liability should be recognized by the sub-component reporting entity designated to handle various aspects,” it reads as if each “aspect” or particular “aspects” may be reported by the component responsible to manage that aspect, which would be contrary to the direction we interpret this exposure draft requires for contingencies and clean-up cost liabilities. The guidance would need to clarify which “aspects” become the driving factors to determine which entity will have reporting responsibility for different parts of a liability, and if/when parts of a liability may be divided amongst multiple components. We also suggest that such additional guidance clarify the inter-related elements of cost recognition with the liability recognition, and not exclusively focus on the liability. The FASAB’s Technical Bulletin 2017-02, Assigning Assets to Component Reporting Entities does not make clear if determinations used for assignment of assets to a particular component are to be matched with associated liabilities, or more specifically, if/when recognition of assets by components may appropriately diverge from the recognition of related liabilities, and how any such divergence should be reflected in financial reporting. Making determinations regarding reporting asset and liability combinations is especially challenging when agencies face situations where a component or sub-component providing funding (and liable for costs) of a particular asset or cost of activities is not necessarily the same component receiving the primary benefit of the activity/asset.</p>
#8 Treasury	<p>Treasury is not aware of other liability situations or scenarios when a similar condition occurs, other than contingent liabilities and cleanup costs.</p> <p><i>No staff response necessary.</i></p>
#9 HHS	<p>3a. HHS is not aware of any other liability situations or examples with similar characteristics.</p>

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	3b. No, HHS does not believe a new general principle should be included.
#10 DOC	<p>3a. The Department is not readily aware of any liability situations or similar examples that would allow it to comment at this time.</p> <p>3b. No, the Department believes that an additional general principle similar to what is currently set forth in the draft guidance for contingent liabilities and cleanup costs should not be included for various other types of liabilities, as individual circumstances for varied types of liabilities may not similarly apply to the draft guidance for contingent liabilities and cleanup costs.</p> <p>The Department believes that the possible general principle for additional liabilities set forth in this question would be inappropriately restrictive, similar to the Department’s comments to questions 1a. and 1b. Reporting entities need appropriate flexibilities to determine the best/preferred proper (in accordance with SFFAS 5) treatments of individual cases of various other types of liabilities involving more than one subcomponent, in order to meet the reporting entity's and component reporting entities’ proper specific needs and preferences.</p>
#11 DOL	<p>3a. No. The Interpretation should be limited to contingent liabilities and cleanup costs.</p> <p>3b. No. The Interpretation should be limited to contingent liabilities and cleanup costs.</p>
#12 DHS	<p>3a. The Department is not aware of any additional liability situations that require additional guidance.</p> <p>3b. The Department has no comment.</p>
#13 Kearney & Company	<p>3a. No. Additionally, we believe that SFFAS 5 provides sufficient guidance if such situations were to arise, and it links the expense/liability recognition with the underlying economic events. See additional discussion in response to Q1.a., above.</p> <p>3b. No. The contingent liability is associated with the original contamination, cleanup cost liability or the use of the asset per SFFAS 5. Agency actions (e.g. management, payment) should not drive expense and liability recognition. Underlying economic actions should drive the recognition consistent with the accrual accounting framework. See additional discussion in answer to part a. above. See additional discussion in answer to part a., above.</p>
#14 DOI	<p>3a. No additional comments.</p> <p>3b. DOI bureaus generally agree with an additional general principle and the proposed wording. However, one DOI bureau has the following caution: It is important that a component reporting entity have reporting flexibility that best applies to the operational structure without being prescriptive in the Interpretation. Communication among and between the sub-components is a key, required element in the process. The more “handoffs” of reporting responsibility, the more points of failure are introduced.</p>
#15 HUD	<p>3a. HUD is not aware of any other liability situations or examples, other than contingent liabilities and cleanup costs presented in this guidance, for which this guidance could apply. It is hypothetically possible that the following instances may create an example, but it not a known past or existing situation at HUD.</p> <ul style="list-style-type: none"> • This could possibly apply to any complex or difficult to measure contingent liability arising out of litigation, which may have been due to actions of multiple sub-components in different

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	<p>geographical areas within a larger reporting entity that uses a distinct and separate sub-component to handle litigation for that reporting entity.</p> <ul style="list-style-type: none"> • This could possibly apply to situations where the development of systems and related costs may be at the component level with the assets and related depreciation being maintained at the sub-component level. In this case, matching occurs through the consolidation of the component and sub-component during agency-level reporting. <p>3b. HUD is of differing opinions on the subject of inclusion of an additional general principal.</p> <ul style="list-style-type: none"> • FHA asserts that this guidance would apply to any complex or difficult to measure contingent liability arising out of litigation and which would be due to actions of multiple sub-components in different geographical areas within a larger reporting entity that uses a distinct and separate sub-component to handle litigation for that reporting entity. In that case the general principle quoted in Q3b above, would be appropriate. • HUD OCFO’s Office of Accounting does not recommend adding a general principle to allow for cases other than contingent liabilities and cleanup costs, stating that the guidance should be linked to very specific exceptions to maintain control of reporting and keep entities in compliance with SFFAS 5 as much as possible. It is believed this will help maintain alignment of financial events to reporting as well as transparency and auditability in the financial reports. • GNMA believes that sufficient guidance has been provided.

<p>QUESTION # 4. Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.</p>	
<p>#1 GWSCPA-FISC</p>	<p>The FISC does not have any further comments or suggestions. No staff response necessary.</p>
<p>#2 SSA</p>	<p>SSA does not have any other comments or suggestions to offer on this Interpretation. No staff response necessary.</p>
<p>#3 OGA</p>	<p>Should the liability be across multiple Federal agencies it would seem that the entity managing the litigation would be the logical agency to report the liability until settlement/judgement has been reached.</p> <p>Staff response: The proposal provides the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5.</p>

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#4 AGA	<p>We have no other comments or suggestions. No staff response necessary.</p>
#5 VA	<p>No further comments or suggestions. No staff response necessary.</p>
#6 DoD	<p>DoD comments and suggestions as follows:</p> <p>1) Add to interpretation the responsibility of the transferring entity to provide supporting documentation for the estimated clean-up costs accrued, similar to the language in SFFAS 4, paragraph 109.</p> <p>Staff response: Language was added to the basis for conclusions. Staff did not believe it necessary to include in the authoritative section of the interpretation because this is normally required and one would assume that the providing entity had also been subject to audit when it reported those amounts.</p> <p>2) Suggest that the interpretation provide clarification on how a liability is recognized when an asset is transferred to the reporting entity responsible for the asset upon removal from service (e.g., DLA) versus when a contract is established with a service provider (e.g., USAGE, NAVFAC) to dispose of an asset, since they result in very different accounting treatments.</p> <p>3) Suggest adding clarity to paragraph 16 referencing what specific standards (including paragraph references) should be followed for recognition of PP&E and the liability upon transfer to the paying entity and also clarifying which entries are eliminated in consolidation at the component level.</p> <p>Staff response: Staff is unclear what particular reference the respondent would like. The interpretation provides the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup. There isn't a specific standard because that is what the interpretation does.</p> <p>4) Suggest rewording Paragraph 15, to indicate that component reporting entities "<u>may</u> settle the cleanup cost liability" instead of "<u>will</u> settle the cleanup cost liability", by transferring the general PP&E for cleanup. As currently written, this is more restrictive than the current methods allowed by TB 2017-2 which allows assets to be assigned by a reporting entity to its component reporting entities on a rational and consistent basis.</p>

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	<p>Staff response: The purpose of the Interpretation is to provide guidance and clarification. There were known inconsistencies (double reporting and no reporting) in this area so providing a clear path forward of one method appears appropriate. Offering flexibility or an alternative in the Interpretation may not solve the issue and inconsistencies would continue.</p> <p>5) Suggest that future guidance be issued to provide clarification on disposal liabilities. The principle applied for environmental liabilities as described above should also apply to disposal liabilities: the sub-component reporting entity responsible for managing disposition would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 6.</p> <p>Staff response: SFFAS 6 par. 85 defines cleanup costs as follows: “Cleanup costs are the costs of removing, containing, and/or disposing of (1) hazardous waste (see paragraph 86) from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.” Staff does not envision separate guidance.</p>
<p>#7 GSA</p>	<p>We suggest additional clarification be provided regarding the financial reporting presentation of transactions and disclosures presented in this ED. The current paragraph 16 of the ED discusses de-recognition and recognition of general PP&E and associated liabilities should be recorded following existing standards, and paragraph A25 indicates that existing GAAP is sufficient to address disclosures of the activity addressed in this ED. We would request this guidance be more specific as to which other existing standards (and preferably specific paragraphs) are to be applied for determining transactional impacts and disclosures.</p> <p>Staff response: Interpretations clarify SFFAS and therefore do not offer new disclosure requirements. Staff notes the proposed Interpretation provides a discussion in the Basis for Conclusions under “Disclosures” that details existing GAAP provides sufficient guidance to ensure proper disclosures. While referring to all existing GAAP, it also provides reference to SFFAS 55, SFFAS 15 and SFFAC 3.</p> <p>The paragraphs A23 and A24 in the Basis for Conclusions discuss transfers often involved with PP&E and associated clean-up liabilities. Yet in the example of the debit and credit to be recorded when a liability is transferred to another entity, rather than crediting Financing Sources Transferred In/Out Without Reimbursement, the example shown indicates the credit should be to Imputed Financing Sources. It is not clear why Imputed resources are impacted, especially as the associated narrative paragraphs repeatedly discuss this activity as being transfers. Further, while the narrative indicates that a related asset and liability would be transferred together, the example displays only the liability and not</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p>the associated asset being impacted, such as one might expect with compound transactions often used for asset/liability transfers. It would also be helpful for such displays of transactions to include the transactions recordable by the agency/component that the liability was being transferred to. Other existing guidance does provide examples of where Imputed Financing Sources are used in transactions with cleanup liabilities, such as when the Treasury Judgement Fund (JF) makes settlement payments on behalf of the agency component responsible for the liability, but JF issues are not discussed in the ED.</p> <p>Further, if Imputed Financing Sources are regarded as the appropriate credit for transfer transactions we have additional concerns. With the issuance of SFFAS 55, <i>Amending Inter-entity Cost Provisions</i>, the risks of potential imbalances at the government-wide reporting level increased, since business-type entities are required to recognize imputed transactions in more circumstances than non-business-type reporting entities. From our understanding of SFFAS 55, the types of intra-agency transfers discussed in this ED appear to be of a type that non-business entities would not be required to recognize imputed cost impacts (with an exception for Judgement Fund activity specifically included under SFFAS 55). This could create potential imbalances as one entity's imputed resources are not always reciprocated with offsetting imputed costs in the Treasury FR. Traditional transfers (other than imputed-types) of financing sources should create offsetting records which are eliminated in the consolidation for government-wide reporting.</p> <p><i>Staff response: The purpose of the Interpretation is to provide guidance and clarification. There were known inconsistencies (double reporting and no reporting) in this area so providing a clear path forward of one method appears appropriate.</i></p> <p><i>Staff will assess the narrative and entries to determine if they can be clarified.</i></p> <p>It was also noted in multiple instances in the ED, particularly paragraphs 13 through 16, references to liabilities associated with general PP&E, as if this guidance was specific to liabilities of those particular assets. It is not clear why similar liabilities related to stewardship PP&E (especially land and other stewardship assets requiring environmental clean-up), would not have been discussed, or mentioned as also being applicable. The guidance should make it clear whether the liability treatment discussed in the ED is limited, such as to G-PP&E vs Stewardship PP&E, and if any there are any uniquenesses in treatment of liabilities when the associated asset categories are different.</p> <p><i>Staff response: The proposal is specific to general PP&E. SFFAS 6 provided that cleanup costs related to stewardship PP&E, the total estimated liability for cleanup cost would be recognized at the time that the stewardship PP&E is placed in service. This is consistent with the treatment of</i></p>
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STAFF SUMMARY OF RESPONSES – Table C

	<i>the acquisition cost of the stewardship PP&E which is recognized as a cost of operations in the period that the PP&E is placed in service.</i>
#8 Treasury	Treasury does not have any other comments or suggestions. No staff response necessary.
#9 HHS	Provide a clear definition of “sub-component” and “management”. This will simplify understanding of the guidance.
#10 DOC	The Department does not have any other comments or suggestions on the Interpretation.
#11 DOL	In paragraph 17, the requirements of the Interpretation should be effective for reporting periods beginning after September 30, 2020, but still permit early implementation.
#12 DHS	The Department does not have any other comments or suggestions.
#13 Kearney & Company	No.
#14 DOI	<p>The Interpretation address cases not in litigation within Footnote 2, “Other contingent liabilities may be considered if appropriate and reasonable. While the leeway is recommended, coordination between the entities is desirable so that the originating organization isn’t absolved of responsibility as the legal claim is managed through the settlement process.</p> <p>The Interpretation concentrates on those situations where a settlement against the government occurs. Many cases are settled in the government’s favor. It isn’t clear that the managing entity should remove the liability, i.e., no payment is required.</p> <p>A more definitive explanation of “Terminology, definitions, and language presented in TB 2002-1 are not consistent with SFFAS 47” would be helpful (quote from A10.a); especially if a TB to rescind TB 2002-1 is forthcoming. It is unclear what the specifics are that would cause TB 2002-1 to be rescinded.</p> <p>As a federal entity, we are increasingly aware of and concerned that whenever large, complex organizations cite reporting difficulties because of organizational structure, lack of sufficient documentation, or the potential of reporting inconsistencies within the entity that FASAB makes recommendations relieving these issues. This can create an additional workload for those entities that are less complex with little benefit realized but with incremental costs, i.e., entities have to ensure they still comply with the Standard, Interpretation, etc.</p> <p>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation.</p>
#15 HUD	HUD has no other comments.

STAFF SUMMARY OF RESPONSES – Table D: Listing of Additional Comments from Respondents

D. Listing Of Additional Comments from Respondents

<u>Respondent</u>	<u>Comment</u>
#7 GSA	<p>Page 10, Par. 5.a &6- “Liabilities generally should be reported by the component reporting entity for which the future outflow or sacrifice of resources...”</p> <p>Unclear – GSA suggests adding footnote/explain when this would not be the case.</p> <p>Staff response: This paragraph is providing general principles and therefore doesn’t suggest absolutes because we may not be aware of all potential scenarios.</p>
#7 GSA	<p>Page 10, Par. 8- "Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize or disclose."</p> <p>Unclear – GSA suggests adding footnote/explain when this would not be the case.</p> <p>Staff response: This provides general principles and therefore doesn’t suggest absolutes because we may not be aware of all potential scenarios.</p>
#7 GSA	<p>Define terms used to help with clarification</p> <p>Consider an Appendix C for terms such as, imputed costs; contingent liabilities; business-type activities, useful life, etc.</p> <p>Staff response: Typically we define new technical terms in the standards section that must have authoritative standing and then include them in the glossary/ Appendix. The glossary may include other terms that are important to an understanding of the document that have been previously defined and are included in the FASAB consolidated glossary.</p>
#11 DOL	<p>Clarifications are needed. The Interpretation is unclear as to the use of the terms “sub-component reporting entity” and “financial statements.” A “sub-component reporting entity” is different from a “sub-component of a component reporting entity” or a “sub-component of a reporting entity.” Also, “financial statements” are different from “General Purpose Federal Financial Reports (GPFFR).”</p> <p>Paragraphs 8, 9, and 10 refer to “sub-component reporting entities.”</p> <p>SFFAS 47, paragraph 8 (excerpt) states: “Reporting entities are organizations that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one.”</p>

STAFF SUMMARY OF RESPONSES – Table C

	<p>Proposed Interpretation, paragraph 4 (a reference to SFFAS 47, paragraph 10, excerpt): Component reporting entities would also include sub-components (those components included in the GPFFR of a larger component reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.</p> <p>Because the term “reporting entity” is defined as an entity that issues GPFFR, a more inclusive definition would be “sub-component of a component reporting entity” or “sub-component of a reporting entity” to include both types of sub-components: those that issue GPFFR and those that do not. The estimated cost associated with the contingent liability would be reported (1) in standalone GPFFR of sub-components that issue GPFFR and (2) in the disaggregated Statement of Net Cost (as required by Note 22 in OMB Circular A-136) for both types of sub-components (those that issue standalone GPFFR and those that do not).</p> <p>“Financial statements” may be prepared for internal management purposes and for interim periods; they may exclude certain required annual accruals and adjustments; and they may exclude certain financial statements and disclosures which would otherwise be required under GAAP (e.g., exclusions could be: note disclosures that are an integral part of the financial statements; certain statements, such as the Statement of Budgetary Resources which is not required to be submitted as part of third quarter interim statements per OMB Circular A-136; and RSI/RSSI). However, GPFFR would include the financial statements and disclosures required by GAAP. Therefore, if the Interpretation refers to “financial statements,” it should be clear that these are GPFFR.</p> <p><i>Staff response: Staff has recommended that the contingent liability portion be removed from the interpretation. Staff also provided a direct response to this agency regarding terms within SFFAS 47.</i></p>

ATTACHMENT 1-
COMMENT LETTERS

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January 16, 2019

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) Exposure Draft (ED) on the proposed Interpretation, *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views.

Our responses to the ED questions are included below.

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report

Ms. Payne, Federal Accounting Standards Advisory Board
January 16, 2019

information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

- a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.
 - b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.
- A1. The FISC believes that reporting entities should follow existing FASAB standards, including the standards in SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended (SFFAS No. 4), to determine which component or sub-component reporting entity should report the contingent liabilities in accordance with SFFAS No. 5. SFFAS No. 4 provides the standards for the reporting entities to define responsibility segments and to determine full cost of goods and services to report, including inter-entity costs. Although SFFAS No. 55, *Amending Inter-entity Cost Provisions*, eliminated the requirement for entities to report certain inter-entity costs, SFFAS No. 55 did not prohibit entities from electing to report such costs. It is not clear from the ED how the proposed interpretation is consistent with the requirements that currently exist in FASAB standards, including SFFAS No.4.
- Q2. The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

Ms. Payne, Federal Accounting Standards Advisory Board
January 16, 2019

- A2. The FISC generally agrees with the guidance regarding cleanup costs for the reasons stated in the ED.
- Q3. The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).
- a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.
- b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, "For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities"?
- A3. The FISC is not currently aware of other liability situations or examples when a similar condition occurs.
- Q4. Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.
- A4. The FISC does not have any further comments or suggestions.

Ms. Payne, Federal Accounting Standards Advisory Board
January 16, 2019

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

Very truly yours,

A handwritten signature in black ink, appearing to read "S. Ettifa". The signature is written in a cursive style with a large initial "S" and a stylized "Ettifa".

Sherif R. Ettifa
FISC Chair

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name: Joanne Gasparini, Acting Deputy Chief Financial Officer

Please identify your organization, if applicable.

Organization: Social Security Administration (SSA)

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019

- a. **Do you agree or disagree with the guidance? Please provide the rationale for your answer.**
- b. **Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.**

SSA Response: SSA does not have multiple component reporting entities nor sub-component reporting entities within a single component reporting entity; thus, this proposed Interpretation is not applicable to our agency and we defer to those agencies who are involved in these types of transactions.

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

SSA Response: As referenced in paragraphs A19 and A23 pertaining to cleanup costs, challenging issues exist when large complex departments, such as the Department of Defense, may have assets owned by one component reporting entity but used or funded by another component reporting entity. Assuming question 2 is geared towards paragraph A-23, multiple reporting components within a larger reporting entity, SSA does not have multiple reporting entities within a single component reporting entity; thus, we defer to those agencies who are involved in these types of transactions.

- Q3.** The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

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- a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.
- b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?

SSA Response: SSA does not have multiple component reporting entities nor sub-component reporting entities within a single component reporting entity; thus, this proposed Interpretation is not applicable to our agency, and we defer to those agencies who are involved in these types of transactions.

Q4. Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

SSA Response: SSA does not have any other comments or suggestions to offer on this Interpretation.

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 28, 2019

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input checked="" type="checkbox"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 28, 2019

- a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.

Majority of the stakeholders agree with the guidance in response to FASAB Question 1a, but stress the importance of communication. Additionally, as the entity responsible for managing the litigation it seems logical they would have all the necessary information to report the liability. Stakeholders provide the following rationales/questions:

1. Recommend clarifying and/or revising paragraph 10 to address the following:

a. What specific paragraphs are considered the “general provisions of Interpretation 2?”

b. Currently, entities recognize an expense and liability at the time they recognize a contingent liability and reverse those entries if the contingent liability is not realized (no payment required). Why would the entity managing the litigation recognize an “other financing source” at the time they remove the liability, in the event a different entity is identified to pay the liability? This guidance does not appear to meet the definition of other financing sources per SFFAS 7, paragraph 70.

c. If the managing entity reports an expense (e.g. general ledger account 679000) at the time they recognize the contingent liability, then subsequently report an “other financing source” upon removal of the liability, this will impact the managing agency’s net cost of operations although the managing entity incurred no actual costs. Instead, reversing the original entry would ultimately result in no impact to the managing entity’s net cost of operations and would not require eliminations between the managing and funding entities for the consolidated report. See SFFAS 7, paragraph 43 related to the components of net cost of operations.

2. The interpretation guidance is based on an assumption there is a lack of available contingent liability information for a subcomponent entity to report liabilities they incurred when multiple subcomponents are involved. However, we recommend the Interpretation address the situation where a subcomponent entity has such information available. For example, multiple DoD entities are sometimes grouped on the Treasury judgment fund website as “Office of the Undersecretary of Defense –Agencies.” The Defense Finance and Accounting Service provides information to DoD subcomponents to identify their portion of litigation under this summary category.

3. Paragraph A17 introduces a separate scenario where the reporting entity managing litigation is also responsible for paying such litigation and does not seek reimbursement for claims paid on behalf of other sub-component reporting entities. We recommend guidance on how this should be reported by

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both involved entities in the “Guidance on Contingent Liabilities” section of the Interpretation.

4. Recommend that FASAB include information related to reporting disclosures in the Interpretation. Per SFFAS 55, “...component reporting entities should identify the costs of the providing entity that are not fully reimbursed...” How does this apply to subcomponent reporting entities? If a subcomponent reporting entity does not have enough information to report a contingent liability, how would they have enough information to report a related disclosure?

5. Consider revising verbiage in SFFAS 5, to clarify the guidance is applied at the component entity level. For example, SFFAS 5, paragraph 19 defines a liability as “a probably future outflow or other sacrifice of resources as a result of a past transaction or event.” If a subcomponent that is managing litigation recognizes the contingent liability, but a different subcomponent ultimately will pay any required liability, then the managing subcomponent will appear to be noncompliant with SFFAS 5 (i.e., no probably future outflow or other sacrifice of resources will be incurred by the subcomponent managing the liability).

b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.

Majority of the stakeholders agree with the guidance in response to FASAB Question 1b. Stakeholders provide the following rationales/questions:

1. The key to this proposed interpretation generally relates to the guidance found in SFFAS 5, “To recognize and disclose contingent liabilities in accordance with SFFAS 5, a component reporting entity must have information about ongoing litigation and be able to exercise judgment regarding the possible outcomes.” OGA thinks that the key to this standard is that all the entities involved (entity managing the claim and the one paying the claim) must communicate with each other to ensure the responsibilities of each entity are clear to avoid inaccurate reporting on the financial statements.

2. If the entity whose action gave rise to the litigation has the necessary information to report the liability, it should be allowed to report the liability on their financial statements. The need for another entity reporting the liability should be lack of information available to report. Communication should be a key when an entity is managing a litigation.

3. Please clarify what “report” means. Does this mean the recognition of the liability/expense in the subcomponent reporting entity’s financial statements or could reporting include a disclosure that existing litigation is managed by another entity, which may ultimately require payment by the subcomponent reporting entity that incurred the liability?

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 28, 2019

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Stakeholders agree with the guidance in response to FASAB Question 2. Stakeholders provide the following rationales:

- 1. The liability should be associated with the actual PP&E until the property has been transferred.**
- 2. This guidance agrees with the DoD Financial Management Regulation, which states that federal government accounting records are not duplicative. Components that possess and control (have preponderant use of) general property, plant and equipment (PP&E) assets that materially contribute to the components mission should maintain accounting and financial reporting for such PP&E regardless of the organization that originally acquired the items or provided the funding for the PP&E. If a component prepares financial statements, such PP&E assets to include cleanup liability related to the general PP&E asset should be reported in its financial statements.**

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

- Q3.** The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).
- a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 28, 2019

Stakeholder(s) agree with the guidance in response to FASAB Question 3a. Stakeholder(s) provide the following rationale(s):

Workers' compensation claims for other agency's employees when assigned to the Agency.

- b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, "For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities"?

Stakeholder(s) agree with the guidance in response to FASAB Question 3b.

- Q4.** Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

Should the liability be across multiple Federal agencies it would seem that the entity managing the litigation would be the logical agency to report the liability until settlement/judgement has been reached.

January 28, 2019

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
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 to the Federal Accounting Standards Advisory Board (FASAB) on its Exposure Draft of *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*. The FMSB is comprised of 19 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 standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately. For full disclosure and transparency, current members of the FMSB do not work with or provide consulting services with classified organizations within the Federal Government.

We appreciate the FASAB's continued effort in setting and providing clarification of the standards relating to the Federal Government. We have reviewed the Exposure Draft and have provided our responses below based on the questions in the Exposure Draft.

As the FMSB, we understand the complexity this Exposure Draft is trying to address. We also understand the efforts the federal audit community has done to work towards issuing a clean financial statement opinion for the Federal Government. The FMSB struggled in its deliberations as to our response regarding the proposed guidance. While the best intentions of this Exposure Draft moves a step closer to the overall goal of issuing a clean opinion, we are concerned that the proposed guidance sets a precedent resulting in standards that may be based more on convenience, rather than on financial accounting concepts. This precedent could create a slippery slope in the standard setting process. Our response noted below also does not agree with the primary alternative guidance. However, we do not want the rest of the federal audit community to consider our response as an attack or to diminish the efforts of those involved so far.

Q1

a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.

We respectfully disagree. We understand the complexity dealing with litigation with the associated component reporting entities and sub-component reporting entities. But we struggled with the concept that the managing component reporting entity should report the contingent liability based more on convenience than based on Generally Accepted Accounting Principles. We believe that if the managing component reporting entity has enough information to determine the contingent liability according to SFFAS 5 that it can determine what component or sub-component entity gave rise to the litigation. Therefore, the liability and associated expense should be recorded at the level that gave rise to the liability. Additionally, it seemed to be confusing as well as misleading to the reader to recognize a liability for the managing component reporting entity in one period and a corresponding other financing source in another period when the liability is finalized, and the specific

sub-component is identified. The reader may also be misled if the same contingent liability is reported in multiple levels of reporting entities. It also may lead to a heightened risk of material misstatement. We therefore believe that management of the reporting entity should have the opportunity to utilize professional judgment to determine the extent of reporting a contingent liability at any component or sub-component reporting entity.

However, **if the FASAB affirms the primary alternative**, we disagree that the other involved sub-component reporting entities should not report information on the contingent liabilities. As noted above we believe that if enough information is available to determine a contingent liability that there is enough information to identify the specific sub-component and the sub-component should disclose, not record, the contingent liability being managed by another component. We encourage the FASAB to reconsider the wording in the interpretation that does not allow the other entities to provide disclosure.

b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.

Please see our above answer to Q1.a. If the FASAB affirms the alternative, we recommend the FASAB provide illustrative guidance as to what disclosures the managing component reporting entity should include in their financial statements regarding the liability.

Q2

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

We agree with the guidance regarding the liability should be matched with the general property, plant, and equipment (PP&E) that gave rise to the cleanup costs, assuming there is a statute, court judgment or past practice of the component taking responsibility for the action. Once the component reporting entity has been identified for the cleanup costs, the associated liability and the PP&E should be transferred accordingly. We recommend the FASAB require disclosure at the component reporting entity level when the liability is expected to be paid by another component reporting entity and the corresponding PP&E and liability will be transferred at that time.

We also recommend the FASAB include in the final interpretation a paragraph for the cleanup costs like paragraph 10 in the contingent liability section providing guidance as to report and record the transactions. Currently paragraph 16 provides a general reference of the treatment of the derecognition and recognition of the PP&E and liability should be performed in accordance with existing standards which is vague as to the proper treatment.

Q3

a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.

We are not aware of any liability situations or examples when similar conditions occur.

b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, "For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities"?

We don't believe an additional general principle should be included to allow for cases other than the two already discussed. We believe that Generally Accepted Accounting Principles should be followed when

recognizing the liability at the level that gave rise to the liability and not at the sub-component entity that has been designated to handle the management of the liability.

Q4

Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

We have no other comments or suggestions.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Lealan Miller, Chair at lmiller@eidebailly.com or at 208-383-4756.

Sincerely,



Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: John H. Lynskey, CGFM, CPA, AGA National President

Association of Government Accountants
Financial Management Standards Board
July 2018 – June 2019

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FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
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Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019

- a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.

VA – Agree with the proposed guidance because if there is a separate component entity managing contingent liabilities it may be best equipped to report the contingent liability.

- b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.

VA – The parent entity should determine which sub-component entity would be most appropriate to report the information in accordance with SFFAS 5. If the contingent liability is tracked by a different entity than the entity that is responsible for the liability, the sub-component tracking the liability may be more appropriate to report the liability as stated in “a” above.

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

VA – Agree the liability for cleanup costs should be carried on the same balance sheet as the related general PP&E.

- Q3.** The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019

- a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.

VA – There are no special liability situations involving sub-component entities at VA.

- b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?

VA – Concur with this approach.

- Q4.** Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

VA – No further comments or suggestions.



OFFICE OF THE UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

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

Dear Ms. Payne:

The Department of Defense (DoD) is pleased to submit the attached comments to the Federal Accounting Standards Advisory Board on the proposed Exposure Draft (ED), Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5. The DoD agrees with the proposed ED regarding both contingent liabilities and cleanup costs when multiple component reporting entities are involved. The DoD also agrees with the inclusion of the additional general principle for designating the component reporting entity responsible for recognizing a liability other than contingent liabilities and cleanup costs. Detailed responses and further suggestions on the Interpretation are provided in the attached comments.

Thank you for considering the DoD's input.

A handwritten signature in black ink, appearing to read "D. A. Glenn".

Douglas A. Glenn
Assistant Deputy Chief Financial Officer

Enclosed:
As stated

#6 Department of Defense Federal-Preparer
FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

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Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: _____
Individual	<input type="checkbox"/>	

Please provide your name.

Name: Douglas A. Glenn, Assistant Deputy Chief Financial Officer (ADCFO), OUSD(C)/DCFO

Please identify your organization, if applicable.

Organization: The Department of Defense (DoD)

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

#6 Department of Defense Federal-Preparer
FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
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- a. **Do you agree or disagree with the guidance? Please provide the rationale for your answer.**

DoD Response:

The DoD agrees with the Board's proposed guidance.

Rationale: The proposed guidance is reasonable and should be incorporated. However, it may be appropriate to address the need to true-up the liability, once a settlement is reached or a judgment ordered by a court. If the sub-component managing the litigation records the liability and expense, the liability should be trueed-up before it is transferred to the sub-component that is designated to pay the liability.

- b. **Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.**

DoD Response:

DoD neither agrees nor disagrees with the guidance.

Rationale: The DoD needs additional clarification in order to formulate a position. The three referenced parties should be clearly identified as they may be separate parties or a single reporting entity serving multiple roles: (1) the entity whose action(s) gave rise to the litigation, (2) the entity managing the litigation and, (3) the entity designated to pay the liability. The component reporting entity responsible for recognizing the liability should be determined by management. FASAB should codify this along with any related disclosures needed to avoid misleading the financial statement users.

Additionally, if the entity whose actions gave rise to the litigation does not record any liability based on this new guidance, DoD recommends adding a disclosure note requirement regarding such litigation.

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

#6 Department of Defense Federal-Preparer
FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
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DoD Response:

DoD agrees with the proposed guidance.

Rationale: There was an inherent conflict between TR11 and SFFAS 5 in cases where one component reporting entity carried an asset (and thus was required to accrue an Environmental Liability over time) and a different component reporting entity paid for the applicable costs of remediating the Environmental Liability. This Interpretation gives clear direction on how to apply the existing accounting literature to this situation.

In addition, consideration should be given to this Interpretation recommending disclosure in the notes to the financial statements of the component accruing the liability. The disclosure would describe the fact that the liability related to the environmental liability recorded on the balance sheet will ultimately be funded and paid by a different federal component. DoD also suggests requiring disclosure, if amounts are significant, when the original reporting entity transfers the asset and the liability to the entity who will fund the clean-up.

Q3. The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

- a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**

DoD Response:

The DoD does not have any additional liability situations to bring forward at this time.

#6 Department of Defense Federal-Preparer

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
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- b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?

DoD Response:

The DoD agrees with the inclusion of this general principle.

- Q4.** Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

DoD Response:

DoD comments and suggestions as follows:

- 1) *Add to interpretation the responsibility of the transferring entity to provide supporting documentation for the estimated clean-up costs accrued, similar to the language in SFFAS 4, paragraph 109.*
- 2) *Suggest that the interpretation provide clarification on how a liability is recognized when an asset is transferred to the reporting entity responsible for the asset upon removal from service (e.g., DLA) versus when a contract is established with a service provider (e.g., USACE, NAVFAC) to dispose of an asset, since they result in very different accounting treatments.*
- 3) *Suggest adding clarity to paragraph 16 referencing what specific standards (including paragraph references) should be followed for recognition of PP&E and the liability upon transfer to the paying entity and also clarifying which entries are eliminated in consolidation at the component level.*
- 4) *Suggest rewording Paragraph 15, to indicate that component reporting entities “may settle the cleanup cost liability” instead of “will settle the cleanup cost liability”, by transferring the general PP&E for cleanup. As currently written, this is more restrictive than the current methods allowed by TB 2017-2 which allows assets to be assigned by a reporting entity to its component reporting entities on a rational and consistent basis.*
- 5) *Suggest that future guidance be issued to provide clarification on disposal liabilities. The principle applied for environmental liabilities as described above should also apply to disposal liabilities: the sub-component reporting entity responsible for managing disposition would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 6.*

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input checked="" type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: _____
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: _____
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.

GSA RESPONSE: We do not agree with the guidance as written, respective to the direction in paragraph 8 of the Exposure Draft (ED), where a sub-component entity that is only involved to manage litigation should report the cost and liability balances on its sub-component financial statements. Sub-components managing litigation may be the legal staff of an agency (such as an Office of General Counsel in many agencies), or even components of the Department of Justice, who likely had no part in causing underlying liabilities to arise, nor are these sub-components likely to provide the source of funding to liquidate the liabilities. While such legal staffs often have the best insight for developing reasonable estimates of probable, possible, or remote contingent liabilities and cleanup costs, we believe such estimates can be readily shared with management of other sub-component entities for purposes of reporting or disclosing such liabilities. If such reporting were applied to GSA, its Office of General Counsel, operating under GSA's Working Capital Fund would be required to carry substantial liabilities that are directly associated with other GSA sub-components. One GSA sub-component in particular, the activities of the Public Buildings Service's Federal Buildings Fund (FBF), which produces stand-alone audited financial statements, would be missing substantial liabilities and costs that arise from PBS activities. It is not clear how the financial statements of the FBF can be considered complete without recognition of its legal liabilities and environmental clean-up costs.

b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.

GSA RESPONSE: Yes, we do agree with this alternative. We suggest reporting of costs and liabilities discussed in the ED are more properly reported by sub-components with the most direct cause-and-effect relationship to activities that generated the liability. To meet the full-cost accounting requirements of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, we believe the recognition, especially of the cost associated with such liabilities, should be reported on books of the sub-component entity that caused the liability. To address the issue that funding or activities to clean-up or mitigate hazardous materials to extinguish the liability may be assigned to a sub-component other than the entity that caused the liability to arise, we would suggest that reassignment of the liability from one entity to another be accomplished via liability transfer transactions between sub-components.

Further, we would consider it appropriate even after a liability transfer, that financial events continue to be communicated between the sub-components, such as when liabilities are settled for different amounts than estimated when the liabilities were transferred. We believe information would be exchanged between sub-components so that the original sub-component causing the liability should adjust their cost up or down to reflect actuals, with corresponding adjustment to the liability transfers. This would keep the cost recognition properly placed to the sub-component causing the liability, and prevent cost recognition from being assigned to the secondary sub-component who manages the liquidation or resolution of the liability.

Q2. The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

GSA RESPONSE: GSA does not agree with this cleanup cost guidance as written, respective to the direction in paragraph 13, 14 and 15 of the Exposure Draft (ED).

1) The wording of paragraph 13 does not sufficiently address issues agencies face when multiple components are involved with cleanup cost liabilities. The component reporting entity recognizing the general PP&E may not be the potentially responsible party for the cleanup costs. (i.e. no anticipated future outflow of resources). Multiple entities may meet this criteria as having recognized a particular PP&E asset “*during its useful life*,” especially with land. Further, transfers of PP&E often contain agreements requiring associated liabilities to be retained by the transferor entity. Accordingly, when multiple entities meet the criteria of having held the asset, it is unclear in this guidance whether the cleanup liability would be reported by: 1) the component currently recognizing the asset in its balance sheet; 2) the entity that carried the asset for the longest period of its useful life; 3) the entity that reported the asset while the majority of the environmental hazards requiring cleanup were created; 4) or some other trigger like legal decree or component providing environmental cleanup funding (obligation/expenditure driven) based upon potential assignment of costs via agreement among different agencies. We believe any entity accepting responsibility for associated liabilities should report those liabilities in its financial statements, rather than another entity that may currently be holding the land and reporting it on its Balance Sheet.

Based on our understanding of current FASAB standards, as a component reporting entity, GSA currently discloses in agency financial notes any cleanup costs (SFFAS 5 (par.36) and SFFAS 6 (par. 92)) for sites held by GSA, even when there is an agreement with another Federal agency to pay for cleanup. In such cases GSA discloses estimated costs as ‘reasonably possible,’ since GSA may have full responsibility for the cleanup should the other Federal agency fail to perform. This disclosure by GSA creates the risk of potential overlapping/duplication of such disclosures made by other agencies at the government-wide consolidated reporting level. Please see the GSA example below.

Example 1: Curtis Bay, MD (MD0665AL) - GSA includes this asset in its real property inventory and records the asset value for the land on the balance sheet, however the cleanup cost liability is **NOT** reported on balance sheet. GSA reports ‘reasonably possible’ \$5.6M in footnote disclosures, representing a potential risk that agencies currently funding costs may be

unable to complete the efforts, and GSA as the holding agency could be named the PRP and have to assume responsibility for some cleanup costs.

Curtis Bay, MD was the original U.S. Army Depot built in 1918 on 798 acres of farmland. Additional acreage was acquired, making the site total 815 acres. The site was used by the U.S. Army for receiving, shipping, and storage, and as an ordnance Depot from 1918 until the mid-1950s. From 1919 until sometime in the 1950s, the function of the Depot was storage and maintenance of ammunition. Between 1958 and 1966, approximately 37 acres were reassigned to the U.S. Army Reserve. In the late-1950s, the National Defense Stockpile became a tenant and began storing strategic materials (bulk ores, minerals, and metals). Also, the Depot began receiving post-Korean War munitions for processing and/or disposal. **In 1965-1966, the remaining 778 acres were reported excess to the GSA which then decided to assume accountability for the facility.** Since that time there have been several transfers of land to Anne Arundel County and the Maryland Department of Transportation, resulting in the current Depot acreage of 463. In the early 1980s, the Stockpile Program assumed the management functions for the GSA property. **In 1988, when the Stockpile function was transferred from GSA to the DLA, the Stockpile Program continued to manage the property for GSA. Beginning in FY12, DLA assumed management including funding of remediation efforts including studies.**

2) We disagree with this guidance as written under Par. 14 of this ED. We take exception to the sentence, *“Instead, the component reporting entity receiving the asset upon its removal from service will be responsible for settling the cleanup cost liability.”* The term ‘receiving’ arguably leaves open a door for a land holding agency reporting property as excess to GSA to assert that GSA has assumed responsibility for environmental liabilities when it accepts the report of excess. GSA is the disposal agent and is not an owner or operator as it relates to the CERCLA definition of a PRP and is therefore not responsible for the environmental liability of reported excess property. We request the Board further clarify how this FASAB document is intended to be applied, respective to and in conjunction with CERCLA.

Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) (42 USC 9601 et seq.) – Federal statute (also known as Superfund) enacted in 1980 and reauthorized in 1986 that provides the statutory authority for cleanup of hazardous substances that could endanger public health, welfare, or the environment. CERCLA addresses the uncontrolled releases of hazardous substances to the environment and the cleanup of former or otherwise inactive waste sites.

Potentially Responsible Party (PRP) An individual or company (e.g., an owner, operator, transporter, or generator of hazardous waste) that is potentially responsible for the contamination... problems at a Superfund site. Whenever possible, EPA requires PRPs to clean up hazardous waste sites they have contaminated.

3) Under Par. 15 of this ED, we take exception to the sentence, *“Upon transferring the general PP&E it should also transfer the associated liability.”* See the comment above in reference to Par. 14. Regulatory agencies may identify a PRP through a Consent Order which

then requires cleanup action by the PRP. When a Federal entity is the named PRP required to fund cleanup actions, we believe the named entity should report the liability for all funds obligated or anticipated in the future to comply with the Consent Order, regardless whether the PRP happens to be the current or last Federal land holding entity of record. Also, as was noted in our response to question 2, while PP&E may be transferred amongst Federal agencies, associated liabilities are normally specifically addressed in transfer agreements, with liabilities generally remaining the responsibility of the transferor. Accordingly, we do not concur that such associated liabilities should be reported by the transferee entity as required by this paragraph, but should instead remain on the books of the entity responsible to address and liquidate the liability in accordance with a transfer agreement.

Example 2: Lakeland, FL (FL0003ZZ) - GSA disposed of this asset and removed it from its asset inventory. Subsequently however the cleanup cost liability was reported on the balance sheet during 2015 through 2017, and closed out by end of 2017. GSA reported a 'probable' environmental liability of \$155k during Q1-Q3 in FY 2017.

This 2.4 acre parcel of land is a former Federally owned GSA property. In 2002, GSA conveyed the property to the City of Lakeland as a Public Benefit Conveyance at no cost. Through a Consent Order between GSA and the Florida Department of Environmental Protection, as modified in 2015, GSA was responsible for completing a site assessment and to propose an appropriate remedial strategy to address all contamination at the site. On Sept 29, 2015, GSA awarded a contract to conduct a contamination study, with one option year to implement an approved remediation plan. (Feb. 10, 2017) Letter from FL DEP to City of Lakeland Re: Conditional Site Rehabilitation Completion Order. FL DEP reviewed the No Further Action with Conditions Proposal, dated Sept. 1, 2016, and stated that the City of Lakeland has met the criteria in Chapter 62-780, F.A.C., including commitments with respect to the institutional controls and recordation of institutional controls. That letter served as closure documentation for the cleanup liability at this site.

Q3. The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs?

Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.

GSA RESPONSE: Yes, we believe there are additional situations where multiple components and/or subcomponents have overlapping or joint responsibilities for settlement of liabilities. This is not unusual for instances in complex acquisitions when multiple Federal entities are involved. One component may have primary lead responsibilities and management of an acquisition, with another component also receiving significant or substantial elements of the acquisition, and a certain amount of shared benefit or elements of joint-use. It is not always clear whether recognition of liabilities related to acquisition costs should always fall to the entities based on their funding splits, or another method, such as based on received benefit.

Another area that may warrant clarity with this FASAB guidance are liabilities associated with projects or activities where one component provides funding to another component for management and execution of activities via parent-child allocation accounts. Under OMB Circular A-136 and A-11, activities funded through allocation accounts are generally to be reported in the financial statements of the “parent” entity funding the activity, and not the “child” entity that is executing and managing the day-to-day program activity. There are very limited instances (such as where the original funding sources is from the Executive Office of the President or other accounts named by OMB) where the “child” entity includes the financial activity in its component financial reporting

- b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?**

GSA RESPONSE: Yes, we do believe additional general principles should be included to provide the Federal financial community with a basis for making determinations when other similar or complex liabilities arise and multiple components are involved. However, we do not believe the general statement quoted above in this question provides the clarity needed. With the wording in that quote that, “the liability should be recognized by the sub-component reporting entity designated to handle various aspects,” it reads as if each “aspect” or particular “aspects’ may be reported by the component responsible to manage that aspect, which would be contrary to the direction we interpret this exposure draft requires for contingencies and clean-up cost liabilities. The guidance would need to clarify which “aspects” become the driving factors to determine which entity will have reporting responsibility for different parts of a liability, and if/when parts of a liability may be divided amongst multiple components. We also suggest that such additional guidance clarify the inter-related elements of cost recognition with the liability recognition, and not exclusively focus on the liability. The

FASAB's Technical Bulletin 2017-02, *Assigning Assets to Component Reporting Entities* does not make clear if determinations used for assignment of assets to a particular component are to be matched with associated liabilities, or more specifically, if/when recognition of assets by components may appropriately diverge from the recognition of related liabilities, and how any such divergence should be reflected in financial reporting. Making determinations regarding reporting asset and liability combinations is especially challenging when agencies face situations where a component or sub-component providing funding (and liable for costs) of a particular asset or cost of activities is not necessarily the same component receiving the primary benefit of the activity/asset.

Q4. Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

RESPONSE: We suggest additional clarification be provided regarding the financial reporting presentation of transactions and disclosures presented in this ED. The current paragraph 16 of the ED discusses de-recognition and recognition of general PP&E and associated liabilities should be recorded following existing standards, and paragraph A25 indicates that existing GAAP is sufficient to address disclosures of the activity addressed in this ED. We would request this guidance be more specific as to which other existing standards (and preferably specific paragraphs) are to be applied for determining transactional impacts and disclosures.

The paragraphs A23 and A24 in the Basis for Conclusions discuss transfers often involved with PP&E and associated clean-up liabilities. Yet in the example of the debit and credit to be recorded when a liability is transferred to another entity, rather than crediting Financing Sources Transferred In/Out Without Reimbursement, the example shown indicates the credit should be to Imputed Financing Sources. It is not clear why Imputed resources are impacted, especially as the associated narrative paragraphs repeatedly discuss this activity as being transfers. Further, while the narrative indicates that a related asset and liability would be transferred together, the example displays only the liability and not the associated asset being impacted, such as one might expect with compound transactions often used for asset/liability transfers. It would also be helpful for such displays of transactions to include the transactions recordable by the agency/component that the liability was being transferred to. Other existing guidance does provide examples of where Imputed Financing Sources are used in transactions with cleanup liabilities, such as when the Treasury Judgement Fund (JF) makes settlement payments on behalf of the agency component responsible for the liability, but JF issues are not discussed in the ED.

Further, if Imputed Financing Sources are regarded as the appropriate credit for transfer transactions we have additional concerns. With the issuance of SFFAS 55, *Amending Inter-entity Cost Provisions*, the risks of potential imbalances at the government-wide reporting level increased, since business-type entities are required to recognize imputed transactions in more circumstances than non-business-type reporting entities. From our understanding of SFFAS 55, the types of intra-agency transfers discussed in this ED appear to be of a type that non-business entities would not be required to recognize imputed cost impacts (with an exception for Judgement Fund activity specifically included under SFFAS 55). This could create potential imbalances as one entity's imputed resources are not always reciprocated with offsetting imputed costs in the Treasury FR. Traditional transfers (other than imputed-types) of financing

sources should create offsetting records which are eliminated in the consolidation for government-wide reporting.

It was also noted in multiple instances in the ED, particularly paragraphs 13 through 16, references to liabilities associated with general PP&E, as if this guidance was specific to liabilities of those particular assets. It is not clear why similar liabilities related to stewardship PP&E (especially land and other stewardship assets requiring environmental clean-up), would not have been discussed, or mentioned as also being applicable. The guidance should make it clear whether the liability treatment discussed in the ED is limited, such as to G-PP&E vs Stewardship PP&E, and if any there are any uniquenesses in treatment of liabilities when the associated asset categories are different.

GSA Comments on FASAB ED - Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities

Section	Page	Sentence	Reason	Proposed Change	Commenter	Contact Info
Proposed Interpretation	Page 10 Par. 5.a & 6	"Liabilities generally should be reported by the component reporting entity for which the future outflow or sacrifice of resources..."	Unclear	Add footnote/explain when this would not be the case.	Curt Bartlett	202 297 1833
Proposed Interpretation	Page 10 Par. 8	"Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recongize or disclose."	Unclear	Add footnote/explain when this would not be the case.	Curt Bartlett	203 297 1833
NA	NA	NA	Unclear	Define terms used to help with clarification Consider an Appendix C for terms such as, imputed costs; contingent liabilities; business-type activities useful life,etc.	Curt Bartlett	204 297 1833

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019

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Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
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- a. **Do you agree or disagree with the guidance? Please provide the rationale for your answer.**
- b. **Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.**

A1. Treasury does not have any objection to the guidance regarding contingent liabilities involving multiple component liabilities. The guidance is in line with current Treasury Standard Operating Procedure for component/ sub-component reporting and responsibility segmentation as required by the existing FASAB standards, which include but are not limited to SFFAS No. 4 (*Managerial Cost Accounting Concepts and Standards for the Federal Government*) & SFFAS No. 55 (*Amending Inter-entity Cost Provisions*).

However, Treasury would like to add a comment to further clarify the ED SFFAS 55 guidance as-is. SFFAS No. 4 specifies the standards for reporting entity's management to define and establish the responsibility segments (sub-components to process and pay claims), and method to measure full cost of goods and services provided, including inter-entity costs, to report for such litigation support function. The verbiage for this reference is as follows: "The inter-entity costs should also be assigned to the responsibility segments that use the inter-entity services and products." (SFFAS No.4 par 122).

Meanwhile, SFFAS No. 55 states that "Although recognition of inter-entity costs by activities that are not business-type activities is not required, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs." (SFFAS No. 55 par 7). Our concern relates to the consistency among SFFAS No. 4 and SFFAS No. 55, with respect to the new SFFAS No. 5 interpretation guidance. The proposed interpretation does not fully address possible discrepancies among various SFFASs with regards to the requirement of imputed cost/ financing recognition, as the SFFAS No. 55 verbiage language indicates electing options. We suggest striking out the relevant portions of the SFFAS No. 4 verbiage, where any potential inconsistency with SFFAS No. 55 guidance exists.

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that "[a] future outflow or other sacrifice of resources is probable," the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

- a. **Do you agree or disagree with the guidance? Please provide the rationale for your answer.**

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
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A2. Treasury does not have any objection to the guidance regarding cleanup costs covered by this Exposure Draft.

Q3. The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

- a. **Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**
- b. **Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?**

A3. Treasury is not aware of other liability situations or scenarios when a similar condition occurs, other than contingent liabilities and cleanup costs.

Q4. **Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.**

A4. Treasury does not have any other comments or suggestions.

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
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Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
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- a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.**

HHS follows and appreciates the argument that is being made in this interpretation of SFFAS 5, however, we respectfully disagree with the conclusion of assigning sub-component reporting of contingent legal liabilities to the component where the court proceedings and/or litigation is managed. We wonder if the situation where two or more sub-components share a legal liability, while a third sub-component handles the litigation, is common. We believe that the exposure draft is not clear and raises doubt over who should record the liability. HHS's Office of General Counsel handles all legal matters for the Department. It's clear to us which sub-component is responsible for a legal liability and therefore who should record and report the legal liability. We are reluctant to agree that an exception should be made to the long standing general rule of reporting liabilities by the component entity for which the future outflow or sacrifice of resources is probable and measurable.

Based on Section 4, quoting SFFAS 47, paragraph 10, FN 7, it appears that this standard also applies to components of the government-wide entity. Department of Justice litigates cases on behalf of HHS and many other agencies. The standard as written seems to imply that Justice could record the liability on behalf of HHS until the cases are settled.

Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.

Yes, HHS believes that the subcomponent reporting entity whose actions gave rise to the litigation should be permitted to report the legal liability in accordance with SFFAS 5. At a minimum, they should not be prohibited from recording the legal liability. As an alternative, either sub-component could be permitted to report contingent legal liability. This would allow sub-components to communicate with the reporting entity to discuss who should record the contingent liability and the level of detail that should be disclosed by all involved parties.

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
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HHS agrees that a liability should be reported on the balance sheet of the component recognizing general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Q3. The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.

HHS is not aware of any other liability situations or examples with similar characteristics.

b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?

No, HHS does not believe a new general principle should be included.

Q4. Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

HHS recommends the Board provide a clear definition of “sub-component” and “management”. This will simplify understanding of the guidance.



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

MAR 11 2019

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Exposure Draft—*Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*, dated October 17, 2018.

Please find enclosed answers to the questions that were asked of respondents. If you have any questions, please contact me at (202) 482-1207 or galston@doc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gordon T. Alston", written over a horizontal line.

Gordon T. Alston
Director of Financial Reporting and Policy,
Internal Controls, and Travel

Enclosure

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

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Individual	<input type="checkbox"/>	

Please provide your name.

Name:

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Organization:

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.

The Department disagrees with the draft Interpretation of SFFAS 5 regarding guidance on contingent liabilities. The draft guidance in the Department's opinion does not provide the appropriate level of flexibility to reporting entities as to the manner it may want to **properly in accordance with SFFAS 5** distribute the recording of contingent liabilities in cases where there is more than one sub-component reporting entity involved. For example, a reporting entity may prefer that the sub-component reporting entity designated to manage litigation also further be responsible for communicating the needed information to the other applicable sub-component reporting entity(ies) (the sub-component(s) where the liability/payment will ultimately be incurred) so that this applicable sub-component reporting entity(ies) can record the contingent liability. This treatment would be in accordance with Paragraph 5.a. of the draft guidance which states, "Liabilities generally should be reported by the component reporting entity for which the future outflow or sacrifice of resources is probable and measurable."

The reporting entity may strongly prefer that the above described alternative process be in place rather than the draft guidance requirement that the sub-component responsible for managing litigation record all of the contingent liabilities. Furthermore, the sub-component reporting entity(ies) where the liability/payment will ultimately be incurred may strongly believe that it should record the contingent liability for completeness and accuracy of its financial data, including for purposes of reporting to management. The Department therefore believes that the interpretation should **also** allow for a contingent liability to be recorded by the appropriate subcomponent(s) and **not only** by the sub-component that manages the liability. The Department accordingly believes that Paragraph 8 is inappropriately restrictive to reporting entities where it states, "Other involved sub-component reporting entities should not (Departmental emphasis please on key words "should not") report information on contingent liabilities managed by another sub-component reporting entity." Reporting entities need appropriate flexibilities to determine the best/preferred **proper (in accordance with SFFAS 5)** treatments of individual cases of contingent liabilities involving more than one sub-component, in order to meet the reporting entity's and component reporting entities' **proper** specific needs and preferences.

b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.

See the Department's response to 1a. The Department believes that **both approaches as set forth in its response to question 1a.** should **be allowable** as the Department believes that both approaches are **proper in accordance with SFFAS 5.**

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

The Department agrees with this portion of the draft Interpretation. Specifically, the Department supports the Board’s proposed guidance and believes that its issuance would facilitate accurate financial statement presentation of cleanup costs at all reporting entity levels. Reporting the cleanup cost liability on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup appears reasonable because per Paragraph 13, SFFAS 6 guidance presumes the cleanup cost and the associated general PP&E would be recognized by the same component reporting entity.

- Q3.** The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

- a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**

The Department is not readily aware of any liability situations or similar examples that would allow it to comment at this time.

- b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?

No, the Department believes that an additional general principle similar to what is currently set forth in the draft guidance for contingent liabilities and cleanup costs should ***not*** be included for various other types of liabilities, as individual circumstances for varied types of liabilities may not similarly apply to the draft guidance for contingent liabilities and cleanup costs.

The Department believes that the possible general principle for additional liabilities set forth in this question would be inappropriately restrictive, similar to the Department’s comments to questions 1a. and 1b. Reporting entities need appropriate flexibilities to determine the best/preferred ***proper (in accordance with SFFAS 5)*** treatments of individual cases of various other types of liabilities involving more than one sub-component, in order to meet the reporting entity’s and component reporting entities’ ***proper*** specific needs and preferences.

- Q4.** Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

The Department does not have any other comments or suggestions on the Interpretation.

From: Simpson, Cynthia - OCFO [mailto:Simpson.Cynthia@dol.gov]
Sent: Monday, March 11, 2019 2:38 PM
To: FASAB
Cc: Batchelor, Melissa L; DiGiantommaso, Jennifer M. - OCFO; Wyes, Tesfaye T - OCFO; Maurer, Jennifer - OCFO; Simpson, Cynthia - OCFO; Sacchetti, Dylan M - OCFO
Subject: US DOL/OCFO/DFR Comments on FASAB Exposure Draft, "Guidance on Recognizing Liabilities . . . "

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), Division of Financial Reporting (DFR) on the exposure draft (ED) of proposed Interpretation of Federal Financial Accounting Standards, "Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 (October 17, 2018)." Comments were requested by March 11, 2019. DOL/OCFO/DFR is a Federal entity preparer.

We appreciate the opportunity to provide comments. If there are any questions, please contact:
 Cynthia Simpson, simpson.cynthia@dol.gov or
 Jennifer DiGiantommaso, DiGiantommaso.Jen@dol.gov

Regards,

Cynthia D. Simpson
 U.S. Department of Labor
 Office of the Chief Financial Officer
 Division of Financial Reporting

=====

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

- a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.
- b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.

DOL/OCFO/DFR Response:

Clarifications are needed. The Interpretation is unclear as to the use of the terms "sub-component reporting entity" and "financial statements." A "sub-component reporting entity" is different from a "sub-component of a component reporting entity" or a "sub-component of a reporting entity." Also, "financial statements" are different from "General Purpose Federal Financial Reports (GPFFR)."

Paragraphs 8, 9, and 10 refer to "sub-component reporting entities."

SFFAS 47, paragraph 8 (excerpt) states:

"Reporting entities are organizations that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one."

Proposed Interpretation, paragraph 4 (a reference to SFFAS 47, paragraph 10, excerpt):

Component reporting entities would also include sub-components (those components included in the GPFFR of a larger component reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

Because the term "reporting entity" is defined as an entity that issues GPFFR, a more inclusive definition would be "sub-component of a component reporting entity" or "sub-component of a reporting entity" to include both types of sub-components: those that issue GPFFR and those that do not. The estimated cost associated with the contingent liability would be reported (1) in standalone GPFFR of sub-components that issue GPFFR and (2) in the disaggregated Statement of Net Cost (as required by Note 22 in OMB Circular A-136) for both types of sub-components (those that issue standalone GPFFR and those that do not).

"Financial statements" may be prepared for internal management purposes and for interim periods; they may exclude certain required annual accruals and adjustments; and they may exclude certain financial statements and disclosures which would otherwise be required under GAAP (e.g., exclusions could be: note disclosures that are an integral part of the financial statements; certain statements, such as the Statement of Budgetary Resources which is not required to be submitted as part of third quarter interim statements per OMB Circular A-136; and RSI/RSSI). However, GPFFR would include the financial statements and disclosures required by GAAP. Therefore, if the Interpretation refers to "financial statements," it should be clear that these are GPFFR.

a. Disagree. The standard for full cost, management's judgment, and materiality should be used to determine which sub-component should report the estimated cost and corresponding contingent liability; FASAB could instead issue general guidelines for determining which sub-component should do the reporting. It is also possible that an estimated cost and contingent liability may be not insignificant for a sub-component, but be immaterial or reported as "costs not assigned" and an "other liability" on the component reporting entity's (consolidated) GPFFR and due to immateriality would not be disclosed. The legal letter provided by the component reporting entity's attorney may

provide information needed for the sub-component (whose actions gave rise to the litigation) to record and disclose the contingent liability.

b. Refer to response in 1a.

Q2. The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

DOL/OCFO/DFR Response: Agree. Liabilities for environmental and disposal liabilities should be reported and disclosed for the component reporting entity that reports the PP&E on the balance sheet. The costs (clean-up costs) and associated liability should be matched to the benefits obtained from the use of the asset.

Q3. The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.

b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?

3a. No. The Interpretation should be limited to contingent liabilities and cleanup costs.

3b. No. The Interpretation should be limited to contingent liabilities and cleanup costs.

**Q4. Do you have any other comments or suggestions on the Interpretation?
Please provide the rationale for your answer.**

DOL/OCFO/DFR Response:

In paragraph 17, the requirements of the Interpretation should be effective for reporting periods beginning after September 30, 2020, but still permit early implementation.

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

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- a. **Do you agree or disagree with the guidance? Please provide the rationale for your answer.**

DHS Response: The Department generally agrees. The additional guidance should provide flexibility for sub-component entity to assign the reporting responsibilities for contingent liabilities (in compliance with SFFAS 5) to another sub-component entity designated to manage litigation and/or make the related payments. However, this assignment should be an option available to the sub-component entity and not an absolute requirement.

- b. **Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.**

DHS Response: The Department agrees that a sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5. A user of the financial statements would want to know what contingent legal liability the sub-component entity that caused the litigation is facing regardless of another entity managing the litigation on its behalf.

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

DHS Response: The Department agrees. The additional guidance is consistent with the matching concept. The component reporting entity reporting the value of the assets (PP&E) should also report the clean-up liabilities related to those assets.

- Q3.** The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in

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accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

- a. **Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**

DHS Response: The Department is not aware of any additional liability situations that require additional guidance.

- b. **Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?**

DHS Response: The Department has no comment.

- Q4. Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.**

DHS Response: The Department does not have any other comments or suggestions.

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Questions for Respondents due January 17, 2019

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Accounting Firm	<input checked="" type="checkbox"/>	Kearney & Company	
Federal Entity (user)	<input type="checkbox"/>		
Federal Entity (preparer)	<input type="checkbox"/>		
Federal Entity (auditor)	<input type="checkbox"/>		
Federal Entity (other)	<input type="checkbox"/>	If other, please specify:	<input type="text"/>
Association/Industry Organization	<input type="checkbox"/>		
Nonprofit organization/Foundation	<input type="checkbox"/>		
Other	<input type="checkbox"/>	If other, please specify:	<input type="text"/>
Individual	<input type="checkbox"/>		

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

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Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.

Disagree. The sub-component reporting entity whose actions gave rise to the litigation should be the one to recognize the expense and report information in accordance with SFFAS 5. The sub-component entity responsible for managing the litigation would have the information needed to recognize contingent liabilities and should communicate and share that information with the sub-component reporting entity whose actions gave rise to the litigation for them to report. Conceptually, this is no different than communicating with an external counsel to determine contingent liabilities. The sub-component entity responsible for managing the litigation is working on behalf of the other sub-component but should not be responsible for recognizing the costs in their financial statements. The proposed changes equate fiduciary and/or agency actions with economic events. This is not consistent with the accrual accounting framework and SFFAS 5. The component responsible for the events which give rise to the liability should be responsible for the original recognition. Subsequent transfers of the liability could occur without affecting the integrity of the statement of net costs.

b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.

Yes. The sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5 because it is ultimately their cost to report. See additional discussion in answer to part a. above.

Q2. The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

Agree. The liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E because the liability is part of the cost to use the

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PP&E. The component using the PP&E would also have the best available information to update the liability over the underlying asset's useful life as required by SFFAS 5.

Q3. The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

- a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**

No. Additionally, we believe that SFFAS 5 provides sufficient guidance if such situations were to arise, and it links the expense/liability recognition with the underlying economic events. See additional discussion in response to Q1.a., above.

- b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, "For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities"?**

No. The contingent liability is associated with the original contamination, cleanup cost liability or the use of the asset per SFFAS 5. Agency actions (e.g. management, payment) should not drive expense and liability recognition. Underlying economic actions should drive the recognition consistent with the accrual accounting framework. See additional discussion in answer to part a. above. See additional discussion in answer to part a., above.

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Q4. Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

No.

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Questions for Respondents due January 17, 2019

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Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
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Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
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Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

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Organization:

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

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- a. **Do you agree or disagree with the guidance? Please provide the rationale for your answer.**

DOI Response: DOI bureaus generally agree with the proposed guidance. The sub-component managing the litigation would have all the pertinent information. Upon settlement, the sub-component designated to pay the liability should report it. This would prevent unnecessary elimination entries for the reporting entity.

However, one DOI bureau disagrees with the proposed guidance and provided the following comments: The guidance assumes that a certain organizational structure dictates the reporting structure and appears to be more of an operational than an accounting issue. Reporting entities with adequate communication processes may prefer to have the reporting remain within the entity whose actions gave rise to the litigation; thereby managing the entire process from cradle to grave, which may reduce the accounting transactions required and thus reduce reporting errors including inadvertently omitting cases (perhaps due to the timing of the transfer between entities).

- b. **Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.**

DOI Response: DOI bureaus agree that the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5 as long as the entity's guidance to the sub-component entities are clear. Some entities already have robust reporting processes for contingent liabilities. These entities should be allowed to keep the current efficient processes as no additional benefit would be realized and additional cost may be incurred. By allowing multiple entities to report during different stages of the processes, coordination between and among the entities will be required and may inadvertently add reporting risk that could be eliminated by the same reporting entity consistently reporting during the entire process as currently permitted in SFFAS 5.

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

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DOI Response: DOI bureaus generally agree with the guidance. One DOI bureau, however, suggests that the guidance should only apply to “permanent” transfer of ownership of the General PP&E.

- Q3.** The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

- a. **Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**

DOI Response: No additional comments.

- b. **Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?**

DOI Response: DOI bureaus generally agree with an additional general principle and the proposed wording.

However, one DOI bureau has the following caution: It is important that a component reporting entity have reporting flexibility that best applies to the operational structure without being prescriptive in the Interpretation. Communication among and between the sub-components is a key, required element in the process. The more “handoffs” of reporting responsibility, the more points of failure are introduced.

- Q4.** **Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.**

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DOI Response: The Interpretation address cases not in litigation within Footnote 2, “Other contingent liabilities may be considered if appropriate and reasonable. While the leeway is recommended, coordination between the entities is desirable so that the originating organization isn’t absolved of responsibility as the legal claim is managed through the settlement process.

The Interpretation concentrates on those situations where a settlement against the government occurs. Many cases are settled in the government’s favor. It isn’t clear that the managing entity should remove the liability, i.e., no payment is required.

A more definitive explanation of “Terminology, definitions, and language presented in TB 2002-1 are not consistent with SFFAS 47” would be helpful (quote from A10.a); especially if a TB to rescind TB 2002-1 is forthcoming. It is unclear what the specifics are that would cause TB 2002-1 to be rescinded.

As a federal entity, we are increasingly aware of and concerned that whenever large, complex organizations cite reporting difficulties because of organizational structure, lack of sufficient documentation, or the potential of reporting inconsistencies within the entity that FASAB makes recommendations relieving these issues. This can create an additional workload for those entities that are less complex with little benefit realized but with incremental costs, i.e., entities have to ensure they still comply with the Standard, Interpretation, etc.

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Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input checked="" type="checkbox"/>	If other, please specify: Department of Housing and Urban Development
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: _____
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Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

**FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019**

a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.

The majority of responding HUD components agree with the guidance. As discussed in Appendix A of the proposed guidance, paragraphs A13 and A16, component reporting entities designated to pay certain liabilities of other federal entities may not have the information that the sub-component reporting entity, or entities, whose actions gave rise to the litigation, have at the time that the contingent liability arises. The sub-component entity with the required information available would be more likely to be able to capture the information on a timely basis and be able to provide the required assessments of the documentation to be recorded and audited, if warranted. As these costs are not currently funded, matching of the liability to its funding will occur once settlements occur and the liability is moved to the sub-component responsible. To ensure the timely recording of the contingent liability, the sub-component responsible for litigation should recognize the contingent liability.

Somewhat conversely, HUD OCFO's Office of Accounting expressed some disagreement with the exposure draft's proposal that one component or sub-component reporting entity may record a liability that was caused by, and should be paid by, another component entity, citing apparent contrariness to the sound generally accepted accounting principle in SFFAS 5 guidance which states that liabilities generally should be reported by the component entity for which the future outflow of resources is probable and measurable. However, taking into consideration that it could cause some confusion and, likely, accounting errors when multiple sub component entities are a party to the same litigation which don't have all information and may even be in a different countries, we agree that it would be logical to allow the managing component entity to record the initial liability instead of the sub-component reporting entity whose actions gave rise to the litigation. The accuracy of the financial report is of utmost importance and minimizing confusion and errors is essential.

b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.

HUD's component entities expressed some nuance in response to this question. FHA stated that in cases where information is available for the sub-component reporting entity whose actions gave rise to the litigation to apply all provisions of SFFAS 5, that sub-component should recognize the liability, instead of another sub-component that is only responsible for litigation. FHA noted that the only reason why a sub-component not responsible for the actions that gave rise to the litigation from which a liability arose, would record a contingent liability, is if not enough information was available. When that obstacle is removed, it is the sub-component whose actions gave rise to the litigation, and hence the liability, that should ultimately record the liability. GNMA agreed that, in certain situations where information could be provided timely and appropriate judgments

FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019

could be made about the documentation, the sub-component should be permitted to report the information in accordance with SFFAS 5.

As eluded to in response to Q1 (a), HUD OCFO's Office of Accounting stated SFFAS 5 guidance is the GAAP and preferred treatment with liabilities including contingencies due to litigation; doing anything otherwise does gave some pause. However, due to the exceptions and circumstances notes in the exposure draft, the OCFO Office of Accounting agreed with the managing sub-component entity recording the liability versus the component entity which gave rise to the litigation. It is believed that this will minimize confusion among the sub-component reporting entities and eliminate duplications or other errors when multiple entities are involved in one case. Again, the accuracy of the financial report is of utmost importance.

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

HUD generally agrees with the interpretation that the entity that owns the general PP&E should recognize the liability until the PP&E and its associated liability is transferred to another entity for cleanup. Since it is the related PP&E that gave rise to the associated cleanup costs and resulting liability for those cleanup costs, it should be the component reporting entity which carries the PP&E on its balance sheet that should also recognize the associated cleanup liability until transferred. The proposed presentation aligns the asset, liability, expenses in the same component entity prior to and during cleanup ensuring the accuracy of the financial statements for all component entities involved throughout the process.

- Q3.** The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in

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Questions for Respondents due January 17, 2019

accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

- a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**

HUD is not aware of any other liability situations or examples, other than contingent liabilities and cleanup costs presented in this guidance, for which this guidance could apply. It is hypothetically possible that the following instances may create an example, but it not a known past or existing situation at HUD.

- This could possibly apply to any complex or difficult to measure contingent liability arising out of litigation, which may have been due to actions of multiple sub-components in different geographical areas within a larger reporting entity that uses a distinct and separate sub-component to handle litigation for that reporting entity.
- This could possibly apply to situations where the development of systems and related costs may be at the component level with the assets and related depreciation being maintained at the sub-component level. In this case, matching occurs through the consolidation of the component and sub-component during agency-level reporting.

- b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?**

HUD is of differing opinions on the subject of inclusion of an additional general principal.

- FHA asserts that this guidance would apply to any complex or difficult to measure contingent liability arising out of litigation and which would be due to actions of multiple sub-components in different geographical areas within a larger reporting entity that uses a distinct and separate sub-component to handle litigation for that reporting entity. In that case the general principle quoted in Q3b above, would be appropriate.

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Questions for Respondents due January 17, 2019

- HUD OCFO's Office of Accounting does not recommend adding a general principle to allow for cases other than contingent liabilities and cleanup costs, stating that the guidance should be linked to very specific exceptions to maintain control of reporting and keep entities in compliance with SFFAS 5 as much as possible. It is believed this will help maintain alignment of financial events to reporting as well as transparency and auditability in the financial reports.
- GNMA believes that sufficient guidance has been provided.

Q4. Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

HUD has no other comments.

ATTACHMENT 2-
DoD Paper

Defense Accounting Solutions Board (DASB)
Research and Recommendation Paper
Contingent Liabilities Arising From Litigation,
Reporting Entity OCONUS Claims Adjudicated by Another Military Department
Issue 50



Description of the Issue

Navy Financial Management & Comptroller (FM&C) requested guidance on procedures to report contingent loss liabilities for Navy claims arising overseas that are adjudicated and settled by other Military Departments.

DoDI 5515.08, *Assignment of Claims Responsibility*, assigns the responsibility for adjudicating overseas claims in a given country to a single service (Department of the Army, Navy, Air Force) such that the Military Department assigned responsibility for that country adjudicates claims for all the Military Departments and USSOCOM in that country. According to DoD Office of General Counsel (OGC), ongoing practice has been that the Service assigned responsibility for adjudicating claims in a given country pays for the claims, even those claims due to the actions of another Service – the “single service” claims concept. The adjudicating Service does not seek reimbursement for claims paid on behalf of other Services or USSOCOM. Likewise, the Service and USSOCOM on whose behalf the claim is adjudicated, respectively, does not recognize an imputed cost.

A contributing factor for not accounting for intra-departmental imputed costs is lack of awareness of Federal Accounting Standards Advisory Board (FASAB) accounting guidance by those in OSD who are outside of the Financial Management community. The issue had not been previously brought to DoD OGC’s attention. However, when informed of the FASAB guidance, DoD OGC discussed the matter with fellow Service OGCs and stated that the extra effort involved to account for claims paid by one Service for another was most likely not worth the costs involved to report. Also, OGC raised questions regarding the practicality of identifying the responsible Service in a joint-Service activity.

We understand the Services do not track overseas claims paid on behalf of other Services. Therefore, we did not attempt to contact the OGCs of the Services to determine the dollar amount of such cases. Given the nature of overseas claims we would not expect the dollar value to be material to the financial statements. We are aware that the Services each have their own claims tracking systems, but did not attempt to determine whether claims paid on behalf of other services could be identified in those tracking systems. DoD OGC informed us that a DoD-wide claims tracking system does not exist.

Issue Implications

Currently, the cost of overseas claims adjudicated by one Service on behalf of another Service are reported as costs of the Service adjudicating/settling the claim rather than the Service that caused the incident that gave rise or contributed to the claim. However, FASAB Technical Bulletin 2002-1: *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government*, requires that all liabilities and costs related to legal claims (i.e., judgments and settlements) must be attributed to the component entities responsible for the programs or activities that contributed to the claims, or to their successor component entities. Also, Statement of Federal Financial Accounting Standard (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, states that reporting entities should report the full costs of outputs in general purpose financial reports. ... and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities. Further, FASAB Interpretation of Federal Financial Accounting Standards 6: *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4* states that entities should recognize imputed intra-departmental costs in accordance with the full cost provisions of SFFAS 4. To account for the full cost of a program and its output(s), reporting entities should recognize imputed intra-departmental costs.

Authoritative Guidance

- **SFFAS 4** – *Managerial Cost Accounting Standards and Concepts* (FASAB Handbook v.15 (06/16))
- **SFFAS 5** – *Accounting for Liabilities of the Federal Government* (FASAB Handbook v.15 (06/16))
- **SFFAS 12** – *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government* (FASAB Handbook v.15 (06/16))

Defense Accounting Solutions Board (DASB)

Research and Recommendation Paper
Contingent Liabilities Arising From Litigation,
Reporting Entity OCONUS Claims Adjudicated by Another Military Department
Issue 50



- **SFFAS 30** – *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* (FASAB Handbook v.15 (06/16))
- **Technical Bulletin 2002-1**: *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government* (FASAB Handbook v.15 (06/16))
- **Interpretation of Federal Financial Accounting Standards 2**: *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5* (FASAB Handbook v.15 (06/16))
- **Interpretation of Federal Financial Accounting Standards 6**: *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4* (FASAB Handbook v.15 (06/16))
- **DoDI 5515.08**, *Assignment of Claims Responsibility* (August 30, 2016)

Options Considered

Option 1: Fully implement the full cost provisions in SFFAS 4, *Managerial Cost Accounting Standards and Concepts*.

- The Services recognize imputed intra-departmental costs of adjudicating/settlement of overseas claims in accordance with the full cost provisions of SFFAS 4, e.g., Department of the Army reports claims it adjudicates and pays on behalf of the Air Force in Germany to the Department of the Air Force.
 - Each Service and USSOCOM recognizes the full cost of claims adjudication services that it receives from the Services. The Service providing the goods or services is responsible for providing the entity Service with information on the full cost of such goods or services either through billing or other advice.
 - Recognizes material intra-departmental costs that are not fully reimbursed that:
 - are significant to the receiving entity,
 - form an integral or necessary part of the receiving Service's output, and
 - can be identified or matched to the receiving Service with reasonable precision.
- Enhances and expands the tracking of overseas claims armed forces-wide through the Service adjudicating the claim providing the other Service with data needed to identify the supporting services received.

Option 2: Continue the current practice of tracking and reporting these contingent legal liabilities according to DoDI 5515.08 ("single service" claims concept) while ODCFO works with FASAB to develop a potential new accounting standard that aligns with this practice.

- FASAB has discussed with ADCFO its intent to allow DoD the flexibility to recognize and assign intra-departmental costs among DoD reporting entities instead of imputing them as long as the consolidated DoD financial results include all costs.
- Services assigned claims responsibilities under DoDI 5515.08 should evaluate their processes and controls to ensure the completeness of their reporting of all contingent legal liabilities for DoD claims occurring OCONUS.

Recommendation(s) and Basis for Recommendation(s)

We recommend Option #2:

- Option #2 would permit the Services to continue with their current practice, the "single service" claims concept, for reporting claims arising in overseas areas or pursuant to international treaties in accordance with DoDI 5515.08. At the same time, the Services would be responsible for evaluating their processes

ATTACHMENT 3-
Exposure Draft



Federal Accounting Standards Advisory Board

**GUIDANCE ON RECOGNIZING
LIABILITIES INVOLVING MULTIPLE
COMPONENT REPORTING ENTITIES:**
AN INTERPRETATION OF SFFAS 5

Interpretation of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by January 17, 2019

October 17, 2018

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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Contact Us

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Suite 1155
Washington, D.C. 20548
Telephone 202-512-7350
Fax 202-512-7366
www.fasab.gov



Federal Accounting Standards Advisory Board

October 17, 2018

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Interpretation, entitled *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*. Specific questions for your consideration appear on page 6, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose. Responses are requested by January 17, 2019.

All comments received by FASAB are considered public information. Those comments may be posted to [FASAB's website](#) and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Please provide your comments by email to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax comments to 202-512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, D.C. 20548

We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received.

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

D. Scott Showalter
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

With the issuance of Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, SFFAS 55, *Amending Inter-entity Cost Provisions*, and Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*, there is a need for additional guidance to assist in the application of identified general liability standards and principles at the component reporting entity level.

This Interpretation is intended to provide clarification and guidance regarding contingent liabilities¹ and cleanup costs when multiple component reporting entities are involved. Specifically, this Interpretation would provide clarification for contingent liabilities when one or more sub-component reporting entities within a single component reporting entity are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. This Interpretation would also provide guidance regarding cleanup cost liabilities when the component reporting entity responsible for reporting on an asset during its useful life is different from the component reporting entity that will eventually be responsible for environmental remediation upon disposal of that asset.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This proposal would facilitate reporting by component reporting entities by better aligning reporting with their operations. Given the complex responsibilities and relationships among the components of large departments, this proposal would result in less costly financial reporting by aligning reporting with established funding and governance structures. This proposal would also reduce the barriers to and cost of adopting generally accepted accounting principles.

MATERIALITY

The provisions of this Interpretation need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

¹ The discussion of contingent liabilities in this Interpretation relates to those due to litigation. Other contingent liabilities may be considered if appropriate and reasonable.

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Interpretation before responding to the questions in this section. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Interpretation. Because FASAB may modify the proposals before a final Interpretation is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, D.C. 20548

All responses are requested by January 17, 2019.

- Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated

to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

- a. **Do you agree or disagree with the guidance? Please provide the rationale for your answer.**
- b. **Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.**

Q2. The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

Q3. The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

- a. **Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**
- b. **Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting**

entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?

Q4. Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

PROPOSED INTERPRETATION

SCOPE

1. This Interpretation applies when a component reporting entity is presenting general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of 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*.

INTERPRETATION

General Principles for Component Reporting Entities

2. SFFAS 5, *Accounting for Liabilities of the Federal Government*, paragraph 19 states, “A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events.”
3. Paragraphs 56-57 of SFFAS 47, *Reporting Entity*, provide that component reporting entities’ GPFFRs must include all consolidation and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete. The GPFFR for the government-wide reporting entity would be the consolidation of component reporting entity GPFFRs, including information regarding disclosure entities.

56. The government-wide reporting entity is the only federal reporting entity that is an independent economic entity^{25 [footnote omitted]} and the inclusion principles are expressed from the perspective of the federal government. However, GPFFRs for the government-wide reporting entity represent a consolidation of component reporting entity GPFFRs. Therefore, component reporting entities must identify and include in their GPFFRs all consolidation entities and disclosure entities for which they are accountable so that both the component reporting entity GPFFRs and government-wide GPFFR are complete.

57. A component reporting entity’s GPFFR should include all organizations that would allow the users to hold the component reporting entity’s management (such as appointed officials or other agency heads) accountable for implementation of public policy decisions. Inclusion would also reveal the risks inherent in component reporting entity operations, and thereby enhance accountability to the public. Each component reporting entity is accountable for all consolidation entities^{26 [footnote omitted]} and disclosure entities administratively assigned to it.

4. SFFAS 47, paragraph 10 defines component reporting entity as follows:

Component Reporting Entity—“Component reporting entity” is used broadly to refer to a reporting entity within a larger reporting entity.⁷ Examples of component reporting entities include organizations such as executive departments, independent agencies,

government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger component reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

FN 7 The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

5. In light of SFFAS 5 and SFFAS 47, the following general principles apply for component reporting entities:
 - a. Liabilities generally should be reported by the component reporting entity for which the future outflow or sacrifice of resources is probable and measurable.
 - b. Liabilities should be recognized by a component reporting entity before being consolidated into the government-wide financial statements.

Guidance on Contingent Liabilities²

6. SFFAS 5, paragraph 38 states that a contingent liability should be recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. As noted in paragraph 5, liabilities generally should be reported by the component reporting entity for which the future outflow or sacrifice of resources is probable and measurable and all liabilities should be recognized by a component reporting entity before being consolidated into the government-wide financial statements.
7. To recognize and disclose contingent liabilities in accordance with SFFAS 5, a component reporting entity must have information about ongoing litigation and be able to exercise judgment regarding the possible outcomes. When a single component reporting entity is the defendant in a case, that entity will likely have the needed information even in the event any ultimate claim will be paid by the Treasury Judgment Fund. Interpretation 2, *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5*, provides guidance regarding recognition in such cases.
8. When multiple sub-component reporting entities are involved, one or more sub-component reporting entities within a single component reporting entity may be designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. Specifically, sub-component reporting entities within a single component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay resulting liabilities. In such cases, not all involved sub-component reporting entities would likely have the information needed to apply the provisions of SFFAS 5. Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize or disclose

² The discussion of contingent liabilities in this Interpretation relates to those due to litigation. Other contingent liabilities may be considered if appropriate and reasonable.

contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities should not report information on contingent liabilities managed by another sub-component reporting entity.

9. For example, sub-component reporting entity A is responsible for managing litigation for an entire geographic region even though the litigation may be due to the actions of sub-component reporting entities B and C. Sub-component reporting entity A that is designated to manage the litigation should recognize any resulting contingent liabilities. The sub-component reporting entities B and C whose actions gave rise to the litigation should not recognize or disclose information regarding the litigation.
10. If a sub-component reporting entity is designated to pay claims but not to manage litigation, the general provisions of Interpretation 2 should be extended to the entity designated to pay claims. Once a settlement is reached or a judgment is ordered by a court and a specific sub-component reporting entity is determined to be the appropriate source for the payment of the claim, the liability should be removed and an other financing source recognized in the financial statements of the sub-component reporting entity that managed the litigation. The sub-component reporting entity that will pay the claim would then recognize an expense and liability (or a cash outlay) for the full cost of the loss. The other financing source amount recognized by the sub-component reporting entity that managed the liability and the expense recognized by the sub-component reporting entity that paid the liability would be eliminated at the consolidated report level.

Guidance on Cleanup Costs

11. SFFAS 5, paragraph 19 defines a liability as “a probable future outflow or other sacrifice of resources as a result of past transactions or events.”
12. Paragraph 91 of SFFAS 6, *Accounting for Property, Plant, and Equipment*, provides guidance regarding cleanup costs.³ Cleanup costs are subject to the criteria for recognition of liabilities included in SFFAS 5. Paragraph 91 explains that liabilities should be recognized when three conditions are met:
 - a. A past transaction or event has occurred.
 - b. A future outflow or other sacrifice of resources is probable.
 - c. The future outflow or sacrifice of resources is measurable.
13. SFFAS 6 associates the recognition of cleanup costs with the related general property, plant, and equipment (PP&E). Paragraph 94 provides for the estimation of cleanup costs when the associated general PP&E is placed in service. Paragraph 97 provides for the recognition of a portion of the estimated total cleanup costs as an expense during each period that the general PP&E is in operation. SFFAS 6 guidance presumes the cleanup cost and the associated general PP&E would be recognized by the same component reporting entity.

³ SFFAS 5 applies to all environmental liabilities not specifically covered in SFFAS 6, including cleanup resulting from accidents or when cleanup is an ongoing part of operations.

- 14. Some component reporting entities settle liabilities by transferring general PP&E to another component reporting entity designated by law or administratively to settle the liabilities. Therefore, a component reporting entity that is responsible for recognizing general PP&E during its useful life may differ from the component reporting entity that will eventually be responsible for the environmental remediation upon disposal of that general PP&E. In such cases, the component reporting entity that recognized the general PP&E during its useful life is not responsible for future outflows or other sacrifices of resources required to settle the liability for cleanup costs. Instead, the component reporting entity receiving the asset upon its removal from service⁴ will be responsible for settling the cleanup cost liability.

- 15. When multiple component reporting entities have distinct responsibilities regarding general PP&E and related cleanup costs, information needed to monitor and update cleanup cost liabilities would typically be more readily available to the component reporting entity that reports the related general PP&E. Such component reporting entities will settle the cleanup cost liability by transferring the general PP&E for cleanup. Moreover, the cleanup cost liability may have to be reported over several periods. Until the component reporting entity recognizing the general PP&E transfers the general PP&E, it should also recognize the liability. Upon transferring the general PP&E it should also transfer the associated liability.

- 16. The SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable” should be considered met by the component reporting entity that recognizes the general PP&E during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup. At that time, the general PP&E and the liability should be de-recognized by the component reporting entity that recognized them during the general PP&E’s useful life and recognized by the component reporting entity that will liquidate the liability. De-recognition and recognition of the general PP&E and liability should be performed in accordance with existing standards.

EFFECTIVE DATE

- 17. The requirements of this Interpretation are effective for reporting periods beginning after September 30, 2019. Early implementation is permitted.

The provisions of this Interpretation need not be applied to immaterial items.

⁴ Technical Release (TR) 14, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*, provides guidance on the disposal, retirement, or removal from service of general PP&E as well as related cleanup costs. It differentiates between permanent and other than permanent removal from service of general PP&E and delineates events that trigger discontinuation of depreciation and removal of general PP&E from accounting records.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Interpretation. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Interpretation—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Interpretation may be affected by later Statements or pronouncements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent pronouncements that amend this Interpretation. Within the text of the documents, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement or other pronouncement for the rationale for each amendment.

BACKGROUND

- A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) was asked for guidance regarding accounting for liabilities at the component reporting entity level. Specifically, clarifications were requested about the recognition and measurement standards related to contingent liabilities and cleanup costs. The recognition and measurement standards are provided in SFFAS 5 and SFFAS 6.
- A2. With the issuance of recent pronouncements SFFAS 47, SFFAS 55, *Amending Inter-entity Cost Provisions*, and Technical Bulletin (TB) 2017-2, *Assigning Assets to Component Reporting Entities*, there is a need for additional guidance to assist in the application of the general liability standards and principles. This is especially needed when multiple component reporting entities are involved.
- A3. For example, with the issuance of SFFAS 55, SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*, are rescinded; therefore, the requirement to impute costs for these activities is eliminated. Further, the Board’s intent with TB 2017-2 was to provide flexibility with respect to asset assignment. SFFAS 47 recognizes the extremely complex organizational structure of the federal government and provides a basis for determining what organizations should be included in the reporting entity’s GPFFRs. It also provides definitions for reporting entity, component reporting entities, and sub-component reporting entities within the federal government.
- A4. Entities requested clarification with respect to the accounting for contingent liabilities when one or more sub-component reporting entities within a single component reporting entity are designated to manage litigation and pay any resulting liabilities on behalf of one or more other sub-component reporting entities.
- A5. Entities also requested guidance regarding cleanup cost liabilities when the component reporting entity responsible for reporting the general PP&E during its useful life is different from the component reporting entity that will eventually be responsible for environmental remediation upon disposal of that general PP&E.

- A6. These types of examples and the issuances of the new pronouncements warrant guidance about how the general liability standards and principles should be applied. Without additional guidance, these situations may lead to inconsistent application of the liability standards and principles.

General Principles for Component Reporting Entities

- A7. Paragraphs 56-57 of SFFAS 47 provide that component reporting entities' GPFFRs must include all consolidation entities and disclosure entities for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete. The GPFFR for the government-wide reporting entity would be the consolidation of component reporting entity GPFFRs, including information regarding disclosure entities. SFFAS 47 also provides the definition for component reporting entity.
- A8. In light of SFFAS 5 and SFFAS 47, this Interpretation provides general principles that apply for component reporting entities.

Guidance on Contingent Liabilities

- A9. FASAB issued TB 2002-1, *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government*, in 2002 to provide guidance when one or more federal entities are involved in litigation. It also provides guidance for legal claims related to defunct federal entities (that is, entities that no longer exist) because preparers asked that liabilities be recognized only at the government-wide level. TB 2002-1 (which is considered a staff-level document in the GAAP hierarchy) established two main points:
- a. All liabilities should first be recognized at the component reporting entity level. (The principle provided in this Interpretation is consistent with this principle in TB 2002-1.)
 - b. All liabilities and costs must be attributed to the component reporting entities responsible for the programs or activities that contributed to the claims or to the claims of their successor component reporting entities. (The basis for assigning such costs and liabilities was derived from SFFAS 4, *Managerial Cost Accounting Standards and Concepts*.)
- A10. As noted, this Interpretation is consistent with the principle established in TB 2002-1 that every liability should first be recognized at the component reporting entity level. However, other conclusions and certain language in TB 2002-1 is not consistent with current GAAP based on the following:
- a. Terminology, definitions, and language presented in TB 2002-1 are not consistent with SFFAS 47.
 - b. SFFAS 4, as amended by SFFAS 55, addresses inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by the Office of Management and Budget (OMB).

- A11. Because of the changes introduced in SFFAS 47 and SFFAS 55, a TB to rescind TB 2002-1 will be proposed after the issuance of this proposed Interpretation.
- A12. Although not all inter-entity costs are recognized by the receiving entity, relationships creating inter-entity costs exist and often involve multiple component reporting entities. As noted in paragraph 5, SFFAS 5 provides that liabilities should be reported by the component reporting entity that will liquidate the liability (that is, has a probable future outflow). GAAP also provides that all liabilities should be recognized by a component reporting entity before being consolidated into the government-wide financial statements.
- A13. To recognize and disclose contingent liabilities in accordance with SFFAS 5, a component reporting entity must have information about ongoing litigation and exercise judgment regarding the possible outcomes. Component reporting entities designated to pay certain liabilities of other federal entities may not have the information needed to determine whether a future outflow is probable and measurable until component reporting entities more directly involved communicate certain determinations to them.
- A14. When a single component reporting entity is the defendant in a case, that entity should have the needed information even in the event any ultimate claim will be paid by the Treasury Judgment Fund. The entity involved in the case should recognize a contingent liability until amounts to be paid by the Treasury Judgment Fund are decided. The Treasury Judgment Fund pays the claims once it is either settled or a court judgment is assessed and the Treasury Judgment Fund is determined to be the appropriate source for payment. The Treasury Judgment Fund is not a party to litigation before it is paid and the cost of each claim relates to another entity's operations. This is consistent with Interpretation 2.
- A15. When multiple sub-component reporting entities are involved, one or more sub-component reporting entities within a single component reporting entity may be designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. Specifically, sub-component reporting entities within a department may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of SFFAS 5.
- A16. When such designations of responsibility for managing litigation and settling claims are made within a component reporting entity (such as a department) having multiple sub-component reporting entities, the sub-component reporting entity that manages litigation is responsible for reporting information in accordance with SFFAS 5. The sub-component reporting entity whose actions gave rise to the litigation should not recognize or disclose information regarding the litigation because doing so would unnecessarily complicate consolidation processes and potentially create inconsistent practices.
- A17. For example, if a department assigns responsibility for adjudicating overseas claims in a given country to a sub-component reporting entity, the sub-component reporting entity adjudicates claims for other sub-component reporting entities in that country. The ongoing practice has been that the sub-component reporting entity assigned responsibility for

adjudicating claims in a given country pays for the claims, even those claims due to the actions of another sub-component reporting entity. The adjudicating sub-component reporting entity does not seek reimbursement for claims paid on behalf of other sub-component reporting entities. Likewise, the sub-component reporting entity on whose behalf the claim is adjudicated does not recognize an imputed cost. Clarity regarding which entity should report the liability will ensure the same liability is not recognized twice and that it is recognized in a consistent manner by the sub-component reporting entities of larger reporting entities.

Guidance on Cleanup Costs

- A18. SFFAS 6 provides guidance for recognizing liabilities for cleanup costs, and SFFAS 5 provides guidance for recognizing liabilities from government-related events such as cleanup of environmental damage. FASAB has provided guidance in this area through several technical releases (TRs), but additional guidance is necessary in light of recent pronouncements.
- A19. Challenging issues exist in the application of general standards for large, complex departments, such as the Department of Defense, that have numerous components and sub-components. For example, assets may be owned by one component reporting entity but used or funded by another component reporting entity, and the component reporting entity using the asset may not be the component reporting entity responsible for disposal. Given the complex responsibilities and relationships among the components of large departments, the second condition of paragraph 91 in SFFAS 6 is resulting in inconsistent application of the standards. The condition requires that “[a] future outflow or other sacrifice of resources is probable.”
- A20. Additionally, SFFAS 4 addresses inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities is not required⁵ with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB. Further, TB 2017-2 provides flexibility so that assets may be assigned by a reporting entity to its component reporting entities on a rational and consistent basis. These new pronouncements provide additional flexibility when considered in conjunction with SFFAS 5 and SFFAS 6.
- A21. SFFAS 6 outlines the requirements for the disposal, retirement, or removal from service of general PP&E. Paragraphs 97 and 98 of SFFAS 6 outline the requirements for recognition and measurement of disposal-related cleanup costs. TR 14, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*, addresses implementation guidance that further clarifies existing SFFAS 6 requirements for the disposal, retirement, or removal from service of general PP&E as well as related cleanup costs. The guidance helps differentiate between permanent and other than permanent removal from service of PP&E assets. The guidance recognizes the many complexities involved in the disposal of PP&E, as well as delineates events that trigger discontinuation of depreciation and removal of PP&E from financial reporting.

⁵ SFFAS 55 provides for the continued recognition of significant inter-entity costs by business-type activities. Non business-type activities may elect to recognize other imputed costs.

- A22. Some general PP&E requiring cleanup is transferred to another component reporting entity after being removed from service. An example would be a military service responsible for reporting the general PP&E that will eventually be transferred to the Defense Logistics Agency for environmental remediation. In such cases, the component reporting entity that recognized the general PP&E during its useful life may not be responsible for future outflows or other sacrifices of resources to settle the liability for cleanup costs. Instead, the component reporting entity receiving the general PP&E upon its removal from service has or assumes that responsibility.
- A23. For the purpose of meeting the liability definition of cleanup costs at the component reporting entity level (when multiple sub-component reporting entities have distinct responsibilities for general PP&E and for settling the related liability), the condition to determine whether “[a] future outflow or other sacrifice of resources is probable” could be considered met as long as the liability is reported with the general PP&E until the general PP&E is removed, contained, or disposed of. At that time, the liability would be transferred with the related general PP&E to the component reporting entity responsible for the liability.
- A24. A general illustration of the entry to recognize the liability for the cleanup cost follows.
- The entity using the general PP&E would recognize the cost as the liability is recorded, just as provided for in SFFAS 6.
- DR. Expense
CR. Liability
- Upon disposal, the entity transfers the liability (and related general PP&E) to the component reporting entity responsible for the liability.
- DR. Liability
CR. Imputed Financing Source

Disclosures

- A25. Although the proposed Interpretation may result in changes in reporting of contingent liabilities and cleanup costs when multiple component reporting entities are involved, existing GAAP provides sufficient guidance to ensure proper disclosures regarding these changes in reporting. SFFAS 55 requires component reporting entities to disclose that only certain inter-entity costs are recognized for goods and services received from other federal entities at no cost or at a cost less than the full cost. Component reporting entities should identify the costs of the providing entity that are not fully reimbursed and the general nature of other imputed costs recognized in their financial statements. Statement of Federal Financial Accounting Concepts 3, *Management’s Discussion and Analysis*, and SFFAS 15, *Management’s Discussions and Analysis*, also provide guidance on information to include in the management’s discussion and analysis if deemed appropriate.
- A26. Given the sufficiency of current disclosure standards and guidance, the Board believes it is not necessary to address disclosure in this proposed Interpretation. Agencies should consider current standards in deciding whether to disclose the nature of changes in reporting resulting from this proposed Interpretation.

Other

A27. As noted in paragraph A11, a TB to rescind TB 2002-1 will be proposed after the issuance of this proposed Interpretation. Because the guidance regarding the application of the general liability standards has been provided through other pronouncements, such as TBs and TRs, additional documents may require updating to ensure conformance and consistency with current GAAP. Therefore, necessary updates will be made to the appropriate documents. Those updates are considered exclusive of the liability issue presented within this Interpretation. Further, those changes or updates must be made in separate GAAP documents to ensure the appropriate level of guidance within the GAAP hierarchy results.

APPENDIX B: ABBREVIATIONS

FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFRR	General Purpose Federal Financial Report
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin
TR	Technical Release

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