

Memorandum

Reexamination

April 5, 2024

To: Members of the Board
From: Melissa L. Batchelor, Assistant Director
Thru: Monica R. Valentine, Executive Director
Subject: **Reexamination of Existing Standards** (Topic B)

INTRODUCTION

The Board discussed the comment letters and staff's initial analysis of the responses to the Invitation to Comment (ITC), *Reexamination of Existing Standards* at the December 2023 meeting. The majority of members agreed the priority topics for reexamination were SFFAS 5, SFFAS 7, and SFFAS 34. This agenda session will consider staff's outreach to respondents and preliminary research in these areas.

REQUEST FOR FEEDBACK BY APRIL 10th

Prior to the Board's April meeting, please review the attached staff recommendations and analyses and respond to the ensuing questions by April 10th. Please submit responses to Melissa Batchelor at BatchelorM@fasab.gov with a copy to Monica Valentine at ValentineM@fasab.gov.

NEXT STEPS

Pending Board member feedback, staff will continue outreach and preliminary research into remaining areas (including second tier topics and SFFAS 2 disclosures) for discussion in June. This would allow the Board to finalize its reexamination approach, including prioritization of issues prior to making technical agenda decisions at the August 2024 Board meeting.

ATTACHMENTS

1. Staff Recommendations and Analyses
2. Preliminary Liability (SFFAS 5) Research
3. Preliminary Revenue (SFFAS 7) Research
4. Preliminary GAAP Hierarchy (SFFAS 34) Research

Staff Analysis Reexamination

April 5, 2024

CONTEXT

The majority of members agreed the priority topics for reexamination were SFFAS 5, SFFAS 7, and SFFAS 34. The Board requested that staff provide additional research to facilitate the prioritization of reexamination topics.

BACKGROUND

At the December 2023 meeting, the Board discussed the ITC comment letters, staff's initial analysis, and staff's recommendations based on the responses to the ITC. The majority of members agreed that SFFAS 5, SFFAS 7, and SFFAS 34 should be priority topics for reexamination. Due to the magnitude of the standards and limited staff resources, the Board wanted additional information to consider for prioritization.

Certain members also suggested that other areas be considered further. For example, the Board acknowledged that there were no responses from agencies with material loans and loan guarantees. Members asked staff to contact the credit reform agencies to assess their concerns with SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*. In addition, a member suggested that all top tier and second tier topics be researched.

RECOMMENDATIONS AND ANALYSES OF REQUEST FOR FEEDBACK

RECOMMENDATION

Comments on Research

The Board should review the attached summaries of the high-level preliminary research for the priority topics for reexamination: SFFAS 5, SFFAS 7, and SFFAS 34. Staff is not requesting Board deliberation on any of the technical issues presented as this is preliminary research to facilitate the prioritization of reexamination topics.

ANALYSIS

The Board requested that staff perform research and outreach to the ITC respondents so the Board would be more informed of the issues to prioritize topics. Staff notes high level preliminary research was done to identify the nature and extent of reexamination issues for purposes of project prioritization. Staff's preliminary research primarily

consisted of outreach and communication with stakeholders as well as considering FASAB historical information to gather more information and specifics about the issues presented. Discussions with respondents focused on information about the issue or problem, potential cause, current impact, and ways to resolve. During outreach, some respondents were more forthcoming with examples and sharing pertinent information such as auditor NFRs. Generally, these respondents reiterated the feedback provided in their ITC responses on the topic areas. Through these interviews, some respondents expressed a desire for the Board to modernize its standards as it clarifies issues that have emerged.

Staff believes it important to note that other issues and information would most likely be identified if the Board moves forward with a specific reexamination project. Staff's preliminary research was limited. Outreach was limited to respondents that selected the topic (SFFAS 5, SFFAS 7 and SFFAS 34) as high or medium priority and respondents that may not have selected a priority but provided commentary on the topic. Staff notes that additional outreach, including roundtables, task forces, and other research as appropriate, would occur once a project is added to the agenda. Research at that time would be more in depth and include a broader audience.

For this meeting, staff is seeking Board questions and comments about the research provided. While staff notes that there was different levels of research and information provided for each of the priority areas, the preliminary research performed for each topic continued to support that reexamination is warranted.

Staff is looking for Board feedback and whether the additional information is sufficient to inform the Board. Specifically, does the information provide the Board the necessary details to prioritize topics and finalize its reexamination approach so technical agenda decisions can be made at the August 2024 Board meeting. Staff believes that the ITC responses, preliminary research performed, and the collective institutional knowledge of the Board and staff are sufficient information for purposes of prioritizing topics to reexamine.

Considering staff would like to ensure the Board has the necessary information to prioritize reexamination issues so that technical agenda setting decisions can be made in August, Board feedback will help staff determine next steps, including the extent of research on SFFAS 2¹ and second-tier topics².

Staff believes there are several other considerations that the Board may wish to discuss as it determines next steps in the reexamination project. See next section **Reexamination Considerations**.

¹ A roundtable meeting with the significant credit agencies has been set for later this month. Results will be shared at the June 2024 meeting.

² Second-tier topics include SFFAS 1, SFFAS 49, SFFAS 3, SFFAS 17, and SFFAS 33.

Questions for the Board:

1. Does the Board have any specific questions or comments regarding the research provided for the priority topics for reexamination?
2. Does the high-level information provide the Board the necessary details to prioritize topics?

RECOMMENDATION

Reexamination Considerations

Staff believes that there are several reexamination considerations that the Board should address before moving forward with any specific reexamination project.

ANALYSIS

Reexamination Methodology

Staff continues to believe developing a core reexamination methodology is an important step. Staff views the core reexamination methodology to be an endeavor that must be carefully developed because of the scope and complexity of the accounting issues. Considering this is the first comprehensive reexamination, staff believes developing a core reexamination methodology is critical, especially considering various staff will ultimately be assigned to a project or phase in the reexamination. The core methodology would be incorporated into each reexamination project plan. Developing a core reexamination methodology would provide a roadmap of the steps to be taken under each project to ensure reasonable consistency across reexamination projects where appropriate. While it does not mean that all projects will follow the same detailed project plan steps and methods, but it will help ensure consistent processes and procedures are considered as part of the reexamination project plans.

Staff would like Board feedback on the merits of developing a core reexamination methodology for the Board's consideration.

Reexamination Approach

During the December 2023 meeting, the Board briefly discussed the reexamination approach. Due to the magnitude of the standards and limited staff resources, certain members believed a piecemeal prioritization of the issues is needed. The members indicated a preference toward granular projects in the reexamination versus a

comprehensive assessment of topics. Some members believed that granular projects that address the issues received from ITC respondents would have the most benefit for preparers and users.

Staff understands the reasoning and supports addressing issues that would provide the most benefit to stakeholders. However, prior to the December 2023 meeting, it appeared that entire topics or standards would be open for reexamination. Staff believes the Board should carefully assess the options.³ For example, when addressing technical clarifications in the past, there have been instances where members may have wanted to go beyond the technical clarification scope or other areas within the standard but did not because this was considered out of scope. In addition, there have been various times the Board has deferred issues because it would be addressed in the reexamination.

Staff considers there may be instances where the granular approach may contemplate most of an existing standard, but not all. For example, issue areas identified in the SFFAS 5 preliminary research cover most of SFFAS 5, but not all. Further, when considering granular issues (such as environmental liabilities and pensions), it appears logical that the Board may also confirm the general liability principles to ensure no changes are necessary.

The Board may wish to consider these types of situations as it finalizes the reexamination approach and considers FASAB Handbook implications (see next sub-topic.) As explained in the next sub-topic, a forward-thinking approach may allow the granular approach of addressing issues and full topic reexamination to be accomplished in tandem. Meaning, once all the granular issues are identified within a topic, the expectation would be to ensure that the topic is reexamined in its entirety. With planning, staff believes the Board could prioritize the granular issues while also ensuring a full reexamination of each topic or standard.

Staff notes the Board has not finalized the factors for ranking or prioritizing the granular issues.⁴ Staff believes determining the factors is an important step that the Board may wish to consider. For example, factors may include:

- Pervasiveness of the issue among federal entities
- Cost versus benefit considerations, especially as it relates to where there is significant burden on stakeholders
- Critical issues that affect financial statement preparation
- Scope of the issue and related resource requirements
- Evolution of financial management and other changes with time
- Significant issues related to meeting reporting objectives

³ Staff views the piecemeal approach of addressing issues as like the current technical clarifications of existing standards project (and now-archived evaluation of existing standards project) that addresses requests to clarify portions of existing standards.

⁴ As you may recall, staff used a weighted model to prioritize the topics based on the priority assessment of respondent comments. These results provided a ranking of topics and staff further segregated the ranked topics into three tiers. The Board requested staff to perform research on the issues in the top tier and second tier.

The Board may wish to also consider potential outcome or benefit as it relates to opportunities to improve the standards⁵:

- Streamlining authoritative guidance
- Eliminating or revising unclear requirements
- Eliminating disclosures and other required information that may no longer benefit users
- Filling gaps in the standards where the guidance either does not address or does not adequately address areas where federal financial reporting objectives are not being met
- Resolving inconsistencies in current practice
- Clarifying the standards (including addressing areas where the standards are difficult to apply)
- Reconsidering areas where there is significant preparer or audit burden versus perceived value of the information or other cost/benefit concerns
- Considering overlaps or redundancy in requirements

Staff is seeking Board member feedback on the above factors and considerations for the ranking of issues.

FASAB Handbook

Staff continues to believe the Board should be mindful of the FASAB Handbook as it determines the priority approach for reexamination. Although there was not a direct question⁶, respondents provided numerous comments about streamlining and improving the FASAB Handbook. As the number of standards increases and the standards are subjected to numerous layers of amendments, it is much more complex for users to follow.⁷ Based on the number of comments specific to streamlining standards, staff believes this is a critical point for continued research and the Board's consideration. Staff believes it is logical to consider alternatives for providing standards to the community along with revisiting pronouncements for reexamination. This approach could facilitate future Board actions to simplify and streamline the FASAB Handbook going forward. Staff believes continuing the current process with the reexamination will compound the issue.

At the December Board meeting, the Board agreed that there may be opportunities to improve the FASAB Handbook, including organizational changes in the handbook and other improvements. The majority of members also agreed that consideration of the International Public Sector Accounting Standards Board model and other changes should be considered as appropriate in the future *but should not deter reexamination*.

⁵ These were the potential opportunities provided in the ITC.

⁶ Staff reminds members that a section on the FASAB Handbook and Codification had been included in earlier Drafts of the ITC. However, the Board determined it should be removed and issued as a separate ITC later because the Board was concerned with time burden on respondents. Staff notes that other avenues, such as roundtables, may be used to gather additional information from stakeholders.

⁷ As you may recall, comments relate to a longstanding issue with how the FASAB Handbook is updated to reflect amendments.

Staff believes a proactive and forward-thinking approach regarding the FASAB Handbook as the Board begins reexamination is needed to ensure FASAB improves the manner accounting standards are provided to our stakeholders. When considering the potential amendments that will result from the reexamination, it is imperative that an improved process be established. Staff believes this is a critical point and staff time should be devoted to researching and developing a plan for transitioning the FASAB Handbook to an improved format⁸ and update process that would be responsive to user needs.

Staff would like to research and determine a manner that would enable FASAB to transition to a process that closely aligns with IPSASB process of updating the handbook through amending and replacing chapters.⁹ The research would include a framework of designated chapters or topics, and sub-topics. Once the framework is agreed upon, it would provide for an improved manner to deliver accounting standards. For example, it may be appropriate to determine that separate chapters or topics would be appropriate for areas like environmental liabilities and pensions. With this approach, future amendments would replace those areas.

While staff understands there are limited staff resources, this is a very important area. Addressing this would be responsive to stakeholder comments and ultimately be more efficient for FASAB staff.

Questions for the Board:

3. Does the Board generally agree with staff recommendations related to the reexamination methodology and reexamination approach?
4. Does the Board generally agree that staff time should be devoted to researching and developing a plan for transitioning the FASAB Handbook to an improved format and update process that would be responsive to user needs?

⁸ An improved format would address concerns discussed at previous Board meetings.

⁹ For example, considering the major areas identified in the liability area include environmental liabilities and pensions, other retirement benefits, other postemployment benefits and veteran benefits, it is important to be mindful of how to incorporate these areas going forward.

Preliminary Liability (SFFAS 5) Research

During the December 2023 meeting, a majority of the members agreed SFFAS 5 and related pronouncements should be a priority topic for reexamination. SFFAS 5 establishes accounting standards for liabilities of the federal government **not** covered in SFFAS 1, *Accounting for Selected Assets and Liabilities*, and in SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*. (SFFAS 1 addresses only those selected liabilities that routinely recur in normal operations and are due within a fiscal year.) SFFAS 5 defines “liability” and the recognition points for liabilities associated with different types of events and transactions. In addition to discussing the general liability recognition, SFFAS 5 provides specific liability accounting standards¹ for contingencies, federal debt, and pensions (including other retirement benefits, and other postemployment benefits.)

Broad View of Liabilities

Consistent with the Board’s determination of priority topics, GAO’s Independent Auditor’s Report for the FY2023 Financial Report of the United States Government included a material weakness² related to “Liabilities and Commitments³ and Contingencies” that contributed to the disclaimer of opinion on the U.S. government’s accrual-based consolidated financial statements. The report described that the auditor was not able to substantiate the completeness and accuracy of DOD’s environmental and disposal liabilities. Deficiencies in internal control related to estimating environmental and disposal liabilities could result in improperly stated liabilities and could adversely affect the federal government’s ability to determine priorities for cleanup and disposal activities and to appropriately consider future budgetary resources needed to carry out these activities. The GAO report also explained that DOD’s auditor reported that DOD could not support a significant amount of its estimated military postretirement health benefits liabilities included in federal employee and veteran benefits payable. In addition, auditors reported internal control deficiencies at several other federal entities that related to material

GAO’s FY2023 Audit Report excerpts:

Liabilities and Commitments and Contingencies

“The federal government could not reasonably estimate or adequately support amounts reported for certain liabilities...”

“Problems in accounting for liabilities could affect the federal government’s ability to determine the full cost of the federal government’s current operations and the extent of its liabilities...”

“In addition, to the extent disclosures of commitments and contingencies are incomplete or incorrect, reliable information is not available about the extent of the federal government’s obligations.”

¹ Capital leases and insurance programs were previously included in SFFAS 5, but they are now covered in standalone SFFASs (SFFAS 54, *Leases* and SFFAS 51, *Insurance Programs*.) In addition, social insurance is considered a separate program type and not included within insurance and guarantee programs. See SFFAS 17, *Accounting for Social Insurance*.

² A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

³ Staff notes that commitments are not specifically defined or described in FASAB guidance. In August 2023, the Board added commitments to the technical agenda as a research topic. At the December 2023 meeting, the Board agreed on continuing the research to develop a working definition for commitments to help distinguish from contingencies.

liabilities. Further, the federal government could not determine whether commitments and contingencies, including any related to treaties and other international agreements, were complete and properly reported.⁴

The Board agreed that staff should take a broad view of the liability topic because it would better inform the Board of liability related issues. Staff discussions with respondents confirmed the areas of concern and that stakeholders and provided consistent feedback of issues presented in December 2023. Based on staff’s limited research, environmental liabilities and pensions (including other retirement benefits, and veteran benefits) are the main issue areas. There have been recurring concerns, including technical inquiries, in these two significant areas. Stakeholders would benefit from reexamination and clarification. There were also some general comments about the general liability principles and other requested guidance areas.

Environmental liabilities

Environmental and disposal liabilities are estimated costs for anticipated remediation, cleanup, and disposal costs resulting from the use of the governments assets or operations. Estimated

Excerpt from FY2023 Financial Report of the United States Government FY2023 Note 14

Environmental and Disposal Liabilities as of September 30, 2023, and 2022

| <u>(In billions of dollars)</u> | <u>2023</u> | <u>2022</u> |
|---------------------------------|-------------|-------------|
| Department of Energy | 534.3 | 519.7 |
| Department of Defense | 93.8 | 90.6 |
| All other entities | 17.2 | 16.0 |
| Total | 645.3 | 626.3 |

costs for environmental and disposal liabilities can change over time because of laws and regulation updates, technology updates, inflation or deflation factors, and disposal plan revisions. Accruals for environmental cleanup costs are the cost of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics, may pose a substantial present or potential hazard to human health or the environment. Cleanup costs include, but are not limited to decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs.

Existing GAAP Guidance

Stakeholders identified environmental liabilities as an issue area in the ITC responses for SFFAS 6, *Accounting for Property, Plant, and*

*Equipment*⁵ and staff suggested, and the Board agreed that it appropriate to address environmental liabilities with reexamination of SFFAS 5.

SFFAS 6, chapter 4: Cleanup Costs provides the definition of cleanup costs and provides that cleanup costs meet the definition and criteria for recognition of liabilities included in SFFAS 5. SFFAS 6 supplements SFFAS 5 by providing additional guidance regarding cleanup costs. SFFAS 6 associates the recognition of cleanup costs with the life of the related general PP&E. Paragraph 94 provides for the estimation of cleanup costs when the associated general PP&E is

⁴ See <https://fiscal.treasury.gov/reports-statements/financial-report/current-report.html> for the Financial Report of the United States Government that includes GAO Auditor’s report.

⁵ 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.

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.

Staff notes that Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6* provides clarification and 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 settling the liability for the cleanup cost of that asset. In addition to Interpretation 9, there have been other pronouncements related to environmental liabilities, including TB 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. In addition, there are several Technical Releases on this topic: TR 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment* and TR 11, *Implementation Guidance on Cleanup Costs Associated with Equipment*. Although Technical Releases will not be a part of the reexamination, it is important to know implementation guidance has been provided through TRs.

Despite the guidance that has been issued, staff research and outreach to respondents show issues remain and there is a need for additional guidance.

Environmental liabilities and legal claims when there are multiple parties involved.

Based on outreach to respondents, certain issues relate to the appropriate reporting of environmental liabilities and legal claims when there are multiple parties involved in the responsibility for and/or resolution of the liability. In certain situations, there is no clear guidance directing which reporting entity should report the related environmental liability. Staff discussed the issue further with DoD representatives and an IPA firm that conducts audits of DoD components. All parties conveyed that additional guidance would assist in this area because it is difficult delineating which entity should record a liability in situations where the entity that may be considered the source of a liability differs from the entity assigned to provide legal counsel (and the cost thereof) and/or ultimate funding of any loss from adjudication.

Examples

The spills at Red Hill and Camp Lejeune are examples of scenarios that may require additional FASAB guidance to determine which entity should record a liability. The Red Hill incident and the Camp Lejeune claims are significant events that raised concern at DoD. In these scenarios, the cause of the spills may be one entity but the responsibility for cleanup and damages to the community have been assigned to other entities. DoD explained that these incidents required a great deal of legal and budgetary discussion as part of their internal processes to make the determinations regarding the liability as there wasn't clear GAAP guidance.

The Red Hill incident involved fuel spills from the Red Hill Bulk Fuel Storage Facility that contaminated the Red Hill drinking water well.⁶ In summary, the Red Hill incident involved the physical facility that belongs to Navy but the fuel that spilled (and some of the funding to cleanup that fuel) comes from DLA. The Navy had an existing liability to clean up the environmental damage once the facility was de-commissioned. The fuel spill made that cleanup far more urgent and extensive. Although the fuel that spilled did not belong to Navy, the cause

⁶ For more information regarding the Red Hill incident, please see <https://www.epa.gov/red-hill/about-red-hill-fuel-releases>

of the spill (i.e., the handling of the fuel) is arguably Navy. The funding for the cleanup will come from a variety of sources. Some direct, some from traditional cleanup and some from DLA who generally takes responsibility of spillage of DLA fuel. The Navy is overseeing the majority of the cleanup work and arguably is in the best position to oversee an estimate of the liability related to the incident. Navy, as owner of the facility had a pre-existing liability recorded for an estimate of the shutdown cost of the facility. However, consistent with previous policy DoD agreed that DLA had responsibility for the environmental damage caused by the spillage would be theirs as the owner of the fuel that spilled. As such, the disclosure and liabilities have been split between the two entities based upon that resolution.

The Camp Lejeune claims is a similar type issue involving the Navy and Marine Corps. In 1982, the Marine Corps discovered specific volatile organic compounds in the drinking water provided by two of the eight water treatment plants on base.⁷ The spill occurred on a USMC base, but the Navy was assigned the administrative responsibility for gathering, defending/processing the claims and is in the best position to support a calculation of the liability. Funding was provided in a separate bill that was neither Navy or USMC. It was difficult to reach a conclusion and agreement over who should carry the liability because the Navy has the data to establish the liability, but the spill occurred on a USMC base, and the funding for payments will come out of the Judgment Fund. For Camp Lejeune, DoD determined that the Marines should record/discard the liability and that Navy would collaborate with them to estimate the amounts involved. For the most recent fiscal year it was determined that the liability was not estimable and a disclosure of the contingency and the state of progress on it was included in the USMC footnotes.

DoD explained that existing GAAP does not clearly address scenarios when multiple reporting entities are involved. In both cases DoD interpreted SFFAS 5 as supporting that the entity at which the event occurred had responsibility for the disclosure and reporting related to the event. However, DoD noted that there was pushback and differing opinions from lawyers involved in administration, those arranging funding related to the events and also from those focusing on the budgetary/funding perspective. The differing view supported no disclosure until the funding was in place and then having the liability following the funding decisions. DoD believes that approach would delay recognition possibly for years until the funding decisions were completely known.

DoD noted that they believed their approach is consistent with the handling of judgment fund cases because the funding source should *not* be the deciding factor in whether a liability should be recorded. It was suggested that guidance provided in Interpretation 2, *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5* be expanded for environmental liabilities and legal claims when there are multiple parties involved. Specifically, the guidance could be expanded to responsibilities that are split between other operating entities. Doing so would address other funding sources and provide a more direct accounting assignment related to liability source regardless of funding source.

Staff notes that Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6* provides clarification and 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 settling the liability for the cleanup cost of that asset. Interpretation

⁷ For more information regarding the Camp Lejeune incident, please see <https://www.atsdr.cdc.gov/sites/lejeune/overview.html>

9 focuses on assets that have a liability, but the asset and disposal responsibility is *transferred* to another entity. Although DoD noted the Interpretation 9 guidance has been helpful in situations with an asset that is transferred, the guidance does not fit the situations above because the asset is not transferred—it relates to damages on a military base.

Staff notes the Exposure Draft for Interpretation 9, *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*⁸ addressed contingent liabilities when multiple component reporting entities are involved. The ED provided the following:

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 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.

⁸ Please see <https://fasab.gov/projects/archived-projects/evaluation-of-existing-standards/> to view the exposure draft *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*.

Most respondents to the ED disagreed with the proposal, but staff believes there may have been some confusion with the language because there was not a universal or common theme from the respondents, and responses were general. Certain respondents noted concern 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. From the comments, it appeared that the proposed contingent liability guidance may not have provided clarification but rather led to greater ambiguity and questions. Further, DoD determined at that time that the effect of receiving contingent liability guidance would be immaterial or minimal.⁹ Based on this (comments and DoD discussions) the Board determined that there was no need for guidance in the contingent liability area.¹⁰

It is important to note that in finalizing Interpretation 9, the Board believed there may be other scenarios and examples in the future that may need to be addressed. As discussed in the basis for conclusions to Interpretation 9, paragraphs A36-37 provide:

A36. The Board recognizes the potential complexities in reporting and recognizing information in accordance with SFFAS 5 when multiple component reporting entities are involved. The Board requested feedback on the possibility of other similar liability situations or scenarios for consideration and whether an additional general liability principle should be included to address multiple component reporting entities. Respondents did not identify additional examples. Therefore, the Board concluded it is not necessary to provide a general principle.

A37. Although the scope of this Interpretation is only related to cleanup costs, the Board recognizes the potential for other liability issues involving multiple component reporting entities to arise in the future. The Board will consider other specific situations as they arise.

Other Environmental Liability Comments

There were several other comments and suggestions received regarding environmental liabilities during staff's outreach. Staff notes that some of these comments may also involve additional research, including assessing implementation guidance and other factors. Comments from respondents were centered on the estimation process and issues, as well as the need for more examples. Staff believes sorting through these issues would take considerable time and best handled during an approved project. The issues would involve delineating management policy, implementation issues and a variety of things. Staff notes these types of issues would require a broader audience of input, including SMEs, and best handled through a task force during an approved project.

Estimates¹¹

Stakeholders requested clarification regarding the use of contingencies in estimates of environmental liabilities. For example, if an environmental liability is probable but not currently measurable, it may more accurately meet the definition of a contingent liability (e.g., liability to remediate environmental contamination pending litigation). Stakeholders noted that environmental liabilities are not provided as an example of a contingent liability. Paragraph 38 of

⁹ With the examples provided in this discussion, DoD now believes this is a material area and guidance would assist.

¹⁰ Interpretation 9, paragraphs A24-A29 include a summary of the Board's reason for not including guidance in the contingent liability area in Interpretation 9.

¹¹ Staff notes that the request for guidance on estimates was broader than environmental liabilities. It appears that respondents believe that additional guidance on what agencies should consider when estimating liabilities is needed.

SFFAS 5 discusses the criteria for recognition of a contingent liability. Footnote 19 to paragraph 38 provides:

In the case of government-acknowledged events giving rise to nonexchange or exchange transactions, there must be a formal acceptance of financial responsibility by the federal government, as when the Congress has appropriated or authorized (i.e., through authorization legislation) resources. Furthermore, exchange transactions that arise from government-acknowledged events would be recognized as a liability when goods or services are provided. For nonexchange transactions, a liability would then be recognized at the point the unpaid amount is due. Therefore, government-acknowledged events do not meet the criteria necessary to be recognized as a contingent liability.

Stakeholders requested clarification on what defines “best estimate” and what is considered a “completed study upon which to base an estimate?” A respondent explained that issues stem from the need to estimate so far in advance and that when the actuals occur it results in adjustments. For example, as new cost information becomes available, if actuals differ, it may show that there was a problem with the estimation. During outreach, respondents recognized that determining reasonable estimates often relates to issues identified with internal controls and the associated methodology and processes, but respondents identified this as an area that requires additional guidance.

Respondents explained the need for clarifications on the time period for which cleanup liabilities are deemed to be reasonably estimable. Due to the multiple regulatory and statutory requirements governing environmental liabilities and other complexities in meeting the ‘reasonably estimable’ criteria, stakeholders explained it may take multiple reporting periods (typically quarters) for a liability to be recognized. Paragraph 29 states “Government-related events resulting in a liability should be recognized in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable.” Staff’s outreach provided that users would like clarity on what reporting period (e.g. quarterly or annual) to recognize the liability and more specific guidance of what “soon after” means and, if acceptable, how to report a liability which may require multiple reporting periods.

Stakeholders also requested clarity on the measurement attributes. Paragraph 34 of SFFAS 5 states “Several different measurement attributes are used for different items in present practice (e.g., fair market value, current cost, present value, expected value, settlement value, and historical cost).” Based on staff’s outreach, respondents explained that some environmental liabilities require more complex measurement and professional input to quantify the liability estimate than what is referenced in paragraph 34. Stakeholders described that multiple measurement attributes may be used for a single cost or in select instances, require use of specialists outside the accounting field to include environmental engineers or other professions. It was suggested that the guidance include reference to a combination of measurement attributes and estimations by accredited professions. Stakeholders also explained that the liability measurement may change over reporting periods due to changes in the governing environmental regulations or statutes. Additionally, the estimate may change due to inflation, deflation, changes in regulations, operating plans, and/or technology.

Examples

Staff’s outreach to respondents also identified that there is a need for additional environmental liability examples in FASAB guidance:

- For example, respondents requested that FASAB consider including an appendix in TB 2006 that list examples of materials that would not be reasonably expected to include asbestos.
- Hazardous waste spill is included as an example of government related events; however, this is only a small example of the many different types of environmental damages that can occur or may be reportable or E&DL. Respondents recommend using the terms 'spills, releases, contamination, or other environmental damage' to refer to a broader scope of events.
- Lack of reference or example of post closure or environmental restoration provided in the paragraph 28 defining what government-related events includes. Respondents recommend adding post closure (RCRA or CERCLA) or environmental remediation/restoration (CERCLA or SARA) as examples of government-related events to further describe "event-driven" liabilities relative to governing environmental law.

Pensions, other retirement benefits, other postemployment benefits and veteran benefits

SFFAS 5 provides specific liability accounting standards for pensions (including other retirement benefits, and other postemployment benefits).

SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates* was issued in 2008 and applies to federal entities that report liabilities and expenses for federal employee pensions, other retirement benefits (ORB), and other postemployment benefits (OPEB) in general purpose financial reports.

Excerpt from FY2023 Financial Report of the United States Government Note 13

Federal Employee and Veteran Benefits Payable as of September 30, 2023, and 2022

| <i>(In Billions of Dollars)</i> | <i>Totals</i> | |
|--|------------------------|------------------------|
| | <i>2023</i> | <i>2022</i> |
| <i>Pension benefits</i> | 5,373.2 | 5,069.5 |
| <i>Veterans compensation and burial benefits</i> | 7,095.8 | 5,965.1 |
| <i>Post-retirement health benefits</i> | 1,521.9 | 1,472.4 |
| <i>Veterans education and training benefits</i> | 197.5 | 170.0 |
| <i>Life insurance benefits</i> | 69.9 | 66.8 |
| <i>FECA benefits</i> | 33.8 | 33.0 |
| <i>Unfunded leave</i> | 27.2 | 26.9 |
| <i>Liability for other benefits</i> | 8.1 | 8.2 |
| <i>TOTAL BENEFITS PAYABLE</i> | <u>14,327.4</u> | <u>12,811.9</u> |

As discussed in the 2023 Financial Report of the United States Government (Note 13), the government offers its employees retirement and other benefits, as well as health and life insurance. The liabilities for these benefits, which include both actuarial amounts and amounts due and payable to beneficiaries and health care carriers, apply to current and former civilian and military employees. The actuarial accrued liability represents an estimate of the PV of the cost of benefits that have accrued, determined based on future economic and demographic assumptions. Actuarial accrued liabilities can vary widely from year to year, due to actuarial gains and losses that result from changes to the assumptions and from experience that has differed from prior assumptions. OPM administers the largest civilian pension and post-retirement health benefits plans. DOD and VA administer the military pension and post-

retirement health benefit plans. Other significant pension plans with more than \$10.0 billion in actuarial accrued liability include those of Foreign Service (State), TVA, and HHS's Public Health Service Commissioned Corps Retirement System.

Existing GAAP Guidance

SFFAS 5 provides that pension benefits, OPEB, and ORB are exchange transactions because the employee performs service in part to receive the deferred compensation provided by the plans (such as future pension and medical care benefits). The liability and associated expense for pensions and other retirement benefits (included health care) should be recognized at the time the employee's services are rendered. The expense for postemployment benefits should be recognized when a future outflow or other sacrifice of resources is probable and measurable based on events occurring on or before the reporting date. Any part of that cost unpaid at the end of the period is a liability. The aggregate entry age normal actuarial cost method should be used to calculate the expense and the liability for the pension and other retirement benefits for the administrative entity financial statements, as well as the expense for the employer entity financial statements.

SFFAS 33 requires gains and losses from changes in long-term assumptions used to estimate federal employee pension, ORB, and OPEB liabilities to be displayed on the statement of net cost separately from other costs. SFFAS 33 requires disclosure of the components of the expense associated with federal employee pension, ORB, and OPEB liabilities in notes to the financial statements. SFFAS 33 also provides a standard for selecting the discount rate assumption for present value estimates of federal employee pension, ORB, and OPEB liabilities. There is currently uncertainty in practice in this regard. It also provides the valuation date for measuring pension, ORB, and OPEB liabilities, which will establish a consistent method for such measurements. SFFAS 33 does not apply to the Federal Employees Compensation Act (FECA) program.

In addition, Interpretation 4, *Accounting for Pension Payments in Excess of Pension Expense* provides guidance regarding accounting at the agency level for employer agencies' payments to the pension trust fund when they exceed pension expense (based on an allocation of the total service [or "normal"] cost by the Office of Personnel Management).

Based on staff's research and outreach, stakeholders conveyed that there was difficulty with the requirements of SFFAS 5 as it related to the pension actuarial liability processes.

Actuarial cost method

Because actuarial practices have evolved and greatly changed, stakeholders suggested FASAB engage the federal government's actuarial community¹² to discuss whether changes in FASAB standards would improve the financial reporting of pension, other retirement benefits, and veteran benefits.

For example, respondents suggested that FASAB consider whether the aggregate entry age normal (AEAN) is the most appropriate actuarial cost method. An actuarial cost method is a method for allocating the cost of future retirement benefits over time, generally in some manner

¹² Staff agrees that a roundtable meeting with the actuarial community would be beneficial. Staff did not have an opportunity to coordinate the roundtable meeting during the research, but it would be an appropriate next step that would be done as part of a project on pensions.

over the working years of those expected to become eligible for benefits.¹³ Attributes of different actuarial cost methods include whether the calculation methodology is “individual” or “aggregate”; and whether costs are allocated as a percentage of pay, as an amount per active participant, or in a pattern that matches some aspect of the plan’s benefit formula.

SFFAS 5 provides that the “aggregate entry age normal” (AEAN) actuarial cost method should be used to calculate the pension expense, the liability for the administrative entity financial statements, and the expense for the employer entity financial statements. The AEAN method is one under which the actuarial present value of projected benefits is allocated on a level basis over the earnings or the service of the group between entry age and assumed exit ages; and it should be applied to pensions on the basis of a level percentage of earnings. The portion of this actuarial present value allocated to a valuation year is called the “normal cost” and the portion not provided for at a valuation date by the actuarial present value of future normal cost is called the “actuarial accrued liability.”

SFFAS 5 provides that the plan may use other actuarial cost methods if it explains why AEAN is not used and if the results are not materially different. Stakeholders believe that FASAB should consider whether the AEAN actuarial cost method is the most appropriate method for valuing related liabilities and costs. Respondents explained that the AEAN includes certain complexities and may limit comparability. For example, AEAN may limit comparability with the more commonly used Projected Unit Credit method directed by FASB. GASB standards for pension accounting specifies that the actuarial cost method should be the entry age normal method and that it should be applied on an individual basis.

Staff notes that various actuarial cost methods exist and as provided in SFFAS 5, the plan may use other actuarial cost methods if it explains why AEAN is not used and if the results are not materially different. Acceptable methods recognize the cost of an employee’s pension benefits during the employee’s years of service, but the different actuarial methods recognize the cost in different patterns over time. The AEAN method is intended to produce a periodic pension cost that is a level percent of payroll.

The basis for conclusions for SFFAS 5 paragraphs 149-155 provides information explaining why FASAB specified the AEAN. Specifically, paragraph 153 provides:

153. FASAB specified the AEAN for several reasons. First, as stated, AEAN is a reasonable and systematic way of allocating costs evenly over the service lives of employees. Second, the major federal retirement systems [the Military Retirement System (MRS), the Civil Service Retirement System (CSRS), and the Federal Employees Retirement System (FERS)] use AEAN, and in two cases (FERS and MRS) charge “full cost” in the budget under a statutory requirement.^{FN59} Finally, exact comparability with private-sector entities is not relevant. Minor differences in the size of the pension liability and expense calculated pursuant to this Statement and SFAS 87 clearly would not have a material impact on investor’s assessment of the credit-worthiness of the U. S. government.

FN59 The CSRS statute calls for procedures that are generally construed as entry age normal. “Full cost,” of course, depends on the method selected. For example, prior service cost is amortized in FERS over 30 years pursuant to the funding method; it would be recognized over a shorter period (years of expected future service of the group or 15 years) under SFAS 87. It should be recognized in full immediately under the terms of this standard, but only in financial reports of the agency that administers the pension plan and in the consolidated financial statements of the United

¹³ 26The Actuarial Standards Board defines an actuarial cost method as a procedure for allocating the actuarial present value of projected benefits (and expenses, if applicable) to time periods, usually in the form of a normal cost and an actuarial accrued liability.

States, not in the employer agency's financial statements. Thus, "full cost" in this sentence must be read in a generic way, that is, as a statement of the general intent underlying the law.

Staff notes that GAO-19-195R, *Military Retirement: Service Contributions Do Not Reflect Service Specific Estimated Costs and Full Effect of Proposed Legislation is Unknown*, report addresses whether the current method used to calculate DOD retirement contributions reflects estimated service retirement costs. GAO's analysis indicated that the mandated single, aggregate contribution rate does not reflect service specific retirement costs. The report explained the actuarial valuation results that go into the development of military retirement contribution rates are most sensitive to changes in economic (e.g., long-term interest assumption) and retention assumptions (i.e., the active and reserve duty probabilities of continuation in service).

The report also explained that a DoD-led assessment identifies concerns with the current method "(1) produces "inaccurate" marginal cost estimates at the service level; (2) creates large cross-subsidies among the services; (3) generates inefficiencies in the allocation of resources; and (4) does not provide clear signals and incentives for shaping an efficient experience mix of personnel." The report noted there have been significant advances in technology and computing power, making alternative actuarial cost methods more feasible.

Discount Rate

Stakeholders believe FASAB should consider clarifying the wording in SFFAS 33 relating to the selection of discount rates because the guidance has been interpreted inconsistently, raising issues about comparability across government entities.

Consistent with the feedback received during research and outreach, staff notes that there have been questions and technical inquiries specific to the interpretation of the selection of discount rates. Questions relate to the interpretation of SFFAS 33 paragraph 30 (see highlighted text):

30. In developing average historical Treasury rates, a minimum of five historical rates as of the reporting date (e.g., at the current and four prior fiscal year ends) should be used for each maturity. The historical rates used to calculate the average should be sequential (e.g., 2003-2007). For example, for an average historical Treasury rate to be used as the discount rate as of the end of fiscal year 2007 for a payment due in 10 years (i.e., in fiscal 2017), a minimum of the five most recent fiscal year-end historical rates on 10-year Treasury securities should be used. Thus, the rate on 10-year Treasury securities as of the end of fiscal year 2007 would be one of the five historical rates used in the average, the rate on 10-year Treasury securities as of the end of fiscal year 2006 would be another rate, etc., until, at a minimum, the rates on 10-year Treasury securities as of the end of fiscal years 2003 through 2007 would be included in the average.

There are differing opinions on whether paragraph 30 requires year-end discount rate information. In April 2023, FASAB staff proposed an amendment to SFFAS 33 as part of an omnibus amendments document. Staff research provided that SFFAS 33 and the discount rate requirement in particular, was meant to provide flexibility to preparers and actuaries. Staff noted that a narrow and strict reading of paragraph 30 creates a dilemma wherein year-end discount rate information, which is not available at year-end, forces a preparer to be in noncompliance with the standard in order to comply with an entity's November 15th financial reporting deadline.

Staff recommended amending SFFAS 33 paragraph 30 and 32 to acknowledge preparer flexibility to accommodate for the inability of having a Treasury year-end discount rate available in time for financial reporting purposes. Although members recognized that timely guidance

could be provided to practitioners by clarifying certain language in the existing SFFAS, members were concerned about doing so in a piecemeal manner. As explained in the April 2023 minutes, “members noted that a more comprehensive approach through the reexamination of existing standards project would serve practitioners best given that other aspects of SFFAS 33 could warrant additional changes.”¹⁴

Valuation Date

Stakeholders suggested reviewing the valuation date guidance in SFFAS 33 for pension benefits, other retirement benefits, and other postemployment benefits. There was noted concern because of the complexity. Stakeholders believed it may be helpful to achieve further consistency government-wide and align with the time needed to prepare and audit the actuarial calculations.

Disclosures

Stakeholders suggested the Board consider whether additional disclosures related to pension and other retirement benefits in employer entities is appropriate. While most federal employer entities disclose the key attributes of pension and other retirement benefits provided to their employees, the accounting standards currently do *not* have a requirement for these entities to make such disclosures.

In addition, a respondent noted that GASB’s post-implementation review of GASB Statement 68 found that some users appreciated the discount rate sensitivity disclosure and 10-year contribution and net pension liability information, which is also consistent with FASB requirements, but not currently included in federal disclosures.

VA Health Care

As discussed in the Basis for Conclusions to SFFAS 5, the Board concluded that ORB are similar to pension benefits and should be accounted for in a similar way unless differences in substance dictate otherwise. The predominant other retirement benefit in the federal government is health care benefits for retirees. These are long-term and require actuarial estimation. The Board recognized that future health care benefits present unique measurement problems because they are more uncertain than pensions since they depend on the changing patterns of health care delivery and utilization, on the price trends for medical care, and on the benefits provided by social insurance programs like Medicare.

The Board recognized that some federal retiree health benefits are provided directly in federal government hospitals and facilities. The Board explained the liability in these cases also depends on the amount that the Congress will appropriate in the future to pay for the benefits, so the expense and liability are more difficult to measure. The Board explained in paragraph 176 that “Notwithstanding the measurement difficulties, because of the importance of approximating the cost of services rendered at the time the service is rendered, FASAB believes that in most cases, the ORB costs and liabilities should be measured for federal programs.”

¹⁴ Please see the April 2023 staff paper proposing the amendment to SFFAS 33 and Board minutes at <https://fasab.gov/board-activities/prior-calendar-years/>

However, VA medical care cost would be recognized in the period medical care service is rendered. The Basis for Conclusions of SFFAS 5 provides the following discussion regarding the Board's conclusion on VA health care:

182. Although it might appear that medical benefits provided by the Department of Veterans Affairs should be treated like other retirement or medical benefits, there are significant differences between the two. Most often retiree medical benefits are provided through a health insurance provider, which receives premium payments from the former employer. But, with VA medical benefits, the former employer (the government) provides the medical services through VA facilities to veterans on an "as needed" and an "as available" basis versus payment of health insurance premiums for each veteran.

183. Eligibility for VA hospital care and nursing-home care is divided into mandatory and discretionary categories. VA must provide hospital care to veterans with service-connected disabilities and others in the mandatory category. Hospital care is considered discretionary if the veteran has income above a specified limit and a non-service-connected injury. Veterans in the discretionary category may be required to pay fees to receive VA hospital care. In addition, VA medical care is financed by annual appropriations. The entitlement to receive care does not guarantee any particular level of care. The Congress decides annually how adequately VA medical care will be funded.

184. The Board believes that VA medical benefits, for both mandatory and discretionary programs, are best measured by the annual cost incurred rather than by actuarially determined charges during the veteran's military service. Medical care for veterans does not satisfy the probability or reasonably measurable criteria in this standard at earlier dates, and therefore future medical benefits do not constitute a long-term liability to be recognized in the Balance Sheet. The Board believes VA medical benefit liability and related expenses should be recognized in the period medical care service is rendered. The entity should consider, however, what disclosures would be appropriate for these costs under the contingency standard.

Based on discussions, this was one of the more controversial decisions when the Board deliberated SFFAS 5. Staff notes the current Board may want to reassess this based on changes in the environment.

Other Pensions, ORB, OPEB and veteran benefits comments

- Pension & OPEB standards do not directly address contractual obligations that an agency may have to contribute to contractor pension & OPEB plans. Stakeholders recommended that this should be addressed because there are instances where this is occurring.
- DOI/NPS noted the challenges in accounting for the United States Park Police (USPP) pension. NPS must hire an actuary to perform many of the tasks needed which is at a cost to NPS. They view OPM as the expert that already has many of these tools at their disposal.
- Paragraph 14 of SFFAS 33 provides that "This Statement does not apply to the Federal Employees Compensation Act (FECA) program." The Board's reasoning is provided in the Basis for Conclusions paragraph A19: "The Board considered the applicability of this standard to the Federal Employees Compensation Act program. The Board concluded that it was not appropriate or necessary for the Department of Labor to provide the information concerning gains and losses from changes in assumptions to the employer

agencies, nor for the employer agencies to separately report or disclose such information. Under the particular circumstances of FECA accounting and reporting, the Board decided that the value of the FECA information provided pursuant to this standard would not offset the burden and cost of providing it.

DOL requested the Board to clarify that SFFAS 33 in its entirety should not apply to the FECA program and that SFFAS 33 should not be applied selectively, e.g., discount rates. DOL also requested the Board to clarify that SFFAS 33 applies to those programs/funds that are predominantly pensions, ORB, and OPEB (these are benefits for former Federal employees) and that DOL does not have to split out the small portion for Federal employee benefits from the Energy program/fund and apply SFFAS 33 to that portion.

Additional Comments

Based on staff research, several issues included in ITC responses were considered resolved and no further consideration by the Board was necessary. See the Staff notes column on the Table of SFFAS 5 Responses and Staff Notes that follows this preliminary research paper.

In addition, certain suggestions and observations provided in the ITC responses were observations for the Board's awareness, the respondents did not believe immediate Board action was necessary.

- **Obligations of safekeeping digital currencies and the associated risks.** A respondent noted that FASB issued official guidance (ASU 2023-04) for entities safekeeping cryptocurrency/digital assets to record a liability to reflect their obligation to safeguard the crypto-assets held for its platform users. It does not affect those agencies with the rights to crypto, but those safekeeping/providing custody services for it. Based on research and outreach, the respondent does not believe the obligations of safekeeping digital currencies is a high priority but suggested that it may need to be addressed in the future if federal agencies have more responsibilities for safekeeping CBDCs.
- **Risk reporting.**¹⁵ A respondent explained that during the Board's current "Climate" project, Board Members agreed that climate could serve as a "starting point" for examining other risks. The respondent explained that risk reporting in the federal government should be balanced and reference other potential risks (e.g., COVID/pandemic, foreign policy, terrorism, etc.) During research and outreach to the stakeholders, the respondent noted the comments regarding balanced risk reporting is a general observational comment for the Board's consideration and not a priority.

¹⁵ Staff notes that there was a FASAB "Risk Reporting" project from 2016-2019, but the Board agreed that it would address risk reporting through the [MD&A](#) and [Note Disclosure](#) projects. Staff notes the MD&A project addressed risk in the recent ED and it is currently going through the Board's due process. The Note Disclosure project was closed in 2021 because it was agreed that it could be addressed through the Reexamination project.

Staff Notes

This paper provides a summary of the preliminary research and outreach on the liabilities priority topic. Staff is seeking Board questions and comments about the high-level research provided and whether members would like additional information. As such, there are no specific recommendations by staff.

Staff is not requesting Board deliberation on any of the specific technical issues presented, as this is preliminary research to facilitate the prioritization of reexamination topics. As such, there are no specific recommendations by staff.

Table of SFFAS 5 Responses and Staff Notes

SFFAS 5, *Accounting for Liabilities of The Federal Government* AS AMENDED BY: [SFFAS 12](#), [SFFAS 25](#)

[Interpretation 2](#), *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5*

[Interpretation 4](#), *Accounting for Pension Payments in Excess of Pension Expense*

[TB 2002-1](#), *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government*

[TB 2017-1](#), *Intragovernmental Exchange Transactions*

| Respondent | Response | Staff Notes |
|--------------------------|--|---|
| DOD | <p>DoD components submitted the following areas for improvement of this standard:</p> <ul style="list-style-type: none"> - The definition of "client" is important to lawyers in responding to audit legal request letters. Some attorneys have a difficult time delineating who their client is in situations where the entity that may be considered the liability source differs from the entity assigned to provide legal counsel (and the cost thereof) and/or ultimate funding of any loss from adjudication. For example, the spills at Red Hill and Camp Lejeune where the cause of the spills may be one entity but the responsibility for cleanup and damages to the community have been assigned to other entities. It may be helpful to expand guidance beyond the Judgement Fund to address any other funding source so that one doesn't have to site a parallel example in the standards vs. a more direct accounting assignment related to liability source regardless of funding source. - The AICPA clarified exchange vs non-exchange transactions for non-profit accounting. Consider adding language similar to ASU-2018-08 clarifying that if the benefit is received by the general public and not the government entity itself, it is a non-exchange transaction. - Many federal agencies are moving to electronic financial interface systems which may warrant a revision of the standard to address the responsibilities and accountability of those Transactions by Others (TBO) and Transaction for Others (TFO). | <p><i>Staff notes the ED for Interpretation 9 addressed contingent liabilities when multiple component reporting entities are involved. During due process, the Board determined that there was no need for guidance in the contingent liability area. However, it appears that there is now a need for this type of guidance for environmental liabilities.</i></p> <p><i>After follow-up, DoD determined this was an internal issue that would not be addressed in GAAP. No FASAB action necessary.</i></p> |
| Ernst & Young | <p>Overall, we believe Topic #5 is understandable and clear to apply. However, we recommend the Board clarify the appropriate reporting of environmental liabilities and legal claims when there are multiple parties involved in the responsibility for and/or resolution of the liability.</p> <p>For instance, when the agency that triggered the liability/legal claim isn't the same one that manages the liability/legal claim or funds the liability/legal claim, there can be diversity in</p> | <p><i>Staff notes the ED for Interpretation 9 addressed contingent liabilities when multiple component reporting entities are involved. During due process, the Board determined that there was no need for guidance in the contingent liability area.</i></p> |

| Respondent | Response | Staff Notes |
|------------|---|--|
| | practice when determining which entity reports the liability and when the liability is reported. We believe additional guidance on this topic would help reduce that diversity and provide useful information to the users of the financial reports. | <i>However, it appears that there is now a need for this type of guidance.</i> |
| GAO | <p>We suggest engaging the federal government’s actuarial community to discuss whether changes in FASAB standards would improve the financial reporting of pension, other retirement benefits, and veteran benefits. For example, FASAB might consider whether the Aggregate Entry Age Normal (AEAN) actuarial cost method is the most appropriate method for valuing related liabilities and costs. AEAN includes certain complexities and may limit comparability with the more commonly used Projected Unit Credit method.</p> <p>In addition, it may be helpful to review the guidance for recognition and disclosure of certain pension benefits; other retirement benefits; and veteran benefits, including education and training that have become more significant over time. (Also see related discussion in topic 14 below.)</p> <p>Also, FASAB may consider whether additional disclosure related to pension and other retirement benefits in employer entities is appropriate. While most federal employer entities disclose the key attributes of pension and other retirement benefits provided to their employees, the accounting standards currently do not have a requirement for these entities to make such disclosures.</p> | <i>Based on staff research, stakeholders would benefit from reexamination of SFFAS 33 to consider whether changes in standards would improve financial reporting of pension, other retirement benefits, and veteran benefits. Staff notes that the Board considered an omnibus amendment at the April 2023 meeting. Although members recognized that timely guidance could be provided to practitioners by clarifying certain language in the existing SFFAS, members were concerned about doing so in a piecemeal manner. As explained in the minutes, “members noted that a more comprehensive approach through the reexamination of existing standards project would serve practitioners best given that other aspects of SFFAS 33 could warrant additional changes.”</i> |
| DOI | DOI has been able to accommodate the requirements of SFFAS 5 with some difficulty and audit scrutiny; in particular the USPP Pension Actuarial Liability processes. | <i>NPS noted the challenges in accounting for the United States Park Police (USPP) pension. NPS must hire an actuary to perform many of the tasks needed which is at a cost to NPS. They view OPM as the expert that already has many of these tools at their disposal.</i> |

| Respondent | Response | Staff Notes |
|-----------------------|--|--|
| DHS | DHS is seeking clarification on when the recognition of a liability should or should not impact the availability of budgetary resources, depending on the existence (or lack thereof) of a legal obligation per 31 USC 1501. Specifically, DHS is requesting a review of paragraphs 24, 28-34, and 38 taking into consideration natural disasters. | <i>Based on research and outreach to the respondent, the issue related to the impact on the availability of budgetary resources when the federal government accepts responsibility for a disaster. However, it was noted that the updated OMB A-11 clarified this and the issue was resolved.</i> |
| NASA | The standard is clear on what a Contingent Liability is and when it should be recorded. However, the interpretation provides scenarios as to how to handle when a contingent liability is incurred, no longer pending, and paid by Judgment Fund, and when Treasury pays the contingency. The issue is the scenario is referring to how the Agency records the transaction, but it used the SGL logic for what Treasury would record based on the definition of the Imputed Financing Source account. FASAB/Treasury need to update the SGL logic to show what the federal agencies should post; given that the scenario is related to the agencies. From a non-accountant, this would help Federal agencies to get their financial statements completed and ready for audit. | <i>Based on staff research, the issue related to SGL logic and Fiscal Service addressed the issue and it is considered resolved.</i> |
| Fiscal Service | <p>1) SFFAS 5 does not specifically address treaties and other international agreements, which establish frameworks that govern cooperative activities with other countries, but leave to the discretion of the parties whether to engage in any such activities. Treaties and International Agreements are not “assigned” to a specific federal reporting entity. Therefore, there is no clear path to determining which entity is responsible for the treaty, associated claim, or any corresponding liability recognition and/or disclosures.</p> <p>2) SFFAS 5 does not address the obligations of safekeeping digital currencies to provide services and the associated risks. FASB issued official guidance (ASU 2023-04) for entities safekeeping cryptocurrency/digital assets to record a liability to reflect their obligation to safeguard the crypto-assets held for its platform users. It does not affect those agencies with the rights to crypto, but those safekeeping/providing custody services for it.</p> <p>A) The ability of an entity’s platform users to obtain future benefits from crypto-assets in digital wallets in which the safekeeping entity holds the cryptographic key information is dependent on the actions of that entity to safeguard those assets, including an increased risk of financial loss. (Technological, Legal, & Regulatory Risks)</p> | <p><i>Fiscal Service management no longer believes that FASAB needs a project related to treaties and other international agreements.</i></p> <p><i>Fiscal Service management does not believe the obligations of safekeeping digital currencies is a high priority but suggested that it may need to be addressed in the future if federal agencies have more responsibilities for safekeeping CBDCs.</i></p> |

| Respondent | Response | Staff Notes |
|------------------------------|--|--|
| | <p>B) Those actions include securing the crypto-assets and the associated cryptographic key information and protecting them from loss, theft, or other misuse.</p> <p>3) During the Board's current "Climate" project, Board Members agreed that climate could serve as a "starting point" for examining observational risks, and other risks could be examined at a later date. Two sponsor-agency Board members advised the Board to exercise caution about considering relevance to GAAP and the broader picture of risk. Fiscal notes that the Terrorism Risk Insurance Program Reauthorization Act of 2019 and the related the Terrorism Risk Insurance Program is disclosed under the "Contingencies" note of the Financial Report of the U.S. Government. Risk reporting in the federal government should be balanced and reference other potential risks (e.g., COVID/pandemic, foreign policy, terrorism, etc.)</p> | <p><i>Staff notes that there was a FASAB "Risk Reporting" project from 2016-2019, but the Board agreed that it would address risk reporting through the MD&A and Note Disclosure projects. The Note Disclosure project was closed in 2021 because it was agreed that it could be addressed through the Reexamination project. Fiscal Service management noted the comments regarding balanced risk reporting is a general observational comment for the Board's consideration.</i></p> |
| VA | <p>Expand on standard to assist agencies on the steps to recognize, measure, and account for liabilities accurately. Within the existing standard, it is recommended to include a section on what agencies should consider when estimating liabilities.</p> <p>It is recommended to remove information on capital leases from SFFAS 5 since it is discussed in depth in SFFAS 54. FASAB can briefly mention capital leases then refer the reader to SFFAS 54.</p> | <p><i>Staff notes that VA's SMEs did not have additional comments to provide. Staff notes that issues with estimating liabilities appears to be a common theme among stakeholders.</i></p> <p><i>Staff notes SFFAS 5 was updated in the last HB update.</i></p> |
| Deloitte & Touche | <p>(1) Potential Improvement: Clarifying the standards (including addressing areas where the standards are difficult to apply) (2) Potential Improvement: Eliminating or revising unclear requirements</p> | <p><i>The respondent did not have additional comments to provide.</i></p> |

Preliminary Revenue (SFFAS 7 etc.) Research

During the December 2023 meeting, the Board agreed to consider revenue as one of the priority topics for reexamination.

Revenue and Related Board Pronouncements

The core Board pronouncement promulgating generally accepted accounting principles in the revenue topic area is:

- SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Pronouncements that significantly interact with or otherwise relate to the core pronouncement include the following Statements of Federal Financial Accounting Standards:

- SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles*
- SFFAS 27, *Identifying and Reporting Funds from Dedicated Collections*
- SFFAS 31, *Accounting for Fiduciary Activities*
- SFFAS 52, *Tax Expenditures*
- SFFAS 53, *Budget and Accrual Reconciliation*

Numerous other Concepts, Statements, Interpretations, Technical Bulletins, and other pronouncements have varying degrees of interactions and relationships with SFFAS 7. These interactions and relationships would be further studied, mapped, and considered for opportunities to consolidate and/or reorganize Board guidance. Some of these potential actions would depend—at least in part—on Board strategies and decisions regarding methodologies and approaches for reexamination.

Respondent Feedback and Research To-date:

Key points discussed in the December materials, include:

- SFFAS 7 was the highest ranked topic area for reexamination based on the weighted rankings of stakeholder comments, as presented in the December 2023 materials.
- SFFAS 7 was issued in May 1996. The Statement presents standards to account for inflows of resources from revenue and other financing sources. Although the Statement has been amended numerous times, most amendments have been relatively narrow. Moreover, even the areas that were amended have not been spared from the feedback of ITC respondents identifying viable reexamination candidates, such as guidance for budget-to-accrual reconciliations.
- Issues noted by respondents included:
 - Considerable changes to the government environment since 1996 that may not be sufficiently addressed under the current standards.

- Similarly, some respondents noted that the standard is not sufficiently comprehensive in certain areas, such as intragovernmental activities, transfers, and contra-revenue accounts. Many respondents noted that updates are needed based on the business environment of today and opportunities to improve disclosures for decision-makers, including the Federal Issues and Standards Committee of the Greater Washington Society of CPAs and the Bureau of the Fiscal Service.
- The Department of the Treasury, the Internal Revenue Service (IRS), the Government Accountability Office (the IPA for IRS), and KPMG (the IPA for the Department of the Treasury) raised numerous specific accounting issues for reexamination. These entities generally re-affirmed their comments in our follow-up interviews with them. Issues raised among these four respondents alone included:
 - Auditability of the extant standards for recognizing revenue
 - Opportunities to clarify extant standards on compliance assessments, taxes receivable, custodial accounting, and exchange/non-exchange revenues
 - Updates to guidance for additional types of transactions
 - Private debt collections and subsequent accounting
 - Opportunities to address critical gaps on changes in accounting estimates and changes in reporting entity
- Opportunities to clarify the application of requirements for changes in accounting principles, error corrections, and changes in the reporting entity. SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, which amended SFFAS 7, was issued in 2001. Since that time, there have been numerous updates to accounting principles among other bodies that promulgate GAAP in this area that warrants further study and convergence. Staff also notes that there may be opportunities to disassociate presentation guidance from the core revenue standards to improve the navigability of the Board's suite of pronouncements. Some of these opportunities would be informed—at least in part—by Board strategies and decisions regarding methodologies and approaches for reexamination.
- Opportunities to modernize the standard for changes in systems, controls, programs, and processes among reporting entities that report material revenues—both exchange and non-exchange revenues

Staff followed up with ITC respondents following the December 2023 meeting. Generally, these respondents reiterated the feedback provided in their ITC responses on this topic area. Through these interviews, some respondents expressed a desire for the Board to modernize its standards and clarify accounting issues that have emerged since the issuance of the core pronouncement and other pronouncements that significantly interact with or otherwise relate to the core pronouncement. Based on staff's further review of the original comments and staff's follow-up discussions with staff from the Bureau of the Fiscal Service, the Government Accountability Office, among others, staff is confident that there are significant opportunities to

clarify numerous accounting issues that could significantly contribute to the Board's reporting objectives and reduce preparer/auditor burden in certain areas. There is a long list of accounting issues that were raised by ITC respondents that warrant further reexamination, study, and solution development.

Staff has also begun review of archived comment letters to revenue-related exposure documents in the FASAB library. The respondent feedback and other archived documents will provide insights into reexamination candidates, as some of the feedback provided at that time could remain relevant and worth consideration going forward. These files will prove informative to the Board's research in the months and years ahead.

SFFAS 7—at the time of its issuance and today—is widely regarded to be a major milestone and accomplishment of the Board. The pronouncement implemented several lasting improvements to the reporting model that have in many respects held up well over the course of 28 years and contributed significantly to the Board's federal financial reporting objectives. For this reason, along with the considerable scope and complexity of the accounting issues addressed under this suite of pronouncements, staff views the research process and reexamination methodology to be an endeavor that must be informed by careful review and study of the SFFAS 7 project archives to obtain a sufficient understanding of the history behind various aspects of the standards. However, given the considerable volume of files in the archives in this topic area, staff believes the more extensive research would be best suited and accomplished during the project research.

Staff has also reviewed recent technical inquiries in this topic area. In recent years (between 2019 and 2024), staff has continued to address technical inquiries of considerable consequence related to SFFAS 7 and pronouncements that significantly interact with or otherwise relate to it, including SFFAS 27. Many of these technical inquiries appear to signal considerable practice issues related to the clarity and/or correct adoption of these standards, including revenue accounting, custodial collections and disbursements accounting, and dedicated collections accounting. Recent technical inquiries in these areas are generally consistent with the ITC feedback that was provided by respondents. Although staff found that the extant standards generally provided sufficient principles for addressing these recent technical inquiries, there are considerable opportunities to clarify and modernize these principles for today's environment. Moreover, certain audit-related disputes appear to remain unresolved in certain areas based on the comments provided by certain respondents. The reexamination project on revenue could resolve those matters.

Based on the preliminary research, staff observed certain characteristics of the core pronouncement:

- Two or more pronouncements may promulgate guidance similar classes of transactions and balances. There may be opportunities to harmonize and organize guidance under this topic area.
- Pronouncements under this topic may have gaps for certain classes of transactions and balances, as reflected in certain respondent comments.
- The principles provided under this topic's pronouncements may address unexpected presentation or accounting topics that may be more appropriate to include under other extant or stand-alone pronouncements.

- Pronouncements under this topic may contain guidance that make performing accounting research unduly challenging. For example, Appendix B of SFFAS 7 is considered authoritative. The Board's Rules of Procedure allow for authoritative appendices, provided that the authoritative status is explicitly indicated. In practice, this is not typical. SFFAS 7 is the only example of the Board so issuing an authoritative appendix. This has resulted in some confusion in practice.
- Pronouncements under this topic may not align with revenue accounting principles in the private sector, state-and-local sector, and/or international sector. While many divergences are likely to be appropriate, known, and expected, identification and analysis of areas of alignment and divergence can inform the reexamination candidate identification process and Board deliberations on such candidates. In general, however, staff's preliminary research has not provided any indication that stakeholders are seeking any major shifts to the current reporting model for revenues.
- Pronouncements under this topic may not be sufficiently responsive to changes in legislative authorities; the types of revenue and financing transactions that the federal government engages in today; changes in programs, operations, systems, controls, and user needs over the years. Several respondents also identified opportunities to improve the predictive and feedback value of revenue-related information based on changes to the federal environment over the years. Certain specific proposals appear to be cost-beneficial due to already-implemented processes and systems improvements.

Staff Notes

This paper provides a summary of the preliminary research and outreach on the revenue priority topic. Staff is seeking Board questions and comments about the high-level research provided and whether members would like additional information that would be necessary for technical agenda setting and prioritization purposes.

Staff is not requesting Board deliberation on any of the specific technical issues presented, as this is preliminary research to facilitate the prioritization of reexamination topics. As such, there are no specific recommendations by staff.

Preliminary GAAP Hierarchy (SFFAS 34) Research

During the December 2023 meeting, the majority of members agreed [SFFAS 34](#), *The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board* should be one of the first priorities in the reexamination. SFFAS 34 incorporates the hierarchy of generally accepted accounting principles (GAAP) into FASAB's authoritative literature.

SFFAS 34 was issued in 2009 and generally carried forward the hierarchy as set forth in Statement of Auditing Standards (SAS) 91, Federal GAAP Hierarchy. At that time, the Board recognized that users would be familiar with this approach, and it would not significantly affect practices.

Although this was an efficient and effective way for the Board to incorporate the hierarchy, there have been many technical inquiries related to this topic, as well as small projects that resulted in the issuance of FASAB guidance.¹ This is consistent with the feedback received in response to the ITC.

Over half of the respondents to the ITC provided comments and suggested improvements for the federal GAAP hierarchy. Most respondent comments were centered on the following areas: simplifying the GAAP hierarchy, clarifying level D GAAP (including the areas of "practices that are widely recognized and prevalent in the federal government" and administrative directives), and revisiting Other Accounting Literature. The Board asked staff to research and reach out to respondents for a better understanding of the issues conveyed in the ITC responses.

Staff's December 2023 summary and initial analysis of the SFFAS 34 comments was comprehensive that stakeholders believed there would be benefit to the reexamination of SFFAS 34. Respondents recognized the importance of consistency in the application of accounting principles, and it is important that the Board reexamine SFFAS 34. Staff's outreach and research of the SFFAS 34 ITC comments provided consistent feedback. Staff discussions with respondents confirmed the areas of concern and that stakeholders identified that most aspects of the federal GAAP hierarchy should be reexamined and clarified.

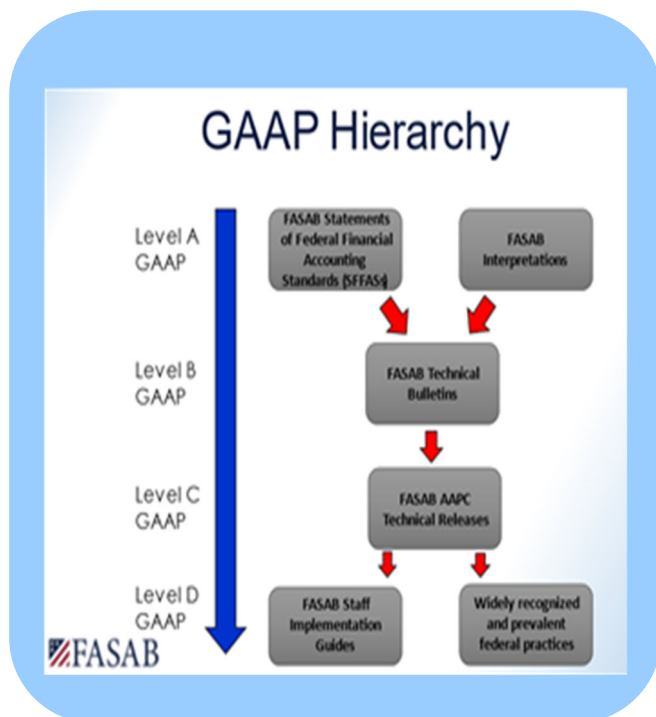
SFFAS 34 provides the sources of accounting principles in descending order of authority as follows:

- a. Officially established accounting principles consist of FASAB Statements of Federal Financial Accounting Standards (Standards) and Interpretations. FASAB Standards and Interpretations will be periodically incorporated in a publication by the FASAB.
- b. FASAB Technical Bulletins and, if specifically made applicable to federal reporting entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides.
- c. Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.
- d. Implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.

¹ Staff notes that SFFAS 34 was one of the top five SFFASs that received technical inquiries from 2021-2023. For example, TB 2020-1, *Loss Allowance for Intragovernmental Receivables* was issued after questions related to the GAAP hierarchy and clarification of SFFAS 1.

Simplify the GAAP Hierarchy

Stakeholders believe that this is an opportunity for the Board to update and simplify the GAAP hierarchy so that it may be more practical. Respondents believed the Board should revisit the need for four levels of the GAAP hierarchy. Stakeholders believe that simplification would facilitate transition to a codification of the accounting literature in the future. Further support for simplifying the GAAP hierarchy is demonstrated by observations of the respondents. A respondent explained that practitioners do not follow the hierarchy consistently. Often practitioners go from level (a) straight to level (d). Another respondent explained that often not enough attention is paid to technical bulletins, technical releases, and implementation guidance in the current four level hierarchy. Further, staff discussions and consideration of comments demonstrated that there may be an issue with understanding the hierarchy.



Respondents suggested several ways that the current GAAP hierarchy could be simplified that are discussed below.

Authoritative and Non-authoritative

Stakeholders suggested the Board evaluate whether simplifying the hierarchy into 'authoritative' and 'nonauthoritative', as used by the FASB and GASB, would reduce complexity and diversity in practice. Stakeholders believed simplifying the hierarchy into 'authoritative' and 'nonauthoritative' would improve the usefulness of financial statement information. Respondents emphasized the need for the level of authority to be based on the rigor of due process.² Respondents explained that clarifying authoritative vs non-authoritative is vital to ensure all parties are clear.

Two levels of authoritative GAAP

Certain respondents suggested that the hierarchy be revised to two levels of authoritative GAAP as follows:

1. The first level would include Standards, Interpretations and Technical Bulletins (current level A and B.) The respondent believed all sources for the suggested first level are authoritative and should be treated with equal weight as the highest level of GAAP.
2. The second level would include Technical Releases and Implementation Guides published by the FASAB staff (current level C and D.) The respondent believed all sources all sources for the suggested second level to be important for interpreting and

² If the Board instead decides to maintain the current hierarchy, certain respondents suggested the Board eliminate "practices that are widely recognized and prevalent in the federal government" from Level D of the GAAP hierarchy. This is discussed in more detail in the section Level D Clarification below.

implementing standards. Further, all sources for the suggested second level are authoritative and should be treated with equal weight. The respondent viewed these sources as authoritative due to (a) their intended purpose, (b) inclusion in the FASAB Handbook of Federal Accounting Standards and Other Pronouncements, and (c) their issuance under the oversight and authority of the FASAB. However, these sources should be lower than the first level of the hierarchy due to (a) their role in providing implementation guidance and clarification for existing standards, rather than establishing new guidance and (b) being attributed to a committee or staff rather than the Board.

Several years ago, both FASB and GASB revisited their respective four-level GAAP hierarchies and addressed the use of “authoritative” and “nonauthoritative” literature³ in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. For example, GASB updated its GAAP hierarchy in GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and explained:

The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

Remove AICPA Industry Audit and Accounting Guides

Stakeholders suggested removing AICPA Industry Audit and Accounting Guides from the GAAP hierarchy. Currently, level B includes AICPA Audit and Accounting Guides specifically cleared by the FASAB, and further defines “specifically cleared” as meaning the FASAB does not object to the pronouncement’s issuance. The respondent explained they were not aware of any such AICPA Audit and Accounting Guides, or how a person could conclusively determine whether or not there is any such applicable guidance, or where to look to determine whether the FASAB has objected to them or not.

It was noted that the intended purpose of AICPA audit guides is to provide audit guidance - not financial reporting guidance. It was also noted that inclusion of industry practices in the hierarchy is a departure from FASB and GASB practices. Further, AICPA audit guides represent a private source of guidance that can only be accessed for a subscription fee and generally accepted accounting principles for federal reporting entities should be publicly available, for free, and located all in one place. Further, if there’s something in the AICPA audit guides that the Board considers necessary for federal general purpose financial reporting, then the FASAB should simply incorporate it into its own standards.

³ With respect to GASB, sources of nonauthoritative accounting literature include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

Level D Clarification⁴

SFFAS 34, Par. 5d, states “Implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government” is part of the GAAP Hierarchy. Respondents suggested the Board clarify “practices that are widely recognized and prevalent in the federal government” because it is vague and could allow for many interpretations. A respondent explained that phrase is too vague and contradicts the purpose of the GAAP hierarchy to allow for any widely used accounting practice to set accounting policy. This may affect consistency and comparability, when two or more agencies have varying methods of accounting for the same activity based on interpretations of “prevalent in the federal government” and “fair presentation.”

Overwhelmingly, respondents were clear that they believe the Board should reexamine “Practices that are widely recognized and prevalent in the federal government” to determine the intent and that it should either be removed from the GAAP hierarchy or significantly clarified. Given the breadth of activities and historical practices in the federal government, there could be several different methods that are “widely recognized and prevalent” which could lead to a lack of standardization and clarity.

A respondent was firm that if the Board decides to maintain the present hierarchy, the Board should eliminate “practices that are widely recognized and prevalent in the federal government” from Level D of the GAAP hierarchy. Currently, such practices do not go through the necessary due process and criteria do not exist to identify when a practice is considered widely recognized and prevalent. Consequently, there is diversity in the views of preparers and auditors about which practices are part of the existing hierarchy.

Most respondents suggested the Board clarify the administrative directives’ placement. Respondents believe that the current language in SFFAS 34 allows for a more open interpretation and should be clarified. Stakeholders believe that being silent about universally applicable administrative directives (OMB Circulars and the TFM) from the FASAB GAAP hierarchy creates an opportunity for different interpretations of the authoritative weight of the administrative directives. Furthermore, respondents explained there are difficulties when there is a perceived or actual difference between FASAB guidance and OMB or Treasury guidance.

Given the importance and prominence of OMB and Treasury administrative directives and guidance, several respondents believed it necessary to directly address and clarify the role of this guidance in the GAAP hierarchy. Directly addressing administrative directives and clarifying the role of this guidance in the GAAP hierarchy would be beneficial because questions regarding the place in the hierarchy leads to inconsistency in application by preparers. It would help remove opportunities for differing interpretation and disagreements between entities and their auditors. Respondents explained that auditors assert professional discretion differently and do not always rely on or weight administrative equally resulting in audit recommendations that satisfy a high-level interpretation of FASAB guidance, but not the administrative directives. This results in reporting entities in a position to try to adjudicate different auditor positions on the same issue, and/or request FASAB provide confirmation of interpretation.

Respondents voiced much concern and requested the Board specifically clarify the placement of OMB Circular No. A-136, *Financial Reporting Requirements* in the GAAP hierarchy. OMB

⁴ *Level D Clarification* may also be considered an example of simplifying the GAAP hierarchy, but staff believed it appropriate to include as its own separate section due to the extent of comments. Further, staff notes the Board could decide to clarify Level D separately from decisions to simplify the GAAP hierarchy.

publishes an annual update to A-136 as part of its responsibilities for prescribing the form and content of financial statements of executive agencies under 31 U.S. Code §3515, Financial statements of agencies. It is understood that the Board defers to OMB for form and content of financial statements as stated in Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*. One respondent suggested that the Board consider whether OMB A-136 should be a part of the hierarchy. It was suggested that the Board collaborate with OMB to incorporate the form and content requirements of OMB A-136 into the hierarchy, following the necessary due process of the Board.⁵ Certain respondents noted that including form and content guidance in the GAAP hierarchy would facilitate ease of use by preparers and auditors and improve the clarity of the guidance. A respondent suggested that the Board consider whether administrative directives would be best suited for Other Accounting Literature.

A respondent explained that gray areas exist between the nature of information to be included in accounting standards and what information should be provided by sponsor agencies to assist agencies in the implementation of new standards. In their explanations, respondents explained that lack of clarity and standardization in this area have resulted in inconsistent application. A respondent explained that guidance from sponsors (specifically OMB circulars, TFM guidance, etc.) is not Level D GAAP. Instead, the respondent explained that sponsor agency guidance is meant to enforce and clarify GAAP.⁶

Another respondent suggested that it would be best for the hierarchy to be parallel with GASB--with FASAB sources identified as authoritative and OMB and Treasury guidance identified as nonauthoritative for purposes of defining GAAP for general purpose financial reporting. This emphasizes the need for one clear source of authority for GAAP. (See Authoritative and Non-authoritative discussion above.) However, as part of the reexamination, the Board would need to consider the legal authority of OMB to specify the form and content of agency financial statements may impact being considered non-authoritative.

Based on staff's outreach and research, stakeholder concerns expressed during the due process for SFFAS 34 remain. In the basis for conclusions to SFFAS 34, the Board acknowledged that some respondents to the exposure draft believed it would be useful to discuss the location of administrative directives within the hierarchy (such as those from OMB, GAO, and Treasury). The Board declined to do so, noting that there are multiple sources of administrative directives, many different types of directives, and varying processes for developing those directives. Paragraph A15. in the basis for conclusions of SFFAS 34 explains:

A15. In addition, while some respondents believed that it would be useful to discuss the location of administrative directives within the hierarchy, the FASAB believes that incorporating the GAAP hierarchy in the accounting standards should be accomplished expeditiously due to the AICPA's planned removal of the hierarchy from the auditing standards. Since FASAB is unaware of any practice problems arising due to the absence of explicit guidance placing each type of administrative directive within the hierarchy, immediate action on this request is not warranted. FASAB also notes that there are multiple sources of administrative directives, many types of

⁵ Staff notes that there are many relevant factors that must be considered if the Board determines that an assessment of OMB A-136 is appropriate. This paper does not provide a discussion of the factors but notes that it would be provided during the project. Among others, factors for consideration would include: A-136 is a reference point summary of GAAP, but not the source of GAAP FASAB's due process; OMB A-136 requirements are beyond the scope of GAAP; and OMB has not been designated by AICPA Council as a body that can promulgate GAAP. In addition, the Board would require a better understanding of the A-136 update process and potential implications.

⁶ There was noted concern with the fact that Level A GAAP includes references that additional guidance would come from the sponsors. The respondent explained that this could lead an impression that guidance from sponsor agencies is also a level within the GAAP hierarchy.

directives, and varying processes for developing directives. Resolving placement for all administrative directives may require significant study. Therefore, the Board is acting to adopt the GAAP hierarchy essentially as it currently exists in the AICPA audit literature and does not intend to change current practices.

Other Accounting Literature Clarification

Several respondents suggested the Board clarify Other Accounting Literature and how it fits into the GAAP hierarchy. Certain respondents explained that they observe that the Other Accounting Literature category specified in SFFAS 34 paragraph 8 is largely disregarded. Respondents believe this is because of the difficulty of applying this vague category and the need to incorporate any relevant matters into authoritative standards.

Certain respondents indicated other accounting literature should be included in the GAAP hierarchy because it helps clarify other accounting literature can be utilized when FASAB guidance does not address a particular accounting scenario. A respondent suggested an order of precedence be included for other available guidance. In addition, a respondent explained that OMB Circulars and TFM should be best placed within Other Accounting Literature.

Other SFFAS 34 Comments and Observations

Staff notes the Board should also consider that practitioners may not have a thorough understanding⁷ of the federal GAAP hierarchy, especially as it relates to application of the different levels. This observation (practitioners lacking a clear understanding) may be an indicator that practitioners believe the federal GAAP hierarchy should be simplified and clarified, which is consistent with the feedback received. Based on outreach, several stakeholders expressed the need for “working level guidance” to assist with application of the GAAP hierarchy.⁸ There were several examples or challenges that respondents believed would be best addressed through guidance. Issues affecting multiple agencies on which FASAB is silent merit an appropriate hierarchy of guidance. For example, SFFAS 34 describes when it may be acceptable for agencies to present financial statements on a FASB basis. A respondent explained that agencies still need a starting point and an order of priority to ensure that all agencies are referring to the most consistent and relevant source of guidance. The risk is that agencies with similar activities are not applying guidance from other standard setters consistently, and thus risking consistency within the federal government.

While most of the respondents suggested a simplified hierarchy, two respondents suggested that they prefer the flexibility that is afforded with the with the four levels of GAAP in SFFAS 34. For example, one respondent explained they specifically like the flexibility provided in paragraph 5.D. (“as well as practices that are widely recognized and prevalent in the Federal government”.) While the respondent agreed that it is unclear, it allows the agency to adopt common practices. The agency explained if the flexibility is removed, auditors may request a change, which would affect customers of the agency.

⁷ During FASAB trainings offered on SFFAS 34 (conducted between 2017 and 2019), students representing preparers and auditors at various levels of experience could not correctly sequence the pronouncement types in the correct a-d levels during pre-training class exercises.

⁸ Staff notes that this could be accomplished through illustrations or implementation guidance by the AAPC.

A respondent noted the Board should consider incorporating relevant laws and regulations into the GAAP hierarchy in SFFAS 34 to ensure there is consistency between the accounting standards and laws.

Staff Notes

This paper provides a summary of the preliminary research and outreach on the SFFAS 34 priority topic. Staff is seeking Board questions and comments about the high-level research provided and whether members would like additional information that would be necessary for technical agenda setting and prioritization decisions.

Staff is not requesting Board deliberation on any of the specific technical issues presented, as this is preliminary research to facilitate the prioritization of reexamination topics. As such, there are no specific recommendations by staff.