

# Memorandum

## ***Commitments***

January 31, 2025

To: Members of the Board  
From: Sherry L. Lee, Senior Analyst  
Thru: Monica R. Valentine, Executive Director  
Subject: Commitments Project Plan: Topic G

### **OBJECTIVE**

The objective of this session is for the Board to consider and approve the attached project plan for the *Commitments project*, so that staff may continue research and take action on the next agreed-upon steps.

### **REQUEST FOR FEEDBACK BY *February 18, 2025***

**Prior to the Board's February meeting**, please review the attached project plan and respond to the questions by *February 18, 2025*.

Please submit responses to Sherry Lee at [leesi@fasab.gov](mailto:leesi@fasab.gov) with a cc to Dom Savini at [savinid@fasab.gov](mailto:savinid@fasab.gov) and Monica Valentine at [valentineM@fasab.gov](mailto:valentineM@fasab.gov).

### **NEXT STEPS**

**Pending Board approval of the project plan**, staff will expand its research by initially engaging accounting and program subject matter experts from federal entities currently reporting commitments according to OMB guidance.

### **ATTACHMENTS**

1. Project Plan
2. Appendix – Federal Commitments

# COMMITMENTS

## Project Plan

February 2025



### Why

#### **Why is a project on Commitments needed?**

- There is no existing FASAB guidance on general commitments.
- Although FASAB has addressed specific types of commitments, there may be material agreements and arrangements to enter into future transactions by federal entities that are not covered by existing standards.
- Guidance on general long-term commitments would (1) provide consistency in reporting across the federal government, and (2) achieve accountability and transparency about activities that may have significant effects on the future financial position and condition of the government.



### What

#### **What questions / issues does the Commitments project plan to address?**

- Defining commitments.
- Why report commitments?
- Should commitments with special reporting requirements by existing FASAB standards be excluded from the scope of this general commitments project?
- Should intragovernmental commitments be excluded from commitments reporting?
- What measurement attributes are applicable to commitments?
- Determining how to present commitments information (e.g., basic information or RSI) to include government-wide reporting.
- What is the relationship between commitments and contingencies?

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## COMMITMENTS

### PROJECT PLAN

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**Purpose:** This project is being undertaken by FASAB because there are no standards on general commitments. Although FASAB has issued pronouncements on specific types of commitments, there may be material agreements and arrangements to enter into future transactions by federal entities that are not covered by existing FASAB standards. A standard on general long-term commitments would provide consistency in reporting commitments across the federal government. It would also provide accountability and transparency about activities that may have significant effect on future financial position and condition of the federal government.

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

Notwithstanding exclusions, this project applies to all federal long-term agreements and arrangements to enter into future transactions that may result in significant future outflow of government resources or other resource sacrifice.

**Objectives:** The primary objectives of this project are to:

1. Define federal commitments.
2. Determine the scope of the commitments project.
3. Determine what information to include in the commitments reporting requirements.
4. Develop guidance on measurement attributes applicable to commitments.
5. Decide the appropriate presentation for commitments information.
6. Clarify the relationship between commitments and contingencies.

**Concepts to Guide the Board and Relevant**

The following concepts will guide the Board on the Commitments project:

- Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*

- Standards**
- SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*
  - SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*
  - SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*
  - SFFAC 8, *Federal Financial Reporting*

The following existing standards will be considered:

- SFFAS 2: *Accounting for Direct Loans and Loan Guarantees*
- SFFAS 5: *Accounting for Liabilities of The Federal Government*
- SFFAS 17, *Accounting for Social Insurance*
- SFFAS 54, *Leases*

**Assigned staff:** Sherry Lee assisted by Domenic Savini

**Other resources:** Staff will engage subject matter experts from selected federal entities currently reporting commitments according to OMB guidance for one-on-one meetings. Staff will also form a task force with stakeholders to help research and develop recommendations concerning the accounting and reporting of commitments.

**Timeline<sup>1</sup>:** The following is the proposed timeline for the commitments project by project phase.

**1. Preliminary Research**

**Q4 FY23 – Q4 FY24**

Conduct literature review, case file research, and analysis of the commitment note disclosures in the Agency Financial Reports and Financial Report of the U.S. Government.

**2. Initiate Project**

**Q1 FY25 - Q2 FY25**

Develop project plan and initial research necessary for development of the plan.

**3. Research Phase**

**Q2 FY25 – Q1 FY26**

Form a task force, perform research, and prepare research memo(s) documenting results and recommendations.

**4. Development Phase**

**Q2 FY26 – Q1 FY27**

Develop issue/development phase paper(s) that addresses issues identified and any other steps to ensure project objectives are addressed. Seek tentative Board decisions on each of the issue(s).

**5. Exposure Draft & Comment Period**

**Q2 FY27 – Q4 FY27**

Develop exposure draft (ED) based on Board decisions. Address Board comments and feedback. Document will move to pre-ballot and ballot draft. Once ED is approved, ED will be released for comment. Comment period for ED.

**6. Resolution & Finalization Phase**

**Q4 FY27 – Q4 FY28**

Analysis of comment letters. Project manager presents staff analysis and summary of respondent feedback and recommendations. Board (re)deliberates areas. Project manager prepares proposed Draft Statement incorporating Board decisions. Address Board comments and feedback. Document will move to pre-ballot and ballot draft. Once approved, it is transmitted to sponsors for 90-day review.

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<sup>1</sup> Staff advises that the proposed timeline will be subject to change since the project and ensuing proposed guidance (1) will need to be coordinated with key stakeholders that may include Congress, federal entities and subject-matter experts, and (2) given the project's relative importance and broad interest among the financial management community. Further, the timeline may change due to the identification of new issues and Board requests, as well as circumstances that may be beyond staff's control. **Staff will include an updated timeline that includes key Board decisions by meeting as an Appendix to all briefing memos.**

## PROPOSED APPROACH

- **FASAB'S Existing Guidance:** The following are relevant Standards and Concept Statements that will be considered when developing guidance on commitments. For each, staff provides an overview of key points that will be further developed during the project.
- **SFFAC 1: *Objectives of Federal Financial Reporting***, provides a framework for developing standards that meet the needs of internal and external users for federal financial information while considering the associated costs and benefits. The reporting objectives consist of (1) budgetary integrity, (2) operating performance, (3) stewardship, and (4) systems and controls.

The reporting objectives are helpful when developing guidance to answer the following questions:

- Why commitments should be reported,
- What information should be required, and
- Whether intragovernmental commitments should be reported.

While it is important to consider all four objectives in paragraphs 13 through 17 of SFFAC 1, the “stewardship” objective is particularly relevant to commitments reporting because of the significant effect that commitments may have on the future position and condition of the federal government. Further, the budgetary integrity objective is another important consideration because reporting should assist in fulfilling the government’s duty to be publicly accountable by providing information on the status of budgetary resources. Paragraph 118 of SFFAC 1 explains that “examples of information that could help meet this objective include information about the sufficiency of budget authority for covering commitments and the status of obligated and unobligated balances of budgetary resources.”

Further, as described in par. 71 of SFFAC 1 “accountability” and its corollary, “decision usefulness,” comprise the two fundamental values of governmental accounting and financial reporting. Accountability to the public and usefulness of commitment information for decision-making should be considered when developing the guidance for commitments. The benefits associated with reporting commitments information should be weighed against the cost of developing and providing the information, as described in paragraph 37.

- **SFFAC 5: *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements***, provides a common foundation for distinguishing between items that meet the definitions of elements of accrual-basis financial statements and those that do not, and between items that are candidates for recognition in the body of financial statements and those that qualify only for disclosure in the notes or as supplementary information.

SFFAC 5 provides guidance that may be helpful defining commitments. SFFAC 5 paragraph 39 defines liability as “a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand”. SFFAC 5 paragraph 42 further describes present obligation as “a duty or responsibility to act in a certain way” and the obligation arose “as a result of a past transaction or another event and has not yet been settled”.

- **SFFAC 6: *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information***, provides a process and factors the Board considers when deciding whether the information should be considered basic information, required supplementary information (RSI), or other accompanying information (OAI). This guidance may be helpful when determining the presentation of the commitments information.

Paragraphs 73A through 73E of SFFAC 6 describe the differences between basic information and RSI, and Table 1 on page 230 of SFFAC 6 lists factors to be considered when determining presentation of the commitments information.

- **SFFAC 7: *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording***, addresses the measurement of the elements of accrual-basis financial statements of federal government entities in periods after their initial recording. Although SFFAC 7 focus on *assets and liabilities* because remeasuring elements after their initial recording is directly applicable only to assets and liabilities, it may be helpful when determining the measurement attributes related to commitments.
- **SFFAC 8: *Federal Financial Reporting***, discusses the role of financial statements and required supplementary information (RSI) and their relationship to other reported financial and non-financial information. It also discusses the content and presentation of financial statements and RSI for government-wide and component reporting entities.

SFFAC 8 may be helpful when determining the content and presentation of commitments and whether commitments should be reported at the government-wide level.

- When determining the scope of the commitments project, the Board may consider specific types of commitments covered by existing standards. For example:
  - **SFFAS 2: *Accounting for Direct Loans and Loan Guarantees***, requires loan guarantee commitments be projected and discounted, and the present value of the cash flows is reported as the cost of the loan guarantees.



- **SFFAS 17: *Accounting for Social Insurance***, as amended, requires that the actuarial present values and significant assumptions be presented as a basic financial statement and RSI disclosures, respectively, with certain information presented as RSI.
- **SFFAS 54: *Leases***, requires a lessee to recognize a lease liability and a right-to-use lease asset, and paragraph 55 requires a lessor to recognize a lease receivable and unearned revenue, for leases other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases.

Because the reporting requirements for specific types of commitments may not be aligned with the general commitments project, the Board may consider excluding the specific types of commitments from the scope of the general commitments project.

- **SFFAS 5: *Accounting for Liabilities of the Federal Government***, may be helpful in assessing the relationship between commitments and contingencies. SFFAS 5 paragraph 35 defines a contingency as

“An existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm a gain (i.e., acquisition of an asset or reduction of a liability) or a loss (i.e., loss or impairment of an asset or the incurrence of a liability).”

Commitments are agreements or arrangements to enter into future transactions that will result in future outflow of government resources or other resource sacrifice. If the government’s future outflow of resources is contingent on the occurrence or non-occurrence of a future event as described in paragraph 35 above, then the commitments are contingency-related commitments. An example of contingency-related commitments is the federal government’s commitment to provide benefits under the federal social insurance programs.

- **Other Guidance:**

- Other standards-setters’ guidance on reporting commitments includes:
  - **The Financial Accounting Standards Board (FASB)** establishes accounting and reporting standards for general commitments not specifically addressed in other topics in Accounting Standards Codification (ASC) 440, *Commitments*. ASC 440 requires the disclosure of significant commitments including the following:

- a. Unused letters of credit,
    - b. Preferred stock dividends in arrears,
    - c. Commitments such as those for plant acquisition, and
    - d. Obligation to reduce debt, maintain working capital, or restrict dividends.
  - **The Government Accounting Standards Board (GASB)** adopted the American Institute of Certified Public Accountants (AICPA) definition of commitments, which are defined as existing arrangements to enter into future transactions or events, such as long-term contractual obligations with suppliers for future purchases at specified prices and sometimes at specified quantities. GASB requires the disclosure of construction and other significant commitments in notes to financial statements.
  - **The International Accounting Standards Board (IASB)** and the **International Public Sector Accounting Standards Board (IPSASB)** currently do not have guidance on commitments.
- **OMB Circular A-136** requires federal agencies to report commitments, which OMB describes as “binding agreements that may result in the future expenditure of financial resources that are not recognized at all or not fully recognized on the Balance Sheet”.
- **Resources**
- The following lists the entities currently reporting commitments according to OMB guidance<sup>2</sup>. Staff will hold one-on-one meetings with subject matter experts from some of these entities to learn more about significant commitments.
- Department of Agriculture
  - Department of Energy
  - Department of Homeland Security
  - Department of Transportation
  - Department of the Treasury
  - Millenium Challenge Corporation
  - Smithsonian Institution
  - Tennessee Valley Authority
  - United States Postal Services

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<sup>2</sup> Refer to the Appendix for commitments reported in the FY 2024 Agency Financial Reports and included in the FY 2024 Financial Report of the United States Government.

Staff will form a task force consisting of federal and non-federal stakeholders to help research and develop recommendations concerning the accounting and reporting of commitments, including but not limited to the following:

- (1) Identify user needs,
- (2) Define federal commitments,
- (3) Obtain information about intragovernmental commitments,
- (4) Clarify relationship between commitments and contingencies, and
- (5) Identify and address other unforeseen issues.

For a balanced task force, staff plans to invite both federal and non-federal participation, including representatives from federal agencies, auditors, and private citizens.

- **Research Steps**

The following are the research steps staff plans to take:

1. Review FASAB historic files to identify the Board's effort on commitments.
2. Review existing FASAB guidance and identify those that may be relevant to commitments.
3. Review other standard setters' guidance on reporting commitments.
4. Review the OMB guidance to agencies on reporting commitments.
5. Gather commitments information from:
  - Agency Financial Reports or Annual Report of the entities currently reporting federal commitments.
  - Financial Report of the U.S. Government
6. Meet with stakeholders as needed:
  - Conduct a roundtable meeting or other meetings for research as needed.
  - Representatives from GAO, OMB, and Treasury.
  - Other standard setters.
7. Arrange educational sessions if necessary.
8. Organize a task force.
  - Include both federal and non-federal participants.
  - Develop task force objectives and plan.
  - Report task force results to the Board.

9. Consider the relationship between commitments and contingencies and best manner to articulate. For example, consider use of flowchart to illustrate.
10. Consider implications and whether intragovernmental commitments should be reported.
11. Consider differences in federal financial reporting as compared to other non-federal financial reporting.

- **POTENTIAL PROJECT MANAGEMENT CONCERNS**

**Implementation:**

Staff notes that agencies are currently following OMB Circular A-136 guidance when reporting commitments. It will be important to be mindful that providing GAAP guidance in this area will be new for the community. It will be important to ensure that OMB guidance is updated to be consistent with GAAP. Staff will ensure the community is aware of the project through training, outreach activities, and newsletter releases.

**Question for the Board:**

Does the Board generally agree with the proposed Commitments Project Plan?  
Please provide member suggestions for improvement and questions about the project plan as appropriate.

## APPENDIX

### Federal Commitments

The following table summarizes the federal commitments disclosed in Note 20 of the FY 2024 Financial Report of the U.S. Government, with additional details provided by Treasury:

<b>Commitments</b>	<b>Agency</b>	<b>FY 2024</b> <i>in millions</i>	<b>FY 2023</b> <i>in millions</i>
Undelivered Orders - Unpaid	Various Agencies	1,994,200	1,830,000
Government-Sponsored Enterprises Senior Preferred Stock Purchase Agreements*	Department of the Treasury	254,100	254,100
U.S. Participation in the International Monetary Fund**	Department of the Treasury	160,200	151,000
Callable Capital Subscriptions for Multilateral Development Banks***	Department of the Treasury	132,443	130,165
Fuel Purchase Obligations	Tennessee Valley Authority	5,646	4,537
Commitments to Extend Loan Guarantees	Department of Agriculture	4,056	3,731
Power Purchase Obligations	Tennessee Valley Authority	2,661	1,135
	Department of Energy	637	234
Grant Programs – Airport Improvement Program	Department of Transportation	503	280
Other Purchase Obligations	United States Postal Services	6,282	7,366
	Smithsonian Institution	0	15

	Tennessee Valley Authority	2,085	1,035
	Department of Homeland Security	13	16
	Department of Energy	1,780	884
	Millennium Challenge Corporation	1556	0
<b>Total Commitments</b>		<b>2,566,162</b>	<b>2,384,498</b>