

# Memorandum

## ***Federal GAAP Hierarchy***

April 8, 2025

To: Members of the Board  
From: Melissa Batchelor, Assistant Director  
Thru: Monica Valentine, Executive Director  
Subject: Federal GAAP Hierarchy (Project Plan Paper) Topic B

### **OBJECTIVE**

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

### **REQUEST FOR FEEDBACK BY April 15, 2025**

**Prior to the Board's April 2025 meeting**, please review the attached project plan and respond to the question by April 15, 2025.

### **NEXT STEPS**

**Pending Board approval of the project plan**, staff will continue project research and initiate the series of roundtable meetings.

### **ATTACHMENTS**

1. Project Plan
2. GASB and FASB Updated GAAP Hierarchies
3. Preliminary GAAP Hierarchy Research (April 2024 Reexamination of Existing Standards Briefing Materials, Attachment 4)

# FEDERAL GAAP HIERARCHY

## PROJECT PLAN

APRIL 2025



### Why

Why is a project on Federal GAAP Hierarchy needed?

- SFFAS 34 was the 3rd most requested reexamination topic and one of the top five SFFASs that received technical inquiries from 2021-2023.

Stakeholders (that responded to the ITC) suggested the Board:

- simplify the federal GAAP hierarchy so that it may be more practical,
- clarify “practices that are widely recognized and prevalent in the federal government” because it is vague and could allow for many interpretations, and
- clarify Other Accounting Literature and how it fits into the GAAP hierarchy.



### What

What questions does the Federal GAAP Hierarchy project plan to address?

- How can the federal GAAP hierarchy be improved so that it may be more effective and practical?
- Should some (or all) of the levels of the GAAP hierarchy be combined to provide for fewer levels or a single authoritative level?
- How can “practices that are widely recognized and prevalent in the federal government” be clarified so that the intent and placement in the hierarchy is clear?
- How can Other Accounting Literature be clarified so that its intent is clear?

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# FEDERAL GAAP HIERARCHY

## PROJECT PLAN

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**Purpose:** The Federal GAAP Hierarchy project is being undertaken by FASAB because stakeholder feedback indicated that 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 reexamined. SFFAS 34 incorporated the GAAP hierarchy into FASAB's authoritative literature. It generally carried forward the hierarchy as set forth in Statement of Auditing Standards 91, *Federal GAAP Hierarchy*. SFFAS 34 provides the sources of accounting principles and the framework for selecting the principles used in the preparation of general-purpose financial reports of federal entities that conform with GAAP. The project will consider possible modifications to the federal GAAP hierarchy, as set forth in SFFAS 34.

As part of FASAB's overall reexamination of existing standards, stakeholder feedback indicated that the federal GAAP hierarchy should be simplified and improved so that it may be more practical. The Board will review the current four-level hierarchy to consider ways to improve, simplify, clarify, and streamline the federal GAAP hierarchy to ensure it is effective.

**Applicability:** The Federal GAAP Hierarchy project applies to federal reporting entities that present general purpose financial reports in conformance with GAAP. Currently, federal reporting entities present general purpose financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* and that is being reexamined in the project.

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

- a). Determine how the federal GAAP hierarchy can be improved and simplified so that it may be more effective for stakeholders.
- b). Confirm<sup>1</sup> the current standards-setting process and federal financial reporting environment have evolved to support the need for each level and source of authoritative GAAP. For each source, consider whether the significance of that source to the body of

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<sup>1</sup> Stakeholder feedback to the ITC suggested that the federal GAAP hierarchy should be improved and simplified so that it is more practical and effective.

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authoritative GAAP and to stakeholders is appropriately reflected in the rigor of its required due process.

- c). Determine whether some (or all) of the current four-level GAAP categories should be combined to provide for fewer levels. This will include determining whether certain sources of accounting and financial reporting guidance should be placed in a different level of the GAAP hierarchy. This will include assessing the following sources: Concepts Statements, Technical Bulletins, AICPA Industry Audit and Accounting Guides, Technical Releases, Staff Implementation Guides, and practices that are widely recognized and prevalent in the federal government.
- d). Determine how “practices that are widely recognized and prevalent in the federal government” can be clarified so that the intent and placement in the GAAP hierarchy is clear.
- e). Determine how Other Accounting Literature can be clarified so that its intent and placement in the GAAP hierarchy is clear.

**Concepts to Guide the Board and Relevant Standards**

While identifying specific portions of Concept Statements is somewhat elusive with the federal GAAP hierarchy reexamination topic; it is still important to consider all the Concept Statements because they guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives.

The following existing standards will be considered:

- SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board* List of the Standards

**Assigned staff:**

Melissa Batchelor

**Other resources:**

A series of roundtable meetings with key stakeholders to assist with developing options and recommendations for the Board.

<b>Timeline<sup>2</sup>:</b>	<div data-bbox="435 191 691 226"><b>1: Initiate Project</b></div> <div data-bbox="1008 191 1300 226"><b>Q1 FY25 – Q2 FY25</b></div> <div data-bbox="435 226 1320 300">Develop project plan and perform initial research necessary for development of the plan.</div>
	<div data-bbox="435 338 716 373"><b>2: Research Phase</b></div> <div data-bbox="1008 338 1300 373"><b>Q3 FY25 – Q4 FY25</b></div> <div data-bbox="435 373 1427 558">Perform research and prepare research memo(s) documenting results and recommendations. Initiate a series of roundtable meetings with key stakeholders on the federal GAAP hierarchy issues and conduct roundtable meetings to discuss issues and brainstorm options.</div>
	<div data-bbox="435 596 773 632"><b>3: Development Phase</b></div> <div data-bbox="1008 596 1300 632"><b>Q1 FY26 – Q2 FY26</b></div> <div data-bbox="435 632 1427 852">Develop issue/development phase paper(s) that addresses issues identified and any other steps to ensure project objectives are addressed. Staff will continue roundtable meetings to assess advantages and disadvantages of options and provide recommendations to the Board for consideration. Seek tentative Board decisions on each of the issue(s).</div>
	<div data-bbox="435 890 1312 926"><b>4: Exposure Draft &amp; Comment Period</b></div> <div data-bbox="1008 890 1312 926"><b>Q3 FY26 – Q1 FY27</b></div> <div data-bbox="435 926 1427 1068">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.</div>
	<div data-bbox="435 1106 954 1142"><b>5: Resolution &amp; Finalization Phase</b></div> <div data-bbox="1032 1106 1325 1142"><b>Q2 FY27 – Q4 FY27</b></div> <div data-bbox="435 1142 1427 1358">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.</div>

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<sup>2</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

### I. FASAB's Existing Guidance

Concepts statements are intended to set forth objectives and fundamentals on which financial accounting and reporting standards will be based. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting-concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

The purpose of this project is *not to establish new guidance*, but rather to provide a reexamination of the existing hierarchy of generally accepted accounting principles (GAAP hierarchy). As such, identifying specific portions of Concept Statements is somewhat elusive with the federal GAAP hierarchy reexamination topic because it provides the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal reporting entities that are presented in conformity with GAAP. However, it is still important to consider all the Concept Statements because they guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives. As such, staff has included a brief overview of key points of the Concept Statements.

- **SFFAC 1, *Objectives of Federal Financial Reporting***, focuses on the uses, user needs, and objectives of financial reporting by the federal government. SFFAC 1 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 objectives are designed to guide the Board in developing accounting standards to enhance the financial information reported by the federal government to (1) demonstrate its accountability, (2) provide useful information, and (3) help internal users of financial information improve the government's management.
- **SFFAC 2, *Entity and Display***, describes the basis for defining a reporting entity for the general purpose financial reporting performed by the Federal government and/or entities thereof by providing criteria that any entity must meet to be a reporting entity. SFFAC 2 also describes the items that should be included in Federal financial reports and presents illustrative statements depicting desirable displays of financial information.
- **SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government***, provides that the CFR should be a "general purpose" report directed to external users (citizens and their intermediaries), should address the Board's objectives, should have highly understandable information, and should be timely.

- **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. establishes two basic recognition criteria that an item must meet to be a candidate for recognition in the body of a financial statement: (1) the item must meet the definition of an element and (2) the item must be measurable, meaning a monetary amount can be determined with reasonable certainty or is reasonably estimable.
- **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). Table 1 in SFFAC 6 contains factors to consider when distinguishing basic information from RSI.
- **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.
- **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 9, *Materiality: Amending Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, And SFFAC 3, Management's Discussion and Analysis***, clarifies implementation of materiality concepts in the issuance of federal financial statements.
- **SFFAC 10, *Omnibus Concepts Amendments 2024: Amending SFFAC 2 with Note Disclosures and MD&A Concepts and Rescinding SFFAC 3***, provides guidance on the types of information to be reported in the note disclosures and consolidated the Board's concepts for MD&A to provide a conceptual overview of information that may be included in the MD&A.

The GAAP hierarchy project is part of the reexamination of existing standards and specifically relates to:

- **SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by***



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***the Financial Accounting Standards Board***, incorporated the hierarchy of GAAP into FASAB's authoritative literature. SFFAS 34 generally carried forward the hierarchy as set forth in Statement of Auditing Standards 91, *Federal GAAP Hierarchy*. SFFAS 34 provides the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal entities that conform with GAAP.

## II. Other Guidance:

- **Other standard-setters**

SFFAS 34 preserved the long-standing and common practices of all U.S. accounting standard-setting bodies at the time it was issued in 2009. Since then, the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) have revisited their respective four-level GAAP hierarchies and each reduced the number of levels. They both also addressed the use of "authoritative" and "nonauthoritative" literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

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 objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

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.

FASB updated its GAAP hierarchy (June 2009) in SFAS No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162 and explained:

The FASB Accounting Standards Codification™ (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

Following this Statement, the Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. The Board will not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification.

FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which became effective on November 13, 2008, identified the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with GAAP. Statement 162 arranged these sources of GAAP in a hierarchy for users to apply accordingly. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding Statement 162. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. As a result, this Statement replaces Statement 162 to indicate this change to the GAAP hierarchy.

See **Appendix 1, GASB and FASB Updated GAAP Hierarchies** for a comparison of the updated hierarchies.

- **OMB Circular A-136, Financial Reporting Requirements**, provides form and content guidance to agencies. OMB 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

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financial statements as stated in Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*.

- **Other Administrative Directives**

Although OMB A-136 is one of the most discussed directives when considering other sources of accounting guidance, there are numerous other administrative directives that stakeholders consider, such as others from OMB, and those from GAO and Treasury.

### **III. Resources**

Staff believes a series of roundtable meetings<sup>3</sup> with key stakeholders would be effective to assist with the reexamination of the GAAP hierarchy. Staff believes this approach would provide the most effective forum to discuss issues, alternatives, and recommendations while also ensuring that the participants possess the required expertise in this area.

The objective of the roundtable meetings will be to discuss the GAAP hierarchy issues and determine options for the Board's consideration. The focus group will collectively determine the advantages and disadvantages for each option, provide insights and recommendations to the Board on issues in the reexamination of the GAAP hierarchy.

Specific roundtable objectives include but are not limited to:

- in-depth discussions on issues and challenges faced by the current four-level GAAP hierarchy
- determine whether the current standards-setting process and the federal financial reporting environment support the need for each source of authoritative GAAP and, if so, whether the significance of that source to the body of authoritative GAAP and stakeholders is appropriately reflected in the rigor of its required due process
- consider what characteristics should be common to sources of guidance that are placed at the *highest level* of GAAP (this may include characteristics related to due process requirements, intended purpose, current use in practice, and the source or organization issuing the guidance)
- consider each of the sources of guidance, individually and in relation to each other
- consider potential revisions to the GAAP hierarchy, that includes many alternatives, ranging from creating additional categories to reducing the categories, and even the notion that no revisions
- determine options for the Board's consideration, including the advantages and disadvantages for each option

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<sup>3</sup> Although task forces are beneficial in projects, staff does not believe a task force would be appropriate for the GAAP hierarchy project. Staff believes roundtable meetings (or focus group meetings) with a smaller group of knowledgeable participants is preferred. With the smaller group, it will encourage collaboration, brainstorming, and the sharing of diverse perspectives while focusing on the issues related on the federal GAAP hierarchy.

- report results and recommendations to the Board

It is important that the roundtable/focus group participants represent stakeholder views. Staff believes the roundtable participants should include a representative from each of FASAB's sponsors, two participants from the CFO/preparer community, and two representatives from the audit community, preferably one participant from the OIG and one from an IPA firm. The roundtable should also include at least one participant from an association or a government-wide workgroup. Staff believes selecting the participants from among the ITC respondents that that provided information in this area would be a reasonable approach. Staff would request each sponsor Board member to name a roundtable participant.

#### **IV. Research Steps**

- Consider the history and evolution of the GAAP hierarchy
- Review FASAB historic files regarding SFFAS 34
- Review existing accounting literature (FASAB and others)
  - Prepare a comparison schedule
- Consider key terms and definitions
  - Determine most appropriate terms to be used.
  - Determine which terms, if any, need to be defined or clarified.
- Gather and consider other research information
  - Preliminary research performed along with ITC feedback
  - Technical Inquiries related to GAAP hierarchy
- Meet with stakeholders
- Initiate, organize, and hold a series of roundtable meetings (see the objectives and details in Other Resources above)
- Determine if case studies, flowcharts or other illustrations would be helpful

#### **V. POTENTIAL PROJECT MANAGEMENT CONCERNS**

##### **Longstanding Issues**

Questions regarding clarifications of the federal GAAP hierarchy and Other Accounting Literature are not new, because they were brought up during the due process for SFFAS 34. Based on responses to the Invitation to Comment, *Reexamination of Existing Standards*, technical inquiries and staff's initial research, stakeholder concerns expressed during the due process for SFFAS 34 remain.

Overwhelmingly, stakeholders believe the Board should reexamine “Practices that are widely recognized and prevalent in the federal government” to determine the intent. 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.

The longstanding complex issue more specifically relates to the location of administrative directives’ placement within the hierarchy (such as those from OMB, GAO, and Treasury). 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. OMB Circular No. A-136, *Financial Reporting Requirements* is of noted concern because it is understood that the Board defers to OMB for form and content of financial statements as stated in SFFAC 2, *Entity and Display*.

Stakeholders suggested that “Practices that are widely recognized and prevalent in the federal government” should either be removed from the GAAP hierarchy or significantly clarified. 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.

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 administrated directives within the hierarchy. 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.

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 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.

A16. Paragraphs 6 and 7 of the Statement provide guidance to assist readers in understanding how the hierarchy should be considered when preparing general purpose financial reports in conformity with GAAP.

A17.Paragraph 7 also discusses when to consider literature not discussed in the GAAP hierarchy - Other Accounting Literature. The phrase “Other Accounting Literature” is capitalized in the Statement and included under a separate heading to indicate its distinction from the GAAP literature. Other Accounting Literature is presented separately from the hierarchy because the items in this category do not establish GAAP and cannot amend existing FASAB standards, interpretations, technical bulletins or releases, or staff implementation guidance. Other Accounting Literature may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of literature in paragraph 5 of the Statement.

A18.The Board also recognizes that other standards-setting bodies are currently considering codifying their pronouncements. As a result, listing the titles of specific pronouncements in Other Accounting Literature may cause difficulty in referencing those documents in the future. Thus, paragraph 8 of the Statement refers to pronouncements of other standards setting bodies rather than listing specific pronouncements.

### **Impact and Implementation of Potential Changes**

Any changes to the GAAP hierarchy would result in the need to consider the impacts of the proposed change. Any potential significant change may result in the need to assess and consider the statuses of existing guidance. Further, depending on the proposed changes, the Board may believe it appropriate to consider if all existing GAAP communications methods are still appropriate. For example, if levels are reduced and certain sources of accounting are combined, the Board may determine it prudent to consider whether all existing vehicles (such as Interpretations, Technical Bulletins, Technical Releases and Staff Implementation Guides) are necessary.

The Board should also be forward thinking and consider how changes to the GAAP hierarchy can be integrated to improve how FASAB delivers accounting standards. For example, FASB facilitated transition to a codification of the accounting literature as part of their GAAP hierarchy change. Although the Board does not currently have the resources for a codification, the Board should take the opportunity to determine how the changes to the GAAP hierarchy may impact the FASAB Handbook and what improvements can be made.

Along with the impact, the Board should consider whether changes to the GAAP hierarchy would result in changes that would require specific implementation guidance or transitional provisions. Depending on decisions made regarding the location of administrative directives, the Board may need to assess and coordinate certain processes with the sponsors or more specifically, organizations issuing the source of accounting guidance.

**Question #1 for the Board:**

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

## Attachment 2- GASB and FASB Updated GAAP Hierarchies

	<b>GASB</b> <b>Excerpt from GASB Statement No. 76, <i>The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments</i></b>	<b>FASB</b> <b>Excerpt from SFAS 168, <i>The FASB Accounting Standards Codification® and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162</i></b>
<b>Sources of Authoritative GAAP</b>	<p>4. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The sources of authoritative GAAP are categorized in descending order of authority as follows:</p> <p>a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A)<sup>1</sup></p> <p>b. GASB Technical Bulletins; GASB Implementation Guides;<sup>2</sup> and literature of the AICPA cleared by the GASB<sup>3</sup> (Category B).</p> <p>Authoritative GAAP is incorporated periodically into the Codification of Governmental Accounting and Financial Reporting Standards (Codification), and when presented in the Codification, it retains its authoritative status.</p> <p>FN1 All GASB Interpretations heretofore issued and currently in effect also are considered as being included within Category A and are continued in force until altered, amended, supplemented, revoked, or superseded by subsequent GASB pronouncements. Category A standards, including GASB Interpretations heretofore issued and currently in effect, are the subject of the Accounting Principles Rule of the American Institute of Certified Public Accountants' (AICPA) Code of Professional Conduct, and this Statement does not affect the application of that rule.</p> <p>FN2 Authoritative material from GASB Implementation Guides is incorporated periodically into the Comprehensive Implementation Guide, and when presented in the Comprehensive Implementation Guide, it retains its authoritative status.</p> <p>FN3 Such literature specifically made applicable to state and local governmental entities contains a statement that indicates that it has been cleared by the GASB in accordance with the GASB's Rules of Procedure.</p>	<p>6. This Statement establishes the Codification as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority.</p> <p>7. In addition to the SEC's rules and interpretive releases, the SEC staff issues Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements, and it utilizes SEC Staff Announcements and Observer comments made at Emerging Issues Task Force (EITF) meetings to publicly announce its views on certain accounting issues for SEC registrants.</p> <p>8. The Codification contains the authoritative standards that are applicable to both public nongovernmental entities and nonpublic nongovernmental entities. Content contained in the SEC Sections of the Codification is provided for convenience and relates only to SEC registrants. The SEC Sections are not the authoritative sources of such content and do not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. Content in the SEC Sections is expected to change over time, and there may be delays between SEC and staff changes to guidance and Accounting Standards Updates. The Codification does not replace or affect guidance issued by the SEC or its staff for public entities in their filings with the SEC.</p>



## Attachment 2- GASB and FASB Updated GAAP Hierarchies

	<b>GASB</b>	<b>FASB</b>
	<b>Excerpt from GASB Statement No. 76, <i>The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments</i></b>	<b>Excerpt from SFAS 168, <i>The FASB Accounting Standards Codification® and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162</i></b>
<b>How the hierarchy is applied</b>	<p>5. If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, a governmental entity should consider whether the accounting treatment is specified by a source in Category B.</p> <p>6. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described in paragraph 4, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described in paragraph 4 and then may consider nonauthoritative accounting literature from other sources, as discussed in paragraphs 7 and 8, that does not conflict with or contradict authoritative GAAP. A governmental entity should not apply the accounting principles specified in authoritative GAAP described in paragraph 4 to similar transactions or other events if those accounting principles either (a) prohibit the application of the accounting treatment to the particular transaction or other event or (b) indicate that the accounting treatment should not be applied by analogy.</p>	<p>9. If the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources. An entity shall not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy.</p>
<b>Sources of Nonauthoritative</b>	<p>7. 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.</p> <p>8. In evaluating the appropriateness of nonauthoritative accounting literature, a governmental entity should consider the consistency of the literature with the GASB Concepts Statements, the relevance of the literature to particular circumstances, the specificity of the literature, and the general recognition of the issuer or author as an authority.</p>	<p>10. Sources of nonauthoritative accounting guidance and literature include, for example, practices that are widely recognized and prevalent either generally or in the industry, FASB Concepts Statements, American Institute of Certified Public Accountants (AICPA) Issues Papers, International Financial Reporting Standards of the International Accounting Standards Board (IASB), pronouncements of professional associations or regulatory agencies, Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids, and accounting textbooks, handbooks, and articles. The appropriateness of other sources of accounting guidance depends on its relevance to particular circumstances, the specificity of the guidance, the general recognition of the issuer or author as an authority, and the extent of its use in practice.</p>

## Attachment 2- GASB and FASB Updated GAAP Hierarchies

	<b>GASB</b> <b>Excerpt from GASB Statement No. 76, <i>The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments</i></b>	<b>FASB</b> <b>Excerpt from SFAS 168, <i>The FASB Accounting Standards Codification® and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162</i></b>
<b>Implementation/ Grandfathered Guidance</b>	<p>9. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. <b>Earlier application is permitted. Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements,</b> if practical, for all prior periods presented. If restatement for prior periods is not practical, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as appropriate) for the earliest period restated. In the first period that this Statement is applied, the notes to the financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior periods presented should be disclosed.</p>	<p>11. Accounting Standards Updates issued after the effective date of this Statement will not be considered authoritative in their own right. Instead, the Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. After the effective date of this Statement, all nongrandfathered nonSEC accounting literature not included in the Codification is superseded and deemed nonauthoritative.</p> <p>12. Statement 162 contained a description of the categories of the GAAP hierarchy that existed before this Statement. An entity that has followed, and continues to follow, an accounting treatment that was previously in category (c) or category (d) of that GAAP hierarchy as of March 15, 1992, need not change to an accounting treatment in a higher category ((b) or (c)) of that hierarchy (now included in the Codification in accordance with this Statement) if its effective date was before March 15, 1992. For example, a nongovernmental entity that followed a prevalent industry practice (category (d)) as of March 15, 1992, does not have to change to an accounting treatment included in a standard that was in category (b) or category (c) (such as an accounting principle in a cleared AICPA Statement of Position or Accounting Standards Executive Committee Practice Bulletin that is now included in the Codification in accordance with this Statement) whose effective date is before March 15, 1992. For standards whose effective date is after March 15, 1992, and for entities initially applying an accounting principle after March 15, 1992 (except for EITF consensus positions issued before March 16, 1992, which become effective in the hierarchy for initial application of an accounting principle after March 15, 1993), an entity shall follow the guidance in the Codification.</p> <p>13. Certain accounting standards have allowed for the continued application of superseded accounting standards for transactions that have an ongoing effect in an entity's financial statements. That superseded guidance has not been included in the Codification, shall be considered grandfathered, and shall continue to remain authoritative for those transactions after the effective date of this Statement. While not comprehensive, the following are examples of such grandfathered items: [EXAMPLES EXCLUDED]</p>

## Attachment 2- GASB and FASB Updated GAAP Hierarchies

	<p style="text-align: center;"><b>GASB</b></p> <p><b>Excerpt from GASB Statement No. 76, <i>The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments</i></b></p>	<p style="text-align: center;"><b>FASB</b></p> <p><b>Excerpt from SFAS 168, <i>The FASB Accounting Standards Codification® and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162</i></b></p>
		<p>14. This Statement shall be effective for financial statements issued for interim and annual periods ending after September 15, 2009, except for nonpublic nongovernmental entities that have not followed the guidance included in the AICPA Technical Inquiry Service (TIS) Section 5100, "Revenue Recognition," paragraphs 38–76. Those entities shall account for the adoption of that guidance as a change in accounting principle on a prospective basis for revenue arrangements entered into or materially modified in those fiscal years beginning on or after December 15, 2009, and interim periods within those years. If an accounting change results from the application of that guidance, an entity shall disclose the nature and reason for the change in accounting principle.</p> <p>15. On the effective date of this Statement, all then existing non-SEC accounting and reporting standards are superseded, except as noted in this paragraph. Concurrently, all nongrandfathered, non-SEC accounting literature not included in the Codification is deemed nonauthoritative. Notwithstanding, the following standards shall remain authoritative until such time that each is integrated into the Codification: [Standards Omitted]</p> <p>16. Except as described in paragraph 14, any effect of applying the provisions of this Statement shall be accounted for as a change in accounting principle or correction of an error, as applicable, in accordance with FASB Statement No. 154, <i>Accounting Changes and Error Corrections</i> (Section 250-10-50 of the Codification). An entity shall follow the disclosure requirements of Statement 154 and disclose the accounting principles that were used before and after the application of the provisions of this Statement and the reason that applying this Statement resulted in a change in accounting principle or correction of an error.</p>

### 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.<sup>1</sup> 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:

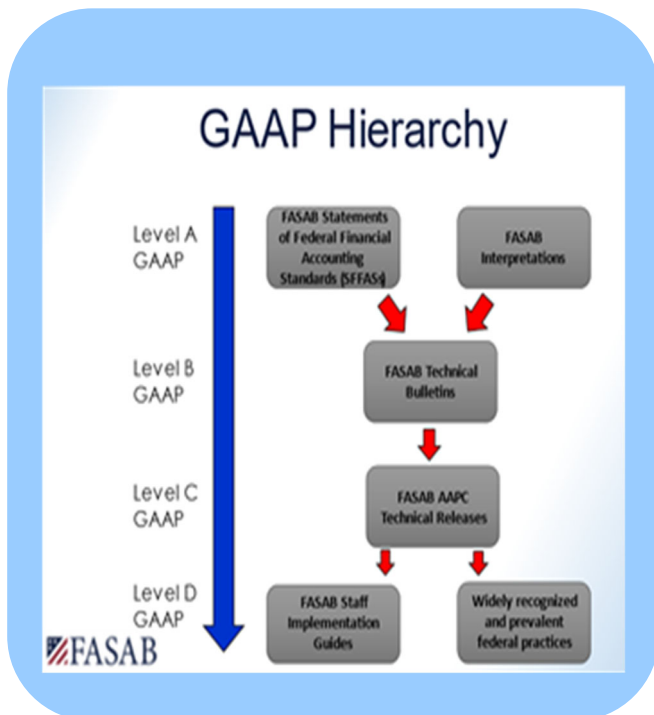
- a. Officially established accounting principles consist of FASAB Statements of Federal Financial Accounting Standards (Standards) and Interpretations. FASAB Standards and Interpretations will be periodically incorporated in a publication by the FASAB.
- b. FASAB Technical Bulletins and, if specifically 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.

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<sup>1</sup> 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.<sup>2</sup> 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

<sup>2</sup> 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” literature<sup>3</sup> 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.

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<sup>3</sup> 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 Clarification<sup>4</sup>*

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

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<sup>4</sup> *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.<sup>5</sup> 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.<sup>6</sup>

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

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<sup>5</sup> 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.

<sup>6</sup> 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 understanding<sup>7</sup> 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.<sup>8</sup> 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.

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<sup>7</sup> 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.

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

### Attachment 3

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.*