

Memorandum

Commitments

August 8, 2025

To: Members of the Board
From: Sherry L. Lee, Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: **Commitments** (Topic C)

INTRODUCTION

At the February 2025 meeting, the Board reviewed and approved the commitments project plan. In April, staff met with six agencies currently reporting significant commitments according to OMB Circular A-136 to learn about agencies' challenges and suggestions for FASAB to consider when developing associated guidance. A commitments task force was subsequently formed and began working on identifying areas of potential reporting challenges related to commitments and reviewing existing OMB Circular A-136 guidance.

Attached are the results of the questionnaire summarizing the task force's views on the (1) reporting challenges related to commitments and (2) definition contained in the OMB guidance and staff's analysis and recommendations for the Board's consideration.

REQUEST FOR FEEDBACK BY August 15, 2025

Please review the attached staff analysis on commitments. Staff requests responses to the ensuing question in the staff analysis by **August 15, 2025**.

NEXT STEPS

Pursuant to Board direction, staff will continue to research and develop guidance as appropriate.

ATTACHMENTS

Attachment 1: Background

Attachment 2: Staff Analysis

Appendix A: Details of the Task Force Definitional Reviews

Background

Commitments

August 8, 2025

BACKGROUND

Commitments Not Defined by FASAB

Federal entities enter into agreements with other entities to support their organization's missions. These agreements may significantly affect a reporting entity's current and future financial position and condition. However, the financial effect of certain agreements are not fully addressed by existing FASAB standards. That is, existing standards do not specifically address all conditions, events, or circumstances in support of agency's mission arising from said agreements. At the April 2023 meeting, the Board acknowledged that, while reporting on commitments is currently required by the Office of Management and Budget (OMB) Circular A-136¹, commitments are not specifically defined or described in FASAB guidance. As a result, the Board agreed on the need to develop guidance on commitments and requested that staff conduct additional research.

Board Adds Commitments to Technical Agenda

At the August 2023 meeting, the Board reviewed the pre-research material on commitments and added the topic of commitments as a research project. Staff presented preliminary research during the December 2023 and February 2024 meetings. In August 2024, the Board added commitments to the technical agenda.

In February 2025, the Board approved the commitment's project plan. 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 when reporting commitments.
4. Develop guidance on measurement attributes applicable to commitments.
5. Decide the appropriate display presentation for commitments information.
6. Clarify the relationship between commitments and contingencies.

¹ OMB is responsible for guidance on form and content of financial statements for federal agencies through Circular A-136.

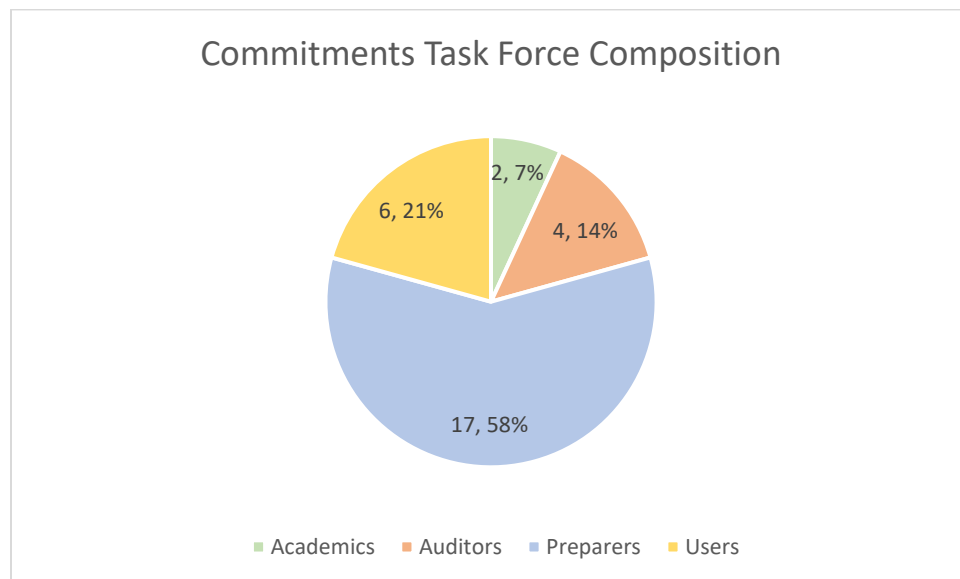
Outreach Activities

In April 2025, staff reached out to six agencies currently reporting significant commitments according to OMB Circular A-136 guidance to learn about their challenges with reporting commitments and suggestions for improvements.

Also in April 2025, a commitments task force was formed to ensure that diverse and balanced stakeholder perspectives are considered during the standard setting process. The task force consists of 47 federal and non-federal stakeholders representing

- 17 federal preparers,
- 4 audit entities (1 federal and 3 private),
- 2 academics, and
- 6 private users.

The following chart illustrates the distribution of the stakeholders among preparer, auditing, academic, and user communities. Task force members from the same entity are grouped as one entity.



Attachment 2 discusses the task force views and suggestions regarding the definition of commitments and staff recommendations for the Board's consideration.

Staff Analysis

Commitments

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SUMMARY OF ANALYSIS AND RECOMMENDATIONS

Commitments Need to be Defined by FASAB

Both agencies with significant commitments and the task force, each recommend that the Board clearly establish a definition for commitments to help ensure consistent and comparable reporting and to avoid excessive preparer burdens.

When developing the commitments definition, the task force recommends that the Board consider modifying the OMB Circular A-136 commitments definition to best fit the financial accounting and reporting needs of the community. Staff concurs with this recommendation.

Although most of the task force believed that an agreement does not need to be legally binding, the task force recommends that the Board apply the reporting requirements to only binding agreements to lessen preparer burden. Staff also concurs with this recommendation to include “binding” in the definition. In so doing, it would reduce the universe of potential commitments that could be reported. Staff agrees with the task force based on cost-benefit and burden implications that could arise if the population were not constrained to binding conditions.

Further, staff recommends that the OMB definition of commitments be modified to include a condition that needs to be satisfied before the government acknowledges a commitment (that is, before the government takes action that may result in financial obligation).

DETAILED ANALYSIS AND RECOMMENDATIONS

In April 2025, staff met one-on-one with six agencies currently reporting significant commitments according to OMB Circular A-136 guidance to learn about their challenges and suggestions. While four of the six agencies believed the OMB commitments definition is clear, two agencies thought the definition is vague, especially to field offices, and suggested the Board to consider developing a more descriptive commitments definition and clearer disclosure requirements than what is currently found in the OMB guidance.

Task Force Reviewed Eight Definitions for Commitments

In June, staff sought the task force views on the commitment's definition through a questionnaire process. The task force was given eight different versions of the commitments definition and were asked for their preference and rationale behind their selection. When forming the different definition versions, staff considered the following two definitions:

Government Accounting Standards Board (GASB) definition of commitments - due to similarities between activities of the federal government and state and local governments.

*Commitments are 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.*

OMB Circular A-136 definition of commitments (because agencies have been reporting commitments according to OMB guidance for the last several years).

*Commitments reflect **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**.*

Task Force Questionnaire Results

The questionnaire was designed to obtain the task force views on two basic issues – “*What to include (population) as a commitment*” and “*How to describe (level of certainty) commitments*”.

First issue - What should be included in the population subject to commitments reporting? For example, are commitments _____

- a. Agreements?
- b. Agreements and promises?
- c. Binding Agreements?
- d. Arrangements?
- e. Legislations?
- f. Contracts and agreements?

Second issue - How to clearly describe commitments, such as _____

- a. Is the likelihood of future outflow or other sacrifice of resources “will”, “may”, or “expected to”?
- b. Should the phrase “not recognized at all or not fully recognized on the Balance Sheet” be included in the definition?

Staff received 17 responses to the questionnaire², consisting of

- 10 (out of 17, or 59%) responses from federal preparers
- 4 (100%) responses from the auditing community (1 federal, 3 non-federal)
- 1 (out of 2, or 50%) response from the academic community
- 2 (out of 6, or 33%) responses from the user community

The task force’s initial views on the essential element of a commitment is shown below. Their views on the eight versions of the definition along with their rationale are included in Appendix A.

1. Do “commitments” agreements need to be “legally binding” to be considered for commitments reporting? **NO 65%, YES 35%,**

- i. A **majority** of the respondents (**11 out of 17, or 65%**) believed that agreements do not need to be legally binding to be considered for commitments reporting. These respondents believed that
 - Non-binding agreements may have a significant effect on future budgetary resources of the government. Not reporting non-legally binding agreements may understate the impact these agreements may have on future budgetary resources of the government.
 - Agreements with “**probable and measurable**” future outflow or other sacrifice of resources should be considered to account for the full impact that commitments may have on the future position and condition of the government.
- ii. **Six out of 17 (35%)** respondents believed that agreements need to be legally binding to be considered for commitments reporting. These respondents are concerned that, without the agreements being legally binding,

² Task force members belonging to the same entity were requested to provide a consolidated response.

- There may be uncertainty as to whether the government has a future outflow or other sacrifice of resources.
- Agency management and auditors may differ in their judgment when assessing the likelihood of the future outflow or other sacrifice of resources related to non-binding agreements. These respondents believed that guidance would be needed for an objective evaluation of the commitments reported if non-legally binding agreements are included in the reporting requirements.
- Agencies have been applying the OMB Circular A-136 requirements to binding agreements only.
- Some respondents believed that reporting on non-legally binding commitments could increase the population of agreements to consider for commitments reporting, creating **undue hardship** on financial statement preparers.

Summary of Responses to Questionnaire – No Strong Preference

The task force responses to the eight different versions of the commitment's definition did not show a strong preference for any of the commitments definitions provided, but responses leaned toward the definition derived from the OMB Circular A-136 definition as agencies are accustomed to the OMB definition after years of reporting commitments according to OMB guidance. Specifically, the responses showed general support for including “not recognized at all or not fully recognized” in the definitions as the phrase would provide a clear boundary to separate the agreements that have liabilities recognized or partially recognized (e.g., noncancelable long-term leases and delivered orders of contracts for goods and services). As previously noted, although survey results reflect that the majority believe that commitments do not need to reflect binding agreements, when the task force reviewed the eight different definitions (Refer to Appendix A for details), the results reveal that the “most favored” definition would include the term “binding” and the phrase “not recognized at all or not fully recognized on the Balance Sheet”. The “most favored” definition follows:

Five of 17 (29%) - Commitments reflect binding agreements that may result in the future outflow or other sacrifice of government resources that are not recognized at all or not fully recognized on the Balance Sheet.

For the population subject to commitments reporting, the responses generally do not support “promises” or “arrangements” because respondents believed they are too vague, too broad, and difficult to measure and support.

Although the majority respondents agreed that agreements do not need to be legally binding to result in future outflow or other sacrifice of government resources, the responses generally support that commitments reporting apply to only “binding” agreements to lessen reporting burden.

One respondent suggested to add “legislation” to the definition. Legislation are laws and are generally considered binding agreements between the government and its citizens or other entities.

Another respondent suggested to use the term “contracts or agreements” to be consistent with the terminology used in more recent accounting standards. All contracts are binding agreements so “binding agreements” would include all contracts.

On the description related to the likelihood associated with “result in future outflow or other sacrifice of resources”, some respondents believed that the word “will” is not appropriate because it implies certainty when there are uncertainties related to commitments. Some respondents are concerned that using the word “may” could

increase management efforts to gather and evaluate agreements and result in different interpretation between management and auditors.

Other respondents suggested using “expected to”, which implies a likelihood of “probable” or “likely to occur”.

Staff Analysis and Recommendations

Based on the analysis of task force recommendations, **staff asks the Board to consider the following proposed working definition and explanatory descriptions for commitments:**

Commitments are binding agreements ^{FN} **that, upon the occurrence of one or more future events or when the terms and conditions specified in the agreement being met, may result in the future outflow or other sacrifice of government resources.**³

FN - Commitments are not liabilities⁴ **of the government. Upon the occurrence of the future event or events, such as the delivery of goods or services, or when terms or conditions specified in the agreement are met, an assessment will determine whether the government has incurred a liability. If part of a contract or agreement has met the criteria for a liability, that part is no longer considered a commitment.**

Staff notes that the above commitments working definition includes assessing two levels of uncertainty: (1) the occurrence of one or more **future events** or when the terms and conditions specified in the agreement are being met and (2) **may result** in the future outflow or other sacrifice of government resources. As a part of ongoing research and analysis of the working definition, staff will consider how the need to assess two levels of uncertainty could affect reporting burden by potentially increasing the population of agreements that agencies need to evaluate for commitments reporting.

Staff Rationale

The following is staff’s rationale for the above proposed working definition:

1. Commitments do not possess a “present obligation” and are conditional

³ “Future outflow or other sacrifice of government resources” replaces “future expenditure of financial resources” in the OMB definition.

⁴ SFFAS 5, *Accounting for Liabilities of The Federal Government*, A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events.

To define commitments, staff referred to SFFAC 5: *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements* for guidance. According to SFFAC 5,

- i. Paragraph 39: A liability is a present obligation⁵ of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.
- ii. Paragraph 42: A present obligation is described as “an obligation arose as a result of a past transaction or other event that has not been settled.”

For commitments, the event or events triggering the government to provide assets or services have not occurred. Thus, commitments do not possess the “present obligation” characteristic of a liability and therefore are not liabilities of the government. The triggering event or events need to occur before the government may assess whether it has a present obligation. Commitments may become present obligations of the government upon the occurrence of the future event or events or when terms and conditions specified in the agreement are met.

2. Adopt a working definition using the word “may” and not definitive “will”

One of the objectives of financial reporting is whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. Information relevant to this objective may include disclosure of financial risk that are likely or reasonable possible⁶. Commitments by their nature are dependent on a future event whose likelihood may not be known or measurable until a triggering event or terms and conditions are met. For this reason, staff proposes using the word “**may**” rather than the definitive “**will**” in the commitments working definition to reflect the conditional nature of such agreements.

3. Binding vs. Non-binding Impacts

Non-binding agreements, such as Memorandums of Understanding and Letters of Intent, are preliminary statements of intent between the parties that are often used in the initial statement of collaboration before committing to a legally binding agreement.

⁵ As described in footnote 5 in SFFAC 5: The term obligation is used in this Statement with its general meaning of a duty or responsibility to act in a certain way. It does not mean that an obligation of budgetary resources is required for a liability to exist in accounting or financial reporting or that a liability in accounting or financial reporting is required to exist for budgetary resources to be obligated.

⁶ SFFAC 1 paragraph 141.

Non-binding agreements typically do not incur financial obligations. As non-binding agreements do not compel the parties to fulfill the terms of the agreements, there may be uncertainties as to the future transactions occurring, diminishing the likelihood that these agreements may result in the future outflow of government resources. Thus, including non-binding agreements in commitments reporting may not result in useful information to decision makers and could be misleading.

Moreover, including non-binding agreements in commitments reporting could increase reporting burden by increasing the population of agreements that agencies need to evaluate for commitments reporting.

As a result, staff proposes limiting commitments reporting to “binding” agreements to recognize (1) that there may be uncertainties as to the future events occurring and not resulting in a future outflow of resources, (2) that reporting burden may be unnecessarily increased and (3) users would be provided with relevant information⁷.

QUESTIONS FOR THE BOARD

Question for the Board:

1. Does the Board agree with staff’s recommendation that “commitments” need to be “binding” to be considered for commitments reporting?

Question for the Board:

2. Does the Board agree with staff’s recommendation that “commitments” should possess a future triggering event or events to occur to distinguish them from liabilities?

⁷ According to the Financial Report of the U.S. Government, 78 percent in fiscal year 2024 and 77 percent in fiscal year 2023 of reported commitments are undelivered orders associated with contracts for goods and services which are binding agreements.

Question for the Board:

3. Does the Board have any questions or concerns or suggestions for staff and the task force to (re)consider before proceeding further with the commitments working definition?

Appendix A: Details of the Task Force Definitional Reviews

Details of the task force views of the eight definitions follow:

2. Do you agree with the following commitments definitions?

- iii. Commitments are agreements to enter into future transactions that **will** result in future outflow or other sacrifice of government resources.
 - **Three out of 17 (18%)** respondents **agreed** with this definition. These respondents believed the word “will” would make it easier to determine whether an agreement should be reported and would scope out agreements that may not materialize.
 - Respondents who disagreed with this definition believed that the likelihood in “will” is too definite and “probable” may be more appropriate.
- iv. Commitments are agreements to enter into future transactions that **may** result in future outflow or other sacrifice of government resources.
 - **Three out of 17 (18%)** respondents **agreed** with this definition. These respondents believed that, depending on the terms and conditions in the agreement, future transactions may or may not occur. The word “may” provides entities with the flexibility to use professional judgment when deciding whether to disclose an agreement. Commitments are potential, not guaranteed, future obligations.
 - Respondents who **disagreed** with this definition believed that the word “may” implies likelihood of 50/50 which could lead to overly broad interpretation of activities that could be scoped into the reporting requirements, significantly increasing preparer burden. Agreements that may not materialize might be required to be reported under this definition.
- v. Commitments are agreements **and promises**⁸ to enter into future transactions that **will** result in future outflow or other sacrifice of government resources.
 - **Two out of 17 (12%)** respondents **agreed** with this definition. They believed that the phrase “agreements and promises” broadly covers

⁸ The word “promises” was added to the definition on the suggestion of a task force member.

commitments with the possibility of future liability but suggested that the words “agreements” and “promises” need to be clarified to reduce diversity in practice. These respondents also believed that the phrase “will result in future outflow of resources” is consistent with guidance from other standard setters.

- Other respondents **disagreed** with the word “promises” because it makes the criteria too broad and hard to measure and support. In addition, they believed that the word “will” is too definite when “probable” would be more appropriate.

vi. Commitments are agreements **and promises**⁹ to enter into future transactions that **may** result in future outflow or other sacrifice of government resources.

- **Four out of 17 (24%)** respondents **agreed** with this definition. These respondents believed that some commitments may not result in a liability and the word “may” reflects the uncertain nature of commitments. The word also “may” provide entities with the flexibility to use professional judgment when reporting commitments.
- Some respondents **disagreed** with the word “promises” because it makes the criteria too broad to interpret and may be difficult to measure and support, while others disagreed with the word “may” because agreements that may not materialize would be required to be reported.

vii. Commitments are existing agreements or arrangements to enter into future transactions or events¹⁰, such as the following¹¹:

- International agreements/treaties
- Purchase obligations
- Commitments to extend loan and other guarantees
- Undelivered orders
- Other Commitments

Characteristics of commitments:

- Commitments are existing agreements or arrangements.

⁹ The word “promises” was added to the definition on the suggestion of a task force member.

¹⁰ This definition conforms with the GASB definition of commitments.

¹¹ Commitments categories are for illustration only and are compiled based on commitments reported in the Financial Report of the U.S. Government.

- Commitments are not liabilities of the current accounting period. The agreement or arrangements are to enter into future transactions; transactions resulting in liabilities have not occurred.
 - **Three out of 17 (18%)** respondents **agreed** with this definition. They believed that providing illustrative examples and characteristics of commitments within the standard would enhance consistency of application, although examples may need to be refined as the project progresses. They also believed it provided a great deal of details which is helpful to users. One respondent that the exclusions (i.e., leases and other items recognized on the balance sheet such as delivered goods and services”) can be done in the scope of the standard instead of in the definition.
 - Respondents who **disagreed** with this definition believed that the word “existing” is unnecessary, and the word “arrangement” is too vague. One respondent disagreed with including a list of examples due to agencies using specific criteria to arrive at the conclusion for reporting commitments.
- viii. Commitments reflect binding agreements that may result in the future outflow or other sacrifice of government resources that are not recognized at all or not fully recognized on the Balance Sheet.¹²
- **Five of 17 (29%)** respondents **agreed** with this definition, of which one respondent suggested to replace “binding” with “legally enforceable”. These respondents believed the phrase “not recognized at all or not fully recognized” provides clear boundaries because transactions or events with liabilities recognized, such as goods and services received and long-term cancelable leases, would be excluded from commitments reporting. Also, adding “binding” to the definition would exclude non-binding agreements whose population may be challenging to obtain, thereby lessening preparer and audit burden.
 - Respondents who **disagreed** with this definition believed the word “may” is too broad, potentially scoping in activities not intended to be commitments which increases preparer burden. One respondent suggested replacing “may” with “are expected to”.

¹² Adapted from the OMB definition of commitments.

- ix. Commitments are contracts or agreements to enter into future transactions that are expected to result in outflow or other sacrifices of government resources.
 - **None of the respondents agreed with this definition.**
 - Respondents who **disagreed** with this definition believed that adding contracts is not necessary as all contracts are agreements, and the definition does not incorporate the need to meet certain criteria or condition. One respondent believed that this definition is too simplistic and does not incorporate the need to meet certain criteria or conditions. In addition, “are expected to” could be challenging to implement. Some suggested to add “not recognized or fully recognized” to clarify the scope.
- x. Commitments are contracts or agreements with the intention to enter into future transactions that are expected to result in outflow or other sacrifices of government resources.
 - **One out of 17 (6%) respondent agreed with this definition.**
 - Respondents who **disagreed** with this definition believed it is difficult to document intentions, and the definition is confusing. One respondent believed “expected to” appears to require preparers to make judgment on the occurrence of the future events resulting in inconsistency in application of the reporting requirements.