FASAB
THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Memorandum

GAAP Reexam

August 5, 2026

To: Members of the Board
From: Melissa Batchelor, Assistant Director
Thru: Monica R. Valentine, Executive Director
Subject: GAAP Hierarchy Reexamination (Research/Issue Paper) - **Topic B**

OBJECTIVE

The objective of this meeting is to provide the Board with a summary of the research, observations, and staff recommendations on Other Accounting Literature.

REQUEST FOR FEEDBACK BY AUGUST **12**

Prior to the Board's August meeting, please review the attached staff analyses and recommendations and respond to the ensuing question(s) by August 12, 2026.

NEXT STEPS

Pending Board member feedback, staff will address any remaining areas so that a draft exposure draft may be developed for a revised federal GAAP hierarchy and OAL.

ATTACHMENTS

1. Staff Analysis and Recommendations
2. Project Timeline
3. Inventory of Directives
4. Comparison of OAL Guidance

Staff Analysis

GAAP Reexam

August 5, 2026

Attachment 1

INTRODUCTION

As part of FASAB's overall reexamination of existing standards, the Federal GAAP Hierarchy reexamines SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board*. Stakeholder feedback indicated the federal GAAP hierarchy is complex and suggested the Board should

- 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 federal GAAP hierarchy.

Background

At the April 2025 Board meeting, the Board approved the project plan for the federal GAAP hierarchy project. Staff coordinated and established a FASAB GAAP hierarchy working group of 12 representatives.[1] The working group has held three meetings.[2]

At the December 2025 meeting, the Board agreed with two basic criteria (exposed for public comment with the Board's consideration of comments and approved by the Board) for inclusion in the federal GAAP hierarchy. Guidance that meets the basic criteria for inclusion in the hierarchy should then be assessed against the distinguishing characteristics of the highest-level GAAP and lower-level GAAP to determine placement. The Board agreed with the following distinguishing characteristics for the highest-level GAAP: represented by a position of the Board as indicated by formal voting and issuance by the Board and issued with the purpose of creating, amending, interpreting, or clarifying standards. The Board also agreed with the following distinguishing characteristics for the lower-level GAAP: developed under the oversight and approval of the Board as indicated by a "does not object" approval by the Board and issuance by others and issued with the purpose of providing guidance for applying or implementing higher-level guidance.

[1] Staff added two new members representing an entity that applies FASB to ensure this perspective is included.

[2] Members may review the FASAB GAAP working group information at the FASAB GAAP Hierarchy Working Group webpage.

Based on analysis of these distinguishing characteristics, Statements of Federal Financial Accounting Standards (SFFASs or Statements) and Interpretations would continue to be the highest level of GAAP. Technical Bulletins (TBs), Technical Releases (TRs), and Staff Implementation Guides (SIGs) would tentatively be a lower level in the hierarchy. Based on this, AICPA Industry Audit and Accounting Guides[3] and practices widely recognized and prevalent would move to Other Accounting Literature (OAL).

As such, revised federal GAAP hierarchy would be two levels:

A. Highest Level GAAP (Statements and Interpretations)
B. Lower-Level GAAP (Technical Bulletins, Technical Releases, and Staff Implementation Guides[4])

The staff analysis that follows provides the Board with a summary of the research, observations and recommendations regarding OAL. Specifically, the paper presents a summary of staff research on administrative directives and the approach used by other standard-setting organizations. The OAL research and analysis includes observations and suggestions for the Board's consideration so that staff may revise OAL so that it accurately reflects the influence and application of OAL when the accounting treatment for a transaction or other event is not specified by FASAB pronouncement.

STAFF ANALYSIS AND RECOMMENDATIONS

1. Administrative Directives Research

Considering that the Board tentatively agreed to move practices that are widely recognized and prevalent in the federal government to OAL, it is important to identify critical directives that may be referenced and used in financial management activities and especially those that are used when preparing federal GAAP financial reports. As part of the exercise, staff obtained input from the FASAB GAAP workgroup, reviewed sponsoring agency websites as well as the FASAB Handbook for references to specific directives issued by others. **See Attachment 3- Inventory of Directives**

As the inventory of directives demonstrates, it is an exhaustive list of guidance that federal reporting entities must follow in conjunction with financial management activities. Doing so helped staff gain a better understanding of directives that may be considered by federal reporting entities as they perform financial management activities, including preparation of financial statements and reports. This understanding helped assess how to include critical directives that may be considered practices that are widely recognized and prevalent in the federal government as part of OAL.

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[3] Staff contacted the AICPA to discuss the Board's tentative decision to move AICPA Industry Audit and Accounting Guides from the federal GAAP hierarchy to OAL. Lindsey Kennimer explained that they do not have any concerns with the Board's decision and they appreciated that FASAB sought their input.

[4] Staff notes that the Board has tentatively agreed to discontinue the use of SIGs as part of the reexamination. The final decision has been deferred until a plan for incorporating existing SIGs has been considered.

Staff Analysis

The comprehensive inventory includes key directives from OMB, Treasury, and GAO. As such, the inventory includes some topics beyond accounting. For example, audit guidance is included in the inventory, and staff recognizes that audit guidance would not be an accounting source that a federal reporting entity would select as a source of accounting guidance in preparing financial statements, but considering the broad range of financial management directives during the research provides an understanding of the types of guidance that agencies must adhere to and connections to statutory requirements.

While they may not directly relate to GAAP, certain administrative directives (guidance from the sponsors) fulfill statutory requirements and provide guidance that are integral in the preparation of GAAP reports. The working group agreed that FASAB is unique and different from other standard setters because FASAB issues standards for one organization, the federal government. The role of OMB and Treasury is unique because they issue guidance to lead and direct agencies in the financial reporting of the federal government. The role of OMB and Treasury is unique because they issue guidance to lead the financial reporting of the federal government. OMB and Treasury serve to coordinate financial management and ensure consistent, comparable financial reporting across the federal government and this is done through administrative directives based on statutory requirements.

The working group agreed that statutory requirements are a very important consideration, though most requirements go beyond what is necessary for GAAP. Agencies continually reference these requirements as part of their duties and functions, so they are part of most activities, including financial management. The working group recognized that agencies are required to follow the guidance, and what FASAB does in relationship to the GAAP hierarchy does not change that fact. Hence, decisions made regarding the placement or how the Board chooses to categorize administrative directives do not in any way affect agency requirements pertaining to the directives.

Considering the important role of administrative directives, staff considered whether other standard setters may have addressed a similar type of issue when they re-examined their respective hierarchies; considering both GASB and FASB moved practices that are widely recognized and prevalent from the hierarchy to non-authoritative. While all directives are important and must be followed by agencies, the working group agreed that budgetary accounting guidance (OMB A-11) is the most critical directive for the Board’s consideration because of the unique area of budgetary accounting.

GASB

When considering budgetary accounting, GASB is clear that the scope and method of state and local budgetary practices are outside of the scope of financial reporting standards. GASB requires budgetary comparison information to be presented as *Required Supplementary Information*. Separate columns for the variances between (a) original and final budget amounts and (b) final budget amounts and actual results are required to be presented. An explanation of significant variations is required to be presented in notes to RSI.[5]

Considering GASB's approach, some may question if the Statement of Budgetary Resources (SBR) would be more appropriately classified as RSI. Staff does not believe the scope of the GAAP hierarchy reexamination includes reconsidering the current framework and reporting model. Further, although the Board defers budgetary accounting to OMB, it is important to note that Budgetary Integrity is one of the objectives of federal financial reporting and this highlights why it is considered a principal financial statement.[6]

Staff notes that GASB discussed the concern regarding potential voids in their hierarchy with moving practices that are widely recognized and prevalent in state and local government because certain stakeholders believed it would result in gaps in the authoritative literature. Staff considers this a similar concern because some believe with the Board's decision to move practices that are widely recognized and prevalent to OAL, it would create a budgetary accounting void in the federal GAAP hierarchy. GASB explained in their basis for conclusions that "events that are not addressed in authoritative literature, such practices—even when classified as nonauthoritative—can continue to inform the selection of accounting treatments. Furthermore, regardless of the classification of such practices, the appropriateness of the selection of such practices as the basis for an accounting treatment would be a consideration in situations in which Category A or Category B literature is not relevant."

Staff also met with GASB staff to gain further insights into this area. GASB staff explained that the GASB Board viewed moving practices that are widely recognized and prevalent in state and local government as the most significant improvement in their reexamination of the hierarchy. Further, the GASB Board did not believe practices that are widely recognized and prevalent should be considered a higher status than GASB Concepts Statements because they are subject to due process.[7]

International Public Sector Accounting Standards Board

IPSAS 24, *Presentation of Budget Information in Financial Statements* requires a comparison of budget amounts and the actual amounts arising from execution of the

[5] GASB Statement No. 103, *Financial Reporting Model Improvements*

[6] The Budgetary Integrity objective provides that federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations. It also states that federal financial reporting should provide information that helps the reader to determine how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization; the status of budgetary resources, and how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

[7] GASB underscored this point by including that other accounting literature should be consistent with GASB Concepts. This will be discussed further in the next topic, Consideration of Other Standard Setters.

budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable. IPSAS 24 also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with IPSAS 24 helps ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating (a) compliance with the approved budget(s) for which they are held publicly accountable and (b) where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results. When the budget and financial statements are not prepared on a comparable basis, a separate Statement of Comparison of Budget and Actual Amounts is presented to ensure that readers do not misinterpret financial information that is prepared on different bases.

FASB

While FASB does not address budgetary accounting, staff notes that FASB includes rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws as a source of authoritative GAAP for SEC registrants in its GAAP hierarchy. If an SEC rule or interpretive release has a direct impact on accounting standards, the FASB may issue an Accounting Standards Updates (ASU) to incorporate that guidance into the Codification. This is a technical update, not a review or approval of the SEC's rulemaking process itself. The FASB's ASU reflect the SEC's guidance only if it is relevant to GAAP and if the FASB determines it should be codified. Content contained in the SEC Sections of the Codification is provided for convenience and relates only to SEC registrants and FASB explains that they are included to increase the utility of the Codification.[8] Staff notes that the SEC rulemaking process under the federal securities laws is designed to solicit significant public input and undergo rigorous analysis before any regulatory change takes effect.

Some parallels could be drawn to the FASB/SEC relationship and the FASAB/OMB relationship. However, OMB directives are not subject to a formal due process or rulemaking processes. OMB's updates to OMB A-11 are generally binding guidance issued under statutory authority.[9] Updates to OMB A-11 are usually technical revisions and clarifications to conform to current administration policy and to standardize budget methods and terminology across the federal government. In practice, agencies must comply with these instructions. However, some may view FASB's inclusion of SEC rules and interpretive releases as analogous reasoning to support that the federal GAAP hierarchy include OMB A-11.

As noted above, the working group agreed that budgetary accounting guidance (OMB A-11) is the most critical directive for the Board's consideration. Staff also believed it

[8] 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. FASB explains that the content in the SEC Sections is expected to change over time, and there may be delays between SEC and staff changes to guidance and ASU.

[9] OMB derives its authority from the Budget and Accounting Act of 1921. It allows OMB to issue binding instructions to executive branch agencies on what data to submit, in what format, and by what deadline.

important to include a discussion about form and content (OMB A-136) and user changes (OMB A-25) because these are also important directives referenced in FASAB standards.

Budgetary Accounting

OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, provides guidance on preparing the Budget and instructions on budget execution. FASAB's MOU states that the Board will not set or propose budget concepts, standards and principles. It further provides that in considering accounting concepts and standards, consideration will be given to the budgetary information needs of executive agencies and the needs of users of federal financial information. Based on this, the Board defers budgetary matters to OMB and has explicitly stated this in standards.

The Board recognizes that OMB A-11 is the appropriate guidance to be used regarding budgetary accounting and has included explicit instructions in the standards. The most pertinent reference is in SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraphs 78 and 80 (footnotes omitted) state:

> 78. Recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34.[10] In addition, the reporting entity should provide this information for each of its major budget accounts as supplementary information. Small budget accounts may be aggregated.
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> 80. Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are different. To better understand these differences, the reconciliation should explain the relationship between the net cost of operations and net outlays by the entity during the reporting period. The reconciliation should reference the reported "net outlays" and related adjustments as defined by Office of Management and Budget (OMB) Circular A-11: Preparation, Submission, and Execution of the Budget.

In addition, SFFAS 2, *Accounting for Direct Loans and Loan Guarantees* also references OMB Circular A-11. Under the Federal Credit Reform Act of 1990, as amended, OMB is responsible for subsidy estimates published in the President's Budget. For agencies that have credit programs, OMB provides guidance and specific tools for credit budgeting. OMB Circulars A-11 and A-129, *Policies For Federal Credit Programs and Non-Tax Receivables,* provide guidance to agencies on definitions, procedures and rules for calculating subsidy estimates and reestimates for the President's Budget and modification cost estimates, obligation of budget authority for the credit program's cost, and credit and receivables policy.

[10] Staff notes that OMB Circular A-34, *Instructions on Budget Execution* was rescinded 6/27/2002 and superseded by OMB Circular A-11, Part 4.

Although the working group agreed with the approach that included establishing the basic criteria for inclusion in the federal GAAP hierarchy, some noted concern with OMB A-11 being considered OAL. There is concern because OMB A-11 provides guidance used in preparing the Statement of Budgetary Resources (SBR). Staff notes that the format of the SBR is based on the SF-133, *Report on Budget Execution and Budgetary Resources*.[11]

The working group believed the OMB A-11 and budgetary accounting guidance was the most critical area that required further consideration. The working group discussed whether there was an option to include a *separate* budgetary accounting hierarchy to acknowledge OMB A-11 as authoritative guidance that is outside of the Board's purview. Another option discussed was to add a separate category of guidance that would be a level between the GAAP hierarchy and OAL that would address budgetary guidance. While all the suggested options are reasonable, the working group noted that creating or adding new levels would possibly result in a complex multi-level approach, similar to FASAB's current hierarchy.

Considering the different views among members of the FASAB GAAP working group regarding the budgetary accounting area, staff performed additional outreach. Staff provided a briefing to the Financial Statement Audit Network, shared the topic with the CFS Group Audit Executive Committee, and GAO to gain additional feedback and assistance with determining options for addressing this unique area.

Based on the additional outreach, there were three potential options for the Board's consideration: 3rd Level in the GAAP hierarchy, specific language regarding administrative directives as a type of OAL or remaining silent because the reference in SFFAS 7 is sufficient.

3rd Level in GAAP hierarchy

Some believe that budgetary accounting guidance and more specifically, OMB A-11, should be included in the federal GAAP hierarchy so there would not be a void. Although the issue was raised by the audit community, staff notes that it may be a potential concern for the financial management community because preparers have a requirement to prepare GAAP financial statements and thus may also question how they can meet the requirement for a GAAP based SBR.

Federal financial statements include the SBR, so the concern is that budgetary accounting guidance that supports the SBR is not part of the federal GAAP hierarchy.

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[11] Detailed guidance for completing the SF 133 is included in OMB Circular A-11, Section 130. The SF-133 format reflects amounts that are consistent with statutory requirements and budgetary accounting concepts and policies (as reflected in The Report of the President's Commission on Budget Concepts, October 1967, and OMB Circular A-11). Among other things, the SF-133 fulfills OMB's legal requirement for reporting on budgetary accounting data and permits the monitoring of apportioned and unapportioned funds. The SF-133 is displayed at the Treasury Appropriation Fund Symbol (TAFS) level, while the SBR is displayed at the agency level. The SBR is a principal statement for the agency as a whole and must be displayed as required supplementary information for major TAFSs. In addition to budgetary information, the SBR includes a separate column for non-budgetary credit reform financing accounts, which record cash flows from post-1991 direct loans and loan guarantees.

The auditor's report includes the statement that financial statements are presented fairly (in all material respects) in accordance with U.S. generally accepted accounting principles. As such, some believe with practices that are widely recognized and prevalent in the federal government being moved to OAL, a direct reference to OMB A-11 is needed in the federal GAAP hierarchy to address the budgetary accounting void.

It was suggested that a separate or 3rd level of GAAP be considered for budgetary guidance in the revised GAAP hierarchy. Some believed it would be the clearest way to reemphasize that OMB A-11 is the source of guidance for budgetary accounting as provided in SFFAS 7. With this option, it would be critical to specify what portions of OMB A-11. As explained in the **Attachment 3- Inventory of Directives**, OMB A-11 contains 7 sections and is nearly 1,000 pages, much of which is beyond the scope of GAAP. As such, the Board would not want to include the entire document and would need to specify portions or include a reference to what topics should be used.

Based on this, it was suggested the same wording from SFFAS 7 par. 78 be used. This proposed option would include a third level in the federal GAAP hierarchy as follows:

1) Highest Level GAAP (Statements and Interpretations)
2) Lower-Level GAAP (Technical Bulletins, Technical Releases, and Staff Implementation Guides[12])
3) As provided in SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circular A-11.

Those preferring this option believe that this inclusion will eliminate any uncertainty regarding OMB A-11's authority and the expectation for federal agencies to follow the requirements therein. They believe with OMB A-11 already explicitly referenced in SFFAS 7, formally including it in the hierarchy would be the most logically consistent path forward.

Some preferred this option because they believe including OMB A-11 as OAL may appear to diminish its authority considering the explicit reference in SFFAS 7. It was noted that OAL is typically used for unique or uncommon events, and some believe that it wouldn't be appropriate to put the accounting source that is the basis for one of the financial statements as OAL. However, staff notes that the Board deferring budgetary matters to OMB is a unique situation that would support the use of OAL guidance because the Board is not permitted to provide guidance in this area. As such, some believe this unique area is best addressed as OAL guidance because it is not subject to any of the Board's due process or review.

Further, including OMB A-11 in the GAAP hierarchy would in essence create an exception to the agreed upon basic characteristics for inclusion in the federal GAAP hierarchy. Administrative directives do not go through any sort of due process, and are

[12] Staff notes that the Board has tentatively agreed to discontinue the use of SIGs as part of the reexamination. The final decision has been deferred until a plan for incorporating existing SIGs has been considered.

not approved by the Board, so it is difficult to reconcile how an administrative directive could be part of the federal GAAP hierarchy, unless an exception is noted. Staff believes an exception or an additional level in the GAAP hierarchy would lead to complicating the revised federal GAAP hierarchy as the Board attempts to resolve complexities. Exceptions would also introduce questions as to whether the basic criteria developed are appropriate and if there are other exceptions.

OAL guidance

The working group agreed that FASAB is unique and different from other standard setters because FASAB issues standards for one organization, the federal government. The role of OMB and Treasury is unique because they issue guidance to lead and direct agencies in the financial reporting of the federal government. OMB and Treasury serve to coordinate financial management and ensure consistent, comparable financial reporting across the federal government and this is done through administrative directives based on statutory requirements. The working group agreed that administrative directives are considered practices that are widely recognized and prevalent in the federal government. Further, as noted above, the Board deferring budgetary matters to OMB is a unique situation that would support the use of OAL guidance because the Board is not permitted to provide guidance in this area. As such, some believe this unique area is best addressed as OAL guidance because it is not subject to any of the Board's due process or review.

The working group agreed that the Board has an opportunity to expand the discussion of OAL to address practices that are widely recognized and prevalent in the federal government in a manner that will resonate with stakeholders, by including reference to the central agencies role in providing statutory guidance to agencies through administrative directives. Including the appropriate narrative to address the unique federal government environment and discussion of administrative directives that are integral in the preparation of financial statement would be the best manner to signify the importance of administrative directives, while being clear that OAL may be used when guidance is not included in the federal GAAP hierarchy. Including it in this manner offers an opportunity to acknowledge these important directives without complicating the federal GAAP hierarchy.

The working group agreed that being transparent and also including additional explanatory language in the basis for conclusions about the importance of administrative directives and examples would be helpful. Most agree that this is a unique area that deserves additional explanation so there is common understanding regarding administrative directives. For example, although A-11 is referenced by the highest level of GAAP, it is not by default a part of the federal GAAP hierarchy. Although it would be outside of the federal GAAP hierarchy, it could be clearly articulated that it is the source of guidance for budgetary accounting.

Staff notes that including additional explanation in OAL[13] and the basis for conclusions would be clear and consistent with other guidance on the topic. For example, OMB A-136 Section II.3.1. *Instructions for the Annual Financial Statements* provides "With respect to budgetary accounting, management should refer to SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraph 78, which provides that "Recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34."[14] In addition, GAO's Financial Audit Manual, *Federal Financial Reporting Checklist*, Section II.3.5 Statement of Budgetary Resources contains "Is recognition and measurement of budgetary resources in the SBR based on budget concepts, definitions, and guidance in OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, Appendix F? (SFFAS 7, para. 78; A-136, section II.3.5.1)"

Staff believes that another action that would help ensure a consistent understanding would be for OMB to include the same language in **OMB Bulletin 24-02, *Audit Requirements for Federal Financial Statements***. As explained in **Attachment 3 - Inventory of Directives**, OMB Bulletin 24-02 establishes the audit requirements for financial statement audits across executive branch agencies. It ensures auditors assess agency financial statements, evaluate internal controls, and confirm compliance with federal laws in a consistent manner. OMB has included explanatory information as needed in the audit bulletin,[15] so staff believes it would be helpful to include something on budgetary accounting to ensure consistent understanding.

It is important to note that most agree if OMB A-11 should be included as part of other accounting literature, they believed it would still be considered the appropriate source of guidance for budgetary accounting and they did not foresee unintended downstream impacts to agencies' or auditor's interpretation of requirements or relevant criteria.

Remain silent

Another option is to be silent regarding the budgetary area. Some preferred this approach because the Board is not permitted to promulgate budgetary accounting matters. Further, some believed with SFFAS 7's (highest level of GAAP) direct statement, it provides that OMB A-11 is the source of accounting guidance for the recognition and measurement of budgetary resources. As such, some consider OMB A-11 to be included in the highest level of GAAP. They believe SFFAS 7 expressly

[13] Determining the way to reference the administrative directives in OAL will be discussed in a later topic of this paper.

[14] OMB Circular A-34, *Instructions on Budget Execution* was rescinded 6/27/2002 and superseded by OMB Circular A-11, Part 4.

[15] For example, OMB Bulletin No. 24-02 includes a discussion of auditing allocation transfers from a federal entity (referred to as the parent) to another federal entity (referred to as the child.) Staff notes that parent-child reporting is not addressed in a FASAB standard. Allocation transfers and parent-child reporting guidance is included in OMB A-11 and also referenced in OMB A-136.

incorporates it into the GAAP hierarchy because it is fundamentally embedded within federal GAAP itself and that OMB A-11 is elevated alongside SFFAS 7.

As a result, those suggesting that FASAB be silent do not consider there to be a void on budgetary accounting in the proposed update to the GAAP. Further, they believe adding additional language in OAL may be “solving a problem that does not exist” because SFFAS 7 is clear. Those preferring that FASAB be silent believe providing an explanation in the basis for conclusions would be sufficient.

In summary, stakeholders agree that all three options would result in determining that OMB A-11 is the appropriate source of accounting for budgetary accounting and all three approaches would result in a financial reporting entity preparing financial statements that could be considered in conformity with GAAP.

Based on staff’s research and discussion in this area, staff believes it important to note that there may be differences in the understanding of the federal GAAP hierarchy, how it is applied, and the relationship of OAL.[16] While staff believes that OAL is separate from GAAP literature presented in the hierarchy, not only because it does not meet the basic criteria established for determining inclusion but also because OAL does not establish GAAP and cannot amend FASAB literature. In SFFAS 34, guidance provided on applying the hierarchy introduces OAL as a source of guidance that may be relied upon in the absence of accounting guidance in the hierarchy and assists in understanding how it can be considered when preparing general purpose financial reports in conformity with GAAP. Although OAL may not be part of the GAAP hierarchy and only may be relied upon in the absence of a FASAB pronouncement, proper application of the principles established for selecting the most appropriate source of accounting may result in selecting an OAL source that may be relied upon when preparing financial statements that would be considered in conformity with GAAP. Staff does not believe selecting a source of guidance from OAL when determined appropriately based on the principles established should adversely affect the auditor’s ability to provide assurance that the financial statements are presented fairly in accordance with U.S. generally accepted accounting principles. **Staff believes the application of the principles established for selecting the most appropriate OAL source of accounting should be clarified when developing the revised hierarchy and OAL.**

Staff Recommendation

Staff notes that whether OMB A-11 is specifically included within the federal GAAP hierarchy, explained as a part other accounting literature, or if the Board remains silent, feedback indicated it would result in OMB A-11 being considered the appropriate source of guidance for budgetary accounting. Further, all options would result in a financial reporting entity preparing financial statements that would be considered in conformity with GAAP.

[16] This would be consistent with feedback from the ITC.

Staff believes the Board deferring budgetary matters to OMB is a unique situation that would support the use of OAL guidance because the Board is not permitted to provide guidance in this area. However, staff believes the Board has an opportunity to expand the discussion of OAL to address the unique federal government environment in a manner that will resonate with stakeholders, by including reference to the central agencies role in providing statutory guidance to agencies through administrative directives that are integral in the preparation of financial statements. Including additional explanation would be clear that administrative directives may be used when guidance is not included in the federal GAAP hierarchy. Including the discussion (and additional explanation in the basis for conclusions) offers an opportunity to acknowledge important directives without complicating the federal GAAP hierarchy. Further, this would be responsive to ITC respondents that requested administrative directives be addressed.

In summary, staff recommends that the Board continue the tentative decisions made regarding the basic criteria for determining inclusion in the GAAP hierarchy. As such, OMB A-11 would be a source of OAL. In addition, staff recommends expanding the discussion of OAL to address the unique federal environmental, such as elaborating on the central agencies role in providing statutory guidance to agencies through administrative directives that are integral in the preparation of financial statements. In addition, the revised GAAP hierarchy and OAL should be elaborated to clarify how the GAAP hierarchy is applied and the relationship of OAL.

Questions for the Board:

1. Does the Board agree with the staff recommendation that the Board continue the tentative decisions made regarding the basic criteria for determining inclusion in the GAAP hierarchy and that administrative directives (including OMB A-11) are classified as OAL? If you do not agree, please explain and provide a preferred approach.

2. Does the Board agree that the discussion of OAL should be expanded to address the unique federal environmental by elaborating on the central agencies role in providing statutory guidance to agencies through administrative directives that are integral in the preparation of financial statements and clarifying how the GAAP hierarchy is applied and the relationship of OAL would be helpful? If you do not agree, please explain and provide a preferred approach.

Other significant directives

As noted above, the working group agreed that budgetary accounting guidance (OMB A-11) is the most critical directive for the Board's consideration. Staff also believed it important to include a brief discussion about form and content (OMB A-136) and user changes (OMB A-25) because these are also important administrative directives referenced in FASAB standards. The working group was in agreement that these should be considered OAL.

Form and Content

OMB Circular A-136, *Financial Reporting Requirements*, provides guidance for entities required to submit audited financial statements. OMB specifies the form and content of agency financial statements, pursuant to its authority under the Chief Financial Officers Act of 1990, as amended (31 U.S.C. § 3515(d)).[17] 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*. Footnote 2.1 of SFFAC 2 paragraph 29 states:

> The Office of Management and Budget specifies the form and content of agency financial statements, pursuant to its authority under the Chief Financial Officers Act of 1990, as amended (title 31, U.S. Code, section 3515(d)) through issuance of Bulletins and Circulars. OMB intends to base form and content on the concepts contained in this Statement. Any uncertainty as to what to consider as a reporting entity would be resolved by OMB in consultation with the appropriate Congressional committees.

In addition, SFFAC 2, paragraph 112 states:

> Example formats for displaying the recommended elements are provided in appendix 1. These formats are illustrative and provided solely to help readers of this document better understand the recommended concepts for displaying financial and related information. In exposing proposed standards, the Board might portray other formats. The ultimate specification of the form and content for financial statements for Federal agencies is defined by OMB.

Thus, OMB prescribes form and content in OMB A-136 based on the statutory requirements and guidance contained in FASAB standards but also may provide more specific detailed instructions. OMB's intent is to provide clear form and content guidance

[17] As previously noted, FASAB staff requested Counsel to provide clarification of what is meant by the language within 31 U.S.C. § 3515: "The Director of the Office of Management and Budget shall prescribe the form and content of the financial statements of covered executive agencies under this section, consistent with applicable accounting and financial reporting principles, standards, and requirements." Counsel had provided some initial thoughts as detailed in the December briefing materials. Counsel provided staff the following update: "Form and content" does not have a formal legal definition. However, based on our review of the legislative history, current and prior practice within the federal government, and the ordinary meaning of the terms, we believe that OMB's "form and content" authority generally permits it to prescribe the types of information that must be included in a financial report and the manner, order, or format in which it is presented. Accounting standards and principles, then, govern the manner in which that information is generated by the agency preparing the report. This allows OMB to serve as a centrally located authority to coordinate financial management and ensure consistent, comparable financial reporting across the federal government. While this reading gives OMB wide latitude over financial statements, its discretion is cabined by the requirement that its form and content regulation be "consistent with applicable accounting and financial reporting principles, standards, and requirements."

that is consistent with FASAB pronouncements. Although FASAB is not part of any formal review of A-136, FASAB staff at times performs a cursory review and notifies OMB of any potential conflicts. For example, FASAB staff has collaborated and coordinated with OMB on research related to Interpretation 11, *Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*, and determined that certain changes to the form and content requirements ensure clarity and consistency with GAAP.[18]

Staff notes that OMB A-136 includes guidance and information that goes beyond what would be considered form and content for GAAP financial statements. Given the Reports Consolidation Act[19], OMB A-136 has expanded beyond what may constitute the form and content of financial statements. For example, there is a lengthy discussion of requirements for Other Information.

OMB A-136, Section II.3.1. *Instructions for the Annual Financial Statements* explains that GAAP for Federal entities includes the hierarchy of accounting principles described in SFFAS 34. It is important to note that it also provides the following (which is specific to the previous issue regarding budgetary accounting): "With respect to budgetary accounting, management should refer to SFFAS 7*, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraph 78, which provides that "Recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34."

Section II.3.1. also provides <u>that certain reporting requirements are not specified in SFFAS 34 categories A through C but may be deemed by entity management to be practices that are widely recognized and prevalent in the Federal Government or other accounting literature under the criteria in SFFAS 34</u>. It further explains that these reporting requirements include, but are not limited to, the following: Parent-child reporting; Commitments; Summary of Significant Accounting Policies, including the description of the reporting entity; Non-federal investments reporting requirements, including valuation and disclosures; and Suborganization program cost disclosure if necessary for fair presentation.

Staff believes it very important to highlight these reporting requirements identified as not being addressed by FASAB pronouncements because one of the purposes of developing the inventory of directives was to determine areas where there may be a void in the GAAP hierarchy. A-136 notes that the reporting requirements for these areas are not specified in levels A-C of the current GAAP hierarchy but may be deemed by entity management to be practices that widely recognized and prevalent in the Federal Government or other accounting literature. This statement in A-136 further demonstrates the uncertainty as to whether the guidance should be considered widely recognized and prevalent in the Federal Government or whether it should be other

[18] Certain changes to the form and content requirements provided for the SCNP in A-136 were made to ensure clarity and consistency with GAAP.

[19] 31 U.S.C. § 3516.

accounting literature and further underscores the importance of providing such clarifications.

Staff notes that FASAB is aware of the areas identified in A-136 as not specified in SFFAS 34 levels A-C. Several of the areas were discussed in conjunction with the reexamination project. For example, there is a current project on Commitments. As part of the ITC follow-up, the Board considered preliminary research on Investments in other than Treasury securities at the June 2024 Board meeting. In summary, Federal entities currently use the hierarchy in SFFAS 34 to recognize and report such investments and, in practice, reporting entities elect to follow FASB standards in this situation. Staff notes that OMB A-136 includes guidance on non-federal securities by referring to relevant standards issued by the FASB. Staff also notes that the Board considered a project plan for Investments and Other Equity Interests in Non-Federal Entities in 2011. However, the project was deferred due to resource (staffing) constraints. Although the Board has considered a project in this area, other competing demands took priority.

Parent-child reporting relates to allocation of budget authority. An entity required by law to allocate budget authority to another Federal entity is referred to as a "parent" and the entity receiving the budget authority is referred to as the "child.' Staff believes this particular area as part of the previous overall issue regarding budgetary accounting. OMB A-136 directs users to OMB Circular A-11 because it provides detailed guidance on this area and all budgetary accounting. As noted above, A-11 is deemed the most critical administrative directive guidance.

The Board has also recognized that the note addressing Summary of Significant Accounting Policies, including the description of the reporting entity is part of OMB's A-136 as form and content. For example, SFFAS 31, *Accounting for Fiduciary Activities*, footnote 11 to paragraph 17 provides that "A note disclosing "Significant Accounting Policies" is a requirement of the Office of Management and Budget (OMB). This disclosure is currently listed as Note 1 in "Form and Content of the Performance and Accountability Report" issued as Part A of OMB Circular A-136." Staff believes prescribing Summary of Significant Accounting Policies is consistent with the Board deferring form and content requirements to OMB as explained in SFFAC 2.

Staff notes that the working group did not believe the form and content area to be critical because the most direct reference to A-136 is in a Concepts Statement (whereas OMB A-11 was directed to be used in a standard.) However, it is a significant directive that fulfills statutory requirements that are relevant and integral in preparing financial statements because it prescribes the form and content. Thus, it is an important directive that should be included in OAL.

User Charges

OMB Circular A-25, *User Charges* provides the policy framework for when and how federal agencies may impose user fees on services. It establishes Federal policy regarding fees assessed for Government services and for sale or use of Government goods or resources. Except for prices set by law, OMB Circular A-25 generally provides that user charges for transactions should be set at full cost or market price.

SFFAS 4, *Managerial Cost Accounting Standards and Concepts* references A-25 in the discussion “Determining Reimbursements And Setting Fees And Prices” and in several other areas by footnoting OMB Circular A-25 addresses user charges by federal entities. For example, SFFAS 4 provides:

> 37. Cost information is an important basis in setting fees and reimbursements. Pricing and costing, however, are two different concepts. Setting prices is a policy matter, sometimes governed by statutory provisions and regulations, and other times by managerial or public policies. Thus, the price of a good or service does not necessarily equal the cost of the good or the service determined under a particular set of principles. Nevertheless, cost is an important consideration in setting government prices. With certain exceptions, OMB requires:[9]
>
> - With respect to goods and services that the government provides in its sovereign capacity to a particular group of individuals as a special benefit, user charges should be sufficient to recover the full cost of those goods and services; and
>
> - With respect to goods and services that the government provides under business-like conditions, user charges for those goods and services need not be limited to the recovery of full cost and may yield a net revenue.
>
> FN9: OMB Circular A-25, User Charges (Revised July 8, 1993).

SFFAS 7 also discusses A-25. For example, paragraph 46 provides:

> 46. Each reporting entity that provides goods or services to the public or another Government entity should disclose the following:
>
> (a) differences in pricing policy from the full cost or market pricing guidance for exchange transactions with the public as set forth in OMB Circular No. A-25, User Charges (July 8, 1993), or in subsequent amendments in circulars that set forth pricing guidance

SFFAS 4 is clear that it provides accounting standards for determining full cost and should not be construed as a standard for setting fees, prices, and reimbursements. Federal entities must comply with laws and regulations related to pricing policies in general and for specific types of goods and services. Those laws and regulations (including OMB Circular A 25) may prescribe costing requirements other than the full cost standard discussed in SFFAS 4.

Staff notes that A-25 defines “full cost” as “all direct and indirect costs to any part of the Federal Government of providing a good, resource, or service.” This definition is generally consistent with the definition of “full cost” in the managerial cost accounting standards. Full cost defined by SFFAS 4 serves as a point of reference for managerial cost accounting decisions, but it is not intended to supersede any laws and regulations. Paragraphs 164-167 of the Basis for Conclusions to SFFAS 7 provides a detailed discussion of the minor differences between A-25 full cost and SFFAS 4 and concludes that "the cost accounting and other accounting standards should enable the Circular A-25 definition of full cost to be measured more accurately than has been possible heretofore."

Staff notes that the working group did not believe the user charges area to be critical because it is generally referenced in relation to full cost and not directed to be used in determining full cost. However, it is a significant directive that fulfills statutory requirements that are relevant and integral in preparing financial statements. For example, reporting entities are required to provide differences in pricing policy from the full cost for exchange transactions with the public as set forth in OMB A-25. Thus, it is an important directive that should be included in OAL.

Other

Staff notes that the last section of **Attachment 3- Inventory of Directives** addresses activities in which federal reporting entities are reporting under FASB. While this doesn't relate to administrative directives but instead includes activities in which federal reporting entities are reporting under FASB, staff believed it important to include them in the broad consideration of OAL guidance because FASB guidance is as an example of OAL in SFFAS 34.

The areas where agencies are following FASB pronouncements results from:

1. Some federal entities continue to publish financial reports pursuant to accounting standards issued by FASB.

Staff notes that a separate issue is that some federal entities follow GAAP for nongovernmental entities promulgated by the FASB and their information is consolidated with information based on FASAB standards. For example, federal government corporations and some other organizations in the executive and legislative branches have historically applied FASB GAAP and continue to do so. SFFAS 34 currently recognizes that general purpose financial reports prepared in conformity FASB may be regarded as in conformity with GAAP for those entities that have in the past issued such reports.

The significant entities following FASB are Federal Deposit Insurance Corporation (FDIC), Farm Credit Insurance Corporation (FCSIC), National Credit Union Association (NCUA), National Railroad Retirement Investment Trust (NRRIT), Pension Benefit & Guaranty Corporation (PBGC), Tennessee Valley Authority (TVA), and the United States Postal Service (USPS.) The Smithsonian Institution also reports FASB but was reclassified from a significant consolidation entity to an additional consolidation entity in FY 2025. Please note that Bonneville Power Administration and other entities under the Department of Energy also report under FASB, but are consolidated up under DOE.

Staff notes that most of the areas included in the listing of activities in which federal reporting entities are reporting under FASB relate to these federal entities noted above that publish financial reports pursuant to accounting standards issued by FASB.

Staff will provide an analysis of the "Application of Standards Issued by the Financial Accounting Standards Board" section of SFFAS 34 (paragraphs 9-12) at the next meeting so the Board may determine if any updates should be made as part of the reexamination.

2. Areas where FASAB is silent and reporting entities apply the GAAP hierarchy to conclude the FASB guidance should be used.

We do not have a number of how many specific FASAB entities are reporting activities per FASB because of a void in FASAB standards, but we know the biggest area relates to Investments in non-federal securities. As you may recall as part of the ITC follow-up, the Board considered the preliminary research on the topic Investments in other than Treasury securities at the June 2024 Board meeting. In summary, Federal entities currently apply the hierarchy in SFFAS 34 to recognize and report such investments and, in practice, reporting entities elect to follow FASB standards. Staff notes that OMB A-136 includes guidance on non-federal securities by referring to relevant standards issued by the FASB. Staff also notes that the Board considered a project plan for Investments and Other Equity Interests in Non-Federal Entities in 2011. However, the project was deferred due to resource (staffing) constraints. Although the Board has considered a project in this area (and also did so in ranking the reexamination issues), other competing demands took priority.

Other activities described in the last section of **Attachment 3** include areas where Energy, NASA, Commerce, and HUD are using FASB standards for specific activities other than investments.

Staff Recommendation

Staff believes the research of administrative directives provides insights regarding the most important administrative directives that should be considered in OAL. The research will be helpful as staff develops the proposed revised OAL. Consistent with staff's previous recommendation, staff believes the Board has an opportunity to expand the discussion of OAL to address the unique federal government environment in a manner that will resonate with stakeholders, by including reference to the central agencies role in providing statutory guidance to agencies through administrative directives that are integral in the preparation of financial statements. In addition, the revised GAAP hierarchy and OAL should be elaborated to clarify how the GAAP hierarchy is applied and the relationship of OAL.

Therefore, there are no new staff recommendations, beyond answering any questions the Board may have regarding the administrative directive research.

Question for the Board:

3. Does the Board have any questions regarding staff's administrative directive research?

2. Consideration of Other Standard Setters

Researching other standard setters' approach to OAL provided important insights to improve FASAB's OAL discussion.

Currently, SFFAS 34 par. 8 provides the following about OAL:

> 8. Other Accounting Literature includes, for example, FASAB Concepts Statements; the pronouncements referred to in category (b) of paragraph 5 when not specifically made applicable to federal reporting entities by the FASAB; pronouncements of other accounting and financial reporting standard-setting bodies, such as the FASB, Governmental Accounting Standards Board, International Accounting Standards Board, and International Public Sector Accounting Standards Board; professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, FASAB Concepts Statements would normally be more influential than other sources in this category.

Other standard setters vary in their presentation of nonauthoritative literature. See **Attachment 4 Comparison of OAL—Other Standard Setters**. The discussion below provides a summary of the approach used by other standard-setting organizations. Considering the different approaches by other standard setters and the unique issues relevant to federal government environment, staff determined high-level observations for the Board's consideration and discussion.

Based on these observations, staff recommends that the OAL discussion be improved by including language that conveys OAL does not conflict with or contradict authoritative GAAP. In addition, staff recommends the principle for evaluating the appropriateness of OAL be improved by adding the extent of its use in practice and consideration of the Concepts Statements.

Research

GASB

As noted, GASB revisited their four-level GAAP hierarchies and reduced the number of levels. They 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 Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* provides:

> 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.
>
> 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.
>
> 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.

GASB provides a list of the sources of nonauthoritative accounting literature and does not appear to place any particular nonauthoritative source in higher regard, including the GASB Concepts Statements, which previously had been identified as normally more influential than other nonauthoritative sources. However, GASB does explain that consideration should be given to the consistency of the literature with the GASB Concepts Statements along with 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 when assessing the appropriateness of a source of nonauthoritative. GASB provides the following additional explanation:

> B26. The Board discussed the role of GASB Concepts Statements in the GAAP hierarchy, noting that some standards setters consider their conceptual frameworks to be authoritative, whereas others do not. The Board believes that GASB Concepts Statements, which are intended to establish objectives and concepts that the GASB will use in developing governmental accounting and financial reporting guidance, do not provide authoritative guidance. Therefore,

> the Board concluded that GASB Concepts Statements should continue to be nonauthoritative literature. The Board also believes that GASB Concepts Statements should have a significant role in resolving issues that are not addressed in authoritative pronouncements. Further, GASB Concepts Statements are subject to the same due process procedures as GASB Statements, which are a source of Category A guidance. Therefore, the Board also concluded that GASB Concepts Statements should be considered when evaluating guidance provided in other nonauthoritative literature.
>
> B27. The Board reexamined the language in paragraph 5 of Statement 55, which provides the initial steps a governmental entity should take when guidance for a transaction or other event is not specified in authoritative GAAP. The Board believes that paragraph 5 of Statement 55 expresses a preference for considering authoritative GAAP for similar transactions or events over considering nonauthoritative accounting literature. However, after evaluating the approach of other standards setters, the Board concluded that emphasizing this preference would encourage more consistency in the consideration of analogies to authoritative literature when selecting an accounting treatment in the absence of authoritative GAAP for a transaction or other event. In that circumstance, this Statement allows for the application of professional judgment, which appropriately would include consideration of whether the characteristics of an event for which the accounting treatment is not specified in authoritative GAAP are sufficiently similar to an event for which there is authoritative GAAP to appropriately apply that authoritative literature by analogy.
>
> B28. In addition to discussions on the role of practices widely recognized and prevalent in state and local governments (described in paragraph B22), the Board discussed the other sources of nonauthoritative accounting literature named in Statement 55 and concluded that those sources generally are appropriate. Because titles of specific sources of nonauthoritative literature change over time, the Board concluded that reference should not be made to specific types of pronouncements or other nonauthoritative literature.

Beyond these changes, the most notable change regarding OAL by GASB was moving practices that are widely recognized and prevalent to nonauthoritative. They provided the following explanation:

> B22. Paragraph 3d of Statement 55 includes in the GAAP hierarchy practices that are widely recognized and prevalent in state and local government. The Board discussed the difficulties inherent in identifying what would be considered widely recognized and prevalent in state and local government. Specifically, the Board noted that it would be difficult for a governmental entity to research whether an accounting treatment was prevalent across governments of all relevant types and all relevant geographies. Further, prevalent practices are neither approved nor cleared by the Board and, if maintained as a source of authoritative GAAP, would necessitate creating a third category in the GAAP hierarchy. After considering those factors, the Board concluded that practices

> that are widely recognized and prevalent in state and local government should not be included as a source of authoritative GAAP. Instead, the Board concluded that prevalent practices should be included as an example of nonauthoritative guidance a government may consider in the absence of authoritative GAAP for a specific transaction or other event.

Similar to some of the concerns discussed at the December 2025 meeting regarding the Board's tentative decision to move practices that are widely recognized and prevalent to OAL, GASB discussed the notion of gaps in authoritative literature and provided additional explanation:

> B23. Some respondents to the Exposure Draft expressed a concern that classifying as nonauthoritative practices that are widely recognized and prevalent in state and local government would result in gaps in the authoritative literature and, potentially, in disagreements over the appropriateness of the use of such practices as the basis for the accounting for transactions or other events that are not addressed in authoritative literature. The Board believes that, for those events that are not addressed in authoritative literature, such practices—even when classified as nonauthoritative—can continue to inform the selection of accounting treatments. Furthermore, regardless of the classification of such practices, the appropriateness of the selection of such practices as the basis for an accounting treatment would be a consideration in situations in which Category A or Category B literature is not relevant.

Financial Accounting Standards Board

The Financial Accounting Standards Board (FASB) similarly uses "authoritative" and "nonauthoritative" literature and describes their approach to nonauthoritative literature in the FASB Accounting Standards Codification (ASC) in 105-10-05-2 and 105-10-05-3, which states:

> **05-2** 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.
>
> **05-3** Accounting and financial reporting practices not included in the Codification are nonauthoritative. Sources of nonauthoritative accounting guidance and literature include, for example, the following:
>
> a. Practices that are widely recognized and prevalent either generally or in the industry
> b. FASB Concepts Statements

c. American Institute of Certified Public Accountants (AICPA) Issues Papers
d. International Financial Reporting Standards of the International Accounting Standards Board
e. Pronouncements of professional associations or regulatory agencies
f. Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids
g. 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.

Similar to GASB, FASB provides guidance on selecting the most appropriate source of accounting guidance at the end. While similar to GASB's approach, FASB also includes the characteristic "the extent of its use in practice" but does not include consistency with Concepts.

The FASB provides examples of nonauthoritative literature and does not appear to place any particular nonauthoritative source in higher regard, including the FASB Concepts Statements, which previously had been identified as normally more influential than other nonauthoritative sources. Paragraph A19 of FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* provides insight into the reasoning for the change in influence of FASB Concepts Statements.

> A19. One respondent also questioned whether the Board intended the FASB Concepts Statements to be more influential than other nonauthoritative guidance because the Exposure Draft included a statement that the Concepts Statements would normally be more influential than other sources in nonauthoritative guidance. While the Board may elevate the Concepts Statements into the Codification as part of its conceptual framework project, the Board decided that the Concepts Statements should have the same level of influence as other nonauthoritative GAAP until such a decision is made. Accordingly, that reference was removed from this Statement to avoid any confusion.

The removal of "practices that are widely recognized and prevalent" from an authoritative standing to nonauthoritative was the main reason that this respondent raised a concern about the preference given to FASB Concepts Statements in the Exposure Draft that preceded FASB Statement 168. The respondent expressed concern that defining the FASB Concepts Statements as "normally more influential that other sources in nonauthoritative literature" could be misinterpreted to mean that FASB Concepts Statements should be considered first, in effect creating a two-tiered hierarchy within nonauthoritative literature. FASB acknowledged during deliberations that it was not their intent for there to be a hierarchy within nonauthoritative literature and removed this sentence.

International Accounting Standards Board

The IASB uses a slightly different approach but also does not include widely recognized and prevalent practices in the hierarchy. In the absence of an IFRS Standard that specifically applies to a transaction, other event or condition, management uses its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraphs 10-12 provide:

> 10. In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:
> (a) relevant to the economic decision-making needs of users; and
> (b) reliable, in that the financial statements:
> (i) represent faithfully the financial position, financial performance and cash flows of the entity;
> (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
> (iii) are neutral, i.e. free from bias;
> (iv) are prudent; and
> (v) are complete in all material respects.
>
> 11. In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:
> (a) the requirements in IFRSs dealing with similar and related issues; and
> (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework for Financial Reporting (Conceptual Framework).
> 12. In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.

The IASB prescribes that requirements in IFRSs dealing with similar and related issues should be considered first and then the Conceptual Framework should be considered prior to considering the most recent pronouncements of other standards-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature, and accepted industry practices.[20] Paragraph 12 of IAS 8 only allows the pronouncements of other standards-setting bodies, other accounting literature, and accepted industry practices to the extent that they do not conflict with IFRSs dealing with similar issues and the Conceptual Framework for Financial Reporting. This gives the *Conceptual Framework for Financial Reporting* a higher standing when compared to FASB and GASB. Further, the IASB does not require

[20] Staff notes that IASB includes 'other accounting literature' as a separate type of guidance for consideration along with pronouncements of other standard-setting bodies and accepted industry practices.

consideration of guidance from other standards-setters. In paragraph BC16 of the Basis for Conclusions for IAS 8, the IASB discusses the decisions around the voluntary consideration of other standards-setting bodies that use a similar conceptual framework to develop accounting standards.

> BC16. The Exposure Draft proposed that in the absence of a Standard or an Interpretation specifically applying to an item, management should develop and apply an accounting policy by considering, among other guidance, pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. Respondents to the Exposure Draft commented that this could *require* entities to consider the pronouncements of various other standard-setting bodies when IASB guidance does not exist. Some commentators argued that, for example, it could require consideration of all components of US GAAP on some topics. After considering these comments, the Board decided that the Standard should indicate that considering such pronouncements is voluntary (see paragraph 12 of the Standard).

International Public Sector Accounting Standards Board

IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, describes IPSASB's approach to circumstances in which there is not an IPSAS that specifically applies to a transaction, other event, or condition. IPSAS 3 is drawn primarily from IAS 8, which was described above. Following the publication of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* in 2015, IPSASB initiated a limited scope project and proposed amendments in ED 58, *Improvements to IPSAS 2015.* As revised, paragraphs 12 through 15 of IPSAS No. 3 provide:

> 12. In the absence of an IPSAS that specifically applies to a transaction, other event, or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is relevant to the accountability and decision-making needs of users, faithfully represents the financial position, financial performance, and cash flows of the entity, meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability and takes account of the constraints on information included in general purpose financial reports and the balance between the qualitative characteristics.
>
> 13. Deleted
>
> 14. In making the judgment, described in paragraph 12, management shall refer to, and consider the applicability of, the following sources in the following order:
> (a) The requirements in IPSASs dealing with similar and related issues; and
> (b) The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in the Conceptual Framework for General Purpose Financial Reporting by the Public Sector Entities.
> 15. In making the judgment described in paragraph 12, management may also consider (a) the most recent pronouncements of other standard-setting bodies,

and (b) accepted public or private sector practices, but only to the extent that these do not conflict with the sources in paragraph 14. Examples of such pronouncements include pronouncements of the IASB, including IFRS, and Interpretations issued by the IASB's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Similar to IASB, IPSASB first requires consideration of IPSASs dealing with similar and related issues and the Conceptual Framework. Consideration of other standard-setting bodies and public or private sector practices is optional and is not allowed to conflict with the mandatory consideration of IPSASs dealing with similar and related issues and the Conceptual Framework.

The Basis for Conclusions provides an explanation of the changes to paragraph 12, the first level requirement for the development of an accounting policy when there is not an IPSAS that specifically applies to a transaction, other event or condition. The previous version specified that management should use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable--similar to IAS 8. The IPSASB decided to replace the reference to reliability with faithful representation in order to ensure consistency with the Conceptual Framework. The IPSASB also decided to acknowledge the other qualitative characteristics and the constraints on information included in general purpose financial reports in paragraph 12.

The Basis for Conclusion also explains that substance over form remains a key quality that information included in GPFRs must possess. It is not identified separately because IPSASB explained that it is already embedded in the notion of faithful representation. The IPSASB took the view that the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Consequently, the IPSASB concluded that there is no need to explicitly refer to economic substance, neutrality, prudence, and completeness in paragraph 12.

Staff Analysis

When considering the above discussion of the other standard setters' approach to OAL, there are some key differences. Also see **Attachment 4 Comparison of OAL—Other Standard Setters**. Staff notes that FASB and GASB's approaches are similar just as IASB and IPSASB's approaches are also similar.

After discussing the sources of nonauthoritative accounting literature, GASB and FASB establish a principle to be used in selecting the nonauthoritative source by explaining what factors should be considered in determining the appropriateness of other sources of accounting guidance.[21] The considerations in determining the appropriateness of other sources are similar, with both including the relevance of the literature to particular circumstances, the specificity of the literature, and the general recognition of the issuer

[21] This is also similar to SFFAS 34's approach.

or author as an authority. GASB also includes the consideration of consistency of the literature with the GASB Concepts Statements, but FASB does not. FASB also includes consideration of the extent of its use in practice, but GASB does not.

In contrast, IASB and IPSASB explain up front that management should use its judgement in developing and applying an accounting policy that results in information that meets characteristics tied to underlying concepts.[22] Similar to GASB and FASB's application of the hierarchy, IASB and IPSASB first consider the applicability of their pronouncements dealing with similar and related issues. However, IASB and IPSASB provide that the next consideration should be given to the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in the Conceptual Framework. As such, IASB and IPSASB require consideration of the Concepts Statements before all other OAL sources.[23] When referring to the other sources, they both provide that management may consider other sources that do not conflict with their respective standards and Conceptual framework.

Considering the different approaches by other standard setters and the unique issues relevant to federal government environment, staff determined the following high-level observations for the Board's consideration:

- **Term for the accounting sources that may referred to in the absence of a GAAP**

SFFAS 34 uses the term "Other Accounting Literature" to refer to the guidance that may be considered when the accounting treatment is not specified by guidance in the federal GAAP hierarchy and there is no analogous treatment based on similar transactions within the GAAP hierarchy.

When considering other standard setters, it's important to consider that when FASB and GASB reassessed their respective GAAP hierarchies, they stopped using the reference to "other accounting literature" and instead address 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. As such, guidance previously referred to as OAL by FASB and GASB is now referred to as nonauthoritative.

While staff appreciates the distinction, staff does not believe the term nonauthoritative would be suited for OAL guidance in the federal government environment. It would not be appropriate because FASAB does not have a codification or publication of the authoritative portions of the standards. While the FASAB Handbook of Accounting Standards and Other Pronouncements, as Amended (Current Handbook) is the most

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[22] These include relevant to the decision-making needs of users and faithfully represents the financial position, financial performance, and cash flows of the entity. IPSASB also includes that the information meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability and takes account of the constraints on information included in general purpose financial reports and the balance between the qualitative characteristics, but IASB does not. IASB also describes reliability with characteristics, but IPSASB does not.

[23] As noted previously in this paper, the higher priority to the conceptual framework in the IASB/IPSASB approach is different when compared to the FASB/GASB approach.

up-to-date source of GAAP for federal entities, it is not a codification. The Handbook also contains Concepts Statements and the non-authoritative portions of pronouncements.

Another important consideration is that statutory requirements are often fulfilled using administrative directives guidance that is issued by central agencies. It would not be appropriate to label such directives as nonauthoritative because they are required to be followed. Although such guidance is not authoritative with respect to the federal GAAP hierarchy, the impression and context may be misleading.

There are also differences when comparing how IASB and IPSASB refer to this type of guidance that may be used in the absence of a standard. Staff believes the difference is attributable to their different approach as explained earlier in the paper. IASB uses "other accounting literature," but slightly different that FASAB's use of the term. IASB provides that "management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices…" So other accounting literature is a type of guidance, not the broad term for all other accounting sources that may be used when there is an absence of GAAP.

IPSASB does not use the term "other accounting literature" at all in its guidance. Instead, IPSASB provides "management may also consider (a) the most recent pronouncements of other standard-setting bodies, and (b) accepted public or private sector practices.." IPSASB does go on to offer examples that include "pronouncements of the IASB, including IFRS, and Interpretations issued by the IASB's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC)."

Staff believes with the different types of guidance that will be included, it is practical to have a term for referring to these and provides the ability to speak to them generally and in reference to guidance that is part of the FASAB GAAP hierarchy.

Staff believes continuing use of term OAL for the accounting sources that may be referred to in the absence of GAAP guidance is best suited for the federal government environment.

- **Does Not Conflict With or Contradict Authoritative GAAP**

Staff notes that GASB,[24] IPSASB, and IASB include a qualification in that the accounting treatment selected from OAL cannot conflict with their authoritative literature. FASB does not include a similar statement. SFFAS 34 does not contain this statement.

While it may seem intuitive that an accounting policy should not be selected from OAL literature that contradicts authoritative guidance, staff believes including such a phrase makes it clear that an accounting policy selected from OAL cannot conflict with or

[24] GASB added this statement based on their reexamination of their GAAP hierarchy and issuance of GASB 76.

contradict authoritative GAAP. Staff previously explained the importance of this in the December 2025 briefing materials when analyzing practices that are widely recognized and prevalent in the federal government. Staff notes that there have been certain instances in the past where there appeared to be an inconsistency between the interpretation of FASAB pronouncements and guidance provided through certain administrative directives.[25]

Staff believes inclusion of this statement would in essence provide a safety net that users have thoroughly considered all pronouncements within the federal GAAP hierarchy and help ensure administrative directives do not conflict with GAAP.

Staff believes that including language that conveys OAL does not conflict with or contradict authoritative GAAP should be added in the revised discussion of OAL because it adds clarity and understanding to the use of OAL.

- **Concepts**

Staff notes that there are variations in how other standard setters refer to Concepts or the Conceptual Framework in their respective hierarchy discussions. FASB removed the example of FASB Concepts Statements normally being influential in FASB Statement 168 to avoid any implication of a hierarchy within nonauthoritative literature and because they believed that the example was not needed to clarify what is meant by the phrase, “the appropriateness of other source of accounting guidance depends on the sources’ relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority.”

The IASB and IPSASB provide the conceptual framework greater importance by requiring that it first be considered in circumstances when there are no standards that specifically apply to a transaction. For example, IPSAS 3 provides “In making the judgment described in paragraph 12, management shall refer to, and consider the applicability of, the following sources in the following order:

- (a) The requirements in IPSASs dealing with similar and related issues; and
- (b) The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in the Conceptual Framework for General Purpose Financial Reporting by the Public Sector Entities.”

As such, IASB and IPSASB require consideration of the Concepts Statements before all other sources. Staff notes that the consideration of the Concepts Statements before all other OAL, in essence creates a hierarchy within the OAL. As such, it requires a high level of professional judgment to apply Concepts Statements, including cost/benefit considerations. For these reasons, staff does not believe it appropriate for FASAB to require consideration of the Concepts Statements before all other OAL sources.

[25] For example, TB 2020-1, *Loss Allowance for Intragovernmental Receivables* was issued because additional clarifications were needed to SFFAS 1, but also because some believed Treasury guidance was inconsistent with GAAP.

The GASB approach requires the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature.[26] The basis for conclusion to GASB 76 explained the Board believed that GASB Concepts Statements should have a significant role in resolving issues that are not addressed in authoritative pronouncements. Further, it explained that GASB Concepts Statements are subject to the same due process procedures as GASB Statements, which are a source of Category A guidance. Therefore, the Board concluded that consistency with the GASB Concepts Statements should be considered when evaluating guidance provided in nonauthoritative literature. While staff understands the importance of Concepts, however, it may cause some confusion to users, especially if there are inconstancies among current concepts and standards. For example, the issuance of a new Concepts Statement does not require immediate reexamination of all FASAB pronouncements existing at that time and therefore, Statements issued prior to the issuance of certain Concepts could be inconsistent with the Concepts Statements. Similarly, when new Concepts are issued, there is no review of existing Statements to ensure consistency.

Instead, staff believes that Concepts are a key consideration or factor in selecting the most appropriate source of OAL guidance, similar to consideration of the relevance to particular circumstances and the specificity of the guidance.

FASAB's current approach in SFFAS 34 provides the Concepts Statements as *an example* of OAL but it also explains that Concepts would normally be more influential than other sources in OAL. As such, SFFAS 34 does not require consideration of the concepts prior to evaluating OAL sources, but it notes they would normally be more influential.

Staff believes SFFAS 34 use of the Concepts as an example of guidance that would normally be more influential than OAL adds confusion for two reasons: (1) Concepts Statements, while issued by the FASAB, are not normally considered specific or relevant to a particular circumstance, and (2) using Concepts Statements as an example of a more influential OAL source does not communicate the level of influence of the Concepts in the absence of a FASAB pronouncement. For example, there are certain areas in which FASAB GAAP is silent and federal reporting entities apply FASB pronouncements. In these instances, how do the entities evaluate whether or not the FASB literature is the most appropriate source of OAL given that the Concepts Statements are currently identified as "normally" more influential.

Staff believes including Concepts Statements[27] as more influential may add confusion about the level of influence of the Concepts Statements. If consideration of the

[26] Prior to GASB's reexamination of their GAAP hierarchy and issuance of GASB 76, GASB 55 was like FASAB's current treatment with the Concepts Statements as an example of guidance that would normally be more influential than other OAL sources.

[27] FASAB's Rules of Procedures provides that Concepts set forth fundamental ideas on which federal accounting standards will be based. More specifically, Concepts explain the objectives and ideas that the FASAB will use in developing standards of federal accounting and that Concepts also enhance the ability of users to understand the content and limitations of information provided by federal accounting and financial reporting and thus increase their

Concepts Statements is not required, the issue becomes what level of influence the Concepts Statements should have on the selection of the appropriate accounting guidance when FASAB guidance does not exist or cannot be applied by analogy to a similar circumstance. Under current guidance, it is conceivable that OAL that is relevant, specific, and issued by a reputable authority, such as another standards-setter, could be used as the basis for selecting an accounting policy even though it conflicts with the Concepts Statements. This seems contradictory without giving any consideration to Concepts such as the objectives, characteristics of information, and the definitions of elements of financial statements. *(Keep in mind that IPSASB and IASB include the review of the Conceptual Framework prior to considering other sources and the GASB approach requires the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in OAL.)*

Staff believes the selection of an accounting policy should be informed by the consideration of Concepts Statements. Staff believes this is consistent with the purpose of the Concepts Statements. Staff believes that the appropriateness OAL should be evaluated not only on relevance, specificity, and the authority of the author, but also should include the consideration of the Concepts Statements. Staff notes that this would be similar to GASB's approach by including Concepts Statements as one of the considerations, but not specifically requiring "consistency of the literature" with Concepts Statements in evaluating the appropriateness of the OAL.

In summary, staff believes that consideration of the Concepts Statements should be included (in addition to relevance, specificity, and the authority of the author) when evaluating the appropriateness of OAL.

- **Qualitative Characteristics**

IPSASB requires that qualitative characteristics are considered when exercising judgment to develop an accounting policy for which no authoritative literature exists. The IASB requires that the accounting policy that results in information that is relevant to the economic decision-making needs of users; and reliable, in that the financial statements: (i) represent faithfully the financial position, financial performance and cash flows of the entity; (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form; (iii) are neutral, i.e. free from bias; (iv) are prudent; and (v) are complete in all material respects. The emphasis on qualitative characteristics reminds preparers to consider the characteristics of information in financial reporting when using professional judgment to determine the appropriate accounting and/or financial reporting treatment not specifically addressed in authoritative literature.

FASB nor GASB include any sort of reference to qualitative characteristics. However, considering GASB includes consistency with the Concepts Statements when evaluating the appropriateness of the OAL, it is indirectly considered.

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ability to use that information effectively. As such, Concepts provide general guidance to the Board itself as it deliberates on specific issues, and they help others to understand federal accounting and financial reports.

Staff notes that SFFAS 34 does not reference the qualitative characteristics. Staff believes that consideration of the qualitative characteristics would be appropriately addressed through the inclusion of Concepts Statements as a consideration when selecting OAL (as discussed in the previous bullet.) Further, if the Board agrees with the staff's previous discussion to include consideration of the Concepts Statements in the evaluation of the appropriateness of OAL, this in essence brings further attention to the qualitative characteristics.

Given staff's previous suggestion to include consideration of the Concepts Statements when evaluating the appropriateness of OAL, staff does not believe any additional reference or incorporation of the qualitative characteristics is needed to the OAL discussion.

- **Prioritization versus Principle**

As discussed, IASB and IPSASB present the conceptual framework as a separate level of literature above OAL because it is considered prior to OAL. In contrast, FASB nor GASB have specifically prioritized any nonauthoritative literature to be more influential than others. A requirement to consider any OAL before others, in essence, creates levels and thus some may question if it is appropriate to require consideration of any OAL first; however, the discussion below explores whether or not specific OAL sources should be identified as more influential.

Staff notes that the various sources of OAL differ in due process (if any), structure, intent/purpose, perspective, use, and scope. To specifically identify one or several as more influential would be difficult; however, the existing SFFAS 34 guidance provides that Concepts Statements are more influential. As noted in the Concepts discussion above, staff suggests that Concepts Statements should be part of the evaluation of the appropriateness of the guidance instead of stating that it is more influential.

Sources other than the Concepts Statements, such as administrative directives (that are a type of prevalent practice) also have a very strong influence on federal government financial management. While administrative directives may not directly relate to GAAP, administrative directives help fulfill statutory requirements and provide guidance that are integral in the preparation of GAAP reports. As noted previously, staff believes including additional information about this would be helpful and responsive to stakeholders.

While staff had previously considered the possibility of a prioritization or tiered presentation of OAL, after further consideration, staff believes it would be very difficult because the determination is based on a specific situation. It would be difficult to determine which sources would be more influential without taking into consideration the specific variables such as the reporting entity, specific issue in question and the alternatives. Further, staff believes presenting any sort of hierarchy within OAL may potentially cause confusion when considered in relation to the GAAP hierarchy. For these reasons, staff believes it important to focus on improving the principle for selecting OAL (rather than prescribing a specific order or level of influence) along with providing additional explanations as appropriate.

Staff believes that the principle for evaluating the appropriateness of the OAL based on its relevance, specificity, authority of the author, and consideration of the Concepts Statements (as staff suggests earlier in this document) could also be expanded to include an additional factor that would assist stakeholders in determining how OAL should be assessed. For example, FASB also includes “the extent of its use in practice” as another factor in the assessment. Staff believes including “the extent of its use in practice” in the FASAB’s principle for evaluating the appropriateness of the OAL would be helpful. Adding this to the principle for evaluating the appropriateness of OAL would help ensure that administrative directives are provided strong consideration because agencies are required to follow them to help fulfill statutory requirements. This change along with the additional language would improve the clarity and application of the principle.

Staff believes that the principle of evaluating the appropriateness of OAL based on its relevance to particular circumstances, the specificity of the guidance, the general recognition of the issuer or author as an authority, the extent of use in practice and consideration of the Concepts Statements sufficiently describes how OAL should be assessed in determining the appropriate source of guidance.

Staff Recommendations

Staff believes the research and analysis of the other standard setter approaches provides insights regarding potential improvements the Board may consider in developing the revised OAL.

Staff recommends:

- *Continuing use of the term OAL because it is best suited for the federal government environment,*

- *Including language that conveys OAL does not conflict with or contradict authoritative GAAP be added because it adds clarity and understanding to the use of OAL, and*

- *Improving the principle for evaluating the appropriateness of OAL by adding the extent of its use in practice and consideration of the Concepts Statements.*

Question for the Board:

4. Does the Board agree with the staff recommendations to continue use of the term OAL, include language that conveys OAL does not conflict or contradict GAAP, and improve the principle for evaluating the appropriateness of OAL by adding the extent of its use in practice and consideration of Concepts Statements? If you do not agree, please explain and provide a preferred approach.

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Next Steps

The Board's feedback will assist staff with developing language for the revised GAAP Hierarchy and OAL. Unless major issues are identified that need to be researched further, staff plans to begin development of a draft exposure draft based on Board decisions and feedback received to date. Staff believes it is the appropriate time to develop the draft language because it would provide proper context for further Board discussion.

In conjunction with developing a draft exposure draft, staff notes that there are a couple of remaining items that staff will present:

- The Board tentatively agreed with the recommendation to discontinue the use of SIGs and use TBs for time sensitive topics going forward. Staff will consider the most efficient way to implement the discontinuation of SIGs and how the existing SIGs will be incorporated as part of the revised hierarchy that is developed.

- As noted earlier in this memo, some federal entities follow GAAP for nongovernmental entities promulgated by the FASB and their information is consolidated with information based on FASAB standards. SFFAS 34 currently recognizes that general purpose financial reports prepared in conformity FASB may be regarded as in conformity with GAAP for those entities that have in the past issued such reports. Staff will provide an analysis of the "Application of Standards Issued by the Financial Accounting Standards Board" section of SFFAS 34 (paragraphs 9-12) at the next meeting so the Board may determine if any updates should be made as part of the reexamination.

Project Timeline
GAAP Reexam
Attachment 2

Phase	Description	Activities and Key Decisions by Board Meeting
Initiate Project	Develop project plan and initial research necessary for development of the plan.	**April 2025 Board Meeting:** • Key decision – Board approves project plan and use of a working group
Research Phase	Perform research and work with the GAAP hierarchy working group.	**May 2025** • Staff coordinated and established a FASAB GAAP hierarchy working group. **June 2025:** • First working group meeting was held. The meeting primarily focused on background information and objectives of the project. **July 2025- August 2025:** • Exchanged information and drafts electronically with working group to develop characteristics for the highest-level GAAP. **September 2025:** • Working group meeting to discuss characteristics and consideration of the accounting sources against characteristics. **December 2025 Board Meeting:** • Key Decisions – Board agreed on the two basic criteria for inclusion in the federal GAAP hierarchy. Guidance that meets the basic criteria for inclusion in the hierarchy should then be assessed against the distinguishing characteristics of the highest-level GAAP and lower-level GAAP to determine placement. The distinguishing characteristics focus on the intended purpose of the guidance and whether a document is formally voted on and issued by the Board versus under the oversight of the Board. Based on analysis of these distinguishing characteristics, SFFASs and Interpretations would continue to be the highest level of GAAP. TBs, TRs, and SIGs would tentatively be a lower level in the hierarchy. The Board also tentatively agreed to the discontinuation of SIGs, pending determination of how the existing SIGs would be incorporated in the revised hierarchy.

Phase	Description	Activities and Key Decisions by Board Meeting
		May 2026: • Working group meeting to discuss OAL **June 2026-July 2026** • Held meetings and collaborated with members of the working group, performed additional outreach to stakeholders to address concerns raised in OAL area. Exchanged information and drafts electronically with working group to develop materials for August 2026 meeting. **August 2026 Board Meeting** • Staff will present the OAL topic for the Board's consideration.

Attachment 3- Inventory of Directives

Issued by Office of Management and Budget (OMB)

Although OMB is not a GAAP standard setter, they play a critical role in fulfilling the CFO Act, including the authority to prescribe form and content of federal entity financial statements. As previously discussed, FASAB's MOU states that the Board will not set or propose budget concepts, standards and principles. Based on this, the Board defers to OMB for budgetary matters and has explicitly stated this in various SFFASs. Before looking at the inventory of OMB directives that may be pertinent, staff believed it important to provide some background on OMB guidance.

OMB Circular A-1, *Bureau of the Budget's System of Circulars and Bulletins to Executive Departments and Establishments*, describes the system of Circulars and Bulletins which communicate instructions and information to the executive departments and establishments. OMB Circulars are official instructions and guidance issued to executive departments and establishments.[1],[2] The Circular series is used when the nature of the subject matter is of continuing effect. Circulars are identified by the letter "A" and a number. When a Circular needs to be revised, the pertinent Circular will be re-issued with the same number and a new date.

The Bulletin series is used when the subject matter requires single or one-time action by the departments or establishments or is of a transitory nature. Bulletins are issued in an annual series, numbered in chronological order. The last two numerals of the fiscal year of issuance are used to indicate the annual series; for example, Bulletin No. 94-01 was the first Bulletin issued in fiscal year 1994.

OMB Circulars provide guidance, instructions, and policy frameworks for federal agencies. As noted, they are used when the nature of the subject matter is of continuing effect so they would be of primary importance when identifying critical directives. It's important to recognize that requirements specified in laws and OMB circulars are subject to change and the contents of specific reports, websites, and other means of providing access are subject to change as well.[3]

It is also important to note that the current administration's White House Guidance Circular webpage only includes a listing of 6 circulars. However, circulars remain in effect until rescinded, so staff also researched archived webpages of previous administrations as necessary.

1. **OMB Circular A-11, *Preparation, Submission and Execution of the Budget***, provides guidance on preparing the Budget and instructions on budget execution. Specifically, it contains 7 parts as follows:

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[1] The terms "departments and establishments" as used in the Circular and Bulletin series include any executive department, independent commission, board, bureau, office, agency, Government-owned or controlled corporation, or other establishment of the Government, including regulatory commission or board, and also the municipal government of the District of Columbia

[2] OMB Circulars are not applicable to legislative and judicial branch entities. However, the general principles may be appropriate for federal reporting entities in the legislative and judicial branches.

[3] Further, at one time the form and content for agency financial statements was included in a bulletin. For example, OMB Bulletin 01-09, *Form and Content of Agency Financial Statements* (and earlier versions 97-01, 94-01, 92-03) which are referenced in FASAB pronouncements.

Part 1: Provides an overview of the budget process.
Part 2: Covers development of the President's Budget and tells you how to prepare and submit materials required for OMB and Presidential review of agency requests and for formulation of the Budget, including development and submission of performance budgets for FY 2027.
Part 3: Discusses supplementals and amendments, deferrals and Presidential proposals to rescind or cancel funds, and investments.
Part 4: Provides instructions on budget execution, including guidance on the apportionment and reapportionment process, a report on budget execution and budgetary resources (SF 133), and a checklist for fund control regulations.
Part 5: Covers Federal credit programs, including requirements related to the preparation of budget estimates and budget execution.
Part 6: Describes the Federal Performance Framework, detailing the Administration's principles and management approach for improving the organizational performance
Part 7: Contains supplementary materials. (Appendices A through K and the Capital Programming Guide)

FASAB's MOU states that the Board will not set or propose budget concepts, standards and principles. It further provides that in considering accounting concepts and standards, consideration will be given to the budgetary information needs of executive agencies and the needs of users of federal financial information. Based on this, the Board defers to OMB for budgetary matters and has explicitly stated this in various SFFASs.

While SFFAS 7 has the most pertinent reference that directs the use of A-11 that directs users to OMB A-11 for the recognition and measurement of budgetary resources, OMB A-11 is also referenced in Concepts (1 and 2); numerous SFFASs (SFFAS 2, 5, 7, 10, 18, 19, 52, 53, and 60); Interpretation 11; and several lower level pronouncements (Technical Bulletin 2003-1, Technical Release 3, 6, and 16); and certain definitions in the glossary.

2. **OMB Circular A-136, *Financial Reporting Requirements***, provides guidance for entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PARs) or Agency Financial Reports (AFRs) under the Chief Financial Officers Act of 1990 (CFO Act), as amended; the Government Management Reform Act of 1994 (GMRA); and the Accountability of Tax Dollars Act of 2002 (ATDA).[4] It also provides general guidance to Government corporations required to submit Annual Management Reports (AMRs) under Chapter 91 of title 31, United States Code (U.S.C.).

   Staff notes that A-136 (and its earlier versions) is referenced in many SFFASs, including SFFAS 31, 34, and 64, as well as Interpretation 10, Interpretation 11, and TR15.

3. **OMB Circular A-25, *User Charges*** provides the policy framework for when and how federal agencies may impose user fees on services. It establishes Federal policy regarding fees assessed for Government services and for sale or use of Government goods or resources. It provides information on the scope and types of activities subject to user charges and on the

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[4] The provisions of these laws that require executive agency annual financial statements are codified as amended at 31 U.S.C. § 3515, with some additional provisions related to financial statement audits at 31 U.S.C. § 3521(e)-(i).

basis upon which user charges are to be set. Finally, it provides guidance for agency implementation of charges and the disposition of collections. The objectives of A-25 are to:

> a. ensure that each service, sale, or use of Government goods or resources provided by an agency to specific recipients be self-sustaining;
> b. promote efficient allocation of the Nation's resources by establishing charges for special benefits provided to the recipient that are at least as great as costs to the Government of providing the special benefits; and
> c. allow the private sector to compete with the Government without disadvantage in supplying comparable services, resources, or goods where appropriate.

A-25 is referenced in several SFFASs, including SFFAS 4, 7, 32, and 55.

4. **OMB Circular A-34, *Instructions on Budget Execution*** was rescinded 6/27/2002 and superseded by OMB Circular A-11. It has been referenced as the source of certain definitions in the FASAB glossary.

5. **OMB Circular A-50, *Audit, Inspection, or Evaluation Follow Up***, provides guidance to Federal agencies when considering reports issued by the Government Accountability Office (GAO), Inspectors General (IG), other Executive Branch organizations, and non-Federal auditors. It explains the resolution and follow-up of audit, inspection, and evaluation recommendations is an integral part of effective management and is a shared responsibility of agency management officials and auditors. Corrective actions taken by management to resolve findings and recommendations are essential to managing risk and improving the effectiveness and efficiency of government operations. Each agency must establish processes to ensure the prompt and proper resolution of audit, inspection, or evaluation recommendations and implementation of corrective actions. Processes must provide for a complete record of actions taken on both monetary and non-monetary findings and recommendations.

6. **Circular No. A–76, *Performance of Commercial Activities***, establishes federal policy for the competition of commercial activities. It provides the federal government's policy to rely on the private sector for needed commercial services and to subject such activities to competition to ensure value for taxpayers. It provides guidance for when government employees should perform commercial services versus when those services should be contracted out to the private sector. A-76 is referred to in federal regulations, such as FAR 7.302, which incorporates its provisions on whether commercial activities should be performed by contractors or government personnel, and on conducting public-private competitions in accordance with its rules.

   Staff notes that A-76 has been referenced in at least one SFFAS (SFFAS 44.)

7. **OMB Circular A-109*, Major Systems Acquisitions***, provides a comprehensive policy and guidance for federal agencies on the acquisition of major systems and to manage information as a strategic resource. It emphasizes the importance of information technology (IT) in government operations and the need for agencies to adopt agile and secure IT practices. Since A-109 was issued, OMB has provided guidance on asset acquisition under Part 3 of Circular A-11, Planning, Budgeting, and Acquisition of Capital Assets, the Capital Programming Guide, Supplement to Part 3 of A-11, and Circular A-130, Management of Federal Information Resources.

Staff notes that A-109 is referenced in SFFAS 10.

8. **OMB Circular A-123, *Management's Responsibility for Internal Control*** provides guidance to Federal agencies regarding establishing internal control over operations, reporting, and compliance. Management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. The Circular implements the requirement that agency heads establish and maintain internal control and evaluate its effectiveness. The assurance statement and summary information related to Section of FMFIA must be provided within the annual AFR, PAR, or other management report. Agencies must clearly address the effectiveness of internal control and, separately, whether the agency's financial management systems conform to the principles, standards, and requirements established under FMFIA. During federal financial statement audits, the auditor is required to assess the agency's compliance with the FMFIA.

   Staff notes that A-123 has been referenced in TR 3 and TR12.

9. **OMB Circular, *A-129 Policies For Federal Credit Programs and Non-Tax Receivables*** provides guidance to agencies on definitions, procedures and rules for calculating subsidy estimates and reestimates for the President's Budget and modification cost estimates, obligation of budget authority for the credit program's cost, and credit and receivables policy. A-129 prescribes policies and procedures for justifying, designing, and managing Federal credit programs and for collecting non-tax receivables. It sets principles for designing credit programs, including: the preparation and review of legislation and regulations; budgeting for the subsidy costs and administrative expenses of credit programs, and minimizing unintended costs to the Government; and improving the efficiency and effectiveness of Federal credit programs. It also sets standards for extending credit, managing lenders participating in Government guaranteed loan programs, servicing credit and nontax receivables, and collecting delinquent debt. A-129 is issued under the authority of the Budget and Accounting Act of 1921, as amended; the Budget and Accounting Act of 1950, as amended; the Debt Collection Act of 1982, as amended by the Debt Collection Improvement Act of 1996; Section 2653 of Public Law 98-369; the Federal Credit Reform Act of 1990, as amended; the Federal Debt Collection Procedures Act of 1990; the CFO Act of 1990.

   A-129 applies to (1) Direct loan programs; (2) Loan guarantee programs and loan insurance programs in which the Federal Government bears a legal liability to pay for all or part of the principal or interest in the event of borrower default; and (3) Loans or other financial assets acquired by a Federal agency (or a receiver or conservator acting for a Federal agency), including those acquired as a result of a claim payment on a defaulted guaranteed or insured loan or in fulfillment of a Federal deposit insurance commitment. Further, Sections IV and V of the A-129 also apply to receivables due to the Government from the sale of goods and services; fines, fees, duties, leases, rents, royalties, financed payments, and penalties; overpayments to beneficiaries, grantees, contractors, and Federal employees; and similar debts and financial instruments.

   Staff notes that A-129 has been referenced in TR 3 and TR6.

10. **OMB Circular A-134, *Financial Accounting Principles and Standards***, establishes the policies and procedures for approving and publishing financial accounting principles and

standards. *Staff notes that this document is dated 1993 and has not been revised to recognize FASAB's Rule 203 status.*

As explained above, Bulletins are used when the subject matter requires single or one-time action by the departments or establishments or is of a transitory nature. The current administration's Bulletins – OMB – The White House webpage only offers one bulletin, so staff researched archived webpages from other administrations. There was one topic that staff believed important to share: **OMB Bulletin 24-02, *Audit Requirements for Federal Financial Statements***, implements the audit provisions of the CFO Act, as amended, the Government Management Reform Act of 1994, as amended, and the FFMIA, as amended.

In addition, OMB issues guidance as final rules, referred to as OMB Uniform Guidance, in the Code of Federal Regulations. For example, **Office of Management and Budget 2 CFR Chapter I, and Chapter II, Parts 200, 215, 220, 225, and 230*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards***, streamlined the Federal government's guidance on Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards. The guidance superseded and streamlined requirements from OMB Circulars A-21, A-87, A-89, A-102, A-110, A-122, and A-133. It also references but does not supersede Circular A-50 on Single Audit Act follow-up.

Issued by Department of Treasury (Treasury)

The Treasury Financial Manual (TFM) is Treasury's official publication of policies, procedures, and instructions concerning financial management in the federal government. In accordance with 31 United States Code (U.S.C.) 331 and 3513, the Secretary of the Treasury has reporting responsibility. In addition, other statutes and Executive Orders specifically place regulatory responsibility with Treasury for other subject matter presented in the TFM. The TFM is intended to promote the government's financial integrity and operational efficiency. The TFM is comprised of four volumes:

Volume I: Federal Agencies — Instructs and guides the federal government's departments, agencies, and other concerned parties, in areas of central accounting and reporting; receivable and delinquent debt management; disbursing; payment-related activities within the authority granted to the U.S. Chief Disbursing Officer (CDO); deposit regulations; deposits to Treasury's General Account; and other fiscal matters. Volume I is the most relevant and contains the following:

- **Part 1: Introduction**
- **Part 2: Central Accounting and Reporting**
- **Part 3: Receivable and Delinquent Debt Management**
- **Part 4: Disbursing**
- **Part 4A: Payment-Related Activities Within the Authority Granted to the U.S. Chief Disbursing Officer (CDO)**
- **Part 5: Deposit Regulations**
- **Part 6: Other Fiscal Matters**

Volume II: Federal Reserve Banks and Branches — Instructs and guides Federal Reserve Banks (FRBs) and their branches in areas of deposits and charges to Treasury's General Account; reporting requirements for Treasury's General Account;

accounting and reporting for gold certificates; issuing Treasury checks by FRBs; and other fiscal agency matters.

Volume III: Depositaries and Financial Agents of the Government — Instructs and guides financial institutions designated by Treasury to act as depositaries and financial agents of the government in the areas of domestic depositaries and financial agents; depositaries and financial agents in foreign countries, U.S. Territories, or insular possessions (overseas depositaries); and other fiscal matters.

Volume IV: Other Concerned Parties — Provides procedural instructions to other concerned parties aside from federal departments and agencies, Federal Reserve Banks acting as depositaries and fiscal agents of the United States, and financial institutions acting as depositaries and financial agents of the government, consistent with authority in the Code of Federal Regulations (CFR), or other authority.

The TFM is comprised of the following types of releases: Chapters, Bulletins, and Supplements. The TFM supplements are extensions to the content within the TFM. They provide more detailed instruction and guidelines for the following financial management topics:

United States Standard General Ledger (USSGL)
Certifying Officer Training
Federal Account Symbols and Titles (FAST Book)
Managing Federal Receivables
Gold Book
Green Book
Treasury Report on Receivables and Debt Collection Activities
Agency Self Certification Guide V13
Collections Cycle Memo

Staff notes that the TFM is referenced in several pronouncements, including SFFAS 31, SFFAS 42, SFFAS 47, Interpretation 10, Interpretation 11, TR14, and certain definitions in the FASAB glossary. Most references in the current FASAB Handbook are in footnotes that provide a short description of TFM and the USSGL. Examples of TFM references from FASAB pronouncements include:

- *Section 803(a) of the Federal Financial Management Improvement Act of 1996 (P.L. 104-208, Division A, Section 101(f), Title VIII) requires Federal agencies to implement the U.S. Government Standard General Ledger (USSGL) at the transaction level. Information about the USSGL can be found on the website of the Treasury Financial Management Service at www.fms.treas.gov/ussgl*

- *Accounting for appropriations requires additional budgetary entries that are not displayed here. For additional information, refer to the Treasury Financial Manual Standard General Ledger Supplement at www.fms.treas.gov/ussgl*

- *For further guidance on account transactions, numbers and definitions, please refer to USSGL Treasury Financial Manual (TFM) at http://www.fms.treas.gov/ussgl/tfm_releases/09-02/2010/part2_current.html .*

- *Note: Accounting for appropriations requires additional budgetary entries that are not displayed here. For additional information, refer to the Treasury Financial Manual Standard General Ledger Supplement at www.fms.treas.gov/ussgl.*

Treasury's Bureau of Fiscal Service (Fiscal Service) is responsible for updating the TFM. This process also includes ongoing monitoring of FASAB activities to ensure consistency with new FASAB pronouncements and prescribing the accounting posting logic for the agencies through the TFM.

A member of the FASAB GAAP working group is from Fiscal Service. The representative assisted staff with identifying critical TFM guidance impacting federal financial reporting policy:

Foreign Currency Accounting And Reporting – TFM Volume 1, Part 2, Chapter 3200

(Treasury) requirements relating to the accounting for and reporting of foreign currencies acquired either by purchase with dollars from commercial sources or received by Accountable Officers without purchase for dollars. Generally, these currencies are acquired under the provisions of foreign assistance or foreign agricultural development programs.

- Required pursuant to Title 31 of the Code of Federal Regulations, Part 281.

- Executive Order No. 10488 dated September 23, 1953, as amended, authorizes the Secretary of the Treasury (Secretary) to prescribe regulations for the administration and reporting of the purchase, custody, deposit, transfer, and sale of foreign currency by all executive departments and entities of the United States.

- Pursuant to 31 U.S.C. 3513, the Secretary of the Treasury shall prepare reports that will inform the President, Congress, and the public on the financial operations of the United States Government. The head of each executive entity shall give the Secretary reports and information on the financial conditions and operations of the entity the Secretary requires to prepare the reports.

Accounting For and Reporting On Cash and Investments Held Outside Of The U.S. Treasury – TFM Volume 1, Part 2, Chapter 3400

Accounting Requirements for cash and investments held outside of the U.S. Treasury and the requirements for accountable officers who have responsibilities for funds received, certified, disbursed, and held in their custody.

- Under **31 U.S.C. § 3302**, accountable officers who serve as disbursing and collecting officers of the federal government must deposit all of their collections into the U.S. Treasury, except as provided by another law. Accountable officers who hold funds outside of the U.S. Treasury can only do so pursuant to specific legislative authority. Similarly, entities that invest in Treasury and other federal/nonfederal securities must have their specific authority to do so granted by law.

- In accordance with **31 U.S.C. § 3513**, the Secretary must prepare reports to inform the President, the Congress, and the public on the financial operations of the federal government. In addition, each entity must furnish the Secretary with such reports and information as required to carry out central accounting and reporting responsibilities.

Responsibilities Relating To Non-Credit Reform Borrowing Accounts– TFM Volume 1, Part 2, Chapter 4800

The responsibilities, policies, and procedures that Treasury has established for federal agencies that have been granted authority by law to borrow funds from Treasury, other than federal agencies that borrow from Treasury under the Federal Credit Reform Act of 1990, as amended (FCRA).

Fund Balance With Treasury Accounts– TFM Volume 1, Part 2, Chapter 5100

Policies and procedures for agencies' Fund Balance with Treasury (FBwT) accounts.

- In accordance with 31 U.S.C. 3513, the Secretary of the Treasury must prepare reports to inform the President, Congress, and the public on the financial operations of the U.S. Government. The head of each executive agency must provide reports and information on the financial conditions and operations of the agency that the Secretary of the Treasury requires. Therefore, Treasury requires that agencies reconcile their FBwT accounts on a regular and recurring basis (at a minimum monthly) to ensure the integrity and accuracy of their internal and government-wide financial report data.

Recovering Unclaimed Federal Financial Assets– TFM Volume 1, Part 3, Chapter 8000

Guidance to federal agencies regarding their obligation to locate, recover, and account for unclaimed federal financial assets.

- Unclaimed assets may be recovered by federal agencies from various sources, including states that have enacted unclaimed property laws for the protection of these assets until they are claimed. These laws generally require persons to surrender unclaimed assets to the custody of the state when the rightful owner of the property cannot be located.

- 31 U.S.C. § 321 (describing that the role of the Secretary of the Treasury includes "improving and managing receipts of the United States Government"),

- 31 U.S.C. § 3301 (describing that the role of the Secretary of the Treasury is, among other things, "to receive and keep public money"), and

- 31 U.S.C. § 3718 (authorizing agencies, among other things, "to enter into a contract with a person...to locate or recover assets of, the United States Government").

Warrant And Non-Expenditure Transfer (NET) Transactions– TFM Volume 1, Part 2, Chapter 2000

- Accounting for appropriated amounts in accounts by warrant or warrant-like transactions (such as warrant journal vouchers that transfer excise tax collections in receipt accounts to trust funds), and

- Processing NETs between appropriation and other accounts for transfers and borrowings.

Treasury Reporting Instructions For Credit Reform Legislation– TFM Volume 1, Part 2, Chapter 4600

Reporting instructions for federal agencies that have been granted authority by law to borrow funds from Treasury under the Federal Credit Reform Act of 1990, as amended (FCRA). Applies to all direct loan and loan guarantee programs.

Federal Entity Reporting Requirements For The Financial Report Of The United States Government– TFM Volume 1, Part 2, Chapter 4700

All federal entities must provide Fiscal Service with the required fiscal year-end data that is used to prepare the Financial Report. All federal entities (significant or other) must submit GTAS ATB data and manual adjustments that crosswalk to the federal entity's audited financial statements, since the GTAS Balance Sheet and the reclassified financial statements provide the connection to the data in the Financial Report. Fiscal Service then compiles the information from the GTAS submissions for all federal entities into the government-wide financial statements. This includes:

- Reporting Entity Determinations, per FASAB's SFFAS 47, *Reporting Entity*
- Financial Report Data Requirements
- Intragovernmental Elimination Requirements
- Management Representation Letters
- Legal Counsel Response Processes

Issued by Government Accountability Office (GAO)

GAO, often called the "congressional watchdog," is an independent, non-partisan agency that works for Congress. GAO examines how taxpayer dollars are spent and provides Congress and federal agencies with objective, non-partisan, fact-based information to help the government save money and work more efficiently. GAO provides Congress, the heads of executive agencies, and the public with timely, fact-based, non-partisan information that can be used to improve government and save taxpayers billions of dollars.

GAO work is done at the request of congressional committees or subcommittees or is statutorily required by public laws or committee reports. GAO's Office of the General Counsel regularly issues legal decisions and opinions regarding federal bid protests, appropriations law, and other legal matters. For example, GAO issues legal opinions and decisions to Congress and federal agencies on the use of, and accountability for, public funds, including ruling on potential violations of the Anti-deficiency Act.

GAO is the supreme audit institution for the United States. As such, federal and state auditors look to GAO to provide standards for internal controls, financial audits, and other types of government audits. GAO audit standard-setting guidance includes:

- **Yellow Book** Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book, provides preeminent standards for government auditing by providing a framework for conducting high quality audits with competence, integrity, objectivity, and independence. Auditors of government entities and entities that receive government awards use the Yellow Book to perform their audits and produce their reports. The Yellow Book contains standards for financial audits, attestation engagements, and performance audits as well as specific requirements for individual auditors and audit organizations. Laws, regulations, contracts, grant agreements, and policies frequently require that engagements be conducted in accordance with GAGAS. In addition, many auditors and audit organizations voluntarily choose to conduct their work in accordance with GAGAS.[5]

- **Green Book** *Standards for Internal Control in the Federal Government,* also known as the Green Book, sets the standards for an effective internal control system for federal agencies. Federal Managers' Financial Integrity Act (FMFIA) requires the Comptroller General to issue standards for internal control in the federal government. FMFIA also requires federal executive branch agencies to establish internal control in accordance with these standards, and to periodically review and annually report on their internal control systems. Agencies uses the Green Book to design, implement, and operate internal controls to achieve its objectives related to operations, reporting, and compliance.

- **Financial Audit Manual** The *Financial Audit Manual* (FAM) is a joint effort between GAO and the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The FAM presents a methodology for performing financial statement audits of federal reporting entities in accordance with professional standards. The FAM is a three-volume publication. Volume 1 is the audit methodology, volume 2 is detailed implementation guidance, and volume 3 is the Federal Financial Reporting Checklist.

- **Federal Information System Controls Audit Manual** *The Federal Information System Controls Audit Manual* (FISCAM) provides a framework for assessing the effectiveness of information system controls in support of financial statement audits. It presents a methodology for assessing information system controls in accordance GAGAS, also known as the Yellow Book. Information system controls are internal controls that depend on processing performed by information systems using information technology (e.g., computers and networks). These include user controls, application controls, and general controls. The FISCAM methodology is designed to be used primarily on federal financial audits in conjunction with the FAM. FISCAM may also be used for attestation engagements and performance audits to assess the effectiveness of information system controls.

- **Cybersecurity Program Audit Guide** The Cybersecurity Program Audit Guide (CPAG) provides guidance to identify cybersecurity program weaknesses and develop appropriate recommendations for corrective action. The CPAG outlines the methodology for performing cybersecurity control audits in accordance with professional standards. The CPAG's six main components and control activities are consistent with policies and guidance from the National Institute of Standards and Technology (NIST) and the Office

[5] For example, The CFO Act of 1990, as amended, requires that GAGAS be followed in audits of major executive branch departments and agencies' financial statements and the Accountability of Tax Dollars Act of 2002 generally extends this requirement to most executive agencies not subject to the CFO Act. In addition, the Single Audit Act Amendments of 1996 requires that GAGAS be followed in audits of state and local governments and nonprofit entities that receive federal awards.

of Management and Budget. The guide is to be used in conducting cybersecurity performance audits.

Staff notes that GAO reports and guidance are often cited in FASAB pronouncements--Concepts 8, Concepts 9, SFFAS 1, SFFAS 2, SFFAS 7, SFFAS 10, SFFAS 17, SFFAS 27, SFFAS 36, SFFAS 42, SFFAS 49, SFFAS 51, SFFAS 52, TR 10, TR 23 and certain definitions in the FASAB glossary. Staff notes that references are most often in footnotes and the basis for conclusions. Examples of GAO references from FASAB pronouncements include:

- *Government Accountability Office, A Glossary of Terms Used in the Federal Budget Process GAO-05-734SP (Washington, D.C.: Sept. 1, 2005).*
- *GAO, Government Auditing Standards 2018 Revision, GAO-18-568G (Washington, D.C.: July 17, 2018), 109-110.*

When considering GAO guidance, staff believes it important to also address GAO's Title 2. Prior to FASAB, accounting principles, standards, and related requirements for executive agencies were published in appendix 1 of Title 2, "Accounting," of the *GAO Policy and Procedures Manual for Guidance of Federal Agencies*, in accordance with 31 U.S.C. 3511. The establishment of FASAB in 1990 established a new process for developing and issuing accounting principles and standards. In fact, SFFAS 1 contains a brief discussion regarding Title 2:

> 5. The Board's initial approach to developing accounting standards was to review the existing accounting standards prescribed by the Government Accountability Office (GAO) in its Policy and Procedures Manual for the Guidance of Federal Agencies, Title 2 Accounting, (Title 2). The purpose of the review was to determine whether some of the Title 2 standards, with any necessary modifications, could be recommended by the Board to the principals of the Joint Financial Management Improvement Program (JFMIP).
>
> 6. Although the Title 2 standards had not been fully implemented by federal agencies, they represented a starting point for further analysis. The Title 2 standards were reviewed in light of the accounting and reporting requirements established in the Chief Financial Officers (CFOs) Act of 1990. At the time, the Board considered current accounting practices of federal agencies. It also considered the findings from its project on user needs and objectives of federal financial reporting. As a result of the review, the Board decided that with certain modifications, accounting standards for selected assets and liabilities could be recommended to the JFMIP principals.

At the time of FASAB's creation, Title 2 contained 39 accounting standards. GAO periodically issued a report regarding the status of remaining Title 2 standards that had not been replaced by FASAB standards. The most recent report, GAO Report GAO-02-248G, *Title 2 Standards Not Superceded by FASAB* was issued in 2001 and provided that six Title 2 standards remain in effect because they had not been replaced by FASAB standards.[6] Per the report, the six Title 2 standards that remained in 2001 included C30 Compensated Absences, F30 Foreign Currency,

[6] Staff views the GAO report noting what Title 2 standards remained in effect as similar to what GASB accomplished in GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide* by explaining what pronouncements remain in effect until a subsequent GASB pronouncement was issued.

G10 Grants and Cooperative Agreements, I10 Imputed Interest, L40 Long-Term Contracts, and R20 Regulatory Accounting.

The GAO report refers to SAS 91, which would have been the source of GAAP at that time. The report provides that "Those parts of Title 2 not yet addressed by FASAB are considered to be under category "(a)" in the hierarchy of accounting principles for federal government entities established by SAS 91 in the preceding hierarchy." The statement is footnoted with the following: "Prior to the establishment of FASAB, accounting standards contained in Title 2 were considered to be a part of GAAP for the federal government."

Staff notes that prior to FASAB's Rule 203 designation, federal entities prepared financial statements based on a comprehensive basis of accounting recognized by GAO. There have been no updates to the GAO report since 2001. Staff believes all Title 2 standards have been addressed through FASAB standards. Considering this and FASAB's Rule 203 status, GAO most likely did not see a need to issue a report on the status of Title 2.

Activities in which federal reporting entities are reporting under FASB (Not Administrative Directives)

Based on collaboration with the Treasury FMS workgroup member, below is a listing of activities in which federal entities are reporting under FASB. Although these are not directives, staff believes it important to include them in the broad consideration of OAL guidance because FASB guidance is considered OAL. The below areas result from federal entities that continue to publish financial reports pursuant to accounting standards issued by FASB and areas where FASAB is silent and reporting entities apply the GAAP hierarchy to conclude the FASB guidance should be used.

1) Investments (Including, But Not Limited To: U.S. Equity securities, Non-U.S. Equity Securities, Corporate bonds, Asset-backed securities, Debt securities, Commingled funds measured at Net Asset Value, Private equity Real Assets measured at Net Asset Value)

- Securities held as Available for Sale
- Securities held as Trading
- Fair Value Measurement
- Fair Value Measurement at Net Asset Value
- Impairment of Investments/Securities
- Disclosures of Fair Value (Level 1, Level 2, Level 3, Net Asset Value, etc.)

2) Investments of Limited Liability Partnerships and Limited Liability Corporations, in which the investor holds significant influence over the investee. (Equity Method of Accounting applies.)

- Beginning in FY 2020, the Department adopted FASB's ASC 323 *Investments – Equity Method and Joint Ventures,* to evaluate and account for its investments in LLC and LP Private Partnerships engaged in MHPI projects.

- In FY25, DoD noted it obtained a significant amount of preferred stock equity shares, and in fact holds significant influence over the investee. (MP 10X Development, LLC)

3) Derivative/Hedging Assets

- PBGC's derivative instruments are used to mitigate risk (e.g., adjust duration or currency exposures), enhance investment returns, and/or as liquid and cost-efficient substitutes for positions in physical securities. It invests in and discloses its derivative investments in accordance with FASB ASC 815, *Derivatives and Hedging*.

- PBGC uses a no-hedging designation, which results in the gain or loss on a derivative instrument to be recognized currently in earnings. Derivatives are accounted for at fair value in accordance with the FASB ASC 815, which requires the disclosure of fair values of derivative instruments and their gains and losses in its financial statements of both the derivative positions and the effect of using derivatives during the reporting period.

4) Foreign Currency Exchange/Futures Contracts

- NRRIT had Foreign Currency Exchange Contracts of $22.3 million in FY25; it uses these contracts to gain exposure to hedge against foreign currency exchange rate fluctuations, commodity price movements, and other economic factors.

- NRRIT enters into swap transactions for hedging purposes and/or to efficiently gain exposure to a particular asset class index. The Trust's swap contracts consist of interest rate swaps, credit default swaps and total return swaps.

5) FDIC Receivables from Resolution Activity, net of allowance.

- The receivables from resolutions result from payments to cover insured depositors of failed institutions, advances to resolution entities (receiverships, conservatorships, and bridge institutions) for working capital, and administrative expenses paid on behalf of resolution entities. Estimates are made for the valuation of the assets held by resolution entities to compute the allowance for credit losses, including FDIC's estimate of future payments on losses incurred on assets sold to an acquiring institution under a shared-loss agreement.

- Methodologies for determining the asset recovery rates incorporate estimating future cash recoveries, net of applicable liquidation cost estimates, and discounting based on market-based risk factors applicable to a given asset's type and quality. The resulting estimated asset recoveries are then used to derive the allowance for credit losses on the receivables from these resolutions.

6) Regulatory Assets

- Regulated enterprises must reflect rate actions of the regulator in their financial statements, when appropriate. The Department of Energy is responsible for repaying Treasury for transmission and power-generating assets owned by other entities based on a deferred cost. Energy recognizes a regulatory asset and a corresponding intragovernmental debt for refinanced and additional appropriations owed to the Treasury.

- TVA's regulatory assets represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates.

- The Department of Energy also recognizes fixed schedule of benefit payments for investor-owned utility customers, repayment of debt for terminated nuclear projects, and deferred energy conservation measures relating to fish and wildlife.

7) Regulatory Liabilities

- Regulatory Liabilities are amounts previously collected through rates for accumulated plant removal costs as part of depreciation expense, unrealized gains in the non-federal nuclear decommissioning trust assets, and unrealized gains from derivatives, which are deferred over the corresponding underlying contract delivery months.

8) Cost Contributions for Buildout

- Commerce's cost contributions toward the continued enhancement of the NPSBN reflects future economic benefits to the National Telecommunications and Information Administration (NTIA).

- An asset is recognized primarily because the cost contributions for the buildout/continuing enhancement of the NPSBN embodies (a) future economic benefits to NTIA from AT&T made possible in part by NTIA's cost contributions for the buildout of the NPSBN, as there are expected future revenue streams from AT&T to NTIA; and (b) future expected services to be received by NTIA from AT&T made possible in part by NTIA's buildout and continuing enhancement cost contributions, as AT&T, will buildout, deploy, operate, and maintain the NPSBN, thereby assisting NTIA's FirstNet with achieving its important mission of ensuring the operation and maintenance of the first high-speed, nationwide wireless broadband network dedicated to public safety.

9) Insurance Programs and Related Contingencies

- PBGC insures the pension benefits, within statutory limits, of participants in covered single-employer and multiemployer defined benefit pension plans. PBGC's two insurance programs, one for single-employer plans and one for multiemployer plans, are designed to protect a guaranteed amount of participants' pension benefits when plans fail.

    - PBGC calculates its Present Value of Future Benefits for its Single-Employer Pension Plan with interest factor risk- a significant unobservable input at Level 3, and a change in interest factors impacts the calculation of PBGC's PVFB liability. PBGC discloses an interest rate shock table, specifically for its PVFB liability for the Single-Employer Pension Plan in its Fair Value footnote, not its insurance note. "Hypothetical and Actual Interest Factor Sensitivity Calculations of PVFB Single-Employer Trusteed Plans and Multiemployer Program."

- FCSIC insures the timely payment of principal and interest on Systemwide Debt Securities. Systemwide Debt Securities are the general unsecured joint and several obligations of the FCSB. Systemwide Debt Securities are not obligations of and are not guaranteed by the U.S. government.

- FDIC insures bank and savings association deposits

- Department of Energy reports Contractor Pension Plans and Contractor postretirement plans.

10) Insurance and Guarantee Contingencies

- PBGC reports the estimated aggregate unfunded vested benefits exposure for private-sector single-employer and multiemployer defined benefit pension plans that are classified with a reasonably possible exposure to loss.

    - Under FASAB, a contingency is considered "probable" if the future event or events are more likely than not to occur. While under FASB standards, a contingency is considered "probable" if the future event or events are likely to occur. "Likely to occur" is considered to be more certain than "more likely than not to occur." Under both accounting frameworks, a contingency is considered "reasonably possible" if occurrence of the future event or events is more likely than remote, but less likely than "probable."

    - In accordance with the FASB ASC Section 450, *Contingencies*, PBGC recognizes net claims for probable terminations which represent PBGC's best estimate of the losses, net of plan assets, and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in the future. PBGC's exposure to losses from plan sponsors that are classified as reasonably possible is disclosed in the footnotes.

11) Variable Interest Entities (VIEs)

- Long-term debt of variable interest entities- TVA has the power to direct the activities of an entity when it has the ability to make key operating and financing decisions, including capital investment and the issuance of debt. Based on this evaluation, TVA determined it is the primary beneficiary of certain entities and is required to account for the VIEs on a consolidated basis. As such, TVA recognizes a liability from certain VIEs.

12) Related Parties Disclosure

- FASB ASC 832, *Government Assistance*, established disclosure requirements to increase the transparency and comparability of government assistance received by an entity. For USPS, such transactions are already required for disclosure under ASC 850, *Related Parties*.

13) Research and Development (R&D) Costs

- For it's R&D projects related to Space Exploration Equipment, NASA collectively applies FASAB Technical Release No. 7, *Clarification of Standards Relating to NASA's Space*

Exploration Equipment, along with FASB's ASC 730-10-25, *Research and Development — Recognition*, and FASB's ASC 730-10-50 *Research and Development — Disclosure*.

- Through FASB's ASC 730, costs to acquire PP&E expected to be used only for a specific R&D project are expensed in the period they are incurred.

14) PP&E – Nonmonetary Barter Transactions

- NASA noted in its PP&E Note that it had non-monetary barter transactions with international entities for the International Space Station, in which it received some assets in exchange for future services.

- NASA has received some assets from these parties in exchange for future services. The fair value is indeterminable; therefore, no value was ascribed to these transactions in accordance with FASB ASC 845-10-25, *Non-Monetary Transactions – Recognition*, and ASC 845-10-50, *Non-Monetary Transactions – Disclosure*."

15) Long-Term Commitments

- Energy's FASB-reporting PMA's have entered into long-term commitments to purchase power for future delivery and record expenses with these purchases in the periods that power is received. These commitments related to power generation and irrigation assistance.

16) Loan Activities

- The Fair Value Option (FVO) under *FASB ASC 825: Financial Instruments* allows certain financial assets and liabilities (such as acquired loans) to be reported at fair value (with unrealized gains and losses reported in the SNC.) GNMA elected the FVO for its Accounts Receivable, Other Non-Credit Reform mortgage loans (including forward and reverse mortgage loans) and HMBS Obligations.

- Consistent with *FASB ASC 450-20: Loss Contingencies*, GNMA recognizes the estimated uncollectible portion of its recorded investment in the loans when (1) available information at each BS date indicates that it is probable a loss has occurred; and (2) the amount of the loss can be reasonably estimated.

Attachment 4- Comparison of OAL—Other Standard-Setters

	Excerpt from Statement No. 76, ***The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments***	Excerpt from SFAS 168, ***The FASB Accounting Standards Codification® and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162***	Excerpt from IAS 8, ***Accounting Policies, Changes in Accounting Estimates and Errors***	Excerpt from IPSAS 3, ***Accounting Policies, Changes in Accounting Estimates and Errors***
HOW THE HIERARCHY IS APPLIED	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.	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.	10. In the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is: (a) relevant to the economic decision-making needs of users; and (b) reliable, in that the financial statements: (i) represent faithfully the financial position, financial performance and cash flows of the entity; (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form; (iii) are neutral, i.e. free from bias; (iv) are prudent; and (v) are complete in all material respects. 11. In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order: (a) the requirements in IFRSs dealing with similar and related issues; and (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework for Financial Reporting (Conceptual Framework).	12. In the absence of an IPSAS that specifically applies to a transaction, other event, or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is relevant to the accountability and decision-making needs of users, faithfully represents the financial position, financial performance, and cash flows of the entity, meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability and takes account of the constraints on information included in general purpose financial reports and the balance between the qualitative characteristics. 13. Deleted 14. In making the judgment described in paragraph 12, management shall refer to, and consider the applicability of, the following sources in the following order: (a) The requirements in IPSASs dealing with similar and related issues; and (b) The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in the Conceptual Framework for General Purpose Financial Reporting by the Public Sector Entities.

Attachment 4- Comparison of OAL—Other Standard-Setters

SOURCES OF OAL (NONAUTHORITATIVE)	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. 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.	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.	12. In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.	15. In making the judgment described in paragraph 12, management may also consider (a) the most recent pronouncements of other standard-setting bodies, and (b) accepted public or private sector practices, but only to the extent that these do not conflict with the sources in paragraph 14. Examples of such pronouncements include pronouncements of the IASB, including IFRS, and Interpretations issued by the IASB's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).