THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Memorandum

Commitments

August 5, 2026

To: Members of the Board

From: Sherry L. Lee, Senior Analyst and Domenic N. Savini, Assistant Director

Thru: Monica R. Valentine, Executive Director

Subject: **Commitments** (Topic C)

OBJECTIVE

The objective of the meeting is for the Board to review the commitment working definition and the project scope so that the Board can move forward with identifying the commitment disclosure requirements.

The Board approved the commitments project plan in February 2025 and agreed on the commitment working definition in December 2025. In June 2026, while deliberating on potential exclusions and commitment categories, the Board emphasized the importance of revisiting the definition and project scope to clearly identify commitments for disclosure.

REQUEST FOR FEEDBACK BY August 14, 2026

Prior to the Board's August meeting, please review the attached staff analysis and respond to the ensuing questions by **August 14, 2026.**

NEXT STEPS

Pending Board member feedback, staff will continue to research and recommend disclosures for commitments.

ATTACHMENTS

1. Staff Analysis
2. Project Timeline
3. Member Comment Form

Staff Analysis
Commitments
August 5, 2026

INTRODUCTION

Project Purpose

This staff analysis pertains to the Board's project to develop level A guidance for reporting commitments, potentially as an amendment to SFFAS 5, *Accounting for Liabilities of the Federal Government*. Clearly defining commitments and the scope of the project is key to identifying agreements for commitment disclosures.

Background

The following is a brief history of Board deliberations on the commitment definition and scope of the commitments project:

- **August 2025 Board meeting.** Staff proposed the following initial draft commitment working definition based on task force survey responses:

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

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

  The Board generally supported the draft working definition and suggested keeping the definition streamlined. Members generally agreed with the task force recommendation to limit the commitment definition to "binding" agreements to reduce reporting burden. The Board also generally agreed with including the word "may" in the definition, acknowledging the uncertainties associated with the conditional nature of commitments. In addition, the Board suggested replacing "outflow or other sacrifice of government resources" with "use of government resources" to distinguish commitments from liabilities. One member suggested adding "measurable" to the definition.

- **December 2025 Board meeting.** The Board reviewed member comments on the working definition. Members generally agreed that agreements do not need to be "measurable" to be considered for commitment disclosure and questioned the usefulness of the footnote included in the definition. Based on the deliberations, the Board streamlined the August 2025 initial draft definition and generally agreed on the following working definition for commitments:

  A commitment is a binding agreement that, upon the occurrence of one or more future events or when the terms and conditions specified in the agreement are met, may result in the use of government resources.

  In addition, the Board generally supported the task force's recommendation to exclude agreements subject to specific standards from the scope of the commitments project, and suggested staff analyze existing standards to ensure that disclosures are consistent with what the Board is considering developing.

- **June 2026 Board meeting**. The Board discussed commitment categories, disclosures, exclusions, and other related topics based on the working definition. Because the definition affects the scope for the commitment disclosures, the Board emphasized the importance of revisiting the definition and the project scope to clearly identify commitments requiring disclosure. The Board continued to support excluding agreements subject to specific standards without cross-reference in the commitment disclosure note.

Summary of Recommendations and Analysis

This staff analysis examines the key attributes of the commitment working definition to determine if additional changes are warranted. The staff analysis also examines the project scope to determine what agreements would be included or excluded from commitment disclosure requirements.

Staff recommends the following for the Board's consideration:

1. Refine and streamline the commitment definition, and
2. Determine the scope for the commitment disclosure requirements.

Staff requests Board feedback on the above two recommendations.

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ANALYSIS AND RECOMMENDATIONS

The Board has been deliberating on potential commitment exclusions, categories, and disclosures based on a working definition. Staff first recommends that the Board reexamine the commitment working definition to determine if changes are warranted, followed by a Board review of the exclusions to determine the population to be considered for the commitment disclosure requirements.

1. **RECOMMENDATION #1 – To clearly define commitments and to avoid confusion and inconsistent application of guidance staff recommends the Board consider a refined definition predicated on the following analysis:**

A. Commitment Working Definition Key Attributes

The commitment working definition includes the following key attributes:

a. “Binding agreement”
b. “Upon the occurrence of one or more future events or when the terms and conditions specified in the agreement are met”
c. “May”
d. “Use of government resources”

B. Analysis of Commitment Working Definition Attributes

The following discusses each key attribute to determine if changes are warranted.

- **“Binding agreement”**

According to staff research and discussions with agencies, non-binding agreements typically do not result in the use of government resources and would increase reporting burden if they are not excluded from the commitment disclosure. Considering costs and benefits, staff does not recommend any change to “binding agreement”.

- **“Upon the occurrence of one or more future events or when the terms and conditions specified in the agreement are met”**

A binding agreement typically includes terms and conditions that specify each party’s rights and responsibilities. When the terms and conditions are met by the parties to the agreement, the agreement is considered fully executed as the parties to the agreement have fulfilled their legal obligations. For the government, the outcome could be the use of government resources.

Given that the terms and conditions already require something to happen (such as delivering goods or services or occurrence of a future event) before the use of government resources could occur, adopting the phrase 'upon the occurrence of future events' is unnecessary. Additionally, since similar language and/or concepts are used when discussing contingencies[1], including the phrase in the commitment definition may cause confusion between the two concepts in practice. Staff recommends that the Board consider deleting the phrase from the commitment definition to avoid confusion.

- **"May"**

Whether the commitment results in the use of government resources depends on the occurrence of a future event or events specified in the terms and conditions of the agreement. Although some members expressed concerns that the word "may" could expand the population subject to commitment disclosure, the word "binding" limits the population. In addition, some members suggested "reasonably possible" or "more likely than not", but there were concerns that the wordings might lead to confusion between liabilities and commitments.

The use of government resources depends on whether the terms and conditions in the agreement are met. As such, the word "would" seems more appropriate than the word "may" for the conditional statement in the definition. That is, using 'may' implies mere possibility, making a firm agreement sound tentative or speculative. Staff recommends that the Board consider replacing "may" with "would" in the commitment definition.

- **"Use of government resources"**

The task force agreed to avoid budgetary terminology used in the commitment definition contained in OMB Circular A-136 and initially proposed using "outflow or sacrifice of government resources" to align with SFFAS 5 verbiage. However, some members were concerned that the phrase is associated with liabilities and including it in the commitment definition may cause confusion between liabilities and commitments. The Board agreed on the phrase "use of government resources" to avoid confusion.

Staff notes that retaining this phrase not only avoids confusion with budgetary terminology, but it is also consistent with SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements.* Specifically, since commitments (in the context of this project) do not possess a present obligation to use government resources, they do

[1] Please refer SFFAS 5, *Accounting for Liabilities of the Federal Government*, page 17, Par. 35: "*A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm a gain (i.e., acquisition of an asset or reduction of a liability) or a loss (i.e., loss or impairment of an asset or the incurrence of a liability)*."

not meet the definition of a liability but are eligible candidates for disclosure.[2]

As a result, staff recommends retaining “use of government resources” in the commitment definition.

C. Staff Recommendation #1

Commitments should be clearly defined to avoid confusion and inconsistent application of the reporting guidance. Based on the above analysis of the commitment working definition key attributes, staff recommends that the Board consider the following changes to refine the definition.

December 2025 Working Definition

A commitment is a binding agreement that, upon the occurrence of one or more future events or when the terms and conditions specified in the agreement are met, may result in the use of government resources.

Changes to the December 2025 Working Definition

Staff recommends replacing the word “may” with “would” to reflect the conditional nature of commitments. Staff also recommends removing the “upon the occurrence of one or more future events or” from the definition.

- **First Refinement -** *A commitment is a binding agreement that, ~~upon the occurrence of one or more future events or~~ when the terms and conditions specified in the agreement are met, ~~may~~ would result in the use of government resources.*

  With the proposed edits, the definition would be as follows:

  A commitment is a binding agreement that, when the terms and conditions specified in the agreement are met, would result in the use of government resources.

- **Second Refinement -** To make the definition more straight forward, staff recommends that the Board consider **adopting the following definition**:

[2] Please refer to SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements,* paragraphs 42-43, 45 and A4-A5.

> *A commitment is a binding agreement that would result in the use of government resources when the terms and conditions specified in the agreement are met.*

Question for the Board:

1. Does the Board agree with the staff analysis and recommendations for the commitment definition? Please explain your rationale along with any changes, improvements, or edits you suggest staff consider.

RECOMMENDATION #1 - To make the definition more straight forward, staff recommends that the Board consider adopting the following definition:

> *A commitment is a binding agreement that would result in the use of government resources when the terms and conditions specified in the agreement are met.*

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2. **RECOMMENDATION #2 - Staff recommends that the Board consider staff's proposed definition, general exclusions and suggested reporting of significant commitments to narrow the population of agreements subject to commitment disclosure requirements.**

A. Exclusion by the Definition (refer to Recommendation #1 above)

The proposed commitment definition's key attributes determine whether certain agreements are included or excluded from the commitment disclosure requirements. These attributes have the following effect on the scope of said requirements:

- The inclusion of "binding" in the commitment definition would exclude non-binding agreements from the commitment disclosure.
- Agreements that would not result in the "use of government resources" would be excluded from the commitment disclosure.
- When "terms and conditions in the agreement are met", resulting in the use of government resources, the government has fulfilled its responsibilities associated with the commitment, that is, a part or the whole agreement is no longer a commitment (and is a candidate for liability consideration).

B. General Exclusions

In addition to the exclusions resulting from the definition's key attributes, in the December 2025 and June 2026 meetings the Board generally agreed to exclude from the commitment disclosure requirements agreements subject to specific existing standards, currently including the following:

- SFFAS 2: *Accounting for Direct Loans and Loan Guarantees*
- SFFAS 5, *Accounting for Liabilities of the Federal Government,* related to pensions, other retirement benefits, and other postemployment benefits (amended by SFFAS 33)
- SFFAS 17: *Accounting for Social Insurance*
- SFFAS 37: *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*
- SFFAS 49: *Public-Private Partnerships: Disclosure Requirements*
- SFFAS 51: *Insurance Programs*
- SFFAS 54: *Leases*

C. Further Exclusion Consideration – "Significant"

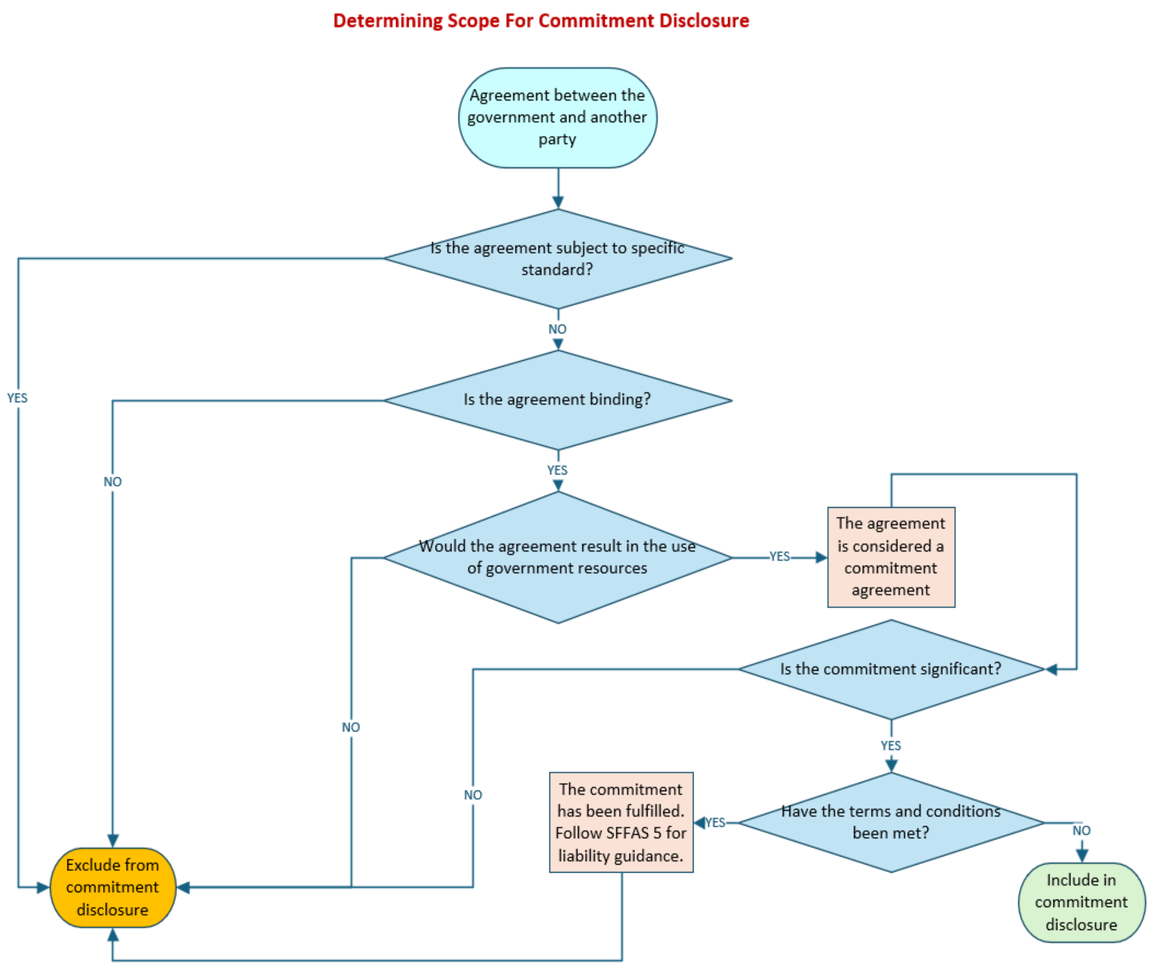
The Board may consider excluding agreements from the commitment disclosure by requiring only "significant"[3] commitments to be disclosed as disclosing "insignificant" agreements may not justify the costs.

[3] The determination of whether a federal commitment is significant is a matter of professional judgment. Such judgments may be based on: (1) financial magnitude and structural impact such as the relative cost, budgetary impact, or shift in long-term financial exposure to the federal government before and after entering or modifying the commitment; (2) operational or mission risk such as the degree to which the commitment restricts future financial flexibility, encumbers federal resources, or impacts the entity's capacity to fulfill core statutory mandates; or (3) other qualitative considerations such as factors related to policy sensitivity, congressional or public interest. Determining whether a federal commitment is significant is separate and distinct from accounting materiality considerations, which focus primarily on the likely influence that reporting or disclosing the commitment(s) would have on the decisions of financial statement users or oversight authorities.

Staff's suggested language for "significant" commitments is adapted from paragraph 8, footnote 6 of SFFAS 44*, Accounting For Impairment Of General Property, Plant, And Equipment Remaining In Use:* *https://files.fasab.gov/pdffiles/handbook_sffas_44.pdf.*

For a discussion of materiality, please refer to SFFAC 9, *Materiality: et al.* *https://files.fasab.gov/pdffiles/handbook_sffac_9.pdf*

The following draft flowchart illustrates the proposed scope for commitment disclosure:



D. Staff Recommendation #2

To clearly define scope, staff recommends that the Board consider adopting the general exclusions and suggested reporting of significant commitments to narrow the population of agreements subject to commitment disclosure requirements as illustrated in the draft flowchart.

Question for the Board:

2. Does the Board agree with the scope for the commitment disclosure requirements as illustrated in the draft flowchart? Please explain your rationale along with any changes you suggest staff consider.

RECOMMENDATION #2 – To clearly define scope, staff recommends that the Board consider adopting the general exclusions and suggested reporting of significant commitments to narrow the population of agreements subject to commitment disclosure requirements as illustrated in the draft flowchart.

The determination of whether a federal commitment is significant is a matter of professional judgment. Such judgments may be based on: (1) financial magnitude and structural impact such as the relative cost, budgetary impact, or shift in long-term financial exposure to the federal government before and after entering or modifying the commitment; (2) operational or mission risk such as the degree to which the commitment restricts future financial flexibility, encumbers federal resources, or impacts the entity's capacity to fulfill core statutory mandates; or (3) other qualitative considerations such as factors related to policy sensitivity, congressional or public interest. Determining whether a federal commitment is significant is separate and distinct from accounting materiality considerations, which focus primarily on the likely influence that reporting or disclosing the commitment(s) would have on the decisions of financial statement users or oversight authorities.

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NEXT STEPS

Pending Board feedback, staff will continue to research and recommend guidance for the commitment disclosure. Specifically, staff will work with the task force to analyze and clearly define the commitment categories to ensure there is no over-counting commitments and research to determine the appropriate measurement attributes for commitment “amount or estimated amount”.

ATTACHMENT 2

COMMITMENT PROJECT TIMELINE
TOPIC C – Commitments
August 2026 Board Meeting

Project Timeline and Key Decisions PROJECT NAME: COMMITMENTS				
Phase	**Approved Dates (Updated Dates)**	**Description**	**Key Decisions by Board Meeting** (including major changes that impact timeline)	**Date Phase Completed/Expected to be Completed**
Preliminary Research	Q4 FY23 – Q4 FY24	Conduct literature review, case file research, and analysis of the commitment note disclosures in the Agency Financial Reports and Financial Report of the U.S. Government.	N/A (Conducted prior to formal project plan approval)	Q4 FY24
Initiate Project	Q1 FY25 – Q2 FY25	Develop project plan and initial research necessary for development of the plan.	**February 2025 Board Meeting:** • Key decision #1 – Board approves project plan	Q2 FY25
Research Phase	Q2 FY25 – Q1 FY26	Form a task force, perform research, and prepare research memo(s) documenting results and recommendations.	**August 2025 Board Meeting:** • Key decision #1 – The Board generally supported the proposed draft commitment working definition and suggested keeping the definition streamlined. **October 2025 Board Meeting:** • Meeting canceled – Government shut down.	Q1 FY26

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COMMITMENT PROJECT TIMELINE
TOPIC C – Commitments
August 2026 Board Meeting

Project Timeline and Key Decisions **PROJECT NAME: COMMITMENTS**				
Phase	**Approved Dates (Updated Dates)**	**Description**	**Key Decisions by Board Meeting** (including major changes that impact timeline)	**Date Phase Completed/Expected to be Completed**
Development Phase	Initially approved: Q2 FY26 – Q1 FY27 Updated: Q2 FY26 – Q2 FY27	Develop issue/development phase paper(s) that addresses issues identified and any other steps to ensure project objectives are addressed. Seek tentative Board decisions on each of the issues.	**December 2025 Board Meeting:** • Key decision #1 – The Board agreed on a streamlined version of the draft commitment working definition. The Board generally did not support "measurable" in the definition and agreed to remove the footnote. **February 2026 Board Meeting:** • Meeting canceled **June 2026 (Q3 FY26) Board Meeting:** • Key decision #1 – The Board generally agreed that the framework for identifying significant commitment categories is a good start. • Key decision #2 – The Board generally agreed on scope exclusions for agreements subject to specific standards, disclosures • Key decision #3 – The Board generally agreed on the proposed commitment disclosure and recommended streamlining the disclosure to simply include a description of the general nature of the commitments. The Board	Initially approved: Q1 FY27 Updated: Q2 FY27

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COMMITMENT PROJECT TIMELINE
TOPIC C – Commitments
August 2026 Board Meeting

Project Timeline and Key Decisions PROJECT NAME: COMMITMENTS				
Phase	**Approved Dates (Updated Dates)**	**Description**	**Key Decisions by Board Meeting** (including major changes that impact timeline)	**Date Phase Completed/Expected to be Completed**
			deferred the discussion on the amount or estimated amount to future meeting(s). **August 2026 (Q4 FY26) Board Meeting:** • Seek the Board's tentative decision on definition and scope exclusions **October 2026 (Q1 FY27) Board Meeting:** • Update category definitions, analysis of categories (including category definition update) to ensure they reflect reporting gap, discuss measurement attributes for categories **December 2026 (Q1 FY27) Board Meeting:** • Distinguish between commitments and contingencies and address remaining issues. Address any remaining issues **February 2027 (Q2 FY27) Board Meeting:** • Finalize commitment definition, categories, and disclosures.	

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COMMITMENT PROJECT TIMELINE
TOPIC C – Commitments
August 2026 Board Meeting

Project Timeline and Key Decisions PROJECT NAME: COMMITMENTS				
Phase	**Approved Dates (Updated Dates)**	**Description**	**Key Decisions by Board Meeting** (including major changes that impact timeline)	**Date Phase Completed/Expected to be Completed**
Exposure Draft & Comment Period	Initially approved: Q2 FY27 – Q4 FY27 Updated: Q3 FY27 – Q2 FY28	Develop exposure draft (ED) based on Board decisions. Address Board comments and feedback. Document will move to pre-ballot and ballot draft. Once ED is approved, ED will be released for comment. Comment period for ED.	**April 2027 (Q3 FY27) Board Meeting:** • Board deliberate on draft ED **June 2027 (Q3 FY27) Board Meeting:** • Board deliberate on draft ED **August 2027 (Q4 FY27) Board Meeting:** • Board deliberate on draft ED **October 2027 (Q1 FY28) Board Meeting:** • ED pre-ballot **December 2027 (Q1 FY28) Board Meeting:** • ED ballot **December 2027 – February 2028 (Q2 FY28):** • 90-day comment period	Initially approved: Q4 FY27 Updated: Q2 FY28

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COMMITMENT PROJECT TIMELINE
TOPIC C – Commitments
August 2026 Board Meeting

Project Timeline and Key Decisions **PROJECT NAME: COMMITMENTS**				
Phase	**Approved Dates (Updated Dates)**	**Description**	**Key Decisions by Board Meeting** (including major changes that impact timeline)	**Date Phase Completed/Expected to be Completed**
Resolution & Finalization Phase	Initially approved: Q4 FY27 – Q4 FY28 Updated: Q3 FY28 – Q1 FY29	Analysis of comment letters. Project manager presents staff analysis and summary of respondent feedback and recommendations. Board (re)deliberates areas. Project manager prepares proposed Draft Statement incorporating Board decisions. Address Board comments and feedback. Document will move to pre-ballot and ballot draft. Once approved, it is transmitted to sponsors for 90-day review.	**April 2028 (Q3 FY28) Board Meeting:** • Analyze comment letters **June – September 2028 (Q4 FY28):** • 90-day sponsor review period **October – December 2028 (Q1 FY29):** • Final Issuance	Initially approved: Q4 FY28 Updated: Q1 FY29