



March 16, 2018

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6H19
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standard *Classified Activities*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views, and the hard work and dedication by the Board Members and Staff on their contributions to improving federal financial reporting.

Our responses to the ED questions are included below.

Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

A1. The FISC agrees with the Board's proposed approach for protecting classified information.

Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

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- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.
 - b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.
 - c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.
- A2. The FISC agrees with the Board's proposed approach to modify unclassified financial statement presentations, disclosures and RSI to protect classified information. However, we suggest the following points for consideration:
- a. In addition to the considerations of classified information and its impact to net results of operations and net position, the FISC suggests that the Board consider the impact of classified information on total budgetary resources. If the Board's intent is to purposefully include or exclude total budgetary resources from this Standard, then the FISC suggests that the Board address this matter in the final Standard.
 - b. The FISC suggests that the Board include in the final Standard whether a modification could be so material that the overall financial statement presentation no longer represents a fair presentation of the financial position and operations of the entity.
 - c. The FISC suggests that the Board consider additional guidance or action on ensuring the consistent classification and presentation of transaction cycles or end items among component reporting entities. Such discussions could occur through a Board-appointed or Board-sponsored working group, which would include a representative group of stakeholders, to evaluate the consistent application of this Standard among reporting entities.
- Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:
- a. development of classified proposals,
 - b. comment on the proposals from individuals and organizations holding appropriate clearances,
 - c. consideration of comments, and

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- d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

- A3. The FISC agrees with the Board's proposed approach. However, we suggest that the Board make available to the general public (such as via the FASAB's website) the titles or at least the number of classified interpretations issued by the Board. We also suggest that the Board inform the general public (again, such as via the FASAB's website) when a classified interpretation has been issued for comment and when it has been issued in its final form. These actions of public disclosure will ensure that all parties are aware of the activity associated with classified interpretations; and those who meet the definitions prescribed in paragraph A9 are properly informed.

Further, the FISC encourages the Board to make every effort to ensure that a representative group of stakeholders with varied perspectives and appropriate clearances be engaged in the due process of classified Interpretations. Engaging a broad cross-section of stakeholders would help protect the integrity of the Board's due process.

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

- A4. The FISC agrees with the conditions necessary to apply the proposed Statement.

- Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

- a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.
- b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.
- c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

- A5. The FISC does not agree with the elective nature of paragraphs 10 and 11, which permit the preparers to determine whether to inform or not inform the readers of the GPFFRs whether modifications have been made to protect classified information. The FISC members do not believe that election is consistent with the FASAB's Concept Statements, specifically Statement of Federal Financial Accounting Concept No. 8, *Federal Financial Reporting*. We suggest that the Board

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revise paragraph 10 to mandate the use of the example summary of significant accounting policies, and delete paragraph 11.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Andrew Lewis". The signature is fluid and cursive, with a large, stylized "L" and "W".

Andrew C. Lewis
FISC Chair