



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

COMPTROLLER

Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6H19  
441 G Street, NW, Suite 6814  
Washington, DC 20548

MAR 14 2018

Dear Ms. Payne,

The Department of Defense (DoD) is pleased to submit the attached comments to the Federal Accounting Standards Advisory Board on the proposed Exposure Draft (ED), *Classified Activities*. The DoD understands the importance of balancing the need for financial reports to be publicly available with the need to protect classified information from public disclosure. The DoD agrees with the proposed ED and has provided detailed responses and input in our comments attached. Thank you for considering the DoD's responses and comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Alaleh A. Jenkins", is written over a horizontal line.

Alaleh A. Jenkins

Assistant Deputy Chief Financial Officer

Enclosures:  
As stated



**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<sup>1</sup> of existing standards. The General Purpose Federal Financial Report (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.**

DoD Response:

*The DoD agrees with the Board's overall approach for protecting classified information.*

*As the Board recognized in Paragraph A8 of the Basis for Conclusions in this ED, this proposed Statement permits certain techniques for protecting information within the GPFFR related to classified activities. Certain other techniques are expected to be addressed through classified guidance issued as Interpretations to this Statement.*

**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.**

- 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 Statement of Federal Financial Accounting Standards (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.**

DoD Response:

*Q2.a. The DoD agrees with the Board's proposal permitting reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary*

---

<sup>1</sup> With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

*information (RSI) to protect classified information, that does not (1) change the net results of operations and net position.*

*Q2.b. The DoD agrees with the Board's proposal for permitting certain modifications when applying the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 47, Reporting Entity, and the inclusion of an organization in a manner that would not reveal classified information.*

*Q2.c. The DoD agrees with the Board's proposal for permitting modification of disclosures and required supplementary information.*

**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**
- d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See paragraphs 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.**

**DoD Response:**

*The DoD strongly agrees with the Board's proposal for issuing classified Interpretations of existing standards to permit other presentation and disclosure options as needed to produce the unclassified GPFFR and protect sensitive information. The DoD wants to emphasize the importance that the Board's due process maintain the appropriate protections over sensitive information, and advocates for strictly enforcing mechanisms including validating a stakeholder's need-to-know and obtaining a signed non-disclosure agreement prior to granting the stakeholder access to such information.*

**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.**

DoD Response:

*The DoD agrees with the Board's proposal that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit and documentation be retained in the appropriate environment and/or domain to adequately support classified information.*

**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.**

DoD Response:

*Q5.a. The DoD agrees with the Board's proposal for disclosure requirements in Paragraphs 10 – 14.*

*Q5.b. The DoD agrees that component reporting entities may choose to consistently disclose that certain presentations may have been modified. The DoD plans to apply a consistent approach within the Department to meet the disclosure requirements under this proposed standard.*

*Q5.c. The DoD disagrees that every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified.*

*The DoD believes that, depending on the classified information that needs to be protected, a component reporting entity may or may not want to disclose that the report is modified. Paragraphs 10 – 14 allow for both options depending on the nature of the classified information.*

**Additional DoD Comments**

- A. In the third paragraph, fourth sentence of the Executive Summary, recommend adding the word “future” before “Interpretations”, otherwise the reader may not know which interpretation FASAB is referring to.**