

March 16, 2018

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

Dear Ms. Payne:

On behalf of the American Institute of CPAs (AICPA), we are providing comments on FASAB's proposed Statement of Federal Financial Accounting Standards, *Classified Activities* (Exposure Draft). Our review of the Exposure Draft was performed from the perspective of the AICPA's role in the designation of FASAB as the body to establish generally accepted accounting principles (GAAP) for federal government entities, and not to comment specifically on the proposed accounting and related questions posed in the Exposure Draft.

Overall, we recognize the challenges FASAB has encountered to ensure that classified national security information or activities is protected from unauthorized public disclosure. Based on our discussions with FASAB Appointments Panel members, representatives of a FASAB federal sponsor (the Government Accountability Office), and FASAB staff, we also understand that various other alternatives were considered prior to the issuance of the Exposure Draft that were discarded as they could not adequately protect the classified information or would result in other federal reporting challenges. In light of that fact, and our recognition of the need to ensure classified information is not disclosed publicly, we support FASAB's issuance of this Exposure Draft and the modifications that would be permitted for that purpose.

The AICPA's criteria for designating bodies that promulgate GAAP are as follows: independence, due process and standards, domain and authority, human and financial resources, and comprehensiveness and consistency. The Exposure Draft states that there may be a need for classified Interpretations when detailed guidance is needed beyond the permitted modifications described in the Exposure Draft. Due to the classified nature of these Interpretations, full due process will not be feasible. However, the Exposure Draft does describe a six-step due process procedure for classified Interpretations that would include cleared preparers, auditors, and users of classified information. We believe this proposed limited due process is adequate under the circumstances and consistent with the Board's normal due process procedures as outlined in the "Memorandum of Understanding."

However, we encourage 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 as further described in paragraph A.9(d)(ii). The determination of which stakeholders have a “need to know” will be critical in that process and we encourage as broad an interpretation as possible within the realm of federal requirements for classified information. Taking this action will be important to ensure that due process is adequate for classified Interpretations going forward.

Finally, we recommend that FASAB closely monitor the implementation of this standard and the development of any future classified Interpretations from a Rule 203 perspective through the Board’s annual self-review process. Following the standard protocol established between the FASAB and AICPA, we would expect that any issues or concerns that arise relating to any of the Rule 203 criteria (e.g., reportable events) would be reported to the AICPA on a timely basis.

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The AICPA appreciates the opportunity to comment on the Exposure Draft. This comment letter was prepared by staff of the AICPA and was not reviewed by the AICPA’s Financial Reporting Executive Committee. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,



Mary M. Foelster
Senior Director
AICPA Governmental Auditing and Accounting

cc: Susan Coffey
Carter Heim
Daniel Murrin