

**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

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), Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5. The DoD agrees with the proposed ED regarding both contingent liabilities and cleanup costs when multiple component reporting entities are involved. The DoD also agrees with the inclusion of the additional general principle for designating the component reporting entity responsible for recognizing a liability other than contingent liabilities and cleanup costs. Detailed responses and further suggestions on the Interpretation are provided in the attached comments.

Thank you for considering the DoD's input.

A handwritten signature in black ink, appearing to read "D. A. Glenn".

Douglas A. Glenn
Assistant Deputy Chief Financial Officer

Enclosed:
As stated

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FASAB Exposure Draft: *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*
Questions for Respondents due January 17, 2019

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input checked="" type="checkbox"/>	
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Other	<input type="checkbox"/>	If other, please specify: _____
Individual	<input type="checkbox"/>	

Please provide your name.

Name: Douglas A. Glenn, Assistant Deputy Chief Financial Officer (ADCFO), OUSD(C)/DCFO

Please identify your organization, if applicable.

Organization: The Department of Defense (DoD)

Q1. The proposed Interpretation provides additional guidance regarding contingent liabilities when multiple component reporting entities are involved. Specifically, it provides clarification when one or more sub-component reporting entities are designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. For example, a sub-component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay any resulting liabilities. In such cases, not all involved sub-component reporting entities would have the information needed to apply the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*.

Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities, including the sub-component reporting entity whose actions gave rise to the litigation, should not report information on contingent liabilities managed by another sub-component reporting entity.

Once a settlement is reached or a judgment ordered by a court, the liability should be removed from the financial statements of the sub-component reporting entity designated to manage the litigation and recognized in the financial statements of the sub-component reporting entity designated to pay the liability.

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- a. **Do you agree or disagree with the guidance? Please provide the rationale for your answer.**

DoD Response:

The DoD agrees with the Board's proposed guidance.

Rationale: The proposed guidance is reasonable and should be incorporated. However, it may be appropriate to address the need to true-up the liability, once a settlement is reached or a judgment ordered by a court. If the sub-component managing the litigation records the liability and expense, the liability should be trueed-up before it is transferred to the sub-component that is designated to pay the liability.

- b. **Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.**

DoD Response:

DoD neither agrees nor disagrees with the guidance.

Rationale: The DoD needs additional clarification in order to formulate a position. The three referenced parties should be clearly identified as they may be separate parties or a single reporting entity serving multiple roles: (1) the entity whose action(s) gave rise to the litigation, (2) the entity managing the litigation and, (3) the entity designated to pay the liability. The component reporting entity responsible for recognizing the liability should be determined by management. FASAB should codify this along with any related disclosures needed to avoid misleading the financial statement users.

Additionally, if the entity whose actions gave rise to the litigation does not record any liability based on this new guidance, DoD recommends adding a disclosure note requirement regarding such litigation.

- Q2.** The proposed Interpretation provides additional guidance regarding cleanup costs when multiple component reporting entities are involved. Specifically, for the purpose of meeting the SFFAS 5 liability recognition criterion that “[a] future outflow or other sacrifice of resources is probable,” the criterion should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

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

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DoD Response:

DoD agrees with the proposed guidance.

Rationale: There was an inherent conflict between TR11 and SFFAS 5 in cases where one component reporting entity carried an asset (and thus was required to accrue an Environmental Liability over time) and a different component reporting entity paid for the applicable costs of remediating the Environmental Liability. This Interpretation gives clear direction on how to apply the existing accounting literature to this situation.

In addition, consideration should be given to this Interpretation recommending disclosure in the notes to the financial statements of the component accruing the liability. The disclosure would describe the fact that the liability related to the environmental liability recorded on the balance sheet will ultimately be funded and paid by a different federal component. DoD also suggests requiring disclosure, if amounts are significant, when the original reporting entity transfers the asset and the liability to the entity who will fund the clean-up.

Q3. The proposed Interpretation provides clarification and guidance regarding contingent liabilities and cleanup costs when multiple sub-component reporting entities are involved. When multiple sub-component reporting entities are involved, a component reporting entity may designate one or more sub-component reporting entities as responsible for various aspects (for example, management, payment) related to liabilities on behalf of one or more other sub-component reporting entities. As demonstrated with contingent liabilities and cleanup costs, not all involved sub-component reporting entities are likely to have the information needed to apply the provisions of SFFAS 5. Therefore, one sub-component reporting entity may be designated certain responsibilities (for example, management, payment) and should recognize and disclose information in accordance with SFFAS 5. In some instances, another sub-component reporting entity may be subsequently designated to recognize and disclose information in accordance with SFFAS 5 (for example, when another sub-component reporting entity becomes responsible for settling the liability).

- a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**

DoD Response:

The DoD does not have any additional liability situations to bring forward at this time.

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- b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?

DoD Response:

The DoD agrees with the inclusion of this general principle.

- Q4.** Do you have any other comments or suggestions on the Interpretation? Please provide the rationale for your answer.

DoD Response:

DoD comments and suggestions as follows:

- 1) *Add to interpretation the responsibility of the transferring entity to provide supporting documentation for the estimated clean-up costs accrued, similar to the language in SFFAS 4, paragraph 109.*
- 2) *Suggest that the interpretation provide clarification on how a liability is recognized when an asset is transferred to the reporting entity responsible for the asset upon removal from service (e.g., DLA) versus when a contract is established with a service provider (e.g., USACE, NAVFAC) to dispose of an asset, since they result in very different accounting treatments.*
- 3) *Suggest adding clarity to paragraph 16 referencing what specific standards (including paragraph references) should be followed for recognition of PP&E and the liability upon transfer to the paying entity and also clarifying which entries are eliminated in consolidation at the component level.*
- 4) *Suggest rewording Paragraph 15, to indicate that component reporting entities “may settle the cleanup cost liability” instead of “will settle the cleanup cost liability”, by transferring the general PP&E for cleanup. As currently written, this is more restrictive than the current methods allowed by TB 2017-2 which allows assets to be assigned by a reporting entity to its component reporting entities on a rational and consistent basis.*
- 5) *Suggest that future guidance be issued to provide clarification on disposal liabilities. The principle applied for environmental liabilities as described above should also apply to disposal liabilities: the sub-component reporting entity responsible for managing disposition would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 6.*