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Name: Edward Gramp, Financial Policy Division

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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.

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

GSA RESPONSE: We do not agree with the guidance as written, respective to the direction in paragraph 8 of the Exposure Draft (ED), where a sub-component entity that is only involved to manage litigation should report the cost and liability balances on its sub-component financial statements. Sub-components managing litigation may be the legal staff of an agency (such as an Office of General Counsel in many agencies), or even components of the Department of Justice, who likely had no part in causing underlying liabilities to arise, nor are these sub-components likely to provide the source of funding to liquidate the liabilities. While such legal staffs often have the best insight for developing reasonable estimates of probable, possible, or remote contingent liabilities and cleanup costs, we believe such estimates can be readily shared with management of other sub-component entities for purposes of reporting or disclosing such liabilities. If such reporting were applied to GSA, its Office of General Counsel, operating under GSA's Working Capital Fund would be required to carry substantial liabilities that are directly associated with other GSA sub-components. One GSA sub-component in particular, the activities of the Public Buildings Service's Federal Buildings Fund (FBF), which produces stand-alone audited financial statements, would be missing substantial liabilities and costs that arise from PBS activities. It is not clear how the financial statements of the FBF can be considered complete without recognition of its legal liabilities and environmental clean-up costs.

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.

GSA RESPONSE: Yes, we do agree with this alternative. We suggest reporting of costs and liabilities discussed in the ED are more properly reported by sub-components with the most direct cause-and-effect relationship to activities that generated the liability. To meet the full-cost accounting requirements of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, we believe the recognition, especially of the cost associated with such liabilities, should be reported on books of the sub-component entity that caused the liability. To address the issue that funding or activities to clean-up or mitigate hazardous materials to extinguish the liability may be assigned to a sub-component other than the entity that caused the liability to arise, we would suggest that reassignment of the liability from one entity to another be accomplished via liability transfer transactions between sub-components.

Further, we would consider it appropriate even after a liability transfer, that financial events continue to be communicated between the sub-components, such as when liabilities are settled for different amounts than estimated when the liabilities were transferred. We believe information would be exchanged between sub-components so that the original sub-component causing the liability should adjust their cost up or down to reflect actuals, with corresponding adjustment to the liability transfers. This would keep the cost recognition properly placed to the sub-component causing the liability, and prevent cost recognition from being assigned to the secondary sub-component who manages the liquidation or resolution of the liability.

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.

GSA RESPONSE: GSA does not agree with this cleanup cost guidance as written, respective to the direction in paragraph 13, 14 and 15 of the Exposure Draft (ED).

1) The wording of paragraph 13 does not sufficiently address issues agencies face when multiple components are involved with cleanup cost liabilities. The component reporting entity recognizing the general PP&E may not be the potentially responsible party for the cleanup costs. (i.e. no anticipated future outflow of resources). Multiple entities may meet this criteria as having recognized a particular PP&E asset “*during its useful life*,” especially with land. Further, transfers of PP&E often contain agreements requiring associated liabilities to be retained by the transferor entity. Accordingly, when multiple entities meet the criteria of having held the asset, it is unclear in this guidance whether the cleanup liability would be reported by: 1) the component currently recognizing the asset in its balance sheet; 2) the entity that carried the asset for the longest period of its useful life; 3) the entity that reported the asset while the majority of the environmental hazards requiring cleanup were created; 4) or some other trigger like legal decree or component providing environmental cleanup funding (obligation/expenditure driven) based upon potential assignment of costs via agreement among different agencies. We believe any entity accepting responsibility for associated liabilities should report those liabilities in its financial statements, rather than another entity that may currently be holding the land and reporting it on its Balance Sheet.

Based on our understanding of current FASAB standards, as a component reporting entity, GSA currently discloses in agency financial notes any cleanup costs (SFFAS 5 (par.36) and SFFAS 6 (par. 92)) for sites held by GSA, even when there is an agreement with another Federal agency to pay for cleanup. In such cases GSA discloses estimated costs as ‘reasonably possible,’ since GSA may have full responsibility for the cleanup should the other Federal agency fail to perform. This disclosure by GSA creates the risk of potential overlapping/duplication of such disclosures made by other agencies at the government-wide consolidated reporting level. Please see the GSA example below.

Example 1: Curtis Bay, MD (MD0665AL) - GSA includes this asset in its real property inventory and records the asset value for the land on the balance sheet, however the cleanup cost liability is **NOT** reported on balance sheet. GSA reports ‘reasonably possible’ \$5.6M in footnote disclosures, representing a potential risk that agencies currently funding costs may be

unable to complete the efforts, and GSA as the holding agency could be named the PRP and have to assume responsibility for some cleanup costs.

Curtis Bay, MD was the original U.S. Army Depot built in 1918 on 798 acres of farmland. Additional acreage was acquired, making the site total 815 acres. The site was used by the U.S. Army for receiving, shipping, and storage, and as an ordnance Depot from 1918 until the mid-1950s. From 1919 until sometime in the 1950s, the function of the Depot was storage and maintenance of ammunition. Between 1958 and 1966, approximately 37 acres were reassigned to the U.S. Army Reserve. In the late-1950s, the National Defense Stockpile became a tenant and began storing strategic materials (bulk ores, minerals, and metals). Also, the Depot began receiving post-Korean War munitions for processing and/or disposal. **In 1965-1966, the remaining 778 acres were reported excess to the GSA which then decided to assume accountability for the facility.** Since that time there have been several transfers of land to Anne Arundel County and the Maryland Department of Transportation, resulting in the current Depot acreage of 463. In the early 1980s, the Stockpile Program assumed the management functions for the GSA property. **In 1988, when the Stockpile function was transferred from GSA to the DLA, the Stockpile Program continued to manage the property for GSA. Beginning in FY12, DLA assumed management including funding of remediation efforts including studies.**

2) We disagree with this guidance as written under Par. 14 of this ED. We take exception to the sentence, *“Instead, the component reporting entity receiving the asset upon its removal from service will be responsible for settling the cleanup cost liability.”* The term ‘receiving’ arguably leaves open a door for a land holding agency reporting property as excess to GSA to assert that GSA has assumed responsibility for environmental liabilities when it accepts the report of excess. GSA is the disposal agent and is not an owner or operator as it relates to the CERCLA definition of a PRP and is therefore not responsible for the environmental liability of reported excess property. We request the Board further clarify how this FASAB document is intended to be applied, respective to and in conjunction with CERCLA.

Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) (42 USC 9601 et seq.) – Federal statute (also known as Superfund) enacted in 1980 and reauthorized in 1986 that provides the statutory authority for cleanup of hazardous substances that could endanger public health, welfare, or the environment. CERCLA addresses the uncontrolled releases of hazardous substances to the environment and the cleanup of former or otherwise inactive waste sites.

Potentially Responsible Party (PRP) An individual or company (e.g., an owner, operator, transporter, or generator of hazardous waste) that is potentially responsible for the contamination... problems at a Superfund site. Whenever possible, EPA requires PRPs to clean up hazardous waste sites they have contaminated.

3) Under Par. 15 of this ED, we take exception to the sentence, *“Upon transferring the general PP&E it should also transfer the associated liability.”* See the comment above in reference to Par. 14. Regulatory agencies may identify a PRP through a Consent Order which

then requires cleanup action by the PRP. When a Federal entity is the named PRP required to fund cleanup actions, we believe the named entity should report the liability for all funds obligated or anticipated in the future to comply with the Consent Order, regardless whether the PRP happens to be the current or last Federal land holding entity of record. Also, as was noted in our response to question 2, while PP&E may be transferred amongst Federal agencies, associated liabilities are normally specifically addressed in transfer agreements, with liabilities generally remaining the responsibility of the transferor. Accordingly, we do not concur that such associated liabilities should be reported by the transferee entity as required by this paragraph, but should instead remain on the books of the entity responsible to address and liquidate the liability in accordance with a transfer agreement.

Example 2: Lakeland, FL (FL0003ZZ) - GSA disposed of this asset and removed it from its asset inventory. Subsequently however the cleanup cost liability was reported on the balance sheet during 2015 through 2017, and closed out by end of 2017. GSA reported a 'probable' environmental liability of \$155k during Q1-Q3 in FY 2017.

This 2.4 acre parcel of land is a former Federally owned GSA property. In 2002, GSA conveyed the property to the City of Lakeland as a Public Benefit Conveyance at no cost. Through a Consent Order between GSA and the Florida Department of Environmental Protection, as modified in 2015, GSA was responsible for completing a site assessment and to propose an appropriate remedial strategy to address all contamination at the site. On Sept 29, 2015, GSA awarded a contract to conduct a contamination study, with one option year to implement an approved remediation plan. (Feb. 10, 2017) Letter from FL DEP to City of Lakeland Re: Conditional Site Rehabilitation Completion Order. FL DEP reviewed the No Further Action with Conditions Proposal, dated Sept. 1, 2016, and stated that the City of Lakeland has met the criteria in Chapter 62-780, F.A.C., including commitments with respect to the institutional controls and recordation of institutional controls. That letter served as closure documentation for the cleanup liability at this site.

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.

GSA RESPONSE: Yes, we believe there are additional situations where multiple components and/or subcomponents have overlapping or joint responsibilities for settlement of liabilities. This is not unusual for instances in complex acquisitions when multiple Federal entities are involved. One component may have primary lead responsibilities and management of an acquisition, with another component also receiving significant or substantial elements of the acquisition, and a certain amount of shared benefit or elements of joint-use. It is not always clear whether recognition of liabilities related to acquisition costs should always fall to the entities based on their funding splits, or another method, such as based on received benefit.

Another area that may warrant clarity with this FASAB guidance are liabilities associated with projects or activities where one component provides funding to another component for management and execution of activities via parent-child allocation accounts. Under OMB Circular A-136 and A-11, activities funded through allocation accounts are generally to be reported in the financial statements of the “parent” entity funding the activity, and not the “child” entity that is executing and managing the day-to-day program activity. There are very limited instances (such as where the original funding sources is from the Executive Office of the President or other accounts named by OMB) where the “child” entity includes the financial activity in its component financial reporting

- 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”?**

GSA RESPONSE: Yes, we do believe additional general principles should be included to provide the Federal financial community with a basis for making determinations when other similar or complex liabilities arise and multiple components are involved. However, we do not believe the general statement quoted above in this question provides the clarity needed. With the wording in that quote that, “the liability should be recognized by the sub-component reporting entity designated to handle various aspects,” it reads as if each “aspect” or particular “aspects” may be reported by the component responsible to manage that aspect, which would be contrary to the direction we interpret this exposure draft requires for contingencies and clean-up cost liabilities. The guidance would need to clarify which “aspects” become the driving factors to determine which entity will have reporting responsibility for different parts of a liability, and if/when parts of a liability may be divided amongst multiple components. We also suggest that such additional guidance clarify the inter-related elements of cost recognition with the liability recognition, and not exclusively focus on the liability. The

FASAB's Technical Bulletin 2017-02, *Assigning Assets to Component Reporting Entities* does not make clear if determinations used for assignment of assets to a particular component are to be matched with associated liabilities, or more specifically, if/when recognition of assets by components may appropriately diverge from the recognition of related liabilities, and how any such divergence should be reflected in financial reporting. Making determinations regarding reporting asset and liability combinations is especially challenging when agencies face situations where a component or sub-component providing funding (and liable for costs) of a particular asset or cost of activities is not necessarily the same component receiving the primary benefit of the activity/asset.

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

RESPONSE: We suggest additional clarification be provided regarding the financial reporting presentation of transactions and disclosures presented in this ED. The current paragraph 16 of the ED discusses de-recognition and recognition of general PP&E and associated liabilities should be recorded following existing standards, and paragraph A25 indicates that existing GAAP is sufficient to address disclosures of the activity addressed in this ED. We would request this guidance be more specific as to which other existing standards (and preferably specific paragraphs) are to be applied for determining transactional impacts and disclosures.

The paragraphs A23 and A24 in the Basis for Conclusions discuss transfers often involved with PP&E and associated clean-up liabilities. Yet in the example of the debit and credit to be recorded when a liability is transferred to another entity, rather than crediting Financing Sources Transferred In/Out Without Reimbursement, the example shown indicates the credit should be to Imputed Financing Sources. It is not clear why Imputed resources are impacted, especially as the associated narrative paragraphs repeatedly discuss this activity as being transfers. Further, while the narrative indicates that a related asset and liability would be transferred together, the example displays only the liability and not the associated asset being impacted, such as one might expect with compound transactions often used for asset/liability transfers. It would also be helpful for such displays of transactions to include the transactions recordable by the agency/component that the liability was being transferred to. Other existing guidance does provide examples of where Imputed Financing Sources are used in transactions with cleanup liabilities, such as when the Treasury Judgement Fund (JF) makes settlement payments on behalf of the agency component responsible for the liability, but JF issues are not discussed in the ED.

Further, if Imputed Financing Sources are regarded as the appropriate credit for transfer transactions we have additional concerns. With the issuance of SFFAS 55, *Amending Inter-entity Cost Provisions*, the risks of potential imbalances at the government-wide reporting level increased, since business-type entities are required to recognize imputed transactions in more circumstances than non-business-type reporting entities. From our understanding of SFFAS 55, the types of intra-agency transfers discussed in this ED appear to be of a type that non-business entities would not be required to recognize imputed cost impacts (with an exception for Judgement Fund activity specifically included under SFFAS 55). This could create potential imbalances as one entity's imputed resources are not always reciprocated with offsetting imputed costs in the Treasury FR. Traditional transfers (other than imputed-types) of financing

sources should create offsetting records which are eliminated in the consolidation for government-wide reporting.

It was also noted in multiple instances in the ED, particularly paragraphs 13 through 16, references to liabilities associated with general PP&E, as if this guidance was specific to liabilities of those particular assets. It is not clear why similar liabilities related to stewardship PP&E (especially land and other stewardship assets requiring environmental clean-up), would not have been discussed, or mentioned as also being applicable. The guidance should make it clear whether the liability treatment discussed in the ED is limited, such as to G-PP&E vs Stewardship PP&E, and if any there are any uniquenesses in treatment of liabilities when the associated asset categories are different.

GSA Comments on FASAB ED - Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities

Section	Page	Sentence	Reason	Proposed Change	Commenter	Contact Info
Proposed Interpretation	Page 10 Par. 5.a & 6	"Liabilities generally should be reported by the component reporting entity for which the future outflow or sacrifice of resources..."	Unclear	Add footnote/explain when this would not be the case.	Curt Bartlett	202 297 1833
Proposed Interpretation	Page 10 Par. 8	"Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recongize or disclose."	Unclear	Add footnote/explain when this would not be the case.	Curt Bartlett	203 297 1833
NA	NA	NA	Unclear	Define terms used to help with clarification Consider an Appendix C for terms such as, imputed costs; contingent liabilities; business-type activities useful life,etc.	Curt Bartlett	204 297 1833