



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

MAR 11 2019

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Exposure Draft—*Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*, dated October 17, 2018.

Please find enclosed answers to the questions that were asked of respondents. If you have any questions, please contact me at (202) 482-1207 or galston@doc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gordon T. Alston", written over a horizontal line.

Gordon T. Alston
Director of Financial Reporting and Policy,
Internal Controls, and Travel

Enclosure

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 type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

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.

The Department disagrees with the draft Interpretation of SFFAS 5 regarding guidance on contingent liabilities. The draft guidance in the Department's opinion does not provide the appropriate level of flexibility to reporting entities as to the manner it may want to ***properly in accordance with SFFAS 5*** distribute the recording of contingent liabilities in cases where there is more than one sub-component reporting entity involved. For example, a reporting entity may prefer that the sub-component reporting entity designated to manage litigation also further be responsible for communicating the needed information to the other applicable sub-component reporting entity(ies) (the sub-component(s) where the liability/payment will ultimately be incurred) so that this applicable sub-component reporting entity(ies) can record the contingent liability. This treatment would be in accordance with Paragraph 5.a. of the draft guidance which states, "Liabilities generally should be reported by the component reporting entity for which the future outflow or sacrifice of resources is probable and measurable."

The reporting entity may strongly prefer that the above described alternative process be in place rather than the draft guidance requirement that the sub-component responsible for managing litigation record all of the contingent liabilities. Furthermore, the sub-component reporting entity(ies) where the liability/payment will ultimately be incurred may strongly believe that it should record the contingent liability for completeness and accuracy of its financial data, including for purposes of reporting to management. The Department therefore believes that the interpretation should ***also*** allow for a contingent liability to be recorded by the appropriate subcomponent(s) and ***not only*** by the sub-component that manages the liability. The Department accordingly believes that Paragraph 8 is inappropriately restrictive to reporting entities where it states, "Other involved sub-component reporting entities should not (Departmental emphasis please on key words "should not") report information on contingent liabilities managed by another sub-component reporting entity." Reporting entities need appropriate flexibilities to determine the best/preferred ***proper (in accordance with SFFAS 5)*** treatments of individual cases of contingent liabilities involving more than one sub-component, in order to meet the reporting entity's and component reporting entities' ***proper*** specific needs and preferences.

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.

See the Department's response to 1a. The Department believes that ***both approaches as set forth in its response to question 1a.*** should ***be allowable*** as the Department believes that both approaches are ***proper in accordance with SFFAS 5.***

- 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.

The Department agrees with this portion of the draft Interpretation. Specifically, the Department supports the Board’s proposed guidance and believes that its issuance would facilitate accurate financial statement presentation of cleanup costs at all reporting entity levels. Reporting the cleanup cost liability 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 appears reasonable because per Paragraph 13, SFFAS 6 guidance presumes the cleanup cost and the associated general PP&E would be recognized by the same component reporting entity.

- 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.**

The Department is not readily aware of any liability situations or similar examples that would allow it to comment at this time.

- 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”?

No, the Department believes that an additional general principle similar to what is currently set forth in the draft guidance for contingent liabilities and cleanup costs should ***not*** be included for various other types of liabilities, as individual circumstances for varied types of liabilities may not similarly apply to the draft guidance for contingent liabilities and cleanup costs.

The Department believes that the possible general principle for additional liabilities set forth in this question would be inappropriately restrictive, similar to the Department's comments to questions 1a. and 1b. Reporting entities need appropriate flexibilities to determine the best/preferred ***proper (in accordance with SFFAS 5)*** treatments of individual cases of various other types of liabilities involving more than one sub-component, in order to meet the reporting entity's and component reporting entities' ***proper*** specific needs and preferences.

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

The Department does not have any other comments or suggestions on the Interpretation.