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Sent: Monday, March 11, 2019 2:38 PM
To: FASAB
Cc: Batchelor, Melissa L; DiGiantommaso, Jennifer M. - OCFO; Wyes, Tesfaye T - OCFO; Maurer, Jennifer - OCFO; Simpson, Cynthia - OCFO; Sacchetti, Dylan M - OCFO
Subject: US DOL/OCFO/DFR Comments on FASAB Exposure Draft, "Guidance on Recognizing Liabilities . . . "

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), Division of Financial Reporting (DFR) on the exposure draft (ED) of proposed Interpretation of Federal Financial Accounting Standards, "Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 (October 17, 2018)." Comments were requested by March 11, 2019. DOL/OCFO/DFR is a Federal entity preparer.

We appreciate the opportunity to provide comments. If there are any questions, please contact:
 Cynthia Simpson, simpson.cynthia@dol.gov or
 Jennifer DiGiantommaso, DiGiantommaso.Jen@dol.gov

Regards,

Cynthia D. Simpson
 U.S. Department of Labor
 Office of the Chief Financial Officer
 Division of Financial Reporting

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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.
- 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.

DOL/OCFO/DFR Response:

Clarifications are needed. The Interpretation is unclear as to the use of the terms "sub-component reporting entity" and "financial statements." A "sub-component reporting entity" is different from a "sub-component of a component reporting entity" or a "sub-component of a reporting entity." Also, "financial statements" are different from "General Purpose Federal Financial Reports (GPFFR)."

Paragraphs 8, 9, and 10 refer to "sub-component reporting entities."

SFFAS 47, paragraph 8 (excerpt) states:

"Reporting entities are organizations that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one."

Proposed Interpretation, paragraph 4 (a reference to SFFAS 47, paragraph 10, excerpt):

Component reporting entities would also include sub-components (those components included in the GPFFR of a larger component reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

Because the term "reporting entity" is defined as an entity that issues GPFFR, a more inclusive definition would be "sub-component of a component reporting entity" or "sub-component of a reporting entity" to include both types of sub-components: those that issue GPFFR and those that do not. The estimated cost associated with the contingent liability would be reported (1) in standalone GPFFR of sub-components that issue GPFFR and (2) in the disaggregated Statement of Net Cost (as required by Note 22 in OMB Circular A-136) for both types of sub-components (those that issue standalone GPFFR and those that do not).

"Financial statements" may be prepared for internal management purposes and for interim periods; they may exclude certain required annual accruals and adjustments; and they may exclude certain financial statements and disclosures which would otherwise be required under GAAP (e.g., exclusions could be: note disclosures that are an integral part of the financial statements; certain statements, such as the Statement of Budgetary Resources which is not required to be submitted as part of third quarter interim statements per OMB Circular A-136; and RSI/RSSI). However, GPFFR would include the financial statements and disclosures required by GAAP. Therefore, if the Interpretation refers to "financial statements," it should be clear that these are GPFFR.

a. Disagree. The standard for full cost, management's judgment, and materiality should be used to determine which sub-component should report the estimated cost and corresponding contingent liability; FASAB could instead issue general guidelines for determining which sub-component should do the reporting. It is also possible that an estimated cost and contingent liability may be not insignificant for a sub-component, but be immaterial or reported as "costs not assigned" and an "other liability" on the component reporting entity's (consolidated) GPFFR and due to immateriality would not be disclosed. The legal letter provided by the component reporting entity's attorney may

provide information needed for the sub-component (whose actions gave rise to the litigation) to record and disclose the contingent liability.

b. Refer to response in 1a.

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.

DOL/OCFO/DFR Response: Agree. Liabilities for environmental and disposal liabilities should be reported and disclosed for the component reporting entity that reports the PP&E on the balance sheet. The costs (clean-up costs) and associated liability should be matched to the benefits obtained from the use of the asset.

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.

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”?

DOL/OCFO/DFR Response:

3a. No. The Interpretation should be limited to contingent liabilities and cleanup costs.

3b. No. The Interpretation should be limited to contingent liabilities and cleanup costs.

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

DOL/OCFO/DFR Response:

In paragraph 17, the requirements of the Interpretation should be effective for reporting periods beginning after September 30, 2020, but still permit early implementation.