

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.”

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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.

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

DOI Response: DOI bureaus generally agree with the proposed guidance. The sub-component managing the litigation would have all the pertinent information. Upon settlement, the sub-component designated to pay the liability should report it. This would prevent unnecessary elimination entries for the reporting entity.

However, one DOI bureau disagrees with the proposed guidance and provided the following comments: The guidance assumes that a certain organizational structure dictates the reporting structure and appears to be more of an operational than an accounting issue. Reporting entities with adequate communication processes may prefer to have the reporting remain within the entity whose actions gave rise to the litigation; thereby managing the entire process from cradle to grave, which may reduce the accounting transactions required and thus reduce reporting errors including inadvertently omitting cases (perhaps due to the timing of the transfer between entities).

- 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.**

DOI Response: DOI bureaus agree that the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5 as long as the entity's guidance to the sub-component entities are clear. Some entities already have robust reporting processes for contingent liabilities. These entities should be allowed to keep the current efficient processes as no additional benefit would be realized and additional cost may be incurred. By allowing multiple entities to report during different stages of the processes, coordination between and among the entities will be required and may inadvertently add reporting risk that could be eliminated by the same reporting entity consistently reporting during the entire process as currently permitted in 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.

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DOI Response: DOI bureaus generally agree with the guidance. One DOI bureau, however, suggests that the guidance should only apply to “permanent” transfer of ownership of the General PP&E.

- 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.**

DOI Response: No additional comments.

- 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”?**

DOI Response: DOI bureaus generally agree with an additional general principle and the proposed wording.

However, one DOI bureau has the following caution: It is important that a component reporting entity have reporting flexibility that best applies to the operational structure without being prescriptive in the Interpretation. Communication among and between the sub-components is a key, required element in the process. The more “handoffs” of reporting responsibility, the more points of failure are introduced.

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

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DOI Response: The Interpretation address cases not in litigation within Footnote 2, “Other contingent liabilities may be considered if appropriate and reasonable. While the leeway is recommended, coordination between the entities is desirable so that the originating organization isn’t absolved of responsibility as the legal claim is managed through the settlement process.

The Interpretation concentrates on those situations where a settlement against the government occurs. Many cases are settled in the government’s favor. It isn’t clear that the managing entity should remove the liability, i.e., no payment is required.

A more definitive explanation of “Terminology, definitions, and language presented in TB 2002-1 are not consistent with SFFAS 47” would be helpful (quote from A10.a); especially if a TB to rescind TB 2002-1 is forthcoming. It is unclear what the specifics are that would cause TB 2002-1 to be rescinded.

As a federal entity, we are increasingly aware of and concerned that whenever large, complex organizations cite reporting difficulties because of organizational structure, lack of sufficient documentation, or the potential of reporting inconsistencies within the entity that FASAB makes recommendations relieving these issues. This can create an additional workload for those entities that are less complex with little benefit realized but with incremental costs, i.e., entities have to ensure they still comply with the Standard, Interpretation, etc.