

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

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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.**
- 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.**

A1. Treasury does not have any objection to the guidance regarding contingent liabilities involving multiple component liabilities. The guidance is in line with current Treasury Standard Operating Procedure for component/ sub-component reporting and responsibility segmentation as required by the existing FASAB standards, which include but are not limited to SFFAS No. 4 (*Managerial Cost Accounting Concepts and Standards for the Federal Government*) & SFFAS No. 55 (*Amending Inter-entity Cost Provisions*).

However, Treasury would like to add a comment to further clarify the ED SFFAS 55 guidance as-is. SFFAS No. 4 specifies the standards for reporting entity's management to define and establish the responsibility segments (sub-components to process and pay claims), and method to measure full cost of goods and services provided, including inter-entity costs, to report for such litigation support function. The verbiage for this reference is as follows: "The inter-entity costs should also be assigned to the responsibility segments that use the inter-entity services and products." (SFFAS No.4 par 122).

Meanwhile, SFFAS No. 55 states that "Although recognition of inter-entity costs by activities that are not business-type activities is not required, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs." (SFFAS No. 55 par 7). Our concern relates to the consistency among SFFAS No. 4 and SFFAS No. 55, with respect to the new SFFAS No. 5 interpretation guidance. The proposed interpretation does not fully address possible discrepancies among various SFFASs with regards to the requirement of imputed cost/ financing recognition, as the SFFAS No. 55 verbiage language indicates electing options. We suggest striking out the relevant portions of the SFFAS No. 4 verbiage, where any potential inconsistency with SFFAS No. 55 guidance exists.

- 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.

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

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A2. Treasury does not have any objection to the guidance regarding cleanup costs covered by this Exposure Draft.

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”?**

A3. Treasury is not aware of other liability situations or scenarios when a similar condition occurs, other than contingent liabilities and cleanup costs.

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

A4. Treasury does not have any other comments or suggestions.