



Federal Accounting Standards Advisory Board

April 6, 2018

Memorandum

To: Members of the Board

From: Wendy M. Payne, Executive Director
Monica Valentine, Assistant Director
Ross Simms, Assistant Director

Subj: Financial Reporting and Classified Activities – **Tab H-Attachments**¹

MEMBER ACTIONS REQUESTED:

- Please review the attached responses.

MEETING OBJECTIVES

- Provide staff direction regarding any changes to the proposed standards

BRIEFING MATERIAL

Attachment 1 provides the responses to the exposure draft.

Attachment 2 provides the exposure draft.

Staff analysis will be provided prior to the meeting.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

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Q1	<p>Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.</p>
	<p>Do you agree or disagree with the Board's overall proposed approach for protecting classified information?</p> <p>Agree</p> <p>Please provide the rationale for your answer.</p> <p>HUD agrees with the Board's overall proposed approach to protecting classified information. This approach protects classified information that may be revealed through a FASAB Interpretation, yet still allows the Board to weigh-in on the accounting treatment or presentation of that classified information. HUD is in agreement that classified information should always be protected from unauthorized disclosure.</p>
Q2	<p>The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.</p>
	<p>a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position?</p> <p>Agree</p> <p>Please provide the rationale for your answer.</p> <p>HUD agrees with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position. This is the best possible scenario because it meets the objectives of EO 13526; by protecting classified information, yet “demonstrating a commitment to open government”.</p>
	<p>b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, <i>Reporting Entity</i>, when necessary to protect classified information?</p> <p>Agree</p> <p>Please provide the rationale for your answer.</p> <p>If an entity's identification would disclose there is classified information, it makes sense to include that organization in another entity. Financial information will be transparent without identifying classified information.</p>
	<p>c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information?</p> <p>Agree</p> <p>Please provide the rationale for your answer.</p> <p>HUD agrees with permitting modifications, including omissions, to RSI, if the alternative would lead to disclosure of classified information. To do otherwise, would potentially jeopardize classified information.</p>

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

Q3	<p>In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:</p> <ol style="list-style-type: none"> development of classified proposals, comment on the proposals from individuals and organizations holding appropriate clearances, consideration of comments, and issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)
	<p>Do you agree or disagree with the proposed approach?</p> <p>Agree</p> <p>Please provide the rationale for your answer.</p> <p>HUD agrees with the proposed approach. This approach balances the need to protect classified information, with the need for FASAB to provide guidance and due process.</p>
Q4	<p>The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.</p> <p>Do you agree or disagree with the conditions necessary to apply the proposed Statement?</p> <p>Agree</p> <p>Please provide the rationale for your answer.</p> <p>HUD agrees with the proposed conditions. These conditions protect classified information through aggregation of data, yet allow properly cleared auditors to reconcile aggregated data to schedules and other documentation. This balances the need for protecting classified information, with accountability and openness of government. Adequate documentation must be maintained to support classified information.</p>

Q5	<p>The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.</p>
	<p>a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Agree Please provide the rationale for your answer. HUD agrees with the disclosure requirements in paragraphs 10 through 14 of the proposed standard. These proposed disclosure requirements allow reporting entities the flexibility to determine whether disclosing the fact that certain presentation may have been modified in accordance with the Statement or related Interpretations, will reveal the presence of classified information. The reporting entities in custody of this classified information are best suited to determine if the mere disclosure of the presence of such information, jeopardizes national security in some manner.</p> <p>b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Agree Please provide the rationale for your answer. HUD agrees that component entities may choose to consistently disclose that certain presentations may have been modified. The rationale for this answer is the same as that for “a” above; the component entity that is presenting the information, is best suited to determine whether the mere disclosure of the presence of such information, even at the aggregate level, either jeopardizes this information, or does not.</p> <p>c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer. HUD does not believe that every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified. Revealing the mere presence of such information, in a particular reporting component, may compromise the classified information or the underlying reporting component entity that generated the classified information.</p>



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March 5, 2018

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
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Washington, DC 20548

RE: Proposed Statement of Federal Financial Accounting Standards, *Classified Activities*

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Statement of Federal Financial Accounting Standards, *Classified Activities* (the Exposure Draft or ED). We support the Board's efforts to address the challenges posed by the financial statement presentation of classified activities.

We believe there are certain aspects of the ED that are unclear, which will make implementation difficult. Therefore we provide the following comments segregated between "key issues" and "other comments" for the Board's consideration.

Key issues

Link to Underlying Concepts

Statement of Federal Financial Accounting Concepts (SFFAC) 8, *Federal Financial Reporting*, describes overall federal financial reporting objectives. Specifically, paragraph 16b of SFFAC 8 describes the objective of reporting operating performance as follows:

"Operating Performance. Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities."

The objective of the guidance proposed in the ED appears to be contrary to this objective for reasons that we understand and that we believe most financial statement users will understand as well. However, we believe the Board should be explicit about the fact that the ED's proposed guidance represents an exception to the objective of reporting operating performance as described in SFFAC 8 that is being undertaken for reasons of national security.

Complexity

The brevity of the standard implies a simplicity in its application. As we considered several possible scenarios under this proposal, we realized that each masking decision leads to other decisions that take the preparer further away from the stated objectives in SFFAC 8. We provide an example in Appendix 1 to illustrate a possible chain of decisions. We encourage the Board to include an illustrative example in the final standard.

In light of the potential complexity, we encourage the Board to reconsider whether a simple omission of classified information from the general purpose federal financial report (GPFFR) with disclosure that certain financial statement presentations and/or disclosures have been omitted to protect classified information would be more true to the reporting objectives of SFFAC 8 than the potentially numerous modifications of financial statement presentations and omissions of disclosures/required supplementary information.

Disclosure

We believe that component reporting entities should be required to disclose that modifications of presentations and omissions of disclosures were made. We recognize that the Board has put forward this proposal in the interest of national security; however, allowing entities to modify presentation and disclosures of the GPFFR without alerting the user impedes a user's ability to assess how much weight to place on reported results in evaluating an entity's operating performance.

We recommend that the Board replace paragraphs 10 and 11 with the following: "When financial statement presentations have been modified, or required disclosures have been omitted, to protect classified information, component reporting entities (CREs) should disclose that such modifications and/or omissions occurred. The disclosure should state that the financial statement presentations have been omitted and/or related disclosures have been modified to protect classified information."

Paragraph A11 indicates that classified (not publicly available) GPFFR will conform to U.S. GAAP without the application of this standard. However, unclassified (publicly available) GPFFR also will conform to U.S. GAAP with the application of this standard. We are concerned that an entity could present two dramatically different GPFFRs that conform to U.S. GAAP yet not disclose why they are different.

Future Interpretations

The forward to the FASAB Handbook indicates that "Interpretations clarify original meaning, add definitions, and provide other guidance for existing SFFAS." Previous interpretations have been linked to specific standards. If the Board's intent is for future interpretations to modify the proposed requirements of paragraph 6 of the ED, we are unclear how such interpretations could override a requirement of a standard. We suggest further consideration be given to whether additional standards are needed in place of interpretations.

Appendix A indicates that future interpretations could be classified. It is not clear how management of each federal entity will be able to assert that their GPFFR have been prepared in accordance with GAAP when management does not have access to all of GAAP.

Other Comments

Paragraph 6

1. Paragraph 6 states: "Therefore, unclassified reports should be presented in a manner that protects the classified information." We are concerned that the inclusion of this statement as a GAAP requirement is, in essence, asking the auditor to opine on whether the entity protected its classified information from disclosure, which seems beyond the scope of forming an opinion

about whether the financial statements are free from material misstatement. Perhaps this sentence would be more appropriate in the introduction.

2. Paragraph 6 discusses changes to presentation and disclosure. We recommend that the Board clarify that these modifications do not extend to the underlying accounting or valuation. For example, if Asset X is presented as Asset Y in the financial statements, Asset X retains the accounting for the type of asset it is.
3. We recognize that required supplementary stewardship information (RSSI) may be eliminated as a result of one of the Board's ongoing projects, but we recommend that until such determination is made, the Board amend paragraph 6 to address whether RSSI may or may not be modified.
4. We recommend that the Board insert "classified" as follows (added text underlined): "...to protect the classified information if the modification..."

Paragraphs 10 and 11

If the Board does not require disclosure and continues with these paragraphs:

1. It is unclear if there was an intended difference between the modifications referenced in these two paragraphs. Paragraph 10 only refers to presentations while paragraph 11 covers all modifications. If both paragraphs were intended to cover all modifications, we do not believe paragraph 11 is necessary because the use of "may choose" in paragraph 10 already provides an entity the options of including or omitting a disclosure that the presentation of financial information was modified to prevent disclosure of classified information.
2. The use of "consistently" in paragraph 10 is unclear. We recommend that the Board amend this paragraph to clarify the meaning. For example, is "consistently" referring to consistency of disclosure between years for a given entity, or is it referring to consistency of disclosure among all entities' GPFFRs?
3. We recommend that the Board revise these paragraphs as follows to clarify the applicability of the disclosure (added text underlined): "component reporting entities with classified information may".

Paragraphs 9 and 12

We do not believe these paragraphs are necessary.

Paragraph 9. We do not believe it is necessary to indicate that management must maintain supporting books and records. Making that statement in this standard could indicate that such records are not required when not mentioned in other standards.

Paragraph 12. We believe this paragraph is duplicative of paragraph 6b. If the Board intended a meaning distinct from paragraph 6b, we recommend that the language be clarified.

Footnotes

1. Footnote 2: It is unclear as to whether this ED requires approval from OMB for the exclusion of a CRE. If so, it is also unclear whether the receiving CRE also needs approval for its inclusion.



2. Footnote 3: It is unclear what an “associating organization” is. It is not defined in SFFAS 47.
3. Footnote 4: The paragraph references should be 6 through 8.

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or aenelson@kpmg.com.

Sincerely,

KPMG LLP

Appendix 1

Application of Paragraph 6

Entity A has classified inventory in the amount of \$100 million, and unclassified general property, plant and equipment (PP&E) of \$200 million.

Decision No. 1 – *Financial statement presentation*

Entity A decides to modify its financial statement presentation following the proposed guidance in paragraph 6a of the ED. It decides to present the balance of classified inventory in the general PP&E balance sheet line item because that is already a large financial statement balance:

<i>Current GAAP (SFFAS 3, 6):</i>		<i>Exposure Draft:</i>	
Inventory	\$100,000,000		
General PP&E	\$200,000,000	General PP&E	\$300,000,000

Decision No. 2 – *Inventory disclosures*

After electing to modify its financial statement presentation, Entity A evaluates the disclosures for inventory.

Entity A decides to omit the inventory disclosures following the proposed guidance in paragraph 6b of the ED because Entity A no longer presents an inventory balance in its GPFFR.

Decision No. 3 – *General PP&E disclosures*

After electing to modify its financial statement presentation and omit the inventory disclosures, Entity A evaluates the required disclosures for general PP&E. These disclosures include, among other items:

- Cost, accumulated depreciation and net book value by major class
- Estimated useful lives

Entity A determines that it will be challenging to have a list of balances by major class that reconciles to the total financial statement line item. So Entity A needs to decide whether to omit some or all of the required general PP&E disclosures.

Decision No. 4 – *General PP&E RSI*

After making the above decisions Entity A evaluates the RSI related to deferred maintenance and repair for general PP&E. This decision will be influenced by the decision on the general PP&E disclosure.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

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:

Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366.

Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

VA: Agree with the Board's overall proposed approach for protecting classified information.

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

- Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.
- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.
 - b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.
 - c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.
- VA: **a. Agree with permitting reporting entities to modify presentations, disclosures, and RSI to protect classified information.**
- b. Agree with permitting certain modifications when applying SFFAS 47 to protect classified information.**
- c. Agree with permitting modifications to disclosures and RSI.**
- Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:
- a. development of classified proposals,
 - b. comment on the proposals from individuals and organizations holding appropriate clearances,
 - c. consideration of comments, and
 - d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. **Error! Reference source not found.** and **Error! Reference source not found.** for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018****VA: Agree with the proposed approach.**

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

VA: Agree with conditions necessary to apply to the proposed Statement.

- Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.
- a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.
 - b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.
 - c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

VA: a. Agree with the disclosure requirements.

b. Agree component reporting entities may choose to consistently disclose certain presentations may have been modified.

c. Disagree. Component reporting entities should not have to disclose certain presentations may have been modified, unless there are actual modifications. It would lead to questions from external parties if an agency with no expected classified activities adds a disclosure that presentations have been modified. Adding the disclosure to only entities with classified activities should not present a security concern to the United States or its citizens.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

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 checked="" 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:

Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366.

- Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

DHS Response: DHS agrees with the Board's overall proposed approach for protecting classified information. Classified information should be protected from unauthorized

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

disclosure and the proposed Statement provides general guidance for protecting classified information.

- Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.

DHS Response: DHS agrees with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position. The proposed approach balances the public's interest in financial information with the need to protect classified information.

- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.

DHS Response: DHS agrees with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information. The proposed approach balances the public's interest in financial information with the need to protect classified information.

- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.

DHS Response: DHS agrees with permitting modifications to disclosures and required supplementary information. The proposed approach balances the public's interest in financial information with the need to protect classified information.

- Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:

- a. development of classified proposals,

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

- b. comment on the proposals from individuals and organizations holding appropriate clearances,
- c. consideration of comments, and
- d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. [Error! Reference source not found.A9](#) and [Error! Reference source not found.A10](#) for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

DHS Response: DHS agrees with the proposed approach. The six-step process established in the "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board" to develop classified Interpretations is appropriate.

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

DHS Response: DHS agrees that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. This procedure allows for the review of the classified information and for auditors to examine if the modified reporting still accurately reflects the financial activity of the reporting entity. One of DHS's Components proposes that there be a requirement that classified activities be audited by cleared federal personnel in the OIG rather than contracted out to contractors to ensure that only cleared federal personnel in the OIG with the need to know have access to the classified information being audited.

DHS also agrees that documentation must be retained in the appropriate environment and/or domain to adequately support classified information and that strong internal controls should exist to safeguard the supporting documentation.

- Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

- a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

DHS Response: DHS agrees with the disclosure requirements.

b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.

DHS Response: DHS agrees that component reporting entities may choose to consistently disclose that certain presentations may have been modified

c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

DHS Response: DHS agrees that every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified.

Additional comments:

1. The Board could consider creating a new accounting category that covers spending and liabilities for all secret projects, without revealing the details of how much applies to any specific project.
2. Page 8 – definition #3: Suggest capitalizing “Original Classification Authority”.
3. Pg. 9-Application of Standards and Disclosures #6: Suggest including a form of punctuation after section “a” and “b”.
4. Pg. 13- Footnote #5: suggest adding the word “specific” before authority on the second sentence.



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

MAR 14 2018

Dear Ms. Payne,

The Department of Defense (DoD) is pleased to submit the attached comments to the Federal Accounting Standards Advisory Board on the proposed Exposure Draft (ED), *Classified Activities*. The DoD understands the importance of balancing the need for financial reports to be publicly available with the need to protect classified information from public disclosure. The DoD agrees with the proposed ED and has provided detailed responses and input in our comments attached. Thank you for considering the DoD's responses and comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Alaleh A. Jenkins", is written over a horizontal line.

Alaleh A. Jenkins

Assistant Deputy Chief Financial Officer

Enclosures:
As stated



Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. The General Purpose Federal Financial Report (GPFFR) modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

DoD Response:

The DoD agrees with the Board's overall approach for protecting classified information.

As the Board recognized in Paragraph A8 of the Basis for Conclusions in this ED, this proposed Statement permits certain techniques for protecting information within the GPFFR related to classified activities. Certain other techniques are expected to be addressed through classified guidance issued as Interpretations to this Statement.

Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.**
- b. Do you agree or disagree with permitting certain modifications when applying the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.**
- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.**

DoD Response:

Q2.a. The DoD agrees with the Board's proposal permitting reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

information (RSI) to protect classified information, that does not (1) change the net results of operations and net position.

Q2.b. The DoD agrees with the Board's proposal for permitting certain modifications when applying the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 47, Reporting Entity, and the inclusion of an organization in a manner that would not reveal classified information.

Q2.c. The DoD agrees with the Board's proposal for permitting modification of disclosures and required supplementary information.

Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:

- a. development of classified proposals,**
- b. comment on the proposals from individuals and organizations holding appropriate clearances,**
- c. consideration of comments, and**
- d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See paragraphs A9 and A10 for a more detailed discussion of the process.)**

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

DoD Response:

The DoD strongly agrees with the Board's proposal for issuing classified Interpretations of existing standards to permit other presentation and disclosure options as needed to produce the unclassified GPFFR and protect sensitive information. The DoD wants to emphasize the importance that the Board's due process maintain the appropriate protections over sensitive information, and advocates for strictly enforcing mechanisms including validating a stakeholder's need-to-know and obtaining a signed non-disclosure agreement prior to granting the stakeholder access to such information.

Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

**Do you agree or disagree with the conditions necessary to apply the proposed Statement?
Please provide the rationale for your answer.**

DoD Response:

The DoD agrees with the Board's proposal that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit and documentation be retained in the appropriate environment and/or domain to adequately support classified information.

Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

- a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.**
- b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.**
- c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.**

DoD Response:

Q5.a. The DoD agrees with the Board's proposal for disclosure requirements in Paragraphs 10 – 14.

Q5.b. The DoD agrees that component reporting entities may choose to consistently disclose that certain presentations may have been modified. The DoD plans to apply a consistent approach within the Department to meet the disclosure requirements under this proposed standard.

Q5.c. The DoD disagrees that every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified.

The DoD believes that, depending on the classified information that needs to be protected, a component reporting entity may or may not want to disclose that the report is modified. Paragraphs 10 – 14 allow for both options depending on the nature of the classified information.

Additional DoD Comments

- A. In the third paragraph, fourth sentence of the Executive Summary, recommend adding the word “future” before “Interpretations”, otherwise the reader may not know which interpretation FASAB is referring to.**

FASAB Exposure Draft: Questions for Respondents due March 14, 2017***Classified Activities***

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. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

Treasury agrees with the Board's overall proposed approach with the requirement that the modification does not change net results of operations or net position.

- Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.
- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net

FASAB Exposure Draft: Questions for Respondents due March 14, 2017***Classified Activities***

results of operations and net position? Please provide the rationale for your answer.

As stated in Q1 above, Treasury agrees with the Board's overall proposed approach with the requirement that the modification does not change net results of operations or net position.

- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.

Treasury agrees with the Board's overall proposed approach. In order to protect classified sources, methods and financial data, certain liberties must be utilized to disguise classified data yet not change the overall net results of operations or net position.

Treasury must make known our concern with the existing Exposure Draft language in paragraph 8 which it states...."The Board may issue Interpretations of existing Statements permitting other unclassified presentations and disclosure options as needed. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. Such options may modify net results of operations and net position." The ability to alter the overall results of operations or net position, as this reads, we do not agree should be allowed.

- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.

Treasury agrees with the Board's overall proposed approach to allow for the modification of disclosures and RSI in order to protect classified information. Protection of this information should outweigh the public's right to financial disclosure.

- Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:

- a. development of classified proposals,
- b. comment on the proposals from individuals and organizations holding appropriate clearances,
- c. consideration of comments, and
- d. issuance of Interpretations to individuals and organizations holding

FASAB Exposure Draft: Questions for Respondents due March 14, 2017***Classified Activities***

appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

Treasury agrees with the Board's overall proposed approach and recommends that FASAB notify the Federal reporting community when a classified interpretation is issued for comment and final form to help ensure all affected parties are informed.

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

Treasury agrees with the Board's conditions and agrees that a primary record of the classified financial and reporting information must be maintained in order to provide visibility to approved individuals for decision making purposes.

- Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.

Treasury disagrees with the disclosure requirements as outlined in paragraphs 10-14, as we believe the requirement should be mandatory for all U.S. government agencies to state that classified information may be summarized, excluded, etc. Requiring all reporting entities to disclose will provide foreign enemies with less transparency as to those agencies with classified activities.

b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.

Treasury disagrees. See above.

Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

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Treasury agrees that every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified in order to mask the agencies that do have classified information that has been modified or excluded from the financial reports.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

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:

Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366.

- Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

OPM: Agree. This approach prevents unauthorized disclosure of classified information, and it also maintains accountability. It is important to have this guidance as US Generally Accepted Accounting Principles.

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.

OPM: Agree. Please see response for Q1.

- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.

OPM: Agree. Please see response for Q1.

- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.

OPM: Agree. Please see response for Q1.

Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:

- a. development of classified proposals,
- b. comment on the proposals from individuals and organizations holding appropriate clearances,
- c. consideration of comments, and
- d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. **Error! Reference source not found.** and **Error! Reference source not found.** for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

OPM: Agree. The proposed approach provides flexibility to address special situations.

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

OPM: Agree. The accountability for the funds is maintained with this approach.

- Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.

OPM: Agree. It would be appropriate to disclose that the statements are presented in accordance with generally accepted accounting principles.

b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.

OPM: Disagree. Disclosure may be necessary in the year when the new standards are implemented only.

c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

OPM: Agree, but only in the year of implementation.



March 16, 2018

MEMORANDUM FOR EXECUTIVE DIRECTOR, FEDERAL ACCOUNTING STANDARDS
ADVISORY BOARD

SUBJECT: Proposed Exposure Draft Statement of Federal Financial Accounting Standards,
"Classified Activities"

We appreciate the opportunity to respond to the proposed Exposure Draft Statement of Federal Financial Accounting Standards, "Classified Activities." We have reviewed the document as requested, below is our response to the "Questions for Respondents." Should you have any questions or require additional assistance, please contact me or Ms. Debie Alford of my staff at debra.alford@dodig.mil or 703-601-5396.

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

A1. We agree that disclosing classified information in a way that could protect national security is an important matter that should be addressed. However, we disagree with the proposed approach for several reasons that we explain in our answers below. Where possible, we offer alternative solutions that we believe would better maintain the meaningfulness of published financial statements.

1. **Purpose of a financial statement.** The proposed guidance appears to allow entities to misrepresent their public financial statements to protect classified information. This proposal conflicts with the AICPA requirement that an auditor assess whether an entity's financial statements can be considered a fair representation of its use of Federal resources, regardless if the entity followed the accounting framework. The Board did not fully explain how it concluded that the optimal solution would be to allow reporting entities to issue unclassified, publically available financial statements that may or may not include modifications for classified transactions. It does not appear that the Board considered and coordinated other options that could be combined with current Federal standards, such as entities and auditors developing solutions that protect classified information, redacting classified information and transactions, classifying parts of the Government-wide financial statements, or requiring fewer entities to publish financial statements. These alternatives would have an effect similar to the Board's proposed solution because these options would also protect the release of classified information. The significant difference is that, with these other options, financial managers would be able to comply with the current accounting standards. In our view, these alternatives are preferable to a general practice of presenting financial statements according to a basis of accounting that only a select few understand. The Board should consider explaining its rationale for establishing nontraditional accounting practices over other generally accepted alternatives for protecting classified information.
2. **Further analysis that this proposal protects national security.** As written, paragraphs 5 and 6 of the draft standard appear to conclude that incorporating summary-level classified dollar amounts in the overall financial statement would result in public release of classified information. We do not agree that incorporating summary-level dollar amounts in the overall statements will necessarily result in the release of classified information. Further, we are not aware of any requirement or standard that the detailed dollar amounts included in a summary financial statement must be released to the public. We believe a better alternative would be for the entity and its auditors to discuss the

overall financial statement reporting of classified transactions and determine how to account for classified information in the published financial statements while still maintaining fair presentation of the statements and complying with GAAP. We request that the Board consider including this option in a revised version of this guidance.

Additionally, the Board's proposed guidance does not include consideration of other options that the DoD currently uses to protect classified information, such as issuing classified accounting reports and using redaction as a means to protect classified information. As written, it appears that the Board concluded that the only option was for agencies to prepare financial reports using accounting methods that are not considered GAAP.

Finally, the proposed guidance does not address how reporting classified dollar amounts in a different account protects the nature of the transactions, which would still be reported on the financial statement. As this draft standard states in the beginning, disclosure of dollar amounts are subject to public release. Therefore, it remains unclear how including classified transactions in nontraditional accounts prevents it from public release. The Board should clearly explain how entities would prevent public release of the information. We do not understand how reporting classified information through non-traditional accounts would protect national security.

3. **Apparent conflict with FASAB mission.** This proposed standard (including any subsequent interpretations) coupled with the lack of specific footnote disclosures, jeopardizes the financial statements' usefulness and provides financial managers with an arbitrary method of reporting accounting information. This conflicts with FASAB's accounting mission that Federal financial statement reporting be useful in assessing the:

- Government's accountability and its efficiency and effectiveness, and
- economic, political, and social consequences—whether positive or negative—of the allocation and various uses of Federal resources.

This proposed guidance is a major shift in Federal accounting guidance and, in our view, the potential impact is so expansive that it represents another comprehensive basis of accounting. The Board should reconsider this proposed guidance and explore other options for reporting and auditing classified information that allow entities and auditors to work together to ensure that information is protected and financial statement information is accurately and completely reported.

4. **Challenges in auditing the restated balances.** The proposed guidance, as written, does not address circumstances in which classified adjustments (misstatements) result in situations where auditors express concerns that go beyond presentation to concerns about

existence and completeness of account balances. The proposed guidance discusses presentation but not how displaying classified transactions in nontraditional accounts could impact an auditor's view of the existence and completeness management assertions. It is unclear how an entity that knowingly reports classified transactions in nontraditional accounts while at the same time reporting non-classified transactions in accordance with current GAAP can only be considered to have a presentation issue (captured under this proposed standard), but not also have completeness and existence issues for the accounts being represented.

Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.
- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.
- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.

A2a. We disagree for the reasons stated in answers 1 through 4 above. Specifically, allowing reporting entities to modify presentations—such as presenting amounts associated with one account in another nontraditional account and not disclosing this departure—raises questions and concerns about accounting treatment of classified transactions. These concerns include balancing the risk of releasing classified information with the need to prepare meaningful financial statements, diminishing the ability for entities and auditors to work together to fairly state and protect classified information, advocating any accounting treatment for classified transactions, and demonstrating how this proposed standard protects classified information better than current practices.

This draft standard does not adequately explain how reporting certain amounts in a nontraditional account, as opposed to the GAAP compliant account, would not present the same national security risk of releasing classified information to the public. Without more information included in this standard, users would not be able to determine the accuracy of the financial statements, with the exception of a few select individuals. As a result, financial statements would not be meaningful or comply with GAAP. As discussed in Answer 1, a better solution would be to restrict the public release of specified and documented financial statements.

A2b. We disagree for the same reasons stated in A2a.

A2c. The revisions proposed do not provide enough information for us to determine the potential impact of those omissions or non-disclosures to provide an informed response.

Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:

- a. development of classified proposals,
- b. comment on the proposals from individuals and organizations holding appropriate clearances,
- c. consideration of comments, and
- d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

A3. We disagree. Paragraph 8 of the proposed Standard states that the Board may issue Interpretations of existing Statements permitting other unclassified presentation and disclosure options as needed. Such options may modify net results of operations and net position. In our view, the use of Interpretations in this manner overreaches the purpose of an Interpretation since the Interpretation will result in non-public standards. Specifically, FASAB states that Interpretations clarify original meaning, add definitions, and provide other guidance for existing SFFAS—the Interpretations should be narrow in scope. Interpretations are not intended to change or conflict with existing standards. However, if FASAB issues classified interpretations that modify net results of operations and net position of the entity, then the Interpretation changes the published standards.

In addition, as discussed in A1, this approach would likely make the financial statements misleading to all but a select few individuals that are aware of the Interpretation. If this is the Board's approach, we recommend that it change the type of accounting to "applicable financial reporting framework" since we believe there would be uncertainty whether this approach fits into the framework of current GAAP because some much information would be unknown, entities could have different uses, and the applications of the Standard are too vague.

Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

A4. Without additional information, we cannot agree or disagree. Specifically, the intent of this requirement appears to be to provide the public assurance that, even though the financial statements and disclosures are not a fair representation of the reporting entity, the underlying transactions are audited. However, perhaps in part because of the lack of specificity in this proposed standard, a financial statement auditor might not apply audit procedures to the classified information at all, or in as rigorous a manner as the unclassified transactions. For example, it is possible that, because the entity elected to present classified transactions in a nontraditional account, those transactions would not be audited using the same procedures as the non-classified transactions in the same account. A financial statement audit only opines and audits transactions as the entity presents them in the financial statements. Generally Accepted Government Auditing Standards do not allow for another mechanism to provide any assurance other than the fair presentation of the published financial statements. We recommend that the Board consider adding specific reporting requirements related to those reconciliations, and ensure that the reconciliation process is audited or reviewed in some manner.

In addition, it is unclear what the Board or an entity would expect a “reconciliation” or “schedule” to require. Since agencies would not be prohibited from using nontraditional accounts to report classified balances, it is unclear whether the Board would permit unusual balances to be included so that classified information is not disclosed to the public. The Board should clarify whether this proposed standard, or subsequent Interpretations, could permit entities to record misstated amounts in the financial statements to mislead readers with the stated purpose of protecting classified information. We believe that no accounting guidance should allow this type of accounting entry.

Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.

b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.

c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

A5a and b. We disagree. As we disagree with the proposed basis of accounting the Board introduced, we cannot agree that entities should disclose that certain information may have been modified to protect classified information. Allowing components to state, "Certain presentations may have been modified to protect classified information," would lead the reader to conclude that the information in the financial statements is not reliable. This disclosure casts doubt on the value of the financial statements and the related audit.

A5c. We disagree for the same reason we stated in A5a and b. In addition, this could be an inaccurate or misleading disclosure if that particular entity does not report classified transactions or if the entity followed established GAAP. This disclosure risks making all entity financial statements appear unreliable. Further, we do not believe that this disclosure—or the Board's proposed guidance—would effectively protect classified information, comply with GAAP, or serve the public interest.

March 16, 2018

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

On behalf of the American Institute of CPAs (AICPA), we are providing comments on FASAB's proposed Statement of Federal Financial Accounting Standards, *Classified Activities* (Exposure Draft). Our review of the Exposure Draft was performed from the perspective of the AICPA's role in the designation of FASAB as the body to establish generally accepted accounting principles (GAAP) for federal government entities, and not to comment specifically on the proposed accounting and related questions posed in the Exposure Draft.

Overall, we recognize the challenges FASAB has encountered to ensure that classified national security information or activities is protected from unauthorized public disclosure. Based on our discussions with FASAB Appointments Panel members, representatives of a FASAB federal sponsor (the Government Accountability Office), and FASAB staff, we also understand that various other alternatives were considered prior to the issuance of the Exposure Draft that were discarded as they could not adequately protect the classified information or would result in other federal reporting challenges. In light of that fact, and our recognition of the need to ensure classified information is not disclosed publicly, we support FASAB's issuance of this Exposure Draft and the modifications that would be permitted for that purpose.

The AICPA's criteria for designating bodies that promulgate GAAP are as follows: independence, due process and standards, domain and authority, human and financial resources, and comprehensiveness and consistency. The Exposure Draft states that there may be a need for classified Interpretations when detailed guidance is needed beyond the permitted modifications described in the Exposure Draft. Due to the classified nature of these Interpretations, full due process will not be feasible. However, the Exposure Draft does describe a six-step due process procedure for classified Interpretations that would include cleared preparers, auditors, and users of classified information. We believe this proposed limited due process is adequate under the circumstances and consistent with the Board's normal due process procedures as outlined in the "Memorandum of Understanding."

However, we encourage the Board to make every effort to ensure that a representative group of stakeholders with varied perspectives and appropriate clearances be engaged in the due process of classified Interpretations as further described in paragraph A.9(d)(ii). The determination of which stakeholders have a “need to know” will be critical in that process and we encourage as broad an interpretation as possible within the realm of federal requirements for classified information. Taking this action will be important to ensure that due process is adequate for classified Interpretations going forward.

Finally, we recommend that FASAB closely monitor the implementation of this standard and the development of any future classified Interpretations from a Rule 203 perspective through the Board’s annual self-review process. Following the standard protocol established between the FASAB and AICPA, we would expect that any issues or concerns that arise relating to any of the Rule 203 criteria (e.g., reportable events) would be reported to the AICPA on a timely basis.

* * * * *

The AICPA appreciates the opportunity to comment on the Exposure Draft. This comment letter was prepared by staff of the AICPA and was not reviewed by the AICPA’s Financial Reporting Executive Committee. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,



Mary M. Foelster
Senior Director
AICPA Governmental Auditing and Accounting

cc: Susan Coffey
Carter Heim
Daniel Murrin



March 16, 2018

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19 441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its Exposure Draft of *Classified Activities*. The FMSB is comprised of 23 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately. In light of full disclosure and transparency, current members of the FMSB do not work with or provide consulting services with classified organizations within the Federal Government.

We appreciate the FASAB's continued effort in setting and providing clarification of the standards relating to the Federal Government. We have reviewed the Exposure Draft and agree with the conclusion and FASAB's overall rationale as presented in the Basis for Conclusions. We have provided our responses below based on the questions in the Exposure Draft and have provided additional comments.

Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

We agree with the overall approach. One element of national security is the ability to restrict the viewing of sensitive information. The approach is reasonable.

Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.

We agree that reporting entities should be permitted to modify their presentations when it doesn't change net results and net position. In addition, such modifications should not change the meaning of the information or be misleading.

Where we disagree is in the lack of a proposed statement to explain modifications resulting in amounts associated with one financial statement line item being presented in another financial statement line item as discussed in paragraph 6(a). Although it is difficult to analyze the circumstances in the abstract, we believe a general statement that the information has been modified or omitted is necessary for full disclosure, in order to fully inform the reader. A general statement is best since it protects the sensitive nature of the classified information, even though it may result in negative disclosure. Also, we recommend the FASAB provide clarification in the Basis for Conclusions in the proposed standard to explain the rationale for a general statement.

- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, Reporting Entity, when necessary to protect classified information? Please provide the rationale for your answer.*

We agree the reporting entities should be permitted to modify their presentations when it doesn't change net results and net position or the meaning of the information or is misleading.

- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.*

We agree the reporting entities should be permitted to modify their presentations when it doesn't change net results and net position or the meaning of the information or is misleading.

- Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:*
- a. development of classified proposals,*
 - b. comment on the proposals from individuals and organizations holding appropriate clearances,*
 - c. consideration of comments, and*
 - d. issuance of Interpretations to individuals and organizations holding appropriate clearances.*
- (See par. A9 and A10 for a more detailed discussion of the process.)*

We agree with the proposed standard. The process follows a rational due process approach for a complex subject

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information. Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.*

The following sentence in paragraph 9 is difficult to analyze: "Recorded amounts related to classified information must reconcile in aggregate to schedules or other documentation subject to audit." We recommend FASAB answer the following questions to provide better clarity:

How do "schedules or other documentation" relate to the financial statements?

How does “reconcile in the aggregate” relate to the financial statements?
Does this mean that the financial statements also reconcile in the aggregate?

We believe by addressing the above questions in either paragraph 9 or in the basis of conclusion will provide clarity for the preparer of the financial statements.

Q5. *The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.*

a. *Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.*

We disagree regarding the preparer having the option whether or not to disclose modifications. We believe the reader should be informed of any modifications however we also believe that disclosure should be general in nature, so it cannot be specifically identified with classified information or entity.

b. *Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.*

c. *Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.*

We believe every component reporting entity should disclose the presentation has been modified and the general effect of such modification because such disclosure is necessary for a full understanding of the reporting entity. Although, it is difficult to analyze the circumstances we believe a general statement that the information has been modified or omitted is necessary to for full disclosure and to fully inform the reader. The Basis for Conclusions in the proposed standard does not explain the rationale for not requiring a general statement.

In general, we recommend for paragraph 6a that the preparer inform the reader of any modifications; however, we also believe that the information provided should be general in nature, so it cannot be specifically identified with classified information or entities.

In paragraph 6b regarding the omission of required disclosures we recommend the FASAB should clarify that omitted disclosures should not negatively affect other financial information.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Lealan Miller, Chair at lmiller@eidebailly.com or at 208-383-4756.

Sincerely,



Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: James “Jim” R. Arnette, Jr. CGFM, CISA, AGA National President

Financial Management Standards Board
July 2017 – June 2018

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March 16, 2018

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6H19
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standard *Classified Activities*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views, and the hard work and dedication by the Board Members and Staff on their contributions to improving federal financial reporting.

Our responses to the ED questions are included below.

Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

A1. The FISC agrees with the Board's proposed approach for protecting classified information.

Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.
 - b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.
 - c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.
- A2. The FISC agrees with the Board's proposed approach to modify unclassified financial statement presentations, disclosures and RSI to protect classified information. However, we suggest the following points for consideration:
- a. In addition to the considerations of classified information and its impact to net results of operations and net position, the FISC suggests that the Board consider the impact of classified information on total budgetary resources. If the Board's intent is to purposefully include or exclude total budgetary resources from this Standard, then the FISC suggests that the Board address this matter in the final Standard.
 - b. The FISC suggests that the Board include in the final Standard whether a modification could be so material that the overall financial statement presentation no longer represents a fair presentation of the financial position and operations of the entity.
 - c. The FISC suggests that the Board consider additional guidance or action on ensuring the consistent classification and presentation of transaction cycles or end items among component reporting entities. Such discussions could occur through a Board-appointed or Board-sponsored working group, which would include a representative group of stakeholders, to evaluate the consistent application of this Standard among reporting entities.
- Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:
- a. development of classified proposals,
 - b. comment on the proposals from individuals and organizations holding appropriate clearances,
 - c. consideration of comments, and

- d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

- A3. The FISC agrees with the Board's proposed approach. However, we suggest that the Board make available to the general public (such as via the FASAB's website) the titles or at least the number of classified interpretations issued by the Board. We also suggest that the Board inform the general public (again, such as via the FASAB's website) when a classified interpretation has been issued for comment and when it has been issued in its final form. These actions of public disclosure will ensure that all parties are aware of the activity associated with classified interpretations; and those who meet the definitions prescribed in paragraph A9 are properly informed.

Further, the FISC encourages the Board to make every effort to ensure that a representative group of stakeholders with varied perspectives and appropriate clearances be engaged in the due process of classified Interpretations. Engaging a broad cross-section of stakeholders would help protect the integrity of the Board's due process.

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

- A4. The FISC agrees with the conditions necessary to apply the proposed Statement.

- Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

- a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.
- b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.
- c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

- A5. The FISC does not agree with the elective nature of paragraphs 10 and 11, which permit the preparers to determine whether to inform or not inform the readers of the GPFFRs whether modifications have been made to protect classified information. The FISC members do not believe that election is consistent with the FASAB's Concept Statements, specifically Statement of Federal Financial Accounting Concept No. 8, *Federal Financial Reporting*. We suggest that the Board

Ms. Payne, Federal Accounting Standards Advisory Board

March 16, 2018

revise paragraph 10 to mandate the use of the example summary of significant accounting policies, and delete paragraph 11.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Andrew Lewis". The signature is fluid and cursive, with a large, stylized "L" at the end.

Andrew C. Lewis
FISC Chair

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

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:

Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366.

- Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting

Agree, additional guidance is necessary to protect classified information in GPFFR while maintaining compliance with GAAP. FASAB Board classified Interpretations would provide additional guidance and clarification for agencies to follow when there is a need to protect classified information in the GPFFR.

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.

Agree from an accounting standpoint, the protection of classified information and national security takes precedence over financial statements.

- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.

Agree. The protection of classified information and national security takes precedence over financial statements.

- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.

Agree. It is in the best interest of national security to allow for modification to the presentation of balances and reporting entity in the GPFFR. This would help protect classified information from unlawful disclosure.

The protection of classified information and national security takes precedence over financial statements.

Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:

- a. development of classified proposals,
- b. comment on the proposals from individuals and organizations holding appropriate clearances,
- c. consideration of comments, and

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

- d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

Agree, there definitely needs to be a limited audience/participative base to protect the discussion of need-to-know information.

Classified interpretations will be important for producing GPFFRs in compliance with Federal GAAP. The current lack of guidance leaves accounting practices open for interpretation, creating an environment where financial reporting preparers, reviewers, and independent auditors may arrive at different conclusions that impact the financial statements.

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

Agree. It is important to demonstrate the completeness of accounting information so that it properly reconciles with other information within the GPFFR. Additional FASAB Interpretations would help clarify accounting practices designed to accurately reflect balances on the GPFFR.

- Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

- a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.

Agree. Protection of classified information and national security takes precedence over financial statements. The draft Exposure Draft provides each component flexibility in reporting/disclosure that is best for its organization.

- b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.

Agree. Protection of classified information and national security takes precedence over financial statements. The draft Exposure Draft provides

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

each component flexibility in reporting/disclosure that is best for its organization.

c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

Agree. Reporting entities should have flexibility to disclose, not disclose, or modify disclosures relating to the disclosure of classified information.

Recommend the use of a blanket statement for all components that states certain presentations may have been modified to help avoid accidental disclosure of classified activities. If only components that modify their presentations disclose the fact of modification, it will highlight them and increase risk of being identified/targeted.

FASAB EXPOSURE DRAFT
Classified Activities
Due Date: 16 March 2018

Please update Header and Footer to Classify as Appropriate

<i>Comment #</i>	<i>Page #</i>	<i>Line #</i>	<i>Section #</i>	<i>Element/POC and Contact Info</i>	<i>Comment Type</i>	<i>Comments</i>	<i>Rationale</i>
					Indicate (S) for Substantive or (A) for Administrative		
1	8	1	Scope	OGA	A	(U) As in the first sentence in the Executive Summary, "The Board is proposing guidance to protect classified national security information or activities from unauthorized disclosure in a publically issued General Purpose Federal Financial Report (GPFFR)" recommend adding publically issued as a modifier to the GPFFRs in the first sentence of the Scope section of the Proposed Standards.	(U) The current wording of the first sentence does not make it clear that this standard does not apply to classified financial reports. It is not until the paragraph A6 of the Application of Standards and Disclosures and that there is reference to unclassified GPFFR.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

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:

William Fleming

Please identify your organization, if applicable.

Organization: U.S. Securities and Exchange Commission

Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366.

Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

SEC response: No Comment.

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.

SEC response: No Comment.

- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.

SEC response: No Comment.

- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.

SEC response: No Comment.

Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:

- a. development of classified proposals,
- b. comment on the proposals from individuals and organizations holding appropriate clearances,
- c. consideration of comments, and
- d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

SEC response: No Comment.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

SEC response: No Comment.

- Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.

SEC response: No Comment.

b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.

SEC response: No Comment..

c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

SEC response: SEC disagrees with the potential requirement that “every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified to protect classified information.” We believe that this would be misleading and likely to cause confusion for financial statement readers, by implying that SEC is involved in classified activities. It’s likely that SEC, as well as other agencies, would receive numerous inquiries from the public and from the media by including such an unexpected disclaimer in its financial statements.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

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 checked="" type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input 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:

Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366.

- Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

Disagree. Generally Accepted Accounting Principles (GAAP) should not be modified to limit reporting of classified activities. Rather, GAAP reporting should remain the same as other Federal entities and redacted for public release or remain classified. This

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

FASAB Exposure Draft: Classified Activities**Questions for Respondents due March 16, 2018**

approach retains the benefits of GPFFR and audited financial statements in terms of improving underlying processes, systems, and controls, as well as the usefulness of GPFFR to users, even if those users are limited.

The FASAB's proposed approach could result in material omissions in GPFFR. By FASAB's own definition, "The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement." If GPFFR can be modified so material activity is no longer accurately presented to the reader of financial statements, its usefulness to public users is limited and subject to misinterpretation.

Further, there is nothing precluding a GPFFR from broadly describing activity in a summary manner, which would allow classified information to be protected. The items listed in A.3 are not required to be disclosed under existing GAAP in such detail that classified information would be jeopardized.

- *Military plans, weapons systems, or operations*
- *Foreign Government information*
- *Intelligence activities (including covert actions), intelligence sources or methods, or cryptology*
- *Foreign relations or foreign activities of the U.S., including confidential sources*
- *Scientific, technological, or economic matters relating to national security*
- *U.S. Government programs for safeguarding nuclear materials or facilities*
- *Vulnerabilities or capabilities of systems, installation, infrastructures, projects, plans, or protection services*
- *Development, production, or use of weapons of mass destruction.*

We offer two alternative approaches to reporting classified activities, in order of preference, below for your consideration:

1. *Include all required activity in the face of the financial statements. At the financial statement and line item level, classified activity is easily concealed within financial statement line item balances.*
 - *Disclosure requirements alone could be modified to protect classified information within the financial statements and line items from being publicly made available.*
 - *The standard should require reporting entities to first attempt to comply with existing standards and not use the classified activities standard. In coordination with the IPA, the reporting entity should attempt to broadly describe financial information, such that classified data is protected*
 - *The disclosure modification should be disclosed to make users aware that relying on the information within the footnotes should be done so understanding that certain disclosures have been modified for the protection of classified information.*
2. *Exclude the classified information from the GPFFR and disclose to readers the exclusion.*
 - *Audit reports would be issued over the full and complete GPFFR. A separate audit report for the scaled down GPFFR would be separately issued and included in the*

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

publicly available GPFFR. Such an audit report could be issued in accordance with AU-C Section 805, Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement.

- Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.

Disagree. This approach limits the value, usefulness, and benefits of financial statements as currently defined by GAAP. Financial statements of classified entities should remain classified or redacted like other classified documents before release to the public. Please reference response to Q1.

- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.

Disagree. The integrity of current GAAP as it applies to all Federal entities should be retained. As an alternative, management of the reporting entity could opt to prepare a special purpose financial statement, or special purpose GPFFR, disclose this fact, and appropriately exclude the component. Under this scenario, the corresponding audit report would have to be for the special purpose financial statement, and not for the full and complete GPFFR.

As referenced in Q1, an audit report over the full and complete GPFFR could still be offered in the appropriate classified setting. The separate audit report would simply be over management's elected special purpose financial statements.

- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.

Disagree. Please reference response to Q1.

- Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

- a. development of classified proposals,
- b. comment on the proposals from individuals and organizations holding appropriate clearances,
- c. consideration of comments, and
- d. issuance of Interpretations to individuals and organizations holding appropriate clearances.

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

Disagree. Allowing only select individuals to view and accept the interpretations would limit due process and transparency. Both of these elements are crucial to the process of developing GAAP.

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

Agree.

Should the Board proceed with the standard, additional requirements should be considered for the purpose of audit support, such as:

- *Formalized crosswalks of the unmodified financial statements to modified/condensed financial statements*
- *Further parameters for classification of a line item or disclosure should be included in the standard, if possible.*

It should be noted that added costs will be incurred with the development of new financial reporting infrastructure to develop two sets of financial statements (modified and unmodified), as well as additional audit costs, as both sets of financial statements will have to be reviewed and considered as part of the audit.

- Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

- a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.

Disagree. Paragraph (par.) 11, in particular, is concerning.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

“11. Alternatively, the component reporting entity may omit disclosure of the fact that modifications in accordance with this Statement and related Interpretations were made.”

GAAP serves the purpose of providing complete, consistent and reliable information to users of financial statements. Permitting these omissions would seem to go against these purposes.

In par. 10, we believe this should be a required disclosure, not an optional disclosure when this standard is used in GPFFR. Additionally, if the standard is adopted and used, the word “may have” should be removed so as to provide full transparency to the users of the financial statements. Users of the financial statements must be informed that decisions and judgments made using the financial statements should be done so understanding that certain material information was modified for the purpose of protecting classified information.

b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.

Disagree.

c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

No, this does not seem to be necessary within the current GAAP and independent audit framework.

From: [Simpson, Cynthia - OCFO](#)
To: [FASAB](#)
Cc: [Valentine, Monica R](#); [DiGiantommaso, Jennifer M. - OCFO](#); [Wyes, Tesfaye T - OCFO](#); [Maurer, Jennifer - OCFO](#); [Sacchetti, Dylan M - OCFO](#); [Polen, Chris P - OCFO](#); [Simpson, Cynthia - OCFO](#)
Subject: US DOL/OCFO/FRD Comments on FASAB Exposure Draft, "Classified Activities"
Date: Friday, March 16, 2018 4:46:02 PM

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), Financial Reporting Division (FRD) on the exposure draft (ED) of proposed Statement of Federal Financial Accounting Standards, "Classified Activities (December 14, 2017)." Comments were requested by March 16, 2018. DOL/OCFO/FRD is a Federal entity preparer.

At this time, DOL/OCFO/FRD has no comments on the Board's questions 1 through 5. However, we are providing comments per the memorandum included in the ED, which states "you are welcome to comment on any aspect of this proposal."

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
Financial Reporting Division

=====

Comments on Other Aspects of the Proposal

1. We suggest that FASAB include a requirement for the Board/staff to review the accounting standard at least annually. In this manner, FASAB may act proactively as opposed to reactively in response to changes that may occur in the Federal security environment.
2. We are requesting the following implementation guidance:
 - 2a. With regard to the disclosures in paragraphs 10, 11, and 12, Agencies should not be required to disclose (e.g., in the significant accounting policies) that they implemented a new accounting standard/interpretation; disclosing that a new accounting standard/interpretation was implemented will interfere with the disclosure options available to Agencies in paragraphs 10, 11, and 12. As an example, wording such as: "Agencies are not required to disclose that the standard/interpretation was implemented as a new accounting standard/interpretation."
 - 2b. With regard to disclosures in paragraphs 10, 11, and 12, Agencies that made no modification should not be required to disclose that fact. As an example, wording such as: "Agencies are not be required to disclose that the statements (or other information) were not modified."

2c. Agencies should not be required to implement retroactively, in particular if the accounting standard/interpretation is issued after the end of an accounting period, but before a reporting deadline and is effective upon issuance. As an example, wording such as: “Agencies are not required to apply the statement/interpretation to the prior accounting period; agencies may apply the statement/interpretation to the prior accounting period, in the current accounting period that it was issued, or prospectively.

3. Where the accounting standard uses “net results of operations and net position,” instead use “net results of operations or net position” in the event that a modification does not flow through net results of operations.



Department of Energy
Washington, DC 20585

March 16, 2018

MEMORANDUM FOR THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

FROM: Tom Park
Director, Office of Finance and Accounting
Office of the Chief Financial Officer

A handwritten signature in black ink, appearing to read "Tom Park", is written over the printed name and title.

SUBJECT: Comments on the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards Exposure Draft: *Classified Activities*.

The Department of Energy (DOE) appreciates the opportunity to comment on the Statement of Federal Financial Accounting Standards Exposure Draft: *Classified Activities*. A general comment regarding the proposed Standard is that it should refer to the reporting of classified information rather than protecting classified information. Our responses to the questions in the Exposure Draft are provided below.

Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations of existing standards. GPPFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

We agree that reporting entities should be able to modify unclassified financial statement presentations required by other standards to prevent the disclosure of classified information if the modification does not change the net results of operations and net position. However, we do not agree that reporting entities should disclose that certain presentations may have been modified, as such disclosures could inadvertently cause classified information to be revealed. In addition, from the perspective of the financial report of the U.S. government, variations in such disclosures would result in a lack of uniformity.

Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

- a) **Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer.**

We agree. We believe it is critical that reporting entities have the ability to modify the presentation of classified information as long as it does not change the net results of operations and net position.

- b) Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, Reporting Entity, when necessary to protect classified information? Please provide the rationale for your answer.**

We agree. We believe it is critical that reporting entities have the ability to modify the presentation of classified information as long as it does not change the net results of operations and net position.

- c) Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.**

We agree that reporting entities should be permitted to modify disclosures so that classified information is not revealed. However, we do not agree that reporting entities should disclose that certain presentations may have been modified, as such disclosures could inadvertently cause classified information to be revealed.

Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving: a. development of classified proposals; b. comment on the proposals from individuals and organizations holding appropriate clearances; c. consideration of comments; and d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

We agree with the Board's proposed approach to issue classified interpretations of existing standards.

Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

We agree that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit, and that documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

- a) Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.**

We agree that reporting entities should be permitted to modify disclosures so that classified information is not revealed. However, we do not agree that reporting entities should disclose that certain presentations may have been modified, as such disclosures could inadvertently cause classified information to be revealed.

- b) Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.**

We do not agree that reporting entities should disclose that certain presentations may have been modified, as such disclosures could inadvertently cause classified information to be revealed.

- c) Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.**

We do not agree. Reporting entities should not disclose that certain presentations may have been modified. Requiring disclosures by every component reporting entity of the federal government could increase the risk that classified information could be revealed.

Questions concerning our responses may be referred to William Truitt, Director, Financial Policy Division, Office of Finance and Accounting, at William.Truitt@hq.doe.gov or (202) 586-1065.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

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:

Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366.

- Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

Agree. The proposed approach will provide agencies guidance to protect classified information while still be compliant with GAAP.

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

- Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.
- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net results of operations and net position? Please provide the rationale for your answer. *Agree. It's important to adhere to laws that protect classified information, and the modification has no effect on the financial statements, i.e., the underlying accounting information maintains its integrity.*
 - b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer. *Agree. It is important to protect the reporting entity with the classified information.*
 - c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer. *Agree. Agencies are required by law to protect classified information.*
- Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:
- a. development of classified proposals,
 - b. comment on the proposals from individuals and organizations holding appropriate clearances,
 - c. consideration of comments, and
 - d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)
- Do you agree or disagree with the proposed approach? Please provide the rationale for your answer. *Agree. A due process will ensure accounting integrity without exposing classified information.*
- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must

FASAB Exposure Draft: *Classified Activities***Questions for Respondents due March 16, 2018**

be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer. [Agree. It is important that accountability still exists while protecting classified information.](#)

Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer. [Agree. This gives agencies the options to disclose or not disclose to protect the information related to classified activities.](#)

b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer. [Agree. This will give agencies the option to consistency disclose that certain presentations may have been modified without disclosing the classified information.](#)

c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer. [Requiring every component entity to disclose that certain presentations may have modified may ensure consistency and transparency. However, if agencies believe that such disclosure may risk disclosing the classified activities, they should be provided with the option not to disclose.](#)



Federal Accounting Standards Advisory Board

CLASSIFIED ACTIVITIES

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by March 16, 2018

December 14, 2017

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government. Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available on the FASAB website:

- Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- Mission Statement
- Documents for comment
- Statements of Federal Financial Accounting Standards and Concepts
- FASAB newsletters

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Contact Us

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6H19
Washington, DC 20548
Telephone 202-512-7350
Fax 202-512-7366
www.fasab.gov



Federal Accounting Standards Advisory Board

December 14, 2017

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Classified Activities*. Specific questions for your consideration appear on page 6, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response will be most helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by March 16, 2018.

All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by email to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax comments to 202-512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received.

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in FASAB's newsletter.

Sincerely,

D. Scott Showalter
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing guidance to protect classified national security information or activities from unauthorized disclosure in a publically issued General Purpose Federal Financial Report (GPFFR). The guidance would permit certain modifications to information required by other standards. In addition, the proposal would permit classified Interpretations that may allow other modifications to information in GPFFRs.

The matter of public disclosure has been addressed in the budget arena. As a result, the availability of budgetary information for classified activities has been limited over the years. While topline budget numbers are available publicly, details remain classified including the amount of funding for particular components within the intelligence community and other departments or agencies. Public officials concluded that disclosure of funding details at lower levels may harm national security interests.

This proposal represents the first step in balancing the need for financial reports to be publicly available with the need to protect classified information from public disclosure. It would permit modifications that do not affect net results of operations and net position. In addition, if classified information could be revealed by applying the requirements of Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, this proposal would permit certain modifications to protect classified information. Further, Interpretations, that may themselves contain classified information, would address the requirements of existing standards and permit other modifications when needed to protect classified information. Modifications permitted by future Interpretations may affect net results of operations and net position.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This proposal would permit component reporting entities to provide GPFFR to the public by including limited modifications necessary to protect classified information from disclosure. This would allow financial presentation and disclosure to appropriately accommodate end user needs in a manner that does not impede national security.

MATERIALITY

The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by March 16, 2018.

- Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

- Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.
- a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

results of operations and net position? Please provide the rationale for your answer.

- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.
- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.

- Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:
- a. development of classified proposals,
 - b. comment on the proposals from individuals and organizations holding appropriate clearances,
 - c. consideration of comments, and
 - d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

- Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

- Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.
- a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.
 - b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.
 - c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

DEFINITIONS

2. **Classified National Security Information**, also known as "classified information," is any information that has been determined pursuant to Executive Order (EO) 13526, as amended; or any successor orders, to require protection against unauthorized disclosure and is marked to indicate its classified status. Information may be classified at one of the following three levels:
 - a. **TOP SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause exceptionally grave damage to the national security that the original classification authority is able to identify or describe;
 - b. **SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause serious damage to the national security that the original classification authority is able to identify or describe; and
 - c. **CONFIDENTIAL**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause damage to the national security that the original classification authority is able to identify or describe.
3. **Original classification authority** is an individual authorized in writing, either by the President, the Vice President, or by agency heads or other officials designated by the President, to classify information in the first instance.
4. **Derivative Classification** is incorporating, paraphrasing, restating, or generating in new form information that is already classified, and marking the newly developed material consistent with the classification markings of the source of the information. Derivative classification includes the classification of information based on classification guidance. The duplication or reproduction of existing classified information is not derivative classification.

APPLICATION OF STANDARDS AND DISCLOSURES

5. Classified information is prohibited from public release. Classified information is determined by an Original Classification Authority (OCA) or by applying derivative classification.
6. A reporting entity's unclassified GPFFR should not reveal classified information. Therefore, unclassified reports should be presented in a manner that protects the classified information.

The entity may modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) required by other standards to protect the information if the modification does not change the net results of operations and net position. In this context, modify means:

- a. Presenting amounts associated with one financial statement line item in another financial statement line item but not presenting narrative explaining that fact so that classified information would not be disclosed
 - b. Omitting required disclosures or RSI that would otherwise reveal classified information
7. There may be organizations that according to SFFAS 47, *Reporting Entity*, should be included in a particular component reporting entity's GPFFR. In the instance when an organization² cannot be included in the particular component reporting entity GPFFR without revealing classified information, that organization may be included in another reporting entity.³
 8. The Board may issue Interpretations of existing Statements permitting other unclassified presentations and disclosure options as needed. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. Such options may modify net results of operations and net position.
 9. Recorded amounts related to classified information must reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

COMPONENT REPORTING ENTITY DISCLOSURES

10. Component reporting entities may choose to consistently disclose that certain presentations may have been modified. For example, the summary of significant accounting policies may indicate:

In accordance with accounting standards, certain presentations may have been modified to protect classified information.
11. Alternatively, the component reporting entity may omit disclosure of the fact that modifications⁴ in accordance with this Statement and related Interpretations were made.
12. Other disclosure modifications, including omission of information otherwise required, are permitted if needed to protect classified information.

² Decisions to exclude an organization from a particular component reporting entity to protect classified information may be evidenced by approval or concurrence from an oversight organization such as the Office of Management and Budget.

³ SFFAS 47, *Reporting Entity*, provides guidance regarding identifying organizations to include any associating organizations with a particular component reporting entity.

⁴ Modifications include those changes to presentation permitted by paragraphs 6 through 9.

13. If applicable, the financial report of the U.S. Government should disclose that certain presentations may have been modified to protect classified information. The financial report of the U.S. Government may omit disclosures related to specific Interpretations that may have been applied.
14. Other disclosure modifications, including omission of information otherwise required, are permitted if needed to protect classified information.

EFFECTIVE DATE

15. This Statement is effective upon issuance.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

- A1. In August 2016, the Department of Defense (DoD or the Department) identified several areas for the Federal Accounting Standards Advisory Board's consideration where the application of general accepted accounting principles may result in the exposure of classified information. As the DoD was preparing to commence full-scope financial statement audits, it identified specific accounting standard requirements that could conflict with its responsibility to prevent the unauthorized disclosure of information in accordance with Executive Order (EO) 13526 of December 29, 2009, "Classified National Security Information."
- A2. Specifically, EO 13526 recognizes, "Our democratic principles require that the American people be informed of the activities of their Government. Also, our Nation's progress depends on the free flow of information both within the Government and the American people. Nevertheless, throughout our history, the national defense has required that certain information be maintained in confidence in order to protect our citizens, our democratic institutions, our homeland security, and our interactions with foreign nations. Protecting information critical to our Nation's security and demonstrating our commitment to open Government through accurate and accountable application of classification standards and routine, secure, and effective declassification are equally important priorities."
- A3. Executive Order 13526, SEC 1.4 authorizes classification of information regarding the following types :
 - military plans, weapons systems, or operations;
 - foreign government information;
 - intelligence activities (including covert actions), intelligence sources or methods, or cryptology;
 - foreign relations or foreign activities of the United States, including confidential sources;
 - scientific, technological, or economic matters relating to the national security;
 - United States Government programs for safeguarding nuclear materials or facilities;

- vulnerabilities or capabilities of systems, installations, infrastructures, projects, plans, or protection services relating to the national security; or
- the development, production, or use of weapons of mass destruction.

Unauthorized disclosure of classified information is prohibited by Title 18 U.S. Code, Section 798.

- A4. There are many federal departments and agencies engaged in classified activities such as those described above. In the recent past, information regarding the total amount budgeted for classified activities was not publicly disclosed. However, in the last decade, changes were made so that the topline budget numbers for such activities would be made available. Details remain classified including the amount of funding for particular components within the intelligence community and other departments or agencies. Disclosure of the funding details at lower levels of detail may harm the national security interests.
- A5. The affected departments and agencies thoroughly evaluated available options and determined that other options would not adequately resolve national security concerns. Based on input from stakeholders having national security expertise, the Board concluded that this Statement and future related Interpretations provide the optimal solution. This option would allow reporting entities to issue unclassified, publically available financial statements that comply with accounting standards. Without this Statement, there is a risk that reporting entities may need to classify their entire financial statements to comply with existing accounting standards which would likely result in the need to classify a large portion of the government-wide financial statements.
- A6. This Statement does not apply to the reporting of financial information within the GPFFR in the classified environment and only applies when the information is presented in the unclassified environment such as publicly available agency financial reports. This does not relieve reporting entities from their requirements and responsibilities to comply with existing accounting standards in the appropriate environment as it relates to internal records and non-public reports.
- A7. This Statement and future Interpretations would be applied as needed based on an assessment of the need to protect classified activities or to assist other departments and agencies by including an organization as described in paragraph 7. During the audit, the preparer would inform the properly cleared auditor whether and how this Statement and related Interpretations were applied. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

PROPOSED APPROACH TO REPORTING ON CLASSIFIED ACTIVITIES

- A8. This proposed Statement permits certain techniques for protecting information within the GPFFR related to classified activities. Certain other techniques are expected to be addressed through classified guidance issued as Interpretations of this Statement. The Board will establish a process to engage cleared stakeholders in due process regarding classified Interpretations of this Statement. The process will engage users of information related to classified activities.

- A9. The six-step process established in the "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board" will be followed in developing classified Interpretations. Appropriate protections will be applied to classified information, consistent with federal law applicable to federal advisory committees and their activities involving information classified pursuant to Executive Order. The six-step process for classified Interpretations and related protections are described below.
- a. Identification of accounting issues and agenda decisions
 - i. The Board will carry out this step by consulting with cleared stakeholders in secure facilities. Stakeholders - including preparers, auditors, and users of classified information - will be informed regarding the process for raising issues for Board consideration.
 - b. Preliminary deliberations
 - i. Preliminary deliberations will engage all members of the Board. Deliberations will occur during closed meetings. Closed meetings will be approved and announced in the Federal Register consistent with the process established in the Federal Advisory Committee Act.
 - c. Preparation of initial documents (issues papers and/or discussion memoranda)
 - i. We expect that all initial documents will contain classified information and will therefore be subject to federal requirements pertaining to classified information. Initial documents will be prepared by cleared individuals of FASAB staff and representatives of affected organizations who have original or derived classification authority.⁵ Such documents will be shared with members in a setting appropriate to the classification level of the documents. Members will be afforded adequate time to review the materials, ask questions, and deliberate over the materials before making decisions regarding the issues raised.
 - d. Release of documents to the public, public hearings, and consideration of comments
 - i. Members of the public will have an opportunity to comment on the proposed Statement. The public will be able to comment on the general subject matter discussed in the proposed Statement and the existence of classified Interpretations. The Board will consider all comments provided.
 - ii. Also, because we expect that all documents related to Interpretations will contain classified information, release will be limited to cleared individuals and organizations that have signed a non-disclosure agreement and have a need-to-know, in accordance with federal requirements pertaining to classified information. The Board will ensure a representative group of stakeholders with

⁵ The Board does not have original classification authority. The classification level of all work products will be determined by those with that authority.

varied perspectives and appropriate clearances are engaged. The Board expects to seek input from elected representatives of the public and appointed government officials to ensure the needs of citizens are balanced against national security interests. The Board will consider all comments and input received from the representative group of stakeholders.

e. Further deliberations, exposure draft, and consideration of comments

- i. This step will occur in closed sessions as noted above. The Board will seek input from cleared individuals, including elected and appointed officials, and organizations to the greatest extent possible given the classified nature of the materials and deliberations. The Board will consider all comments and input received from the representative group of stakeholders.

f. Vote to approve proposed Interpretations

- i. Consistent with the Board's established procedures for consideration of proposed Interpretations, final classified Interpretations will be those approved by a majority of the members and not objected to by a member representing the Comptroller General, the Secretary of the Treasury, or the Director of OMB during a 45-day review period. Final classified Interpretations will be maintained by FASAB. Component reporting entities should contact FASAB to arrange access to the classified Interpretations as needed. FASAB will provide access to any relevant Interpretations following appropriate security procedures.

A10. This approach balances the public's interest in financial information with the need to protect classified information. Further, the Board's process will be adhered to as closely as possible given the classified nature of the Interpretations. The Board's role in promulgating classified Interpretations will appropriately guide the techniques used in protecting classified information.

A11. While the modifications approved as GAAP will be applied to publicly available GPFFRs, internal records and non-public financial reports will continue to be subject to adequate internal controls. This Statement does not apply to classified and unclassified financial information provided to cleared personnel, including elected officials, in non-public financial reports. Hence, GPFFR not made publicly available will conform to GAAP without the application of this Statement and related classified Interpretations.

A12. The Board may issue Interpretations and implementation guidance in the classified environment.

APPENDIX B: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
EO	Executive Order
DoD	Department of Defense
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
OCA	Original Classification Authority
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX C: GLOSSARY

Classified National Security Information, also known as "classified information," is any information that has been determined pursuant to Executive Order (E.O.) 13526, as amended; or any successor orders, to require protection against unauthorized disclosure and is marked to indicate its classified status. Information may be classified at one of the following three levels:

- a. **TOP SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause exceptionally grave damage to the national security that the original classification authority is able to identify or describe;
- b. **SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause serious damage to the national security that the original classification authority is able to identify or describe; and
- c. **CONFIDENTIAL**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause damage to the national security that the original classification authority is able to identify or describe.

Original classification authority is an individual authorized in writing, either by the President, the Vice President, or by agency heads or other officials designated by the President, to classify information in the first instance.

Derivative Classification is incorporating, paraphrasing, restating, or generating in new form information that is already classified, and marking the newly developed material consistent with the classification markings of the source of the information. Derivative classification includes the classification of information based on classification guidance. The duplication or reproduction of existing classified information is not derivative classification.

Net results of operations – The term "net results of operations" describes the excess (or the deficit) of the "net cost of operations" over "financing sources." ... The net result of operations is also the current period's change in the cumulative results of the entity's operations since its inception, except to the extent that there are prior period adjustments. (*Implementation Guide: Accounting for Revenue and Other Financing Sources*, par. 63. Also, see SFFAC 2, *Entity and Display*, Appendix 1-C for an illustration of the calculation of net results of operations.)

Net position – Net position or its equivalent, net assets, is the arithmetic difference between the total assets and total liabilities recognized in the federal government's or a component entity's balance sheet. Net position may be positive (assets greater than liabilities) or negative (assets less than liabilities). (SFFAC 5, *Definitions of Elements of the Accrual Basis Financial Statements*.)

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