



June 9, 2011

Memorandum

To: Members of the Board

From: Julia E. Ranagan, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting by Federal Entities that Primarily Apply Standards Issued by FASB
– **Tab D**¹

OBJECTIVE

The objective of this 30-minute session is to **approve the updated project plan and detailed project approach** for the project on reporting by federal entities that primarily apply standards issued by the Financial Accounting Standards Board (FASB), formerly referred to as the Appropriate Source of GAAP project, **so that staff may work toward developing a discussion memorandum (DM)**. The least common type of document used by FASAB to request feedback, a DM defines problems, identifies issues (scope), presents research findings, summarizes relevant literature, presents alternative solutions, and requests comments. **Staff requests your specific feedback on its proposal on pages 3-5 of this transmittal memo.**

BRIEFING MATERIAL

The following documents are attached to this transmittal memorandum:

- Attachment A* – Updated Project Plan, June 2011
- Attachment B* – Approved Detailed Project Approach, October 2009
- Attachment C* – Project Background (January 2006 – October 2009)

You may electronically access all of the briefing material at <http://www.fasab.gov>.

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.

NEXT STEPS

July – September 2011

- Staff drafts Discussion Memorandum (DM).

October 2011 Meeting

- Staff presents draft DM to members at October meeting.

December 2011 Meeting

- Board final review of DM before it is released for comment.

January – March 2012

- Comment period for DM in conjunction with additional staff research and in-person interviews with personnel from agencies that primarily apply FASB GAAP.

See **Attachment A – Updated Project Plan** for the complete proposed timeline.

BACKGROUND

As reported in recent issues of *FASAB News*, progress on the FASB Reporting by Federal Entities project has been slowed due to staff resources being devoted to higher priority projects and emerging issues. However, reporting by federal entities that use a different source of GAAP remains an issue that needs to be addressed by FASAB at some point in the near future.

At the October 2009 meeting, a proposed project plan was approved by the board that contained the following five objectives for the project:

- a. Address whether it is appropriate for those federal entities currently applying standards issued by FASB to continue that practice (i.e., establish whether GAAP for a federal entity permits this practice and it is therefore generally accepted)
- b. Determine whether a newly created federal entity may apply FASB standards and, if so, under what conditions (i.e., establish criteria for new entities)
- c. Establish requirements necessary to ensure that the stand alone federal financial reports prepared pursuant to FASB standards meet federal financial reporting objectives
- d. Provide guidance to address the case of a federal entity consolidating information from an entity (or entities) applying FASB standards with its own FASAB based information [Note that this does not extend to providing guidance for eliminations. If needed, this can be addressed through implementation guidance or informal assistance.]
- e. Consider any issues arising from possible transition to International Financial Reporting Standards (IFRS) by U.S. non-listed reporting entities (private

companies and non-profits)

The first two objectives (a and b) were temporarily addressed in 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*. The primary purpose of SFFAS 34, which was issued as final on July 28, 2009, is to incorporate the hierarchy for selecting the principles used in the preparation of general purpose financial reports by federal reporting entities set forth in the AICPA Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, into FASAB's authoritative literature. In addition, to avoid any sudden or dramatic changes in practice for federal entities, SFFAS 34 also explicitly permits those federal entities currently applying financial accounting and reporting standards issued by FASB to continue to do so while clarifying that a federal entity that is preparing GAAP-based general purpose financial reports for the first time is required to implement FASAB standards unless, in consultation with its auditors and bodies with oversight authority, the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards.

It is important to note that the board has emphasized that the GAAP exception for federal entities that currently apply financial accounting and reporting standards issued by FASB is temporary.² The board is interested in determining whether this type of reporting is meeting federal financial reporting objectives as well as user needs.

Objective d is partially being addressed for the governmentwide reporting entity in the Federal Entity project. Staff will continue to coordinate with the project managers for the Reporting Model and Federal Entity projects throughout the course of this project.

STAFF PROPOSAL

As noted by the extensive information presented in the project background at Attachment C, the board has spent a great deal of time deliberating on the issues regarding the use of different sources of GAAP by federal reporting entities without reaching consensus on a proposal. Therefore, staff proposes to draft a staff Discussion Memorandum (DM) for public comment. With formal comments in hand, board members will be better equipped to make a decision on this difficult and controversial topic, so that staff can begin drafting an ED of a standard that will permanently address the issues.

As noted in FASAB's Rules for Procedure, General Procedure number 4, DMs include alternative solutions to the issues under consideration, present the known implications and arguments regarding each, and request comments (see box on the next page for further information about DMs and other preliminary documents excerpted from FASAB's rules of procedure).

² SFFAS 34, Footnote 6 to paragraph 9 states "The FASAB has an existing project underway that will assist the Board in determining whether certain federal entities should be permitted to continue applying FASB GAAP and, if so, whether additional reporting should be required. This project will also consider whether federal entities should be permitted to convert from FASB standards to International Financial Reporting Standards published by the International Accounting Standards Board."

Excerpt from FASAB Rules of Procedure, General Procedures

4. RELEASE PRELIMINARY DOCUMENTS, CONVENE PUBLIC HEARINGS, AND CONSIDER COMMENTS

The FASAB may release preliminary documents, consistent with the requirements of FACA, related to federal accounting and financial reporting. These documents are preliminary to exposure drafts communicating formal proposals of the Board for public comment. The Board is not required to issue preliminary documents before developing and issuing an exposure draft.

Preliminary documents include, among others, research reports, discussion memorandums, invitations to comment, preliminary views, summary and related documents, responses to requests and inquiries, and statements of policy dealing with matters of federal accounting and financial reporting.

Text of the preliminary documents include (1) attribution, (2) explanation of the nature of the publication, (3) relevant research material, and (4) directions for submitting comments if requested. Preliminary documents may be attributed to (1) the Board, (2) staff, (3) a task force, or (4) others conducting research on behalf of the Board. If documents are attributed to the Board, the Board is expressing its views or identifying alternatives it believes are viable. For documents not attributed to the Board, a disclaimer should be presented in addition to attribution.

In addition to initial documents for the Board's use, task forces or the staff may prepare either research reports or discussion memorandums for publication. Research reports (RR) and discussion memorandums (DM) provide research findings and relevant literature. **DMs include alternative solutions to the issues under consideration, present the known implications and arguments regarding each, and request comments.** RRs also may include alternative solutions but do not request comments. **Task force and staff prepared preliminary documents may be issued upon approval by the Chairperson. The Chairperson confers with the Board prior to deciding whether to issue individual DMs and RRs.**

The Board may publish invitations to comment (ITC) or preliminary views (PV). Both ITCs and PVs request comments. ITCs present issues that might be addressed by the Board in the future or alternative solutions to issues under consideration. PVs present the Board's preliminary selection of a solution, although alternative solutions may be presented. Summary or other documents related to ITCs or PVs also may be published. ITCs, PVs and related summary or other documents will only be issued after at least a majority vote of the Board approving the publication. See section 6, Vote, for voting requirements.

The Board also may issue responses to requests and inquiries, and statements of policy. The Chairperson may issue these documents under his signature at his discretion. In addition, the Chairperson may delegate this authority to the Executive Director.

For any preliminary documents soliciting comments (e.g., discussion memorandum, invitation to comment, or preliminary views), the Board members receive all comments as well as a staff summary. The staff summary and accompanying analysis address all comments and identify issues requiring consideration.

In addition to considering the written responses, summary, and staff analysis, the Board may elect to convene a public hearing. The public hearing permits the Board and staff to ask questions about information and points of view submitted by respondents. The Board will announce its intent to convene a public hearing consistent with the notice requirements in Appendix B. [emphasis added]

As noted in the Rules of Procedures, staff-prepared preliminary documents may be issued upon approval by the Chairperson, after conferring with the board members. This cuts down dramatically on the amount of board time that is needed to issue preliminary documents for comment.

Staff requests the following two decisions from the board during the 30-minute session allotted to this topic:

1. Do any members object to staff resources being devoted to carry out the project plan and project approach at Attachments A and B (see board member views from the October 2009 meeting at page 11)?
2. Does the board approve of staff's proposal to draft a DM to seek formal comment on various options for addressing the objectives outlined in the project plan at Attachment A?

If you have any questions or comments or would like to provide feedback prior to the meeting, please contact me by telephone at 202-512-7377 or by e-mail at ranaganj@fasab.gov.

Attachments

Reporting by Federal Entities that Primarily Apply Standards Issued by the Financial Accounting Standards Board (Formerly Appropriate Source of GAAP)

PROJECT PLAN—UPDATED JUNE 2011

- Title:** This project is titled “Reporting by Federal Entities that Primarily Apply Standards Issued by the Financial Accounting Standards Board” (FASB). It will be referred to shorthand as “Use of FASB by Federal Entities.” This project was formerly referred to as the “Appropriate Source of GAAP” project but has been renamed to more appropriately reflect the objectives of the project.³
- Scope:** This project applies to all federal entities that primarily apply standards issued by FASB and present general purpose financial reports in conformance with 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*.
- Objectives:** The five primary objectives of this project are to:
- a). Address whether it is appropriate for those federal entities currently applying standards issued by FASB to continue that practice (i.e., establish whether GAAP for a federal entity permits this practice and it is therefore generally accepted)
 - b). Determine whether a newly created federal entity may apply FASB standards and, if so, under what conditions (i.e., establish criteria for new entities)
 - c). Establish requirements necessary to ensure that the stand alone federal financial reports prepared pursuant to FASB standards meet federal financial reporting objectives
 - d). Provide guidance to address the case of a federal entity consolidating information from an entity (or entities) applying FASB standards with its own FASAB based information [Note that this does not extend to providing guidance for eliminations. If needed, this can be addressed through implementation guidance or informal assistance.]
 - e). Consider any issues arising from possible transition to International Financial Reporting Standards (IFRS) by U.S. non-listed reporting entities (private companies and non-profits)

³ “Appropriate Source of GAAP” was a shorthand reference. The American Institute of Certified Public Accountants (AICPA) has established that FASAB is the source of GAAP for federal governmental entities (as defined in SFFAC 2). As discussed in the “Objectives” section, the outcome of this project will be a provision in FASAB GAAP that addresses whether, and if so when, a federal entity may apply FASB GAAP. In addition, the project may address added requirements if FASB GAAP is applied by a federal entity.

Assigned staff: Julia Ranagan

Timeline: **July – September 2011**

- Staff drafts Discussion Memorandum (DM).

October 2011 Meeting

- Staff presents draft DM to members at October meeting.

December 2011 Meeting

- Board final review of DM before it is released for comment.

January – March 2012

- Comment period for DM in conjunction with additional staff research and in-person interviews with personnel from agencies that primarily apply FASB GAAP.

April – September 2012

- Staff drafts exposure draft (ED) based on responses to DM, results of interviews, and board member deliberations of comments.

October 2012 Meeting

- Staff presents draft ED to members at October meeting.

December 2012 Meeting

- Board approval of ED before it is released for comment.

January – March 2013

- Comment period for ED in conjunction with agency field test.

April – September 2013

- Staff drafts final standard based on responses to ED, results of field test, and board member deliberations of comments.

December 2013 Meeting

- Board approval of final SFFAS before it is transmitted to sponsors for 90-day review.

March 2014

- March 17, 2014 – SFFAS XX issued as final.

Tentative Approach:

The first two objectives (a and b) were temporarily addressed in SFFAS 34. The primary purpose of SFFAS 34, which was issued on July 28, 2009, is to incorporate the hierarchy for selecting the principles used in the preparation of general purpose financial reports by federal reporting entities set forth in the AICPA Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, into FASAB's authoritative literature. In addition, to avoid any sudden or dramatic changes in practice for federal entities, SFFAS 34 also explicitly permits those federal entities currently applying financial accounting and reporting standards issued by FASB to continue to do so while clarifying that a federal entity that is preparing GAAP-based general purpose financial reports for the first time is required to implement FASAB standards unless, in consultation with its auditors and bodies with oversight authority, the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards.

It is important to note that the board has emphasized that the GAAP exception for federal entities that currently apply financial accounting and reporting standards issued by FASB is temporary. The board is interested in determining whether this type of reporting is meeting federal financial reporting objectives as well as user needs.

Objectives a and b would be addressed by identifying the characteristics of the different types of entities that primarily apply standards issued by FASB, grouping like characteristics, and developing standard guidance for each group as a whole. Guidance would not be developed for individual entities although there may be certain groups for which only one or two entities match the characteristics.

Objective c would be addressed by analyzing differences between the standards and developing additional guidance as needed. The following list includes some of the areas where differences have been noted between FASAB and FASB accounting and reporting:

- SFFAS 1, *Accounting for Selected Assets and Liabilities*:
 - Valuation of Investments in Treasury Securities, pars. 68-70;
- SFFAS 2, *Accounting for Direct Loans and Loan Guarantees, as amended by SFFAS 18 and 19*:
 - Valuation of liability for guarantees of principal and interest payments on loans between a non-federal lender and a non-federal borrower;
- SFFAS 3, *Accounting for Inventory and Related Property*:
 - Inventory Valuation, par. 20;
- SFFAS 4, *Managerial Cost Accounting Standards and Concepts*:
 - General Requirement for Cost Accounting, pars. 67-76;
 - Inter-entity Costs, pars. 108 and 109;
- SFFAS 5, *Accounting for Liabilities of the Federal Government*:
 - Recognition of Nonexchange Transactions, par. 24;
 - Accounting and Reporting for Pensions, Other Retirement Benefits, And Other Postemployment Benefits, pars. 56-96;

- SFFAS 6, *Accounting for Property, Plant, and Equipment (PP&E)*:
 - Valuation of Transferred PP&E, par. 31;
- SFFAS 7, *Accounting for Revenue and Other Financing Sources*:
 - Financing Imputed for Cost Subsidies, par. 73;
 - Budgetary Reporting, pars. 77-82;
- SFFAS 15, *Management's Discussions and Analysis*; and
- SFFAC 2, *Entity and Display*.

The following are some of the areas that are reported by federal entities applying FASB standards but are not addressed by FASAB standards:

- FASB SFAS 71, *Accounting for the Effects of Certain Types of Regulation*;
- FASB SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities* (regarding available-for-sale securities);
- FASB SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*;
- FASB SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FASAB has recently initiated a joint project on asset impairment and deferred maintenance); and,
- FASB SFAS 143, *Accounting for Asset Retirement Obligations*.

Since these areas are not currently addressed by FASAB, the hierarchy of accounting principles for federal entities would most likely permit the application of accounting and reporting principles issued by FASB in these areas.

This list is not exhaustive and will be further researched during the project.

Objective d would be addressed through further staff coordination with representatives from OMB, GAO, and Treasury. **[June 2011 update: staff would also coordinate with work being undertaken by the Federal Entity project with regard to the governmentwide consolidated financial report.]**

Objective e would be addressed as a plan for non-listed entities emerges. At this time, there is no consensus regarding the future source of GAAP for private companies and non-profits.

Approved Detailed Project Approach (October 2009, see [updates])

Additional Research

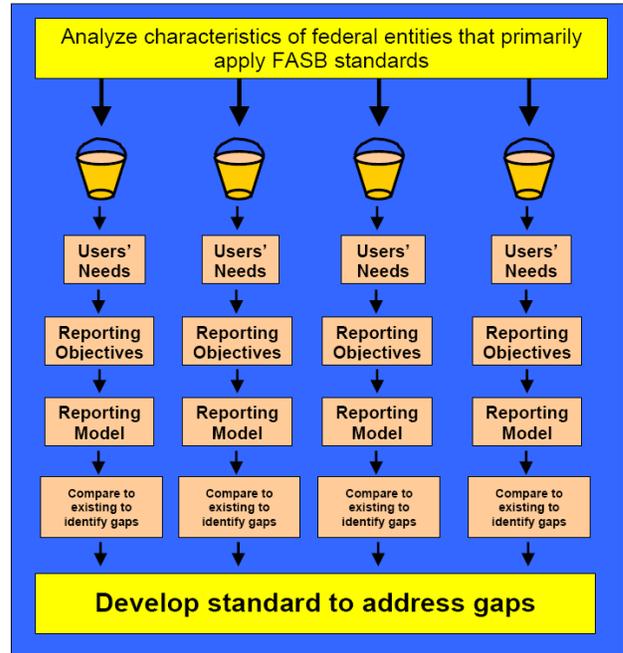
Staff proposes the following additional research to address all five project objectives discussed in the overall project plan (see page **Error! Bookmark not defined.** of Attachment B).

1. Analyze characteristics of federal entities that primarily apply standards issued by FASB.

2. Using judgment, group like characteristics into categories or “buckets”; the characteristics will be used to develop criteria that existing and newly created agencies can apply to evaluate which bucket they belong in.

3. For each bucket, determine the following (coordinate with project managers of the federal reporting and federal entity projects, as needed, to avoid undesired overlap):

- a. the primary users’ needs (add to the inventory of user needs from the reporting model project, as deemed appropriate);
- b. the reporting objectives that are needed to satisfy those users’ needs;
- c. the appropriate reporting model to meet those users’ needs (e.g., FASAB reporting, FASB reporting, FASB plus budgetary reporting, FASB plus cost accounting and budgetary reporting, etc...);
- d. the existing reporting model; and,
- e. the gap between the existing reporting model and the appropriate reporting model.



4. Develop accounting and reporting standards to eliminate the gap between the existing reporting model and the appropriate reporting model for each bucket.

5. Align the guidance for existing and newly created entities that is contained in SFFAS 34 with the guidance for buckets (amend SFFAS 34, as deemed necessary).

6. Work with representatives from OMB, GAO, and Treasury to address consolidation issues:

- a. Consider component unit reporting model from GASB; and
- b. Consider explanatory note disclosures for differences due to FASB vs. FASAB (i.e., do eliminations have to equal zero when there are justifiable reasons for differences?)

[June 2011 Update: Also coordinate with Federal Entity project manager on consolidation issues]

7. Monitor IFRS developments to determine how the board would prefer to proceed for entities that will continue to primarily apply FASB standards.

In completing the above tasks, staff will utilize the extensive research conducted since this project's inception in January 2006, as deemed appropriate.

Staff does not believe that this proposed research will duplicate the work of the reporting model project since this project is focusing on a small group of reporting entities that have unique needs from the federal government as a whole. Staff will work closely with the reporting model project manager to ensure that the results of this research complement the work being undertaken as part of the reporting model project.

[June 2011 Update: In addition, staff will work closely with the Federal Entity project manager to ensure that the projects are in sync].

Community Input

Staff acknowledges the extensive community input that it has obtained through the September 9, 2009, roundtable; surveys; meetings; and other formal and informal correspondence (for example, see the minutes from the roundtable, the results of the surveys, a summary of a meeting with Export-Import Bank, and a letter from Bonneville Power Administration at Enclosures 1 – 4 [of the [October 2009 briefing materials](#)]). Since the board has indicated that it is interested in determining whether users' needs are being met by the standalone financial reports of the federal entities that primarily apply standards issued by the FASB, staff is proposing to undertake the additional research described on the prior page in order to adequately determine if users' needs are being met. Therefore, while staff will use the information gathered in determining the characteristics of federal entities that primarily apply standards issued by the FASB, the information in Enclosures 1 – 4 [of the [October 2009 briefing materials](#)] is being communicated for the board's information (rather than for decision-making purposes) since primacy is being given to an analysis of users' needs.

[Excerpt from October 2009 Minutes:

Do you agree with staff's detailed project approach?

Member	Response	Comments
Allen	Yes	Staff should spend some time looking at the issue of user needs, but not weeks or months.
Dacey	Yes (soft)	Would entertain following the proposed approach but believes the questions to be answered are simpler: (1) Does the board want to allow standalone entities to report on a FASB basis and what are the criteria? (2) What information needs to be disclosed so that they can be consolidated? (3) Does that information need to be converted to FASAB GAAP for consolidation?
Fleetwood	Yes (soft)	Thinks the board already has enough information on this; if they are going to spend time soliciting users needs, she does not want it to be long.
Granof	Yes	Follow up a little bit with a user survey, but do not conduct too much more research.
Jackson	Yes	Nominally get the users' side of the story since it has been presented by the entities as a reason for not applying FASAB standards, but do not go overboard.

<i>Kearney*</i>	Yes (soft)	Okay with the project plan but does not want to spend a lot of time on it because the problem can probably be solved more easily.
Schumacher	Yes	We need to determine the other side of the story – the user needs side.
Showalter	Yes	Need to address consolidation issues but also need to provide permanent guidance for auditors that are providing GAAP opinions under Rules 202 and 203 on FASB-based financial statements for federal entities.
Steinberg	Yes	Put the entities in buckets by type and focus on those where user needs could be a question.

*OMB representative for Werfel (vote is “unofficial”)]

Project Background

Prior to March 2007

Since October 1999, the American Institute of Certified Public Accountants (AICPA) has recognized the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body for federal governmental entities; therefore, the pronouncements resulting from the FASAB process represent generally accepted accounting principles (GAAP) for the entire federal government (FASAB GAAP). Nevertheless, some federal entities follow GAAP for non-governmental entities promulgated by the Financial Accounting Standards Board (FASB GAAP). For example, federal government corporations, the US Postal Service, certain component entities of the Department of Treasury, and some smaller entities in the executive and legislative branches have historically applied FASB GAAP and continue to do so.

This project was initiated in January 2006 after the topic was considered a top priority as a result of (1) the board’s October 2004 agenda-setting session, and (2) subsequent consideration of comments on the July 2005 invitation to comment (ITC) on the four projects selected by the board for consideration.

Prior to the March 2007 board meeting, staff had completed the first two phases in the proposed project plan – “Select 10 federal entities that are following the FASB GAAP hierarchy” and “Complete profiles of the 10 federal entities with respect to each entity’s mission, structure, operations and size based on revenue, sources of financing, SFFAC 2 conclusive and indicative criteria for including components in a reporting entity, and significant accounting policies.” (See the box above).

Proposed Project Approach

Task	Completion Date (Estimated)
1. Select 10 federal entities that are following the FASB GAAP hierarchy.	January 2006 (see Tab 2)
2. Complete profiles of the 10 federal entities with respect to each entity’s mission, structure, operations and size based on revenue, sources of financing, SFFAC 2 conclusive and indicative criteria for including components in a reporting entity, and significant accounting policies.	March 2007 (see Tab 2)
3. Analyze and document similarities and differences that might prove helpful in developing guidance on which source of GAAP is most appropriate.	April 2007
4. Recommend a course of action for the Board to take at the next Board meeting (most likely one of the potential options described above or a combination thereof).	May 2007
5. Present draft of appropriate staff or Board document, if applicable, depending on the approach selected by the Board.	September 2007
6. Follow applicable due process if an official document is deemed necessary.	As deemed necessary

March 2007

At the March 22, 2007, FASAB board meeting, staff presented a project plan and background information that included entity profiles and excerpts from financial statements for the following ten federal entities that have historically followed FASB GAAP: Community Development Financial Institution, Corporation for National and Community Service, Federal Deposit Insurance Corporation, Federal Prison Industries (Unicor), Government National Mortgage Association (Ginnie Mae), Millennium Challenge Corporation (MCC), Office of Thrift Supervision, Pension Benefit Guaranty Corporation, Tennessee Valley Authority, and U.S. Mint (both MCC and Mint have switched to FASAB GAAP beginning with their fiscal year 2008 and 2005 financial statements, respectively).

Staff outlined the pros and cons for a number of possible outcomes of the project, provided a draft project timeline, and requested board input on the next proposed phase in the project – “Analyze and document similarities and differences that might prove helpful in developing guidance on which

source of GAAP is most appropriate.” The board approved additional research on the project.

May 2007

At the May 24, 2007, meeting, staff provided an analysis of various characteristics of the ten entities that were profiled in the March 2007 briefing materials. The characteristics that staff reviewed were grouped into the following eight categories: (A) General Profile of the Entities; (B) Size of the Entity; (C) Likely Users of the Financial Statements; (D) Title of General Purpose Federal Financial Report; (E) Financial Statements Presented; (F) Main Line Items; (G) Compliance with FASAB Standards and USSGL Requirements; and, (H) Primary Differences between FASAB Standards and FASB Standards. From the population of characteristics contained in the eight areas listed above, staff selected 16 characteristics that it deemed most relevant to the determination of the appropriate source of GAAP. Using those 16 characteristics, staff provided a draft framework for determining which source of GAAP would be more appropriate for a given entity utilizing a non-weighted scoring mechanism (see page A-17 of staff’s September 2007 issue paper at http://www.fasab.gov/pdf/files/92007_issuep.pdf for the characteristics reviewed).

At the May meeting, staff also provided feedback from the user community in the form of a brief survey that was circulated to the preparers and auditors of the ten selected entities to provide information on the expected benefits and perceived costs and burdens associated with various approaches to resolving any concerns regarding the source of GAAP. Staff summarized the sense of the comments received from the respondents, which were generally not in favor of converting from FASB GAAP to FASAB GAAP.

After discussion of the options, the board directed FASAB staff to coordinate with GAO, OMB, and Treasury on potential solutions to the issue and, if possible, come back to the board with a draft framework that could be used to determine the appropriate source of GAAP for federal entities.

July 2007

As directed by the board at the May meeting, FASAB staff met with representatives from GAO, OMB, and Treasury on July 11, 2007, to attempt to come to an agreement on how to address the issue.

September 2007

At the September 20, 2007 meeting, staff briefed the board on the results of the July meeting of the workgroup. Staff summarized the workgroup’s recommendation, which is to (1) permit entities currently following GAAP set by the FASB to continue to do so but require that they present in their individual financial statements an audited footnote reconciliation of the differences between FASB GAAP and FASAB GAAP that would support the numbers submitted to Treasury for the consolidated Financial Report of the U.S. Government (CFR); and (2) revoke the “grandfather authority” that allowed entities to comply with FASAB GAAP by continuing to directly follow the FASB hierarchy. Staff noted that there was not widespread support from the sponsors for requiring full conversion to FASAB standards at this time so the recommendation does not address primary reporting at the component entity level.

Staff stated that in addition to the workgroup recommendation, there are other potential options that the members have to address the issue. Staff referred to the three options contained in the September briefing paper:

- Option A – Take no action
- Option B – Implement workgroup recommendation
- Option C – Initiate FASAB project to address specific differences

The majority of the board requested that staff further develop Option B (implement workgroup recommendation) but include additional information about financial statement user requirements for entities that are preparing FASB-based statements. Some members also requested to see a draft survey requesting cost information about the proposed changes to component level reporting, an assessment of the indirect impact on the legislative and judicial branches, and more information on whether entities that begin preparing financial statements for the first time should be permitted to prepare FASB-based financial statements under certain conditions (see updated project approach below).

Updated Project Approach (Nov. 2007)

Task	Completion Date (Estimated)
1. Select 10 federal entities that are following the FASB GAAP hierarchy.	January 2006
2. Complete profiles of the 10 federal entities with respect to each entity's mission, structure, operations and size based on revenue, sources of financing, SFAC 2 conclusive and indicative criteria for including components in a reporting entity, and significant accounting policies.	March 2007
3. Analyze and document similarities and differences that might prove helpful in developing guidance on which source of GAAP is most appropriate.	April 2007
4. Recommend a course of action for the Board to take at the next Board meeting (most likely one of the potential options described above or a combination thereof).	May 2007
5. Develop Option B (implement workgroup recommendation) and include additional information about financial statement user requirements for entities that are preparing FASB-based statements. Prepare draft survey requesting cost information about the proposed changes to component level reporting.	January 2008
6. Present draft of appropriate staff or Board document, if applicable, depending on the approach selected by the Board.	Second Quarter 2008
7. Follow applicable due process if an official document is deemed necessary.	Fourth Quarter 2008

December 2007

At the December 4, 2007 meeting, staff presented an informational paper to the board members in order to provide them with a better idea of the extent of financial reporting using a primary source of GAAP other than that developed by FASAB (e.g., FASB). It was thought that a closer look at the extent of the project would also serve to address open questions from the members about

exactly what the impact might be to reporting entities in the executive, legislative, and judicial branches.

[Staff's paper](#) contained a listing of all of the entities required to prepare financial statements under the Chief Financial Officers Act of 1990 as expanded by the Government Management and Reform Act of 1994 (CFO/GMRA), the Accountability of Tax Dollars Act (ATDA), and the Government Corporation Control Act (GCCA) with a link to each entity's 2006 financial statements, if available, as well as the source of GAAP used to prepare the financial statements (FASAB vs. FASB GAAP) and the audit opinion received thereon.

The majority of the board agreed that staff should continue as directed at the last meeting, which is to determine the user needs of the entities currently reporting under FASB, develop proposed reporting requirements that would incorporate those user needs with the needs of Treasury in compiling the CFR, and then prepare a draft survey to get feedback on the potential costs, burdens, and hurdles to providing the information necessary to satisfy the proposed reporting requirements. One member (Mr. Werfel) also requested that staff prepare a position paper that compares the pros and cons or strengths and weaknesses of the CFR in its current format to one that requires more consistency or homogeneity, including an analysis of the balance of governmentwide costs vs. benefits of changes as well as status quo.

February 2008

At the February 14, 2008, meeting, staff presented an issue paper that contained an analysis of federal financial statement user needs; a structure developed by staff to distinguish between the different activities of the federal government (governmental-type activities, business-type activities, and fiduciary activities); three options for members to consider; and a draft survey that would be used to solicit feedback from the federal financial management community on each of the three options. The paper is available on the Appropriate Source of GAAP (Generally Accepted Accounting Principles) project page at http://www.fasab.gov/pdf/FILES/gaap_tabf.pdf.

Under the first two of the proposed options (separate accounting and reporting by line item and separate accounting and reporting using the modified equity method), entities that engage primarily in governmental-type activities would be required to convert to FASAB GAAP while entities that engage primarily in activities that meet all of the characteristics of business-type activities would be permitted to report under FASB GAAP. No additional reporting would be required by component reporting entities unless they engage in a material amount of both governmental-type and business-type activities. Consolidating entities (and component entities that engage in both types of activities) would modify the display (either on the face of the financial statements or in the notes) to present the amounts of governmental-type activities separately from business-type activities. Under the first option (separate accounting and reporting by line item), consolidating entities would further distinguish business-type activities by the source of GAAP under which they are reported – FASB or FASAB.

Under the third proposed option (an audited note reconciliation), none of the entities would be required to convert to FASAB GAAP; however, component reporting entities would be required to present a detailed audited note that reconciles the differences between FASB GAAP and FASAB GAAP and supports the amounts submitted to Treasury for the consolidated financial report of the U.S. Government.

All three options would propose to revoke the “grandfather authority” that allowed entities to comply with FASAB GAAP by continuing to apply FASB GAAP with no additional reporting requirements.

Deliberations revealed that the sense of the board is that no entities will be required to convert to full FASAB GAAP at this time. The board is also comfortable with including two sources of GAAP in the consolidated financial statements except where it affects intragovernmental eliminations. Members did not vote to adopt the governmental-type and business-type structure developed by staff. The board requested that staff meet with the sponsor workgroup to determine which line items are significant in the FASB vs. FASAB intragovernmental reconciliation and develop an exposure draft that proposes a note disclosure for those significant reconciling items only. The other options considered would be included in the basis for conclusions. The issue of budgetary reporting for entities reporting under FASB GAAP will be deferred until the matter is resolved at the governmentwide level.

March 2008 – June 2009

[Break in project research due to staff assignment to Natural Resources project upon retirement of Natural Resources project manager at the end of February 2008.]

July 2009

As reported in the August/September 2008 issue of FASAB News, the Appropriate Source of GAAP⁴ project was elevated to the number one priority by the board at its August 2008 agenda-setting session. At the October 2008 meeting, a proposed project plan was provided to the board that contained the following five objectives for the project:

- a. Address whether it is appropriate for those federal entities currently applying standards issued by the FASB to continue that practice (i.e., establish whether GAAP for a federal entity permits this practice and it is therefore generally accepted);
- b. Determine whether a newly created federal entity may apply FASB standards and, if so, under what conditions (i.e., establish criteria for new entities);
- c. Establish requirements necessary to ensure that the stand alone federal financial reports prepared pursuant to FASB standards meet federal financial reporting objectives;
- d. Provide guidance to address the case of a federal entity consolidating information from an entity (or entities) applying FASB standards with its own FASAB-based information [Note that this does not extend to providing guidance for eliminations. If needed, this can be addressed through implementation guidance or informal assistance.]; and,
- e. Consider any issues arising from possible transition to International Financial Reporting Standards (IFRS) by U.S. non-listed reporting entities (private companies and nonprofits).

The first two objectives (a and b) were temporarily addressed in 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*. The primary purpose of SFFAS 34, which was issued as final on July 28, 2009, is to incorporate the hierarchy for selecting the principles used in the preparation of general purpose financial reports by federal reporting entities set forth in the AICPA Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, into FASAB's authoritative literature. In addition, to avoid any sudden or dramatic changes in practice for federal entities, SFFAS 34 also explicitly permits those federal entities currently applying financial accounting and reporting standards issued by FASB to continue

⁴ The "appropriate source of GAAP" is a shorthand reference. The AICPA established that FASAB is the source of GAAP for federal government entities (as defined in SFFAC 2).

to do so while clarifying that a federal entity that is preparing GAAP-based general purpose financial reports for the first time is required to implement FASAB standards unless, in consultation with its auditors and bodies with oversight authority, the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards.

It is important to note that the board has emphasized that the GAAP exception for federal entities that currently apply financial accounting and reporting standards issued by FASB is temporary. The board is interested in determining whether this type of reporting is meeting federal financial reporting objectives as well as user needs.

September 2009

A roundtable on reporting by federal entities that primarily apply standards issued by the Financial Accounting Standards Board was held on Wednesday, September 9, 2009.

October 2009

At the October 22, 2009, meeting, staff presented a summary of the September 9, 2009, roundtable discussions to board members, along with an updated project plan and recommendations for further research. The board directed staff to begin work on the proposed project approach, starting with analyzing characteristics of federal entities that primarily apply GAAP issued by FASB, grouping them by type, and determining the primary users' needs of each major grouping. The results of staff's research will be used to determine whether additional reporting should be required for any of the entities that primarily apply FASB GAAP in order to meet users' needs and federal financial reporting objectives.

November 2009 – May 2011

[Break in project research after approval of SFFAS 38, *Accounting for Federal Oil and Gas Resources*, so staff could begin developing a technical bulletin on accounting for federal natural resources other than oil and gas.]

Key Project Decisions to Date

At the March 2007 meeting, the board approved the project plan with the majority of the board agreeing that staff should continue through at least phase 3 in the proposed project plan (see box on page 13) to provide the board with more decision-useful information and analysis upon which to base its decision regarding the future direction of the project. The only opposition voiced was that of Mr. Werfel who indicated that OMB would rather not pursue the project at this time in light of resource constraints and other issues that are more pressing.

At the May 2007 meeting, the board agreed that staff should coordinate with GAO, OMB, and Treasury on potential solutions to the issue and, if possible, come back to the board with a draft framework that could be used to determine the appropriate source of GAAP for federal entities.

At the September 2007 meeting, nine of the board members requested that staff further develop Option B (implement workgroup recommendation) but include additional information about financial statement user requirements for entities that are preparing FASB-based statements. Mr. Dacey stated that he preferred Option C and would like to have the guidance be flexible enough to allow for new entities to follow FASB where there may be legitimate user needs-based reasons. Some members also requested to see a draft survey requesting cost information about the proposed changes to component level reporting, an assessment of the indirect impact on the legislative and judicial branches, and more information on whether entities that begin preparing financial statements for the first time should be permitted to prepare FASB-based financial statements under certain conditions.

At the December 2007 meeting, the majority of the board agreed that staff should continue as directed at the last meeting, which is to determine the user needs of the entities currently reporting under FASB, develop proposed reporting requirements that would incorporate those user needs with the needs of Treasury in compiling the CFR, and then prepare a draft survey to get feedback on the potential costs, burdens, and hurdles to providing the information necessary to satisfy the proposed reporting requirements. One member (Mr. Werfel) also requested that staff prepare a position paper that compares the pros and cons or strengths and weaknesses of the CFR in its current format to one that requires more consistency or homogeneity, including an analysis of the balance of governmentwide costs vs. benefits of changes as well as status quo.

Deliberations at the February 2008 meeting revealed that the sense of the board is that no entities will be required to convert to full FASAB GAAP at this time. The board is also comfortable with including two sources of GAAP in the consolidated financial statements except where it affects intragovernmental eliminations. Members did not vote to adopt the governmental-type and business-type structure developed by staff. The board requested that staff meet with the sponsor workgroup to determine which line items are significant in the FASB vs. FASAB intragovernmental reconciliation and develop an exposure draft that proposes a note disclosure for those significant reconciling items only. The other options considered would be included in the basis for conclusions. The issue of budgetary reporting for entities reporting under FASB GAAP will be deferred until the matter is resolved at the governmentwide level.