



January 28, 2019

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 *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*. The FMSB is comprised of 19 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. For 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 have provided our responses below based on the questions in the Exposure Draft.

As the FMSB, we understand the complexity this Exposure Draft is trying to address. We also understand the efforts the federal audit community has done to work towards issuing a clean financial statement opinion for the Federal Government. The FMSB struggled in its deliberations as to our response regarding the proposed guidance. While the best intentions of this Exposure Draft moves a step closer to the overall goal of issuing a clean opinion, we are concerned that the proposed guidance sets a precedent resulting in standards that may be based more on convenience, rather than on financial accounting concepts. This precedent could create a slippery slope in the standard setting process. Our response noted below also does not agree with the primary alternative guidance. However, we do not want the rest of the federal audit community to consider our response as an attack or to diminish the efforts of those involved so far.

## Q1

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

We respectfully disagree. We understand the complexity dealing with litigation with the associated component reporting entities and sub-component reporting entities. But we struggled with the concept that the managing component reporting entity should report the contingent liability based more on convenience than based on Generally Accepted Accounting Principles. We believe that if the managing component reporting entity has enough information to determine the contingent liability according to SFFAS 5 that it can determine what component or sub-component entity gave rise to the litigation. Therefore, the liability and associated expense should be recorded at the level that gave rise to the liability. Additionally, it seemed to be confusing as well as misleading to the reader to recognize a liability for the managing component reporting entity in one period and a corresponding other financing source in another period when the liability is finalized, and the specific

sub-component is identified. The reader may also be misled if the same contingent liability is reported in multiple levels of reporting entities. It also may lead to a heightened risk of material misstatement. We therefore believe that management of the reporting entity should have the opportunity to utilize professional judgment to determine the extent of reporting a contingent liability at any component or sub-component reporting entity.

However, **if the FASAB affirms the primary alternative**, we disagree that the other involved sub-component reporting entities should not report information on the contingent liabilities. As noted above we believe that if enough information is available to determine a contingent liability that there is enough information to identify the specific sub-component and the sub-component should disclose, not record, the contingent liability being managed by another component. We encourage the FASAB to reconsider the wording in the interpretation that does not allow the other entities to provide disclosure.

**b. Alternatively, do you believe the sub-component reporting entity whose actions gave rise to the litigation should be permitted to report the information in accordance with SFFAS 5? Please provide the rationale for your answer.**

Please see our above answer to Q1.a. If the FASAB affirms the alternative, we recommend the FASAB provide illustrative guidance as to what disclosures the managing component reporting entity should include in their financial statements regarding the liability.

## Q2

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

We agree with the guidance regarding the liability should be matched with the general property, plant, and equipment (PP&E) that gave rise to the cleanup costs, assuming there is a statute, court judgment or past practice of the component taking responsibility for the action. Once the component reporting entity has been identified for the cleanup costs, the associated liability and the PP&E should be transferred accordingly. We recommend the FASAB require disclosure at the component reporting entity level when the liability is expected to be paid by another component reporting entity and the corresponding PP&E and liability will be transferred at that time.

We also recommend the FASAB include in the final interpretation a paragraph for the cleanup costs like paragraph 10 in the contingent liability section providing guidance as to report and record the transactions. Currently paragraph 16 provides a general reference of the treatment of the derecognition and recognition of the PP&E and liability should be performed in accordance with existing standards which is vague as to the proper treatment.

## Q3

**a. Do you believe there are liability situations or examples when a similar condition occurs, other than contingent liabilities and cleanup costs? Please be specific and describe the situations or examples that should be addressed through additional guidance. Please provide the rationale for your answer.**

We are not aware of any liability situations or examples when similar conditions occur.

**b. Do you believe an additional general principle should be included to allow for cases other than contingent liabilities and cleanup costs in which a decision needs to be made regarding which component reporting entity should recognize the liability? If so, do you believe the general principle should read, “For liabilities involving multiple sub-component reporting entities, the liability should be recognized by the sub-component reporting entity designated to handle various aspects (for example, management, payment) on behalf of sub-component reporting entities”?**

We don't believe an additional general principle should be included to allow for cases other than the two already discussed. We believe that Generally Accepted Accounting Principles should be followed when

recognizing the liability at the level that gave rise to the liability and not at the sub-component entity that has been designated to handle the management of the liability.

**Q4**

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

We have no other comments or suggestions.

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](mailto:lmiller@eidebailly.com) or at 208-383-4756.

Sincerely,



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

cc: John H. Lynskey, CGFM, CPA, AGA National President

Association of Government Accountants  
Financial Management Standards Board  
July 2018 – June 2019

Lealan Miller, Chair  
David A. Arvin  
Jo Bachman  
Eric Baltas  
Eric S. Berman  
Jean F. Dalton  
Scott DeViney  
Richard Fontenrose  
David C. Horn  
Simcha Kuritzky  
Jude Lui  
Brian Mosier  
Craig M. Murray, Vice Chair  
Suesan R. Patton  
Eric Scheetz  
Roger Von Elm  
Brittney Williams  
Stephen Wills  
Ann M. Ebberts, Chief Executive Officer, (Ex-Officio Member) AGA  
Mark Reger, AGA Staff Liaison