



Federal Accounting Standards Advisory Board

**Deferral of the Effective Date of Reclassification of the Statement
of Social Insurance: Amending SFFAS Nos. 25 and 26**

Exposure Draft

Proposed Statement of Federal Financial Accounting Standards

Written comments are requested by August 20, 2004

July 21, 2004

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, 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.

An accounting standard is 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. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. 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 standard 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 Statement 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 is available from the FASAB or its website:

- ◆ “Memorandum of Understanding among the General Accounting 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: Federal Accounting Standards Advisory Board”

Exposure drafts, Statements of Federal Financial Accounting Standards And Concepts, FASAB newsletters, and other items of interest are posted On FASAB’s website at: www.fasab.gov.

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Federal Accounting Standards Advisory
Board

July 21, 2004

TO: HEADS OF FEDERAL AGENCIES AND ALL OTHERS WHO USE,
PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled *Deferral of the Effective Date of Reclassification of the Statement of Social Insurance: Amending SFFAS Nos. 25 and 26*. Specific questions for your consideration appear on page ii but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed deferral, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by August 20, 2004.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to comesw@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Comes, Executive Director
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The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB newsletter.

David Mosso
Chairman

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Executive Summary

What is the Board proposing?

This proposed standard would defer for one year the effective dates of Statement of Federal Financial Accounting Standards (SFFAS) 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, as well as SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*. SFFAS 26 is currently under review by the Board's sponsors and will be issued in October 2004 absent an objection pursuant to the Memorandum of Understanding governing the Board's operations.

Together, SFFAS 25 and 26 would now require presentation of the Statement of Social Insurance (SOSI) and significant assumptions underlying the SOSI as basic information for periods beginning after September 30, 2004. The Board is proposing to defer the effective date for the reclassification until periods beginning after September 30, 2005.

Why is the Board making this proposal?

The Board conferred with the American Institute of CPAs (AICPA) regarding the need for audit guidance to support implementation of SFFAS 25. At the time, the Board concluded that audit guidance would be provided to support implementation for fiscal year 2005 financial statements. An AICPA task force issued its proposed guidance in March 2004 and has received many comments. Currently, the task force is working to resolve issues identified in comments and hopes to issue final guidance in 2004.

Nonetheless, the tentative guidance developed highlights the importance of advance planning for the audit engagement. The guidance also encompasses the development of projections relating to SOSI. For fiscal year 2005 financial reports, this suggests that efforts should already be underway and they are not. Therefore, three federal agencies – the Office of Management and Budget (OMB), the Social Security Administration (SSA) and the Department of Health and Human Services (HHS) -- have requested that the Board defer implementation of SFFAS 25 and 26 for one year.

The Board does not believe this proposal would have a significant negative impact on meeting the reporting objectives when compared with the potential costs of a first-time audit effort conducted without final audit guidance and adequate preparation time.

Questions for Respondents

1. Do you agree or disagree with the proposed one-year deferral of SFFAS 25 and 26?

Introduction

1. In July of 2003, the Board issued SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*. SFFAS 25 requires that the Statement of Social Insurance (SOSI) be presented as a basic financial statement. SFFAS 26¹, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*, requires disclosure of significant assumptions underlying the SOSI. Both statements are to be effective for periods beginning after September 30, 2004.
2. Three federal agencies – the Office of Management and Budget (OMB), the Social Security Administration (SSA) and the Department of Health and Human Services (HHS) -- have requested that the Board defer implementation of SFFAS 25 and 26 for one year. Each agency cites the fact that audit guidance has yet to be finalized.
3. While noting the importance of reclassifying SOSI and related disclosures, the Board agrees that the current effective date is not feasible in light of the delayed audit guidance. Therefore, the Board is proposing to defer the effective date one year.

¹ The relevant text of SFFAS 26 marked with proposed amendments is presented as Appendix B of this exposure draft to facilitate your review and comment.

Proposed Standards

Amendment of SFFAS 25

4. Par. 7 of Statement of Federal Financial Accounting Standards (SFFAS) 25 is amended as follows:

Chapter 8 and paragraphs 14-16 of SFFAS 8 are rescinded, as is the associated illustration of the Current Services Assessment in Appendix B of SFFAS 8, effective for reporting periods beginning after September 30, 2002. Information about Risk Assumed shall be presented as RSI for reporting periods beginning after September 30, 2002. ~~The information required by paragraphs 27(3) and 32(3) of SFFAS 17 shall be presented as a basic financial statement for periods beginning after September 30, 2004, with earlier implementation encouraged. Other information required by SFFAS 17 shall be presented as RSI, except to the extent that the preparer elects to include some or all of that information in notes that are presented as an integral part of the basic financial statements, for periods beginning after September 30, 2004.~~

Amendment of SFFAS 26

5. Par. 6 of SFFAS 26 is amended as follows:

~~Consistent with the effective date of SFFAS 25, this~~ This standard is effective for periods beginning after September 30, ~~2004~~ 2005.

Effective Date

6. This standard is effective upon issuance.

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

Appendix A: Basis for Conclusions

This appendix discusses factors considered significant by Board members in reaching the conclusions in this proposed standard. 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 proposed statement---not the material in this appendix---would govern the accounting for specific transactions, events or conditions.

7. The Board conferred with the AICPA regarding the need for audit guidance prior to issuing SFFAS 25. In late 2003, a task force of the AICPA was formed to develop audit guidance. An exposure draft of the guidance was issued by the AICPA in March 2004. The final guidance has not been issued despite the extensive efforts of the AICPA. The task force is actively deliberating on a limited number of significant issues. The AICPA anticipates finalizing the audit guidance during 2004.

Reasons for the Deferral

8. Agencies requesting the deferred implementation identified the following consequences of the delayed audit guidance:
 - a. Agency staff was not able to prepare for the audit process due to the uncertainty absent final audit guidance on the process.
 - b. Agency staff was engaged in deliberations with the AICPA task force and unable to begin tentative preparations for the audit.
 - c. Contracts for audit engagements have not been expanded to encompass the audit process to be required relative to the SOSI.
 - d. Funding for the expanded audit engagements could not be included in fiscal year 2005 budget submissions.
9. The Board believes that a one-year delay is not unreasonable in light of the delayed audit guidance.

Structure of the Amendment

10. SFFAS 25, par. 7 contained provisions concerning the SOSI as well as an effective date for the provisions. SFFAS 26 replaces the reclassification provisions of SFFAS 25 related to the SOSI and provides an effective date for the revised provisions. The amendments proposed in this exposure draft simply replace the prior effective dates concerning the SOSI reclassification and information in the prior statements with a new effective date of "periods beginning after September 30, 2005."

Appendix B: SFFAS 26

Paragraphs 4 through 6 of SFFAS 26 are presented with the proposed changes included for ease of reference.

Amendment of SFFAS 25

4. Paragraph 6 of SFFAS 25 is rescinded.
5. The information required by paragraphs 27(3) and 32(3) of SFFAS 17 shall be presented as a basic financial statement rather than as required supplementary stewardship information (RSSI). The underlying significant assumptions shall be included in notes that are presented as an integral part of the basic financial statement. Other information required by SFFAS 17— including the sensitivity analysis required in par. 27(4) and 32(4)— shall be presented as required supplementary information, except to the extent that the preparer elects to include some or all of that information in notes that are presented as an integral part of the basic financial statements.

Effective Date

6. ~~Consistent with the effective date of SFFAS 25, this~~ This standard is effective for periods beginning after September 30, ~~2004~~ 2005.

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

Appendix C: Abbreviations

AICPA	American Institute of Certified Public Accountants
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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