



Greater Washington Society of CPAs and GWSCPA Educational Foundation

1455 Pennsylvania Ave. NW, Suite 400, Washington, DC 20036
202-204-8014 (v) 202-204-8015 (f) www.gwscpa.org info@gwscpa.org

February 2, 2009

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
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), *The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

FISC consists of 19 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our responses to the ED questions follow.

Hierarchy of Generally Accepted Accounting Principles

Q1. This Exposure Draft (ED) proposes to incorporate the hierarchy of generally accepted accounting principles (GAAP) that currently resides in the professional auditing literature into the FASAB's authoritative literature. Do you agree or disagree with the hierarchy presented in the Exposure Draft (see paragraphs 5 -8)? Please explain the reasons for your position in as much detail as possible.

A1. Our committee agrees with the hierarchy presented in the Exposure Draft.

Application of Standards Issued by the Financial Accounting Standards Board

Q2. This ED proposes to regard general purpose financial reports prepared in conformity with accounting standards issued by the Financial Accounting Standards Board (FASB) as being in conformity with GAAP for those federal entities that have in the past issued such reports (see paragraph 9). Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible. To help you in preparing your response, a listing of some of the entities that

apply FASB standards as well as some of the areas where differences occur is included in Appendix C.

- A2. Generally, we agree with the proposal to regard general purpose financial reports prepared in conformity with accounting standards issued by the Financial Accounting Standards Board (FASB) as being in conformity with GAAP for those federal entities that have in the past issued such reports. In certain situations, the users of financial statements find it more useful to have financial statements in the same format as an entity in the private sector that provides similar services.

However, we do not believe that FASAB should simply grandfather those federal agencies that have been using FASB standards. Federal agencies should not be permitted to continue adhering to FASB standards just because they have done so until now. Each agency should be challenged to determine whether the FASB standards are a better fit than FASAB standards. Accordingly, the criteria of paragraphs 9 (for those agencies following regulatory standards) and 11 should be applied to all agencies that have in the past issued FASB-based financial statements. If the agencies and their auditors believe the agency meets a sufficient number of the criteria in paragraph 11, then they should continue reporting under FASB (or IFRS) standards. If not, then they should follow FASAB standards going forward.

- Q3. This ED proposes to clarify that a federal entity that is preparing GAAP-based financial statements for the first time is required to implement FASAB standards unless the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards (see paragraphs 10 and 11). Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible.

- A3. Generally, we agree with the Board's position that a federal entity that is preparing GAAP-based financial statements for the first time is required to implement FASAB standards unless the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards. The reason is the same reason given in the answer to Question 2.

Separate Project on Reporting By Federal Entities That Primarily Apply Standards Issued By The FASB

- Q4. The Board has tentatively decided that no federal entities will be required to convert to FASAB standards for their stand-alone general purpose financial reports at this time; however, the Board is considering whether additional reporting may be required in order to meet the objectives of federal financial reporting (e.g., budgetary reporting, cost accounting, management's discussion and analysis). What FASAB reporting requirements are you aware of that would complement or enhance current reporting by federal entities following FASB standards (see paragraphs A8 through A12 of Appendix A: Basis for Conclusions)? Please explain the reasons for your position in as much detail as possible.

- A4. We do not believe that any additional reporting requirements should be required by federal entities following FASB standards.
- Q5. As noted in the previous question, the Board has tentatively decided that no federal entities will be required to convert to FASAB standards for their stand-alone general purpose financial reports at this time; however, the Board is considering whether information provided by these entities to a parent agency or the U.S. Department of the Treasury for the consolidated financial report of the U.S. Government (CFR) should conform with accounting and reporting principles issued by the FASAB where there are material differences between the two sources (see paragraphs A13 through A15 of Appendix A: Basis for Conclusions). Do you agree or disagree that the information provided for consolidated financial reports should conform to FASAB accounting and reporting standards? Please explain the reasons for your position in as much detail as possible.
- A5. We believe that information provided for the consolidated financial report of the U.S. Government should conform to FASAB accounting and reporting standards in general. However, we do not believe that an entity following FASB standards should have additional reporting requirements in order to include that information in the CFR unless that information is material to the CFR. We believe these cases would be rare.
- Q6. Do you have a current opinion on whether federal entities that report in conformance with FASB standards should be permitted to convert to International Financial Reporting Standards (IFRS), given the discussions regarding whether public companies should use IFRS (see paragraph A16 of Appendix A: Basis for Conclusions)? Please explain the reasons for your position in as much detail as possible.
- A6. Federal entities that report in conformance with FASB standards should be permitted to convert to International Financial Reporting Standards if they believe that this presentation is more beneficial to the users of those financial statements.

Other Comments

On page 12, paragraphs 5b and 5c use the phrase “cleared by the FASAB...” Since the term “cleared by” is not specific, we suggest that the FASAB describe the process in more detail.

On page 13, paragraphs 7 and 8 refer to “Other Accounting Literature.” Paragraph 8 gives examples of Other Accounting Literature. Since Other Accounting Literature may at times be useful, we suggest that FASAB include Other Accounting Literature as subparagraph 5e.

On page 13, in the next to the last line of paragraph 8, the comma between "Board" and "(IPSASB)" should be removed.

On page 17, paragraph A3, in the first sentence, it would be helpful to have a footnote describing Rule 203 of the AICPA Code of Professional Conduct to clarify the AICPA's

recognition of FASAB as the standard-setter for Federal Government GAAP. "Rule 203" is referred to on the next page in paragraph A4.

On page 20, paragraph A12, it is unclear whether Appendix C as described here is illustrative of federal FASB-following entities or inclusive of every FASB-following federal entity. Clarifying that it is illustrative may avoid amendments in the future for newly established federal entities, e.g., those being created under the economic stabilization program now underway, which may follow FASB GAAP.

On page 23, and throughout the ED, the terms "federal entity" and a "federal reporting entity" are used. These terms are not defined in the ED. There are situations where it is not clear whether an entity is part of the federal government or not (e.g., U.S. Holocaust Memorial Museum is included in Appendix C, but excluded from Appendix C is the John F. Kennedy Center for the Performing Arts, Howard and Gallaudet Universities, and perhaps others which receive substantial federal funding via appropriations, but operate as private nonprofit entities). Similarly, there are numerous joint ventures of federal entities and private corporate entities and/or state or local government entities where there is such mixed ownership, the question of whose GAAP - FASB, GASB or FASAB should be applied. There is a continuing tendency for such jointly-owned entities to be established. FASAB should consider adding this to the continuing project of differences between and among the three "Rule 203" standard-setting organizations enumerated in the ED on pages 30 and 31. The terms "federal entity," "federal reporting entity," and "Rule 203" should be added to the glossary in Appendix D.

We understand that Appendix C will not be in the Final Standard. If it is included, we have the following suggestions.

- Footnote 11 says that the entities not in bold "would be included in the closing package of a larger federal entity (e.g., the U.S. Department of the Treasury)." We suggest that the word "would" be replaced with the word "may."
- The "differences" cited on page 30 are not in enough detail to tell the reader the nature of the difference(s). We suggest a columnar table showing the FASAB standards vs. the FASB standards.
- Appendix C states on page 30 that the list (of differences) includes "some of the areas where differences have been noted." Page 31 says "This list is not exhaustive..." If Appendix C is retained in the Final Standard, it needs to be complete.

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 black ink, appearing to read "D. Kovlak". The signature is written in a cursive, flowing style with a large initial "D" and a long, sweeping underline.

Daniel L. Kovlak
FISC Chair