

>>> "Murphy, Frank J" <[Frank.J.Murphy@hud.gov](mailto:Frank.J.Murphy@hud.gov)> 2/2/2009 4:53 PM >>>  
Thank you for the opportunity to comment on the above Exposure Draft.

Attached are the Department of Housing and Urban Development's comments and responses to the questions in the "Hierarchy of GAAP" Exposure Draft.

Please direct any questions concerning our response to me at the number listed below, or to my Financial Policy Division Director, Mr. Jerry Tucker, at 202-402-3710.

Frank Murphy  
Assistant CFO for Financial Management  
Department of Housing and Urban Development

## Questions for Respondents

Please see the instructions presented in the body of the exposure draft at page 8. All responses are requested by February 2, 2009.

### 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.

**Agree.** The proposed hierarchy will place FASB's importance in the forefront of industry practices. Integrating the GAAP hierarchy into FASAB's authoritative literature would clarify the financial accounting and reporting standards Agencies need to employ when preparing financial statements.

Also, the proposed hierarchy will help lessen the risk of noncompliance with accounting standards, provide concurrent information as standards amend, and decrease the amount of time and endeavor needed to examine accounting issues. Furthermore, the proposed standards are closely aligned with those of IFRS, which will assist the ongoing assessment, convergence and shared enhancements to the two sets of standards (IFRS and GAAP).

### 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: Examples of Federal Entities that Apply FASB Standards.

**Agree.** HUD concurs with the Board's position regarding general purpose reports, as noted in paragraph 9. HUD further agrees that entities preparing financial statements for the first time should implement FASAB standards.

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.

HUD agrees with the Board's position. However, to further increase users' understanding, HUD recommends the Board also identify examples of the "unique user needs" the entity would demonstrate to prepare the financial statements based on FASB standards, as noted in paragraph 11.

Additionally, HUD notes that the current factors (a-e) in paragraph 11 provide a general assessment and do not address public entities that operate similar to private entities. Therefore, HUD recommends that the factors mentioned in paragraph 11 be expanded to provide more specific and detailed information, and how they apply to public entities.

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

The Board would greatly appreciate your responses to the following questions to aid in the Board's future deliberations on its companion project on reporting by federal entities that primarily apply standards issued by the FASB. Further information on this project may be found in paragraphs A7 through A16 of Appendix A: Basis for Conclusions and on the FASAB website at <http://www.fasab.gov/projectsgaap.html>.

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.

HUD suggests that the Board consider a more transparent disclosure in the MD&A analysis regarding fair-value measurements of the financial assets that are likely to have an effect on the entity's financial statements.

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.

**Agree.** HUD is in favor of the Board's decision to designate the U.S. Treasury as the parent agency for consolidating financial reports, and that these reports should conform to FASAB accounting and reporting standards.

- 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.

Given the inevitability that IFRS will soon be adopted in the United States, it is important that GAAP standards conform to IFRS. FASB and IASB should focus on improving their standards rather than eliminating the differences between the two, in the case of pre-operating and pre-opening costs, borrowing costs, fair value and inventories, among other classifications, where applicable.

Differences in IFRS and GAAP principles can affect the method of recording assets on an entity's books. However, where the two sets of standards result in reflecting different assets and asset valuation, reconciliation methods should be addressed in IFRS and GAAP conceptually on a number of points, as the differences can significantly affect an entity's reported results.