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February 4, 2009

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6K17V
Washington, DC 20548

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Statement of Federal Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* – the exposure draft (ED) issued by the Federal Accounting Standards Advisory Board (FASAB or the Board). We generally support the adoption of this ED because we believe it is appropriate to incorporate the hierarchy of generally accepted accounting principles (GAAP) into the authoritative accounting literature of the FASAB rather than the authoritative auditing literature of the American Institute of Certified Public Accountants (AICPA).

Our specific comments and an editorial suggestion are presented below. Where applicable, proposed language revisions to sentences have been provided with added text **underscored** and deleted text **struck through**.

Our Specific Comments

We concur with the conclusion to adopt the GAAP Hierarchy for federal entities essentially as it currently exists in the AICPA's literature.

We do not concur with the inclusion of the proposed guidance in paragraphs 9 through 12 of the ED. We believe the Board should defer these decisions and complete, in a timely manner, its separate projects on defining federal reporting entities and on reporting by federal entities that primarily apply standards issued by the Financial Accounting Standards Board (FASB). We believe such FASAB standards should be developed to provide consistent application of GAAP for all federal entities only after the Board has fully vetted the issue.

Additionally, while the statement in paragraph 13 of the ED that "FASAB sponsors {that is, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States} do not prescribe accounting standards for the legislative and judicial branches" is factually accurate, the FASAB as a board has the designation by the AICPA as the source of GAAP for federal reporting entities, as discussed in paragraph A6 of the ED (basis for conclusion). Thus, we believe that paragraph 13 should focus on the appropriateness of entities in the legislative and judicial branches following FASAB if those entities prepare financial statements in accordance with GAAP. Our suggested wording follows:



The accounting standards in FASAB statements are intended for the general purpose financial reports of federal reporting entities. ~~Although FASAB's sponsors do not set accounting standards for the legislative or judicial branches, the Board believes FASAB standards, including the guidance in paragraphs 9 through 12 above, would be appropriate for them if they prepare GAAP-based financial statements.~~ The AICPA has designated the FASAB as the source of GAAP for federal reporting entities. Therefore, FASAB GAAP would be the appropriate accounting standards for entities in the legislative or judicial branches if they prepare financial statements in accordance with GAAP.

Editorial Suggestion

We recommend the following editorial change to paragraph 11 of the ED, if the Board decides to retain this sentence in the standards.

~~"In rare instances, a~~ A federal entity that is preparing GAAP-based financial statements for the first time may elect to apply standards issued by the FASB if the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards."

If you have questions about our response, please contact Mr. Terrill E. Menzel at 518-427-4607 or tmenzel@kpmg.com.

Very truly yours,

KPMG LLP