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Date: 02/04/2009 10:06 AM

Subject: EPA Response to FASAB Exposure Drafts

Thank you for the opportunity to review the following Exposure Drafts:

The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, including the Application of Standards Issued by the Financial Accounting Standards Board

EPA's comments on the first two Exposure Drafts are provided below. EPA has no comments on the Exposure Draft entitled: "Social Insurance Accounting, Revised."

(See attached file: Hierarchy of GAAP Appl of FASB 02022009.doc)

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***The Environmental Protection Agency's Response to FASAB Exposure Draft  
"Hierarchy of GAAP including the Application of Standards Issued by the  
Financial Accounting Standards Board" 12/02/2008***

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.

*Response: EPA agrees that FASAB accounting theory and practice should govern for Federal entities and should address all Federal accounting issues even though there may be agreement with how FASB handles a particular accounting transaction. It is imperative that there be consistent treatment of accounting transactions across all agencies, that accounting treatments be sanctioned by FASAB, and that FASAB address the accounting issues of all Federal agencies.*

**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.

*Response: EPA disagrees with this proposal. FASAB should consider recognizing financial reports using FASB standards as being in conformity with GAAP only on a temporary basis. FASAB, not FASB, guidance should govern agency accounting and reporting, and ultimately, all Federal reporting should comply with FASAB standards and practices. EPA recognizes that there may need to be a transition period for entities that previously prepared reports using FASB standards, but believes that a transition is necessary in order to insure consistency of financial reporting and integrity of financial information for consolidated Federal financial reporting.*

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.

*Response: EPA agrees. However, in those specialized cases where FASAB standards or practices do not address a particular accounting treatment or issue, FASAB needs to address the accounting concerns of the agency or agencies involved.*

## **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.

*Response: EPA will defer to agencies preparing GAAP statements for the first time. They are in the best position to respond to this question, as they will have to assess the merits and limitations of FASAB and FASB reporting.*

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.

*Response: EPA agrees that information provided for consolidated financial reports should conform to FASAB accounting and reporting standards (see response to Q2). However, EPA wonders why agencies cannot convert to FASAB for their general purpose statements at the same time they convert to FASAB for consolidated financial information. Doing so would eliminate the problem this question is attempting to address as well as other problems caused by potential differences in accounting and reporting. As indicated above, FASAB must address the accounting concerns of agencies that currently follow FASB guidance.*

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.

*Response: EPA has no opinion on this issue.*