

On behalf of the Pension Benefit Guaranty Corporation (PBGC) and Patricia Kelly, Chief Financial Officer, attached please find responses to questions about the exposure draft titled "The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards issued by the Financial Accounting Standards Board." The PBGC appreciates the opportunity provided by the Federal Accounting Standards Advisory Board (FASAB) to respond to the exposure draft.

As the FASAB will note, the PBGC is in general agreement with the need to incorporate the hierarchy of generally accepted accounting principles (GAAP) into the FASAB's authoritative literature and clarify that order to federal agencies. We also agree with the need to address the issue of federal entities applying standards promulgated by the Financial Accounting Standards Board (FASB).

If you have any questions or need additional information, kindly contact me at 202-326-4000 ext. 3574.

Edward A. Picard

**Responses to The Hierarchy of Generally Accepted Accounting Principles, Including the  
Application of Standards issued by the Financial Accounting Standards Board**

The Pension Benefit Guaranty Corporation (PBGC) appreciates the opportunity provided by the Federal Accounting Standards Advisory Board (FASAB) to respond to questions about the exposure draft titled “The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards issued by the Financial Accounting Standards Board.” In general, we agree with the need to incorporate the hierarchy of generally accepted accounting principles (GAAP) into the FASAB’s authoritative literature and clarify that order to federal agencies. We also agree with the need to address the issue of federal entities applying standards promulgated by the Financial Accounting Standards Board (FASB). The PBGC’s responses to the six questions are presented below.

### **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.

#### Response

The PBGC agrees with the proposed hierarchy of FASAB GAAP because it provides federal agencies with an agreed-upon order to apply accounting principles. In reviewing the hierarchy, the following was noted.

- Paragraph 7. states in part “...a federal reporting entity should then consider accounting principles for similar transactions or events within categories (a)–(d) before considering Other Accounting Literature discussed in paragraph 8. “

This paragraph could be confusing if there is guidance in Paragraph 8 related directly to a particular transaction or event and there is no specific guidance in paragraph 5. Perhaps the FASAB might consider providing examples for further clarification of how a federal agency would apply paragraph 7.

- The hierarchy raises questions about how other guidance fits in, such as Office of Management and Budget Circular A-136, Financial Reporting Requirements.

### **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

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areas where differences occur is included in Appendix C: Examples of federal Entities that Apply FASB Standards.

Response

The PBGC agrees with the position in the exposure draft to consider general purpose financial reports prepared in conformity with accounting standards issued by the FASB as being in conformity with GAAP for those federal entities that have issued such reports in the past for several reasons.

In PBGC's case, we believe the presentation of general purpose financial reports pursuant to FASB accounting standards more closely represents the nature of the PBGC's business. In this regard, the PBGC's primary activities are more in line with a private business enterprise, similar to an insurance company as the guarantor of benefits under defined benefit plans. Moreover, the PBGC's primary stakeholders and information users are more familiar with the current presentation. In addition, there are significant differences between FASAB and FASB accounting standards, particularly in the areas of valuation of investments in Treasury securities; accounting and reporting for pensions which is a primary PBGC business activity; and accounting for derivative instruments and hedging activities.

The PBGC also believes that continuation of additional financial reporting to the U.S. Department of the Treasury for the Governmentwide Financial Report System (GFRS) and Federal Agencies' Centralized Trial-Balance System II are sufficient compliments to the general purpose financial statements.

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

The PBGC agrees with the position taken in the exposure draft to require federal entities preparing GAAP-based financial statements for the first time to use FASAB accounting standards, unless the entity can demonstrate why FASB standards would be more appropriate. We believe this last point that allows federal entities to make a case for using FASB standards is of particular importance because there are federal entities who engage in activities that are more closely associated with private industry and a private business enterprise.

In this regard, the exposure draft identifies examples of factors that should be considered in making this decision. However, the exposure draft does not address the process a federal entity should undertake for approval to use FASB accounting standards rather than FASAB standards.

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**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

To begin with, it would seem that the FASAB should address the differences between FASAB and FASB standards similar to the way that the FASB and International Accounting Standards Board (IASB) are trying to reconcile the differences in the standards promulgated by each standard setting body and develop a common set of accounting standards.

Moreover, there is the need for the FASAB to address FASB accounting standards used by federal entities that follow FASB accounting standards when the FASAB accounting standards do not address a particular subject area, such as the accounting for derivative instruments and hedging activities.

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

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The PBGC agrees with the position that financial reporting information for the consolidated financial report of the U.S. Government transmitted via GFRS by federal agencies that prepare their general purpose financial reports pursuant to FASB accounting standards should conform to FASAB accounting standards if there is a material difference between the two sources of accounting principles. Otherwise, it could be difficult consolidating financial reporting information prepared under different accounting 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.

Response

Although there is much common ground in the accounting standards promulgated by the FASB and IASB, it is PBGC's understanding based on the Memorandum of Understanding (MOU) between the FASB and the IASB that there is a strong commitment by both parties to eliminate differences in the standards; develop a common set of high quality global standards; and maintain compatibility in the future.

Known as the International Financial Reporting Standards (IFRS), this common and global set of accounting standards should allow for, among other things, comparability, usefulness, and consistency in financial reporting. While the first priority for adoption of the IFRS would rest first with U.S. issuers for purposes of their filings with the U.S. Securities and Exchange Commission, it would seem that the FASB will, in all likelihood, adopt this common set of accounting standards as GAAP. Otherwise, there is the potential for a dual system of financial reporting that would seem to undermine the pillars of financial reporting. Therefore, federal entities that report in conformance with FASB standards may have no choice but to convert to the common standards developed under the MOU if the FASB adopts the IFRS.