

U.S. Department of
Homeland Security



United States
Coast Guard

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MEMORANDUM

From: J. W. NIEMIEC, CAPT
COMDT (CG-84)

Reply to: CG-842
Attn of: Warren Cottingham
(202) 372-3636

To: Mr. Larry Bedkers
Director, Office of Financial Management
Department of Homeland Security

Subj: COMMENTS ON FASAB EXPOSURE DRAFT, THE HIERARCHY OF
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Ref: (a) FASAB Exposure Draft, The Hierarchy of Generally Accepted Accounting
Principles, Including the Application of Standards Issued by the Financial
Accounting Standards Board, dtd December 2, 2008

1. The Coast Guard appreciates the opportunity to comment on the referenced exposure draft and concurs with the recommendations of the Federal Accounting Standards Advisory Board (FASAB). Our responses to the questions in the exposure draft are enclosed.

2. If you have any questions about our comments, please contact Warren Cottingham at (202) 372-3636.

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Enclosure: (1) Coast Guard Response to FASAB Questions Regarding The Hierarchy of
Generally Accepted Accounting Principles

Copy: FASAB

Coast Guard Response to FASAB Questions Regarding The Hierarchy of Generally Accepted Accounting Principles

Question 1: Hierarchy of Generally Accepted Accounting Principles. This Exposure Draft (ED) proposes to incorporate the hierarchy of Generally Accepted Accounting Principles (GAAP) that currently reside 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.

Coast Guard Response: Agree. The Coast Guard believes that incorporation of the GAAP hierarchy into the FASAB's authoritative literature would more clearly convey that financial statement preparers are responsible for selecting the sources of the principles to be used in the preparation of financial statements that are presented in conformity with GAAP.

Question 2: Application of Standards Issued by the Financial Accounting Standards Board.

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.

Coast Guard Response: Agree. The Coast Guard believes that this clarification should address concerns that moving the GAAP hierarchy into the accounting standards would cause a sudden and dramatic change in practice for federal entities that apply FASB GAAP. The Coast Guard also supports the Board's efforts to determine whether additional reporting should be required of federal entities that are currently applying FASB accounting standards.

Question 3: 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.

Coast Guard Response: Agree. The Coast Guard believes that federal entities should follow FASAB standards unless the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards. This will aid in the consistent application of FASAB standards to federal entities.

Question 4: 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/projects/gaap.html>. 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.

Coast Guard Response: At this time, the Coast Guard has no recommendations as to any FASAB reporting requirements that would complement or enhance current reporting by federal entities following FASB standards.

Question 5: 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.

Coast Guard Response: Agree. The Coast Guard believes that information provided by federal entities following FASB standards 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. The reason is to enhance the meaning of the amounts shown in the Consolidated Financial Statements of the U.S. Government.

Question 6: 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.

Coast Guard Response: In general, the Coast Guard favors requiring all federal entities to comply with FASAB standards to the extent practicable. The reason is to enhance the meaning of the amounts shown in the Consolidated Financial Statements of the U.S. Government.