



April 3, 2009

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Julia E. Ranagan, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board – **TAB D**<sup>1</sup>

**OBJECTIVES**

The objective is to approve the issuance of *The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board* as a final Statement of Federal Financial Accounting Standards (SFFAS).

**BRIEFING MATERIALS**

The following materials are attached to this memorandum.

1. Tracked changes version of the draft statement.
2. Additional response to the December 2, 2008 Exposure Draft
3. Ballot

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

## BACKGROUND

The Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal reporting entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). The Statement responds to a request from the American Institute of Certified Public Accountants (AICPA) that FASAB incorporate the GAAP hierarchy, which currently resides in the professional auditing literature, into the accounting literature. The Statement also addresses (1) whether federal entities currently applying standards issued by the Financial Accounting Standards Board (FASB) may continue that practice, and (2) whether federal entities that are preparing GAAP-based general purpose financial reports for the first time may also apply FASB standards.

Staff provided Board members with a pre-ballot draft Statement on March 23, 2009, and subsequently, members provided editorial comments. The comments are addressed in the attached “tracked changes” version (Attachment I) of the Statement. Also, on April 1, 2009, staff received the AICPA’s response to the December 2, 2008 exposure draft (ED) and Attachment II provides the complete response.

The respondent noted that the FASB is in the process of codifying its standards and this should be considered in the Statement. For example, paragraphs 5(b) and 5(c) of the ED referred to AICPA Statements of Position (SOP) and Practice Bulletins specifically made applicable to federal reporting entities and cleared by the FASAB. However, SOPs and Practice Bulletins will generally be incorporated into the FASB codification and have no continued authority. Because of this development and because no SOPs and Practice Bulletins have been specifically made applicable to federal reporting entities and cleared by the FASAB, staff removed these sources from the Statement and provided the basis for the removal in the Basis for Conclusions.

Also, the respondent sought clarification on the GAAP hierarchy for federal entities and noted that paragraph 7 requires federal reporting entities to consider accounting principles for similar transactions and events within categories 5 (a) – (d) before considering Other Accounting Literature that may address an accounting matter directly. The respondent desired to inform the Board that this requirement differed from the Governmental Accounting Standards Board’s (GASB) ED, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The GASB’s ED, paragraph 5 states,

If an accounting treatment for a transaction or other event is not specified by a pronouncement or established in practice as described in categories (a) – (d), a governmental entity should consider accounting principles for similar transactions or other events within categories (a) – (d) and may consider other accounting literature...

The GASB and FASAB discussed their difference in views at the August 21, 2008, FASAB meeting. A GASB member noted that an explicit ordering was not necessary because the guidance is a hierarchy and reporting entities are required to follow

whatever applies to them in (a) through (d) order first, before going to other literature. However, the FASAB believed that, in the federal environment, explicit ordering is needed. Some entities may argue that the guidance in (a) through (d) does not “exactly” fit their scenario, so they will use other literature without appropriately applying the guidance to similar scenarios.

In response to previous comments regarding the structure of the GAAP hierarchy and Other Accounting Literature, staff revised the Basis for Conclusions in the March 23, 2009 pre-ballot draft. The revision discussed the Board’s views concerning the GAAP hierarchy and Other Accounting Literature.

## **BALLOTS**

The attached Ballot includes submission instructions and is due by April 17, 2009. Members not responding by April 23, 2009 will be considered to have abstained. If you decide to write a dissent, please notify staff immediately and provide your dissent as soon as possible but no later than April 10, 2009. Any dissents received will be circulated to other members as soon as possible so that they may consider the views of the dissenting member. Unless a member dissents, the Statement will not be an agenda item for the April 2009 meeting.

If you have questions or need additional information, please contact us (Ross at 202-512-2512 or email at [simmsr@fasab.gov](mailto:simmsr@fasab.gov) or Julia at 202-512-7377 or email at [ranaganj@fasab.gov](mailto:ranaganj@fasab.gov) ) as soon as possible.

### Attachments

Ballot Draft Statement – Tracked Changes Version  
AICPA response to the exposure draft  
Ballot