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George A. Scott, Chair
Federal Accounting Standards Advisory Board
441 G Street, NW
Suite 1155
Washington, D.C. 20548

15 September 2023

**Federal Accounting Standards Advisory Board's Invitation to Comment,
*Reexamination of Existing Standards***

Dear Mr. Scott:

Ernst & Young LLP is pleased to submit its comments in response to the Invitation to Comment, *Reexamination of Existing Standards*, issued by the Federal Accounting Standards Advisory Board (FASAB or Board).

We support the Board's objective in obtaining stakeholder feedback to improve the standards and make sure they are effective in providing financial information that supports accountability and meets user needs. We have provided our responses to the questions in the Invitation to Comment in the appendix below.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Questions for Respondents

Responses Due: September 15, 2023

Invitation to Comment
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Appendix

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

Accounting Firm	<input checked="" type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.Name: **Please identify your organization, if applicable.**Organization:

Please email your responses to fasab@fasab.gov. If you are unable to respond by email, please call (202) 512-7350 to make alternate arrangements.

FASAB GAAP HIERARCHY QUESTIONS

QUESTION 1.1: The federal GAAP hierarchy in SFFAS 34 provides the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal entities that conform with GAAP. **Do you agree that SFFAS 34 clearly and sufficiently explains the federal GAAP hierarchy and its application to federal accounting and reporting?**

Agree

We generally agree that SFFAS 34 clearly explains the federal GAAP hierarchy. However, we believe there are several areas that the Board should clarify or update.

We agree with the Board’s interest, stated in paragraph 6 of the Invitation to Comment, in clarifying how administrative directives should be considered in the hierarchy and clarifying the phrase “practices that are widely recognized and prevalent in the federal government.”

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Administrative directives, such as guidance from the Office of Management and Budget (OMB) and the Department of the Treasury, are widely used by federal entities. We recommend that the Board incorporate these directives directly into the GAAP hierarchy to prevent any confusion or diversity in practice.

We also agree with the Board that clarifying SFFAS 34 paragraph 5(d) would be beneficial. This paragraph includes the phrase “practices that are widely recognized and prevalent in the federal government,” which is vague and could allow for many interpretations. We believe the Board should clarify what guidance is authoritative. The inclusion of industry practices in the hierarchy of authoritative literature is a departure from Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) practices. We also recommend the Board revisit the definition of “Other Accounting Literature” as defined in SFFAS 34 paragraph 8 and clarify what would be authoritative sources of accounting guidance.

QUESTION 1.2: Have you experienced challenges in applying and using the federal GAAP hierarchy in SFFAS 34 to resolve accounting or reporting issues?

Disagree

Please explain your response, including any perceived challenges with applying SFFAS 34 (for example, utility in applying SFFAS 34 to resolving accounting and reporting issues, need to clarify authoritative vs non-authoritative guidance, relationship to other standard setters when FASAB guidance is silent, inconsistencies with different levels of GAAP, or questions regarding the application of “practices that are widely recognized and prevalent in the federal government.”)

We generally do not experience challenges in applying and using the federal GAAP hierarchy in SFFAS 34, other than those noted in our response to Question 1.1 above. However, we believe there is confusing or contradictory language in some of the FASAB’s publications. For example, in Federal Financial Accounting and Auditing Technical Release 2, the summary states:

“Agencies that must deal with environmental contamination should first refer to the hierarchy of accounting standards contained in the current Office of Management and Budget (OMB) Bulletin on “Form and Content of Agency Financial Statements” for guidance. Standards issued by Government Accountability Office (GAO) and OMB have precedence over other authoritative guidance for federal entities. This technical release supplements the relevant federal standards, but is not a substitute for and does not take precedence over the standards.”

The reference to the OMB hierarchy above could result in confusion, and, therefore, we recommend that the Board consider removing this reference.

We have also noted contradictions in other guidance in the hierarchy that could result in confusion. For instance, the guidance for government corporations provided in paragraphs 9 through 12 of SFFAS 34 may contradict the CFO Act and Title 31, Chapter 91 of US Code, Subsection 9106. A government corporation named in Subsection 9101 is required, as stated in

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Subsection 9106, to report a statement of cash flows in its Annual Management Report, as well as other statements typical of FASB reporters. However, SFFAS 34 requires federal entities to apply FASAB standards except in certain circumstances. This inconsistency in requirements can make it challenging to apply the accounting guidance and laws appropriately. We recommend the Board consider incorporating relevant laws and regulations into the hierarchy in SFFAS 34 and make sure there is consistency between the accounting standards and laws.

REEXAMINATION OF FASAB STANDARDS QUESTION

QUESTION 2: Below are the 23 reexamination topic areas for which the Board is requesting your response. Respondents may review [Appendix A: Reexamination Table of Pronouncements](#)¹ in its entirety for a full understanding. **For each reexamination topic (column 1), please indicate the priority level for reexamination from the following options:**

(1) High priority: topic and related SFFASs are of significant concern and should be included in the reexamination with priority. Please provide *no more than five* high priority topics.

(2) Medium priority: topic and related SFFASs are of concern and should be included in the reexamination, but after high priority topics are addressed.

(3) Low priority: topic and related SFFASs are not of concern and do not need to be reexamined at this time.²

Please explain your response, including specific details³ and examples to support your rationale, especially those ranked high priority and medium priority. Provide information (including specific SFFAS references where appropriate) that would help the Board understand why the reexamination of a particular SFFAS might take precedence or be considered more important than other SFFASs. To accomplish this, the Board is seeking feedback from respondents on where they believe there are opportunities for the Board to improve guidance within the 23 reexamination topics. This includes the following potential improvements:

- Streamlining authoritative guidance
- Eliminating or revising unclear requirements
- Eliminating disclosures and other required information that may no longer benefit users

¹ [Appendix A: Reexamination Table of Pronouncements](#) provides more details regarding how the 61 SFFASs result in 23 reexamination topics for consideration.

² The Board anticipates that the topics for reexamination will need to be reassessed in the future.

³ For example, respondents may offer detail in terms of materiality, audit findings, cost-benefit, or other significant information to explain the need for reexamination of the SFFAS.

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- Filling gaps in the standards where the guidance either does not address or does not adequately address areas where federal financial reporting objectives are not being met
- Resolving inconsistencies in current practice
- Clarifying the standards (including addressing areas where the standards are difficult to apply)
- Reconsidering areas where there is significant preparer or audit burden versus perceived value of the information or other cost/benefit concerns
- Considering overlaps or redundancy in requirements

Please be explicit regarding opportunities to eliminate or revise requirements, whether those are in the standards or elsewhere. Stakeholder feedback will give the Board insight on respondent's views on these matters.

Topic #1	SFFAS 1 , <i>Accounting for Selected Assets and Liabilities</i> Interpretation 10 , <i>Clarification of Non-federal Non-entity FBWT Classification (SFFAS 1, Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31</i> TB 2020-1 , <i>Loss Allowance for Intragovernmental Receivables</i>
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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #2	SFFAS 2 , <i>Accounting for Direct Loans and Loan Guarantees</i> AS AMENDED BY: SFFAS 18 , SFFAS 19
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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #3	SFFAS 3 , <i>Accounting for Inventory and Related Property</i> AS AMENDED BY: SFFAS 48 Interpretation 7 , <i>Items Held for Manufacture</i>
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Medium Priority

Overall, we believe Topic #3 is understandable and clear to apply. However, we recommend the Board consider clarifying criterion 3 in SFFAS 3 paragraph 40, which allows the purchases method of accounting to be applied when it is not cost-beneficial to apply the consumption method. This criterion is very broad and could allow the purchases method to be used in many circumstances when it may not be appropriate to do so. We believe this could lead to diversity in practice in

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accounting for operating materials and supplies. If it was not the Board's intention in providing this criterion, we encourage the Board to clarify the wording in the standard.

Topic #4	SFFAS 4 , <i>Managerial Cost Accounting Standards and Concepts</i> AS AMENDED BY: SFFAS 55
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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #5	SFFAS 5 , <i>Accounting for Liabilities of The Federal Government</i> AS AMENDED BY: SFFAS 12 , SFFAS 25 Interpretation 2 , <i>Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5</i> Interpretation 4 , <i>Accounting for Pension Payments in Excess of Pension Expense</i> TB 2002-1 , <i>Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government</i> TB 2017-1 , <i>Intragovernmental Exchange Transactions</i>
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Medium Priority

Overall, we believe Topic #5 is understandable and clear to apply. However, we recommend the Board clarify the appropriate reporting of environmental liabilities and legal claims when there are multiple parties involved in the responsibility for and/or resolution of the liability.

For instance, when the agency that triggered the liability/legal claim isn't the same one that manages the liability/legal claim or funds the liability/legal claim, there can be diversity in practice when determining which entity reports the liability and when the liability is reported. We believe additional guidance on this topic would help reduce that diversity and provide useful information to the users of the financial reports.

Topic #6	SFFAS 6 , <i>Accounting for Property, Plant, and Equipment</i> AS AMENDED BY: SFFAS 23 , SFFAS 40 , SFFAS 50 Interpretation 9 , <i>Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6</i> TB 2006-1 , <i>Recognition and Measurement of Asbestos-Related Cleanup Costs</i> (as amended by TB 2009-1 and TB 2011-2) TB 2017-2 , <i>Assigning Assets to Component Reporting Entities</i>
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High Priority

Overall, we believe Topic #6 is understandable and clear to apply. However, we believe the Board should clarify how construction in process (CIP) should be accounted for when an alternative method

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for establishing opening balances (SFFAS 6 paragraph 40) is applied. The standard currently does not address the subsequent accounting for CIP, and this may result in diversity in practice.

Topic #7	<p>SFFAS 7, <i>Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i> AS AMENDED BY: SFFAS 20, SFFAS 21, SFFAS 53 Interpretation 5, <i>Recognition by Recipient Entities of Receivable Nonexchange Revenue: An Interpretation of SFFAS 7</i> Interpretation 11, <i>Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313</i> TB 2002-2, <i>Disclosures Required by Paragraph 79(g) of SFFAS 7 Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i> TB 2017-1, <i>Intragovernmental Exchange Transactions</i></p>
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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #8	SFFAS 10 , <i>Accounting for Internal Use Software</i>
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Medium Priority

Overall, we believe Topic #8 is understandable and clear to apply. However, there will be no guidance on accounting for cloud computing arrangements, which is currently included in Technical Release 16, paragraphs 28 and 29, after the adoption of SFFAS 54, Leases.

Cloud computing arrangements (e.g., software as a service, platform as a service, infrastructure as a service) frequently include software licenses. Technical Release 16 currently states “the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses in accordance with the lease criteria stated in SFFAS 5 and SFFAS 6.” Since Technical Release 20 rescinds this guidance, there will be no discussion in the standards about the appropriate accounting for the software license element of a cloud computing arrangement. Since these arrangements are widely used, we recommend the Board consider addressing how to appropriately account for them.

	SFFAS 15 , <i>Management’s Discussions and Analysis</i> ⁴
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Please provide feedback if you wish to do so. [Click here to enter text.](#)

Topic #9	<p>SFFAS 17, <i>Accounting for Social Insurance</i> AS AMENDED BY: SFFAS 26, SFFAS 37</p>
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⁴ SFFAS 15, *Management’s Discussions and Analysis*, is excluded from reexamination because the SFFAS is currently being reviewed under an active Board project. Respondents may provide general comments and feedback for the Board’s consideration.

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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #10	<p>SFFAS 24, <i>Selected Standards for the Consolidated Financial Report of the United States Government</i></p> <p>SFFAS 32, <i>Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 “Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government”</i></p>
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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #11	<p>SFFAS 27, <i>Identifying and Reporting Funds from Dedicated Collections</i> AS AMENDED BY: SFFAS 43</p>
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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #12	<p>SFFAS 29, <i>Heritage Assets and Stewardship Land</i></p>
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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #13	<p>SFFAS 31, <i>Accounting for Fiduciary Activities</i></p>
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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #14	<p>SFFAS 33, <i>Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates</i></p>
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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #15	<p>SFFAS 34, <i>The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board</i></p>
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Please see our response to Questions 1.1 and 1.2 above.

Topic #16	SFFAS 36 , <i>Comprehensive Long-Term Projections for the U.S. Government</i>
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Low PriorityPlease explain your response. [Click here to enter text.](#)

Topic #17	SFFAS 38 , <i>Accounting for Federal Oil and Gas Resources</i> TB 2011-1 , <i>Accounting for Federal Natural Resources Other Than Oil and Gas</i>
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Low PriorityPlease explain your response. [Click here to enter text.](#)

Topic #18	SFFAS 39 , <i>Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statement on Auditing Standards</i>
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Low PriorityPlease explain your response. [Click here to enter text.](#)

Topic #19	SFFAS 44 , <i>Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use</i>
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Low PriorityPlease explain your response. [Click here to enter text.](#)

Topic #20	SFFAS 47 , <i>Reporting Entity</i>
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Medium Priority

Please see our response to Topic #21 below.

Topic #21	SFFAS 49 , <i>Public-Private Partnerships: Disclosure Requirements</i>
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Medium Priority

We support the Board's continued efforts on its Public-Private Partnerships project. However, we encourage the Board to consider the interaction of the guidance in SFFAS 49 and SFFAS 47 make sure it is consistent in both standards.

Topic #22	SFFAS 51 , <i>Insurance Programs</i>
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Low Priority

Please explain your response. [Click here to enter text.](#)

Topic #23	SFFAS 52, Tax Expenditures
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Low Priority

Please explain your response. [Click here to enter text.](#)

	SFFAS 54, Leases⁵ AS AMENDED BY: SFFAS 57 , SFFAS 60 , SFFAS 61 TB 2023-1, Intragovernmental Leasehold Reimbursable Work Agreements
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We support the Board's continued efforts on its Leases project.

	SFFAS 56, Classified Activities⁶ Interpretation 8, An Interpretation of Statement of Federal Financial Accounting Standards 56, Classified Activities
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Please provide feedback if you wish to do so. [Click here to enter text.](#)

	SFFAS 59, Accounting and Reporting of Government Land⁷
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Please provide feedback if you wish to do so. [Click here to enter text.](#)

⁵ SFFAS 54, *Leases*, is excluded from the reexamination project because the SFFAS is not yet effective. Respondents may provide general comments and feedback for the Board's consideration.

⁶ SFFAS 56, *Classified Activities*, is excluded from the reexamination project due to the topic. Respondents may provide general comments and feedback for the Board's consideration.

⁷ SFFAS 59, *Accounting and Reporting of Government Land*, is excluded from the reexamination project because the SFFAS is not yet effective. Respondents may provide general comments and feedback for the Board's consideration.