Staff Implementation Guidance 31.1: Guidance for Implementation of SFFAS 31, *Accounting for Fiduciary Activities*

### Status

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### Summary

This implementation guidance addresses questions on implementation of SFFAS 31, Accounting for Fiduciary Activities that were raised by federal preparers.
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Background

1. After the issuance of Statement of Federal Financial Accounting Standards (SFFAS) 31, federal preparers had questions about its implementation. The below Staff Implementation Guidance (SIG) Q&As address questions that were raised by federal preparers.

2. SIG does not establish new requirements. Rather, SIG is intended to assist preparers in the application of FASAB literature.

Staff Implementation Guidance

3. **Q 1:** Do the requirements of Statement of Federal Financial Accounting Standards (SFFAS) 31 extend to all reports required by law or administrative action?

4. No. SFFAS 31 explains the scope of the standards as follows:

   SFFAS 31

   [8] This statement provides financial reporting standards for fiduciary activities in the general purpose financial statements for Federal entities. The standard does not affect reporting in the Budget of the United States or special-purpose reports.

5. Accordingly, SFFAS 31 does not apply to (a) reports such as stand-alone audited financial statements that are prepared under an "other comprehensive basis of accounting" (which may be considered "special purpose reports") or (b) individual statements provided to beneficiaries.

6. With respect to individual statements to beneficiaries, some have suggested that the SFFAS 31 disclosures should be based on information prepared at the beneficiary ownership level and aggregated for the component entity. Component entities using this approach would develop and report accrual basis information for the individual beneficiary. The Board does not intend that this approach be required. Rather, the Board intends the accrual of fiduciary activities to be implemented in a cost-effective manner. Therefore, a single aggregate accrual that supports information presented in the schedule of net assets and fiduciary activity in a note to the financial statements should be considered. This approach would support the disclosures required by SFFAS 31 in a cost-effective manner.

7. **Q 2:** May component entities aggregate fiduciary activities for disclosure purposes?
8. Yes. Further, discretion is permitted in selecting activities to be presented individually.

9. SFFAS 31 provides:

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<td>[20] For component entities with several distinct fiduciary activities, summary financial information required in paragraph 18 should be provided for each fiduciary activity presented individually. Information for fiduciary activities not presented individually (see paragraph 21) may be aggregated.</td>
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<td>[21] Selecting fiduciary activities to be presented individually requires judgment. The preparer should consider both quantitative and qualitative criteria. Acceptable criteria include but are not limited to: quantitative factors such as the percentage of the reporting entity's fiduciary net assets or inflows; and qualitative factors such as whether a fiduciary activity is of immediate concern to beneficiaries, whether it is politically sensitive or controversial, whether it is accumulating large balances, or whether the information provided in the fiduciary note disclosure would be the primary source of financial information for the public.</td>
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10. Paragraph 20 of SFFAS 31 identifies the summary financial information that should be provided for each fiduciary activity presented individually and explains that this financial information should be presented as aggregated for all activities not presented individually. Paragraph 21 of SFFAS 31 recognizes that judgment should be exercised in deciding if any fiduciary activities should be presented individually. For example, subject to the considerations in paragraphs 20 and 21, an entity might present summary financial information for:

a. all fiduciary activities in aggregate,

b. fiduciary activities aggregated by type of activity such as leasing or investing activity,

c. classes of beneficiaries separately as individual fiduciary activities, or

d. fiduciary activities conducted by individual program offices.

11. The entity may present simply "total fiduciary funds" as a single column. Alternatively, the entity may present the information by program office to facilitate performance measurement. Yet another option is to present information by class of beneficiary.
12. Q 3: In some cases several bureaus within an agency or department perform activities that result in fiduciary balances that are distributed by another bureau of the agency. Should each bureau include fiduciary activities disclosures in its stand alone audited financial statements?

13. If the activity meets the definition of fiduciary activity it should be disclosed as such in each bureau's stand alone audited financial statements. (See paragraph 5 of this document for clarification regarding special purpose reports.)

14. Per SFFAS 31, par. 10, in a fiduciary activity a Federal entity collects or receives and subsequently manages, protects, accounts for, invests, and/or disposes of cash or other assets in which non-Federal individuals or entities (or "non-Federal parties") have an ownership interest that the Federal Government must uphold.

15. For an activity to meet the definition of a fiduciary activity, the Federal entity has to:
   a. collect and receive fiduciary cash or other assets and subsequently
   b. perform one or more of the other activities identified in the definition (manage, protect, account for, invest, and/or dispose of the fiduciary cash or other assets).

16. Q 4: In some cases, beneficiaries may direct third parties to make payments to a federal agency for credit to the beneficiaries' account. For example, the beneficiary may hold assets outside the trust and elect to liquidate the assets and have the proceeds deposited in the trust. At what point does this activity result in an asset that qualifies for disclosure as fiduciary activity?

17. The role of the federal entity must be understood in order to determine the extent of the fiduciary disclosure requirement in SFFAS 31. In some cases, there is no fiduciary or trust asset until an actual deposit is received. If, for example, the federal component entity has no collection responsibilities but merely receives funds directed to the entity by the beneficiary, there is no account receivable. Instead, the entity would become responsible for disclosing cash only after a deposit is made.

18. Q 5: Is there any requirement to report fiduciary assets, liabilities or flows when the Federal entity does not perform any of the fiduciary activities listed in the definition, but does provide other services, such as advisory services that may lead to a contract being executed outside of the Federal government, with no further Federal role?

19. No. Certain activities that support beneficiaries may not lead to the creation of fiduciary or trust assets.
20. Per SFFAS 31, par. 10, in a fiduciary activity a Federal entity collects or receives and subsequently manages, protects, accounts for, invests, and/or disposes of cash or other assets in which non-Federal individuals or entities (or "non-Federal parties") have an ownership interest that the Federal Government must uphold.

21. For an activity to meet the definition of a fiduciary activity, the Federal entity has to:
   a. collect and receive fiduciary cash or other assets and
   b. subsequently perform one or more of the other activities identified in the definition (manage, protect, account for, invest, and/or dispose of the fiduciary cash or other assets).

22. Q 6: In some cases, courts may direct third parties to make payments to an escrow account in a commercial bank to be distributed to harmed parties. The escrow accounts are not the property of the Federal government, and the interest income is subject to taxes. In some of these cases, a Federal agency may have some control over disbursements (e.g., by approving or disapproving a third-party distribution plan). Does this situation meet the definition of fiduciary activity in SFFAS 31?

23. No. In this example, the Federal agency has not received or collected the cash or other assets.

24. The definition of fiduciary activities is stated in SFFAS 31, par. 10:

   In a fiduciary activity a Federal entity collects or receives and subsequently manages, protects, accounts for, invests, and/or disposes of cash or other assets in which non-Federal individuals or entities (or "non-Federal parties") have an ownership interest that the Federal Government must uphold. Non-Federal parties must have an ownership interest in cash or other assets held by the Federal entity under provision of law, regulation, or other fiduciary arrangement. The ownership interest must be enforceable against the Federal Government. Judicial remedies must be available for the breach of the fiduciary obligation.

25. Q 7: Does SFFAS 31 require reporting the monetary value of fiduciary land held in trust?
26. The reporting requirements for non-valued fiduciary assets are found in paragraph 18(d) of SFFAS 31: (bold added)

[SFFAS 31]

[18(d)] Component entities also may have non-valued fiduciary assets. Non-valued fiduciary assets are fiduciary assets for which required disclosure does not include dollar values. **Non-valued fiduciary assets may include land held in trust.** Component entities holding non-valued fiduciary assets should disclose them in a Schedule of Changes in Non-Valued Fiduciary Assets, which should include a description of non-valued fiduciary assets, beginning quantity, quantity received, quantity disposed of, net increase/decrease in non-valued fiduciary assets, and ending total quantity.

27. Under federal accounting standards, the vast majority of land will be classified as a non-valued asset.

28. **Q: 8: How should the concept of materiality be applied to disclosures about fiduciary activities?**

29. The Board's position on materiality is published in the Foreword to Original Pronouncements, Volume 1, available on the FASAB website at: http://www.fasab.gov/codifica.html

[Foreword, FASAB Original Pronouncements]

**Materiality**

The Board intends that all standards' application be limited to items that are material. "Materiality" has not been strictly defined in the accounting community; rather, it has been a matter of judgment on the part of preparers of financial statements and the auditors who attest to them. Presented below is the Board's position on the issue of materiality at this time.

The accounting and reporting provisions of the Board's accounting standards need not be applied to immaterial items. The determination of whether an item is immaterial requires the exercise of considerable judgment, based on consideration of specific facts and circumstances.
30. Additional guidance on materiality is provided in SFFAC 2, SFFAS 1, SFFAS 3, and the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct.

**SFFAC 2**

[78] Some of a reporting entity's components are likely to be required by law or policy to prepare and issue financial statements in accordance with accounting standards other than those recommended by FASAB and issued by OMB and GAO, e.g., accounting standards issued by the Financial Accounting Standards Board or accounting standards established by a regulatory agency. Those components should continue to issue the required reports. The reporting entities of which the components are a part can issue consolidated, consolidating, or combining statements that include the components' financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity's financial statements. If these differences are material, the standards recommended by FASAB and issued by OMB and GAO should be applied. The components would need to provide any additional disclosures recommended by FASAB and included in the OMB-issued standards that would not be required by the other standards.

**SFFAS 1**

[12] Except as otherwise noted, the accounting and reporting provisions of the accounting standards recommended in this Statement need not be applied to items that are qualitatively and quantitatively immaterial.

[13] The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.
31. In addition, the AICPA Code of Professional Conduct, Rule 203 states **(bold added):**
AICPA Rule 203

Accounting Principles

A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

Materiality with respect to fiduciary disclosures should be based on professional judgment considering relevant qualitative and quantitative factors. Examples of quantitative factors include but are not limited to the relationship of fiduciary amounts to other appropriate information in the entity’s principal financial statements including disclosures. For example, the quantitative materiality determination for each fiduciary item could be made based on the significance of those amounts to amounts recognized on the principal financial statements of the reporting entity, and/or on the significance of an individual item within the fiduciary amounts to all fiduciary amounts presented by the reporting entity.

In all cases, qualitative materiality aspects should be appropriately considered.

32. Q 9: May estimating techniques be used when reporting fiduciary disclosures?
33. Yes, estimating techniques may be used when reporting fiduciary disclosures. For example, accrual estimates may be developed and reported on a summary level.

34. When estimates are used for summary information for fiduciary activities, the fiduciary note may include disclosure of the use of estimates and explain that the actual results may vary from the estimates reported.

**Effective Date**

35. This guidance is effective upon issuance.

**Basis for Conclusions**

A1. After the issuance of SFFAS 31, several federal agencies had questions about its implementation. Staff drafted an initial draft SIG based upon questions from agencies and hosted a public meeting to discuss the draft.

A2. Revised draft SIG was posted for public comment for the required two-week comment period. Seven comment letters were received. Six comment letters were from federal preparers and one was from a non-federal professional organization. Based upon comments received, staff drafted revised SIG and forwarded it to the Board on March 3, 2009 for a 15-day review period. The final SIG was issued on March 19, 2009.