



Greater Washington Society of CPAs and GWSCPA Educational Foundation

1111 19th Street, NW, Suite 1200, Washington, DC 20036
202-464-6001 (v) 202-238-9604 (f) www.gwscpa.org info@gwscpa.org

September 8, 2009

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB or Board) revised Exposure Draft (ED) of the proposed standard, *Accounting for Federal Oil and Gas Reserves*.

FISC consists of 16 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our responses to the ED question follows.

- Q1. The original exposure draft (ED) issued on May 21, 2007, contained detailed asset valuation implementation guidance for valuing federal oil and gas resources. As a result of feedback received from field testing efforts, the Board has removed that detailed guidance from this revised ED and is instead proposing to provide federal entities with flexibility in developing the asset valuation estimation methodology due to the constantly changing economic and technical conditions. Do you agree or disagree with the Board's position (see paragraphs 14 through 26, A47 and A48)? Please explain the reasons for your position in as much detail as possible.
- A1. FISC agrees with the flexibility provided in the current ED, and supports ongoing efforts by the FASAB to adopt 'principles-based' standards. FISC repeats our concerns expressed in our January 23, 2008 response to the initial ED (dated May 21, 2007) that actual journal entries are not necessary if properly described in the eventual standard. We believe that a FASAB Implementation Guide or Department of Treasury (Treasury) or Office of Management and Budget (OMB) directive should address journal entries to insure that entries meet Treasury's Standard General Ledger (SGL) requirements.
- Q2. The Board believes that the method for valuing the federal government's estimated petroleum royalties should approximate the present value of future federal royalty receipts on proved reserves known to exist as of the reporting date as described in paragraphs 19 through 21.

Discount rates as of the reporting date for present value measurements of federal oil and gas assets and liabilities should be based on interest rates on marketable Treasury securities with maturities consistent with the cash flows being discounted. Do you agree or disagree with the Board's position (see paragraphs 19 through 21 and A38 through A46)? Please explain the reasons for your position in as much detail as possible.

- A2. FISC agrees with the current ED to require present value measurements as of the reporting date using discount rates from a common source, namely the marketable Treasury securities. Absent the explicit reference to a common source, FISC members expressed concerns that arbitrary or inconsistent determinations might be used by Federal agencies. As discussed in our response to questions 3 and 4, the current ED provides too much latitude by the preparers to use potentially contradictory methodologies for valuing natural resources.
- Q3. The Board is proposing to permit an alternative measurement method for valuing the federal government's estimated petroleum royalties if it is not reasonably possible to estimate the present value of future federal royalty receipts on proved reserves using the approach described in paragraphs 19 through 21. Specifically, the Board is permitting a market-based fair value measurement consistent with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards 157, *Fair Value Measurements*. Do you agree or disagree with the Board's position (see paragraphs 24 and A38 through A46)? Please explain the reasons for your position in as much detail as possible.
- A3. FISC agrees that an alternative measurement method is appropriate due to the complexity and unique situations faced by different Federal agencies. However, FISC recommends that stronger or more explicit language be included in the final standard that would explain what circumstances or situations might make it 'reasonably possible' for a Federal agency to avoid use of the preferred measurement method. Further, FISC members advise that there is a significant disparity between the defined steps in the preferred measurement method and the open-ended reference in the ED to FASB's Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. FISC recommends that the final standard provide more definite reference to paragraphs, sections, or methods contained in SFAS No. 157 that would be acceptable to the Board.
- Q4. The Board is proposing to permit federal entities to change its methodology for valuing the federal government's estimated petroleum royalties if environmental or other changes would provide for the development of an improved methodology. Do you agree or disagree with the Board's position (see paragraphs 25, 26 and A49 through A51)? Please explain the reasons for your position in as much detail as possible.
- A4. FISC supports including the broad provisions of paragraph 25, allowing for an "improved methodology" based upon environmental or other changes. FISC believes that it is important that Federal agencies be provided the latitude to use the most accurate methodology for estimating future federal royalty receipts on proven reserves.
- Q5. The Board believes that it would be appropriate to provide guidance regarding reporting gains and losses from changes in assumptions and selecting the discount rates similar to that provided in SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, to long-term assumptions about oil and gas when using

the present value method. Do you agree or disagree with the Board's position (see paragraphs 20, 40, and A64 through A66)? Please explain the reasons for your position in as much detail as possible.

- A5. FISC supports the financial statement presentation of gains and losses from changes in assumptions, but encourages the Board to consider segregating unrealized gains and losses from operating results on the Statement of Net Cost. FISC believes that commingling unrealized gains and losses with operating results could confuse a reader of federal financial statements, and cause a reader to draw a false understanding of the annual operating costs or deficit of a Federal agency. The process of segregating unrealized transactions from operating results would parallel the Board's proposal to separate the reporting of social insurance balances, as was proposed by the Board in its recent exposure draft of a proposed standard, *Accounting for Social Insurance, Revised*.
- Q6. SFFAS 31, *Accounting for Fiduciary Activities*, requires that agencies report on assets held in a fiduciary capacity. The Department of Interior (DOI) manages oil and gas resources on behalf of individual Indians and Indian tribes. This proposed standard – because it classifies oil and gas resources as assets – would result in additional information being disclosed for oil and gas assets managed in a fiduciary capacity. Note, however, that fiduciary reporting does not extend to inclusion of the additional disclosures or RSI that are proposed in this document for federal oil and gas resources. Thus, with respect to fiduciary activities, only disclosure of the assets, liabilities, and related inflows and outflows would result from this proposal.

Some members have expressed concern that the costs may exceed the benefits of disclosing fiduciary assets and liabilities measured in conformance with this proposed standard. Since this proposal may significantly increase the fiduciary assets disclosed, we requested input on the cost-benefit of the requirement with respect to fiduciary activities in the May 2007 ED. One respondent was in favor of the disclosures while four expressed their opinion that the information would most likely not be cost-beneficial. However, the Board has not received any substantive information to enable it to make an informed decision regarding cost/benefit.

Since the removal of the fiduciary oil and gas resource disclosure requirements would require an exception to the requirements of SFFAS 31, we are again requesting detailed input on the cost-benefit of the requirement with respect to fiduciary activities. See paragraph 46.

- A6. FISC supports the current ED, which requires that assets, including oil and gas resources, which are held in a fiduciary capacity be reported in accordance with the provisions of SFFAS No. 31 using the valuation methods contained in the current ED (subject to the comments made in our answers to questions 3 and 4 above). Although we appreciate the concerns regarding cost-benefit considerations, comparability in reporting is vital, and inconsistently applied measurement methods for equivalent assets would be confusing to a reader of the financial statements.

However, one of our members disagreed with this response. One member expressed concerns that there is no explanation in the ED as to why FASAB would depart from the private sector's recording of non-monetary assets held in trust, in accordance with the *Uniform Principal and Income Act* (the Act), which provides guidance on fiduciaries. According to this member, the Act is very clear that fiduciaries are responsible for assets received by them, but are not responsible for the value of non-cash assets (although they will normally report the

value of readily marketable securities). Residences and real estate improvements, land and forestry holdings, and other assets are merely disclosed, but only rarely valued. Requiring U.S. government fiduciary funds to record the discounted value of proven reserves would be in conflict to practices under the Act and at odds with comparable fiduciaries outside of the United States Government.

- Q7. The Board is proposing to provide a three-year phase-in of the proposed requirements from required supplementary information (RSI) beginning with fiscal year 2011 to basic in fiscal year 2014. This transitional period is being provided to allow for the asset valuation methodology to be improved upon before an audit opinion is required. Do you agree or disagree with the Board's position (see paragraphs 51 and A87)? Please explain the reasons for your position in as much detail as possible.
- A7. FISC supports the proposed requirements of a phased-in reporting approach to allow key agencies sufficient time to address challenges in implementation of this ED, and to work with the auditors to develop an approach that allows for the agencies' methodologies to be reviewed by the auditors prior to inclusion in the basic financial statements or footnotes.
- Q8. This Statement addresses accounting for federal oil and gas resources only. While the Board may address accounting for other types of natural resources at some point in the future, the majority of the members acknowledge that it is not likely that a project devoted to other categories of natural resources will be marked as a high priority at future agenda-setting sessions due to their lesser significance. As a result, while not explicitly encouraging agencies to recognize other categories of natural resources, the Board included paragraph 10 to explicitly state that this Statement does not preclude entities from recognizing or otherwise reporting information about other types of federally-owned natural resources. Do you agree or disagree that the potential risk that the inclusion of paragraph 10 might lead to inaccurate or inconsistent reporting of other types of natural resources is outweighed by the potential benefits to financial statement users (see paragraphs 10, A9 and A10)? Please explain the reasons for your position in as much detail as possible.
- A8. FISC understands the challenges faced by the Board in balancing all of the matters on the Board's agenda, and appreciates the concerns by Board members that other projects will take precedence over additional standards covering other types of natural resources. However, FISC recommends that paragraph 10 include a statement that any additional types of natural resources reported by an agency use valuation, accounting, and financial reporting methods consistent with the provisions of the final standard, and that such methods be required for all types of natural resources.

Further, FISC repeats our concerns expressed in our January 23, 2008 response to the initial ED that the Board has not explained why capitalization is restricted solely for proved oil and gas resources, and why the reporting concept is not required for other "proven" assets (e.g., coal, uranium, gold, silver, zinc, and other metals, timber, other subsurface minerals, and even water). The ED, as written, provides no requirement or strong language to compel agencies to account for and report all "proven" resources. Absent such a requirement, the ED, as written, would not provide for a comprehensive reporting model for comparable assets.

- Q9. After a three-year transition period of reporting as RSI, the ED proposes to recognize an asset on the balance sheet for the federal government's royalty share of federal oil and gas resources

under lease (see paragraphs A29 through A37 for a discussion of factors regarding asset recognition considered by the Board in reaching this conclusion). An alternative view prepared by Mr. Dacey proposes that the value of federal oil and gas resources and annual changes therein be reported as RSI for a three-year transition period and then disclosed as basic information in the notes, rather than recognized on the face of the financial statements. The notes would be part of an integrated disclosure that would include the discussion of all of the government's natural resources, including oil and gas resources that are not currently under lease as well as values and information concerning all other significant natural resources, such as coal, timber, and grazing rights. Do you agree or disagree with the alternative view (see paragraphs A89 through A92)? Please explain the reasons for your position in as much detail as possible.

- A9. FISC supports the eventual presentation of natural resources on the face of federal financial statements. However, FISC repeats our concerns, expressed in response to question 8 above, that FASAB has not yet explained, in sufficient detail, its position of restricting capitalization to proved oil and gas resources and not mandating reporting of other types of natural resources. Selective recognition of assets by Federal agencies impairs the value of Federal financial reporting, and limits the usefulness of information contained within agency financial statements and the Consolidated Financial Report of the United States Government.

Other Comments

- In paragraph 21, FISC recommends that the phrase “why it is inappropriate to do so” should be replaced with something akin to “why the entity’s own assumptions are a preferred method.”
- In paragraph 28, it is unclear why only expected payments of royalties to non-federal entities are recognized. Consideration should be given to the disclosure of expected payments of royalties to other federal components.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Andrew C. Lewis
FISC Chair