



Federal Accounting Standards Advisory Board

**Presentation of Significant Assumptions for the Statement of
Social Insurance: Amending SFFAS 25**

Statement of Federal Financial Accounting Standards 26

November 1, 2004

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statement of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- ◆ “Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board”
- ◆ “Mission Statement: Federal Accounting Standards Advisory Board”

Exposure drafts, Statements of Federal Financial Accounting Standards And Concepts, FASAB newsletters, and other items of interest are posted On FASAB’s website at: www.fasab.gov.

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Summary

This standard amends Statement of Federal Financial Accounting Standards 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, to require disclosure of significant assumptions underlying the Statement of Social Insurance (SOSI). “Disclosure” means “reporting information in notes or narrative regarded as an integral part of the basic financial statements.” Thus, this amendment reclassifies significant assumptions as basic information rather than as required supplementary information (RSI).

Introduction

1. In July of 2003, the Board issued SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, and included changes addressing many of the issues identified in responses to the exposure draft (ED) preceding it. One change to the proposal in the exposure draft preceding SFFAS 25 shifted information other than the SOSI from disclosure to RSI status “Disclosure” means “reporting information in notes or narrative regarded as an integral part of the basic financial statements.”¹ RSI is not part of the basic financial statements and is customarily presented as a separate section accompanying the financial statements. Another change to the proposal in the exposure draft preceding SFFAS 25 delayed the effective date to permit the development of audit guidance.
2. The task force of the American Institute of CPAs (AICPA) charged with developing that audit guidance takes exception to the fact that SFFAS 25 permits the preparer to present the significant assumptions underlying SOSI, a basic financial statement, as RSI.² The task force concluded that disclosure related to SOSI would be inadequate if management elects not to disclose significant assumptions in the notes to the financial statements. The task force believes that inadequate disclosure should result in a qualification of the audit opinion. The task force has proposed audit guidance that would require a qualification in the event significant assumptions are not disclosed.
3. The Board believes that generally accepted accounting principles (GAAP) should be clear with respect to adequate disclosure. In this instance, the Board agrees that disclosure of the significant assumptions underlying the SOSI is necessary to an understanding of the SOSI and through this statement amends SFFAS 25.

¹ In accounting literature “disclosures” also may be referred to as “notes” or “footnotes.” This statement presents excerpts from other documents with these terms. There is no difference in meaning – rather different authors used different terms with the same meaning.

² SFFAS 25 affords management the option of disclosing the significant assumptions. Par. 6 of SFFAS 25 provides that “Other information required by SFFAS 17 shall be presented as RSI, **except to the extent that the preparer elects to include some or all of that information in notes that are presented as an integral part of the basic financial statements.**” (Emphasis added.)

Standards

Amendment of SFFAS 25

4. Paragraph 6 of SFFAS 25 is rescinded.
5. The information required by paragraphs 27(3) and 32(3) of SFFAS 17 shall be presented as a basic financial statement rather than as required supplementary stewardship information (RSSI). The underlying significant assumptions shall be included in notes that are presented as an integral part of the basic financial statement. Other information required by SFFAS 17— including the sensitivity analysis required in par. 27(4) and 32(4)— shall be presented as required supplementary information, except to the extent that the preparer elects to include some or all of that information in notes that are presented as an integral part of the basic financial statements.

Effective Date

6. Consistent with the effective date of SFFAS 25, this standard is effective for periods beginning after September 30, 2004.

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix discusses factors considered significant by Board members in reaching the conclusions in this standard. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this proposed statement---not the material in this appendix---would govern the accounting for specific transactions, events or conditions.

7. The Board issued this standard to ensure that significant assumptions are presented as note disclosures to the Statement of Social Insurance so that well established expectations regarding adequate disclosure would be met. Concepts statements from many standard setters explain the requirement for adequate disclosure as follows:
 - a. Financial reporting should include explanations and interpretations to help users understand financial information provided. ... Moreover, financial reporting often provides information that depends on, or is affected by, management's estimates and judgment. Investors, creditors, and others are aided in evaluating estimates and judgmental information by explanations of underlying assumptions or methods used, including disclosure of significant uncertainties about principal underlying assumptions or estimates. Financial reporting may, of course, provide information in addition to that specified by financial accounting standards, regulatory rules, or custom. (Financial Accounting Standards Board, CON 1, *Objectives of Financial Reporting by Business Enterprises*, par. 54)
 - b. Information disclosed in notes or parenthetically on the face of financial statements, such as significant accounting policies or alternative measures for assets or liabilities, amplifies or explains information recognized in the financial statements.⁴ That sort of information is essential to understanding the information recognized in financial statements and has long been viewed as an integral part of financial statements prepared in accordance with generally accepted accounting principles. [⁴For example, notes provide essential descriptive information for long-term obligations, including what amounts are due, what interest they bear, and whether important restrictions are imposed by related covenants. For inventory, notes provide information on the measurement method used—FIFO cost, LIFO cost, current market value, etc. For an estimated litigation liability, an extended discussion of the circumstances, counsel's opinions, and the basis for management's judgments may all be provided in the notes. For sales, useful information about revenue

recognition policies may appear only in the notes. (FASB Statement No. 47, *Disclosure of Long-term Obligations*; ARB No. 43, Chapter 4 - Inventory Pricing, Statement 8; FASB Statement No. 5, *Accounting for Contingencies*, par. 10; and APB Statement 4, par.199)] (CON 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, par. 7a)

- c. Financial information is also conveyed with accompanying footnotes, which are an integral part of the financial statements. Footnotes typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading. (FASAB, SFFAC 2, *Entity and Display*, par. 68)
 - d. Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to faithfully represent the underlying events and conditions, nor should anything be included that would cause the information to be misleading. Reliability does not imply precision or certainty. Reliability is affected by the degree of estimation in the measurement process and by uncertainties inherent in what is being measured; financial reporting may need to include narrative explanations about the underlying assumptions and uncertainties inherent in this process. Under certain circumstances some financial information is based on reasonable estimates. A properly explained estimate provides more meaningful information than no estimate at all. (Governmental Accounting Standards Board, Concept Statement 1, par. 64)
8. The Board believes that the underlying significant assumptions are essential to fair presentation. The Board believes that generally accepted accounting principles should result in disclosure of the significant assumptions upon which SOSI is based. Disclosures are an integral part of the basic financial statements while RSI is not an integral part of the basic financial statements. RSI accompanies the basic financial statements. Placing the significant assumptions in the disclosures associated with the SOSI serves two purposes. First, the significant assumptions inform the reader about the basis for the projections presented in the SOSI. Second, the reader has ready access to the significant assumptions through association with a principal financial statement.
 9. The Board received 8 responses to its March 12, 2004 exposure draft on this subject. Of the responses, 5 were from federal respondents and 3 were from non-federal respondents. Seven of the eight respondents supported the proposal. However, two supported the proposal contingent on suggested changes.

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10. One recommended that the Board also include in the note disclosure an explanation of the uncertainty inherent in the process. The recommendation is not without merit but cannot be adopted absent an exposure draft proposing the change. The Board is not actively pursuing this additional amendment to SFFAS 25. The Board believes the nature of the information is adequately explained by the:
 - a. required summary of significant accounting policies,
 - b. disclosure of the significant assumptions,
 - c. language in the auditor's report on SOSI explaining that there will be differences between the forecasts and actual results, and
 - d. presentation of the sensitivity analysis as required supplementary information.
 11. Another respondent requested that the Board defer the effective date of this amendment and SFFAS 25. Occasionally, the Board has deviated from the proposed effective date when finalizing standards proposed in an exposure draft and this is not considered a deviation significant enough to warrant re-exposure of the proposal. However, to alter the effective date of a previously issued standard – in this case SFFAS 25 – due process requires that the Board seek input on that change through an exposure draft proposing such a change. One example of this is the deferral of SFFAS 4, *Managerial Cost Accounting Standards for the Federal Government*.
 12. Since the Board is unable to alter the effective date of SFFAS 25 through this amendment, the Board is proceeding with the earlier effective date for this amendment to ensure consistency with SFFAS 25. The Board is considering the request for deferral of SFFAS 25. An exposure draft was issued on July 20, 2004 proposing a one-year deferral of both SFFAS 25 and this standard. The Board will consider comments on the exposure draft and may issue a statement amending the effective dates.

Board Approval

13. This statement was approved for issuance by all members of the Board.

Appendix B: Abbreviations

AICPA	American Institute of Certified Public Accountants
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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