



Federal Accounting Standards Advisory Board

CLASSIFIED ACTIVITIES

Statement of Federal Financial Accounting Standards 56

October 4, 2018

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 of the United States 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. Accounting standards are 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. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. 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 standards 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 Statements 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 and other items of interest are available on the FASAB website:

- Memorandum of Understanding among the Government Accountability 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
- Documents for comment
- Statements of Federal Financial Accounting Standards and Concepts
- FASAB newsletters

Copyright Information

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from FASAB. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

Contact Us

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Mailstop 1155
Washington, DC 20548
Telephone 202-512-7350
Fax 202-512-7366
www.fasab.gov

SUMMARY

The objective of this Statement is to balance the need for financial reports to be publicly available with the need to prevent the disclosure of classified national security information or activities in publicly issued General Purpose Federal Financial Reports (GPFRRs). This Statement allows financial presentation and disclosure to accommodate user needs in a manner that does not impede national security.

This Statement permits modifications that do not affect net results of operations or net position. In addition, this Statement allows a component reporting entity to be excluded from one reporting entity and consolidated into another reporting entity, and the effect of the modification may change the net results of operations and/or net position.

Further, Interpretations of this Statement, which may themselves contain classified information, will address the requirements of this and other standards and permit other modifications when needed to prevent the disclosure of classified information. Modifications permitted by this Statement and future Interpretations may affect the net results of operations and/or net position of those entities applying the Interpretations.

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

TABLE OF CONTENTS

Summary	3
Standards	5
SCOPE	5
DEFINITIONS	5
APPLICATION OF STANDARDS AND DISCLOSURES	6
Presentation and Disclosure Modifications	6
Consolidation Modifications	7
Interpretations	7
Component Reporting Entity Disclosures	7
Financial Report of the U.S. Government Disclosures	7
EFFECTIVE DATE	8
Appendix A: Basis for Conclusions	9
Appendix B: Abbreviations	15
Appendix C: Glossary	16

STANDARDS

SCOPE

1. This Statement applies to federal entities that issue unclassified general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. This Statement does not apply to the reporting of financial information within the GPFFR in the classified environment and only applies when the information is presented in the unclassified environment, such as publicly available component reporting entity GPFFRs. This Statement does not apply to classified GPFFRs provided to cleared personnel, including elected officials. This does not relieve reporting entities from their requirements and responsibilities to comply with other accounting standards in the appropriate classified environment.

DEFINITIONS

3. **Classified National Security Information**, also known as "classified information," is any information that has been determined pursuant to Executive Order (EO) 13526, as amended; or any successor orders, to require protection against unauthorized disclosure and is marked to indicate its classified status. Information may be classified at one of the following three levels:
 - a. **TOP SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause exceptionally grave damage to the national security that the original classification authority is able to identify or describe;
 - b. **SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause serious damage to the national security that the original classification authority is able to identify or describe; and
 - c. **CONFIDENTIAL**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause damage to the national security that the original classification authority is able to identify or describe.
4. **Original Classification Authority** is an individual authorized in writing, either by the President, the Vice President, or by agency heads or other officials designated by the President, to classify information in the first instance.
5. **Derivative Classification** is incorporating, paraphrasing, restating, or generating in new form information that is already classified, and marking the newly developed material consistent with the classification markings of the source of the information. Derivative

classification includes the classification of information based on classification guidance. The duplication or reproduction of existing classified information is not derivative classification.

APPLICATION OF STANDARDS AND DISCLOSURES

6. Classified information is prohibited from public release. Classified information is determined by an Original Classification Authority (OCA) or by applying derivative classification.
7. Reporting entities are expected to comply with other accounting standards in the appropriate classified environment. Reporting entities should apply this Statement when an OCA concludes, or others determine by applying derivative classification, that the information is classified and, therefore, cannot be presented without modification in unclassified GPFFRs. Component reporting entities have the discretion to apply this Statement at the program or transaction level.
8. This Statement permits certain modifications to prevent the disclosure of classified information in an unclassified GPFFR. This Statement permits the following:
 - a. An entity may modify information required by other standards if the effect of the modification does not change the net results of operations or net position.
 - b. A component reporting entity is allowed to be excluded from one reporting entity and consolidated into another reporting entity. The effect of the modifications may change the net results of operations and/or net position.
 - c. An entity may apply Interpretations of this Statement that allow other modifications to information required by other standards, and the effect of the modifications may change the net results of operations and/or net position.

The above modifications allowed by this Statement are discussed in more detail in paragraphs 9-11 below.

PRESENTATION AND DISCLOSURE MODIFICATIONS

9. The entity should modify unclassified financial statement presentations, disclosures, required supplementary information (RSI), and required supplementary stewardship information (RSSI) required by other Statements to prevent the disclosure of classified information if the effect of the modification does not change the net results of operations or net position. In this context, modify means:
 - a. Presenting amounts associated with one financial statement line item in another financial statement line item but not presenting narrative explaining the modification.
 - b. Omitting required disclosures, RSI, or RSSI that would otherwise reveal classified information.

CONSOLIDATION MODIFICATIONS

10. An organization may be excluded from a particular reporting entity to prevent the disclosure of classified information and consolidated into another reporting entity. According to SFFAS 47, *Reporting Entity*, there are organizations¹ that should be included in a particular component reporting entity's GPFFR. Such organizations may be excluded from the particular component reporting entity's GPFFR to prevent the disclosure of classified information and consolidated into another reporting entity.² If a reporting entity consolidates an organization that is excluded from another reporting entity's GPFFR to prevent the disclosure of classified information, that consolidation modification may affect one or both reporting entities' net results of operations and/or net position.

INTERPRETATIONS

11. The Board may issue Interpretations of this Statement that affect other Statements. Such Interpretations may permit other unclassified GPFFR presentation and disclosure modification options, as needed. These modification options would prevent unauthorized disclosure in an unclassified GPFFR. Modifications that affect the entity's net results of operations and/or net position may be allowed by Interpretations of this Statement.

COMPONENT REPORTING ENTITY DISCLOSURES

12. All federal component reporting entities must include the following in the summary of significant accounting policies.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Component reporting entities must not disclose application of this Statement, including any Interpretations of this Statement.

FINANCIAL REPORT OF THE U.S. GOVERNMENT DISCLOSURES

13. The financial report of the U.S. Government (government-wide financial report) must include the following in the government-wide summary of significant accounting policies.

Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. Accordingly, modifications may have been made to certain presentations and disclosures.

The government-wide financial report must not disclose specific Interpretations of this Statement that may have been applied.

¹ Decisions to exclude an organization from a particular component reporting entity to prevent the disclosure of classified information may be evidenced by, for example, approval or concurrence from an oversight organization, such as the Office of Management and Budget.

² SFFAS 47, *Reporting Entity*, provides the framework for determining what organizations (for example, component reporting entities or sub-components) should be included in the reporting entity's GPFFRs for financial accountability purposes. A reporting entity may be the government as a whole, another component entity, or a subcomponent reporting entity.

EFFECTIVE DATE

14. This Statement is effective upon issuance.

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