April 26, 2013

GASB Agenda Process
Financial Accounting Foundation
401 Merritt 7, PO Box 5116
Norwalk, CT 06856

Re: GASB’s Scope of Authority: Proposed Changes to the Agenda-Setting Process

To Whom It May Concern:

The Virginia Government Finance Officers Association (VGFOA) Standard Setting Committee has reviewed the Financial Accounting Foundation (FAF)’s Request for Comment on GASB’s Scope of Authority: Proposed Changes to Agenda Setting Process (the ‘RFC”). Overall, we support the proposed changes to the GASB’s agenda-setting. We feel the proposal will clearly establish the GASB’s scope of authority; and that the revised process will create greater efficiencies and cost savings through the early prevention of research work to be performed on projects outside of the GASB’s scope of authority.

The GASB has proposed to the Trustees, modifications to the GASB’s current agenda-setting process to address the scope of authority issues. Generally, the GASB proposes to categorize governmental information into three groups related to the GASB’s authority to issue financial reporting standards and guidance. These groups are: Group 1 – Information that GASB assesses as clearly being within the GASB’s standard-setting authority, Group 2 – Information that the GASB believes is within its standard setting authority, but that is not clearly in Group 1, and Group 3 – Information clearly recognized as being outside the GASB’s standard-setting authority.
Generally, we support the proposed changes but have specific comments as follows:

Comment #1 - FAF and GASB Independence and Group 2 Proposed Solution:

Generally while we are in support of the proposed changes to the agenda setting process, we want to ensure that there is no conflict of interest and that each entity (FAF and/or GASB) maintains its independence in accordance with the established by-laws.

Specifically while we agree that for Group 2 where the addition of stakeholder input at the beginning of the process would prove beneficial to any project, the option for additional input under 4e (where oversight committee evaluates whether to obtain additional GASB stakeholder input) could be considered superfluous for a scope determination. Information gathered under 4b (where trustees conduct outreach with GASB stakeholders) should be sufficient and eliminates potentially unnecessary use of GASB staff resources.

Comment #2 - Accountability:

Costs and benefits are to be carefully weighed while carrying out the charged accountability and not to cross over the oversight and/or actual standard setting duties. To reiterate, the FAF’s role is to oversee FASB / GASB and not to set standards while the latter are to establish their respective accounting and reporting standards. This includes identifying and establishing agenda items for the agenda-setting process. Currently, GASB is at issue. This was probably prompted by GASB’s recent view on Economic Condition Reporting: Financial Projections and GASB Statement #’s 67 and 68 on pension accounting. We think the proposed changes will resolve some of these problems where GASB overstepped their boundaries and went beyond the scope of their authority.

On another hand, we understand there is no bright or fine line for demarcating the limits of the GASB’s scope of authority. Given the multiple dimensions of governmental accountability, it would be difficult to set bright lines for information within the GASB’s scope of authority. However, it would not be difficult if GASB stays accountable and relevant by a constant outreach with stakeholders given new and dynamic situations.
Comment #3 - Agenda Item Categorization Process Improvement:

We agree with the categorization process but feel that clarification can be further enhanced if examples and clear guidance are provided to each category of agenda topics. This is to prevent misinterpretation and misapplication of the agenda categorization.

However, we do have some concerns regarding the additional decision making points for projects that encompass Group 2 information. As noted in FAF’s commissioned independent academic study, a principal finding was “GASB’s independence and rigorous due process it follows in establishing standards are highly valued and well-respected…” Based on this finding, step 4i (where Oversight Committee decides whether to review project prospectus) should be unnecessary and potentially contradictory to FAF’s intention to not affect GASB’s standard-setting independence. In addition, the involvement of the oversight committee at the project prospectus level further delay’s potentially necessary financial reporting improvements and exacerbates already limited project resources. We recommend a rework to be done for this area and that GASB should consider expanding the definition of the Group 2 to reflect the magnitude and nature of proposed changes. There may be occasions where the GASB is proposing a significant departure from the current standards relating to a particular Group 1 categorized item, as was the case with GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27. For these types of Group 1 items, there should be a review process that at minimum involves conducting outreach with stakeholders on how these changes affect the reliability and relevance of the financial statements and a review of the project proposal and feedback by the oversight committee.

Comment #4 - Transparency and Compliance vs. Consistency:

The proposed changes make the agenda setting more transparent. This may resolve the scope authority issue if concerns or issues are timely addressed. Transparency and compliance are two of the accountability dimensions. The different dimensions and types of accountability are often inconsistent with one another in practice. GASB is widely accepted as the appropriate organization to set financial accounting standards for state and local governments in the United States. Traditionally, GASB’s accountability has been narrowly “financial” in nature. Just recently, the more broad view as Expanded Accountability Reporting has been developed. This view is the very reason for GASB’s scope of authority to be questioned. While expanded
accountability topics have the potential to be within GASB’s scope, the appropriate role of GASB is unclear and has not been kept relevant with changes in accounting reporting needs. We recommend clearly defining and updating GASB’s scope of authority as well as the related by-laws of the FAF.

Comment #5 – Oversight and Control vs. Trust and Accountability:

As part of consideration of the FAF’s oversight of the GASB, the FAF should also continue to study proposals to ensure that feedback is adequately considered and valued and incorporated into final outcomes

We trust GASB to perform its very best. We are in support of excellence and excellence does not imply perfection. Costs and benefits are to be objectively and carefully considered while trying to do more with less. Accounting standards are to be issued only when expected benefits exceed costs.

While the GASB has a process by which stakeholders can comment on the impact, proposed changes are not always incorporated into the final statements. In recent instances, a majority of the largest and most respected accounting organizations, as well as numerous states, localities, and other entities expressed their concerns and rigorous opposition to the direction the GASB was going, but that feedback was not considered in the final standard. In addition, the cost, practicality, and timeliness of implementing standards seem to be given little attention by the GASB, but are pressing concerns to stakeholders. We recommend changes in this area.

Thank you very much for the opportunity to participate in the due process.

Sincerely,

[Signature]

Charles Ramsay
VGFOA President