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April 11, 2013

Mr. Jeffrey J. Diermeier
Chairman
Financial Accounting Foundation
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Mr. Diermeier:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Financial Accounting Foundation's Proposed Changes to the Agenda-Setting Process for GASB. The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has carefully reviewed the changes proposed for the Government Accounting Standards Board's (GASB) agenda setting process and the rationale for the changes expressed by the FAF. Although the FMSB agrees that changes to the agenda setting process are warranted, we strongly disagree with changes proposed by the FAF. We believe the proposed changes will diminish GASB's independence and in the long term, diminish the effectiveness of GASB as a standards setting body. Our thoughts on this matter and our suggested alternative follow.

The primary motivation for the suggested changes in the agenda setting process is to help to resolve disagreements related to the scope of GASB's authority to address financial accounting and reporting matters. The proposal states that no changes are proposed for matters that fall within items 1 through 3 on the financial reporting spectrum contained on page 4 of the Request for Comment document (Group 1). The change that is proposed is for matters that fall within items 4 through 7 on the financial reporting spectrum (Group 2).

For Group 2 items, the FAF proposes the GASB shall conduct stakeholder outreach, analyze the issue and forward its decision to the Standards Setting Oversight Committee (Oversight Committee). The Oversight Committee shall then be permitted to duplicate the stakeholder outreach if deemed necessary, form its own conclusion regarding GASB's work and then make a recommendation to the FAF as to whether a project should or should not proceed. This process may be repeated for placing items on both the GASB's research



agenda and technical agenda. Although some options and steps have been left out of our narrative we believe that the essential steps are as described.

In our opinion this proposal has a fundamental flaw that makes it unacceptable to GASB stakeholders and the long term supporters of GASB. The matters that fall into Group 2 on the spectrum are matters that by their nature represent the leading edge, difficult to handle topics in financial accounting and reporting for governments. Solutions to these matters may provide vast improvements in government financial reporting and accounting. Yet the change in process would essentially substitute the judgment of the Oversight Committee for the judgment of the GASB regarding what does and does not get placed on the research and technical agendas. In effect, the FAF's proposal leaves the easy decisions to GASB and removes the more difficult decisions from GASB's control. This seems illogical.

First, determining what items are or not added to the research and technical agenda has long term significance as to the direction of the GASB. The agenda setting process directly impacts the ultimate quality and the topics of the GASB pronouncements. Make no mistake, who controls the agenda ultimately controls the standard setting process and the FAF has proposed to take over this role for the most significant issues that GASB will face. These matters require individuals with extensive experience in government accounting matters that possess both current and historical insights into the fundamental issues. These individuals should have knowledge of past precedents and decisions on a broad spectrum of issues and be engaged in the field of government accounting and reporting. These are the fundamental characteristics of the members of GASB and the GASAC. Therefore we are concerned the Oversight Committee and FAF members may not have the same level of knowledge and insight into issues.

Second, the FAF's proposal will likely add significant time to the standard setting process, a process that is already long and protracted and will result in issues being examined as many as three times through a due process procedure. The FAF's proposal of allowing the Oversight Committee to conduct stakeholder outreach when it deems it to be necessary will subject issues to a prolonged debate. Furthermore, we question how additional outreach to stakeholders conducted by the Oversight Committee would be significantly different than the outreach proposed for the GASB. We also believe the FAF needs to consider other aspects of its proposal. Subjecting the agenda setting decisions to the Oversight Committee's approval will, in effect, result in the Oversight Committee becoming the major recipient of complaints and disagreements from stakeholders whose positions have not been adopted by GASB. Is the Oversight Committee prepared to judge not only the quality of any disagreements regarding GASB's decisions but to also hear complaints regarding the methods used by GASB to gather stakeholder input? Once it becomes the appeal level for GASB's work, the Oversight Committee must be prepared to handle such matters. This change will serve to slow the standard setting process. We also believe it will require additional FAF staff resources as we would expect that the Oversight Committee's collection of stakeholder input and analysis under steps 4e and 4f would be conducted by staff independent of GASB to provide maximum value.

We agree such matters as Group 2 items should be carefully considered and the input of stakeholders weighed in a careful manner when deciding whether to add these matters to the research and technical agenda. Furthermore, we also believe that Group 1 items warrant additional scrutiny. Therefore we support the new steps 4a through 4c which is proposed on page 10 of the Request for Comment document. These steps will help to ensure that matters are fully and thoroughly considered before moving forward. Where we adamantly disagree is the addition of steps 4d through 4i to the GASB standard agenda setting process. These steps will effectively make the decisions regarding the most significant matters that are added to the research and technical agendas subject to the approval of the Oversight Committee rather than the approval of the GASB members.

As an alternative to the FAF's proposal, we recommend the FAF reinforce the influence and role of the GASB members in the agenda setting process. A review of the current standard-setting agenda process finds the GASB members only become involved in the agenda setting process on step 7 when the proposed agenda is presented for consideration. Only at this point are the GASB members asked to consider what is proposed. We recommend that Step 2 in the current GASB standard-setting agenda process be modified to include the GASB members, taken as a whole body, into the assessment process for determining whether a project is within the scope of GASB's authority before staff present project proposals to the GASAC. This will allow the learned judgments of the individual GASB member as to what constitutes an appropriate or adequately structured project to be considered early in the process. In addition, Step 4 of the current process should also be modified to allow the GASB members a role in reviewing potential projects after GASAC input has been obtained, to ensure that further structuring of a project benefits from the wisdom of the individual members, and so that there can be discussions regarding GASAC proposals to drop a proposed project and/or to set its priority at a given level.

Although we believe that the GASB's staff has consistently sought stakeholder input and thoroughly considered this input in the past, and are to be commended for their work, we believe the GASB members should be integrated into the project development process at an earlier stage. This would strengthen the process and allow for important input from those ultimately responsible, which is that of the Board acting as a whole body.

Reinvigorating the GASB member's role by acting as a deliberative body on the agenda setting process would help to ensure an appropriate "balance of power" between the role of the Chair, the influence of the GASB staff on agenda setting and the role of the Board. In much the same way that there is a division of power in public firms between the board and the chief operating officer, there needs to be a balance of power within GASB that recognizes that the Board when acting as a whole body is the ultimate authority for setting the Board's agenda, as it is for the standards it ultimately promulgates. Agenda setting should not be the responsibility of the Chair alone, nor should it be in any form or any part the responsibility of the proposed Oversight Committee. Rather, the agenda for the GASB should be set by a majority vote of all of the members of the GASB. Additional input may also be sought from the stakeholders by exposing the proposed agenda for public comment, similar to what is done by the Federal Accounting Standards Advisory Board each year.

We also ask the FAF to reconsider their proposal in light of the recent standard setting actions taken by the GASB. With due respect to the FAF statement that this proposal is not made in reaction to any individual GASB standard setting actions, the recent significant standard setting actions such as the new pension standards and the preliminary views on economic condition reporting has heightened the debate on GASB's scope of authority. It would seem imprudent to take such significant actions as proposed by the FAF based upon recent events when the long term effectiveness of GASB is not in dispute. This is supported by the Independent Academic Study. Rather, we believe some significant improvements can be made to the GASB standard-setting process, such as those noted above, which will not involve relinquishing GASB authority and independence to the Oversight Committee. Our recommendations, we believe, will not adversely impact the independence of the GASB nor will they cause consternation among the state and local governments that have since 1984 assigned authority to the GASB for establishing standards under which they report their financial activities.

We appreciate the opportunity to comment on the FAF's proposal and would be pleased to discuss this letter with you at your convenience. This letter represents the consensus view of the FMSB members and they have approved the issuance of this letter of comments. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA staff liaison for the FMSB, at ssossei@agacgfm.org or at 518-522-9968.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric S. Berman', with a long horizontal flourish extending to the right.

Eric S. Berman, CPA, Chair
AGA Financial Management Standards Board

cc: Evelyn Brown, CGFM - Retired
President

**Association of Government Accountants
Financial Management Standards Board**

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