



**Government Finance Officers Association**  
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April 29, 2013

Board of Trustees  
Financial Accounting Foundation  
“GASB Agenda Process”  
401 Merritt 7, PO Box 5116  
Norwalk, Connecticut 06856-5116

Trustees and staff of the Financial Accounting Foundation:

I am writing to you on behalf of the Government Finance Officers Association of the United States and Canada (GFOA) to respond to your recent Request for Comment (RFC) document on *GASB's Scope of Authority: Proposed Changes to Agenda-Setting Process*. In preparing this response, GFOA staff solicited the views of the individual members of the GFOA's standing Committee on Accounting, Auditing, and Financial Reporting, as well as the views of the officers of the GFOA's other standing committees and the individual members of the GFOA's Executive Board. This response was then reviewed and approved by the GFOA's Executive Board.

The GFOA is a professional association of almost 18,000 members that has served governments and the public finance profession since 1906. From the very beginning, one of the GFOA's principal objectives has been to improve the quality of governmental accounting and financial reporting. In pursuit of this objective, the Association itself promulgated accounting standards for state and local governments for more than half a century. It also played a crucial role in establishing the Governmental Accounting Standards Board (GASB) in 1984, and was one of the board's major financial supporters until recently, when federal legislation created a new method for funding the GASB's operations. Moreover, the GFOA continues to play a major role in promoting compliance with generally accepted accounting principles (GAAP) through its Certificate of Achievement for Excellence in Financial Reporting Program (over 3,900 participating governments), its *Annual Governmental GAAP Update* webinar (over 4,500 participants), the periodic publication of its classic “Blue Book” (*Governmental Accounting, Auditing, and Financial Reporting --GAAFR*), and other training and publications. In short, the GFOA has a deep and abiding interest in GAAP for state and local governments, and in the process used to set authoritative standards.

We are fully persuaded that the GASB must be independent, both in fact and appearance, for it to be credible in its standard-setting function. We also are convinced that the GASB compromises its credibility when it attempts to offer guidance beyond the scope of its proper authority as an *accounting and financial reporting* standard-setting body. Accordingly, what is needed to protect the board's credibility and effectiveness is to find some practical way to ensure that the GASB functions within the scope of its proper authority that in no way compromises the board's

independence when doing so. Thus, we applaud the Financial Accounting Foundation (FAF) for proposing a solution in its request for proposal document (RFC) that, in our view, meets both of these equally important criteria. We urge the FAF to further enhance the solution it has proposed by making the FAF's three governmental trustees automatic members of the Oversight Committee, thereby assuring the Oversight Committee of the benefit of their unique technical expertise and public-sector experience.

The RFC classifies financial information into three categories:

- Group 1: Information that GASB assesses as clearly within its standard-setting authority
- Group 2: Information that the GASB believes is within its standard-setting authority, but that is not clearly in Group 1
- Group 3: Information clearly recognized as being outside GASB's standard-setting authority

We wish to reiterate our strongly held view that even Group 2 information ought to encompass only information that is both *historical* (vs. prospective) and *financial* (vs. nonfinancial) in character, which explains our consistent and principled opposition to the inclusion of financial projections and nonfinancial performance measures in general purpose external financial reports. Accordingly, we suggest the FAF amend its description of Group 3 to clarify that it includes non-historical financial information and nonfinancial data.

We also wish to take this opportunity to raise a related issue for the FAF's consideration. We believe that the understandability of government financial reports is enhanced, and that the cost of preparing financial reports is significantly reduced, when differences in accounting and financial reporting between the public and private sectors are minimized. At the same time, we readily acknowledge that there are important differences between the two sectors that need to be reflected in accounting and financial reporting. Consequently, we think it is important that differences in accounting and financial reporting always be justified by real differences between the two sectors (for example, environmental differences, differences in user groups, different uses of financial information). Accordingly we believe the Proposal would be strengthened if the FAF, as the oversight body for both the GASB and the Financial Accounting Standards Board (FASB), took appropriate steps to ensure that any GASB departures from private sector accounting and financial reporting are, in fact, justified by underlying differences between the two sectors and that that justification is persuasively documented.

Also, we do not wish to miss this opportunity to urge the FAF to address the important issue of cost/benefit raised in Appendix B, "Potential Project Assessment Criteria." Specifically, we are convinced that a comprehensive cost/benefit assessment must take into consideration, not just the *incremental* impact of a potential GASB standard, but also a potential standard's ultimate effect on the *overall* volume and complexity of government financial reports. The frequent issuance of standards by GASB has made it very difficult for governments to comply and impedes efforts for faster issuance of the Comprehensive Annual Financial Report.

The FAF, through its oversight of the accounting and financial reporting standard-setting process, has a critical role to play in ensuring that both the GASB and the FASB are effective in achieving their fundamental objective of improved financial reporting. We commend the FAF

for exercising its oversight in such a responsive, responsible, and inclusive manner. We are fully persuaded that the proposed changes to the GASB's agenda-setting process, especially if amended to automatically include the FAF's governmental trustees on the Oversight Committee, will do much to allay the constituent concerns that led to the RFC.

We appreciate being afforded the opportunity to provide our views on the proposed changes to the GASB's agenda-setting process.

Sincerely yours,

A handwritten signature in cursive script that reads "Chris Morrill".

Christopher P. Morrill, President  
Government Finance Officers Association