

Martin Ives
47 Lexington Drive
Croton-on-Hudson, NY 10520

March 11, 2013

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

Dear Trustees:

In my opinion, the Foundation's proposed requirement that the GASB clear "Group 2" agenda items with the Foundation is ill-advised and should be dropped.

"Expanded Accountability Reporting" Has Historical Precedent

The GASB was established as an arm of the FAF to promulgate standards of financial accounting and reporting for state and local governmental activities. GASB members have asserted a broad view of public accountability since the GASB's inception. Indeed, the initial GASB agenda, established after four nationwide public hearings, contained an SEA project (see project 3-5 "Service Level and Statistical Data Reporting" in GASB Action Report 002, September 1984). GASB Concepts Statement 1, par. 8 states that Board members take a broad view public accountability; that not all governmental financial reporting objectives can be accomplished through the basic financial statements; and that standards pertaining to general purpose external financial reporting may be established *outside the basic financial statements* if the Board believes that information is helpful in fulfilling a government's duty to be accountable.

Concerns regarding the need for reporting outside the basic financial statements to demonstrate accountability existed long before creation of the GASB. The National Council on Governmental Accounting (NCGA, the predecessor to the GASB) had a similar perspective. NCGA Statement 1, "Governmental Accounting and Financial Reporting Principles," called for a comprehensive annual financial report with a "statistical section" – outside the basic financial statements – that "may present nonaccounting data." Statistical data included property tax values and rates, legal debt margins, social and economic data, and other data bearing on "the fiscal capacity of the government." Reference to a statistical section can be found in the 1947 text, *Municipal and Governmental Accounting* by Chatters and Tenner (Prentice Hall), probably based on standards issued by predecessors to the NCGA.

NCGA Concepts Statement 1, "Objectives of Accounting and Financial Reporting for Governmental Units," refers to the need for information "for evaluating the results of programs, activities, and functions and their effectiveness in achieving their goals and objectives" and "for financial information useful for determining and forecasting the financial condition of the governmental unit." It says that "nonmonetary information such as measures of service outputs is included within the scope of this statement." When the GASB placed service efforts and accomplishments reporting on its initial agenda,

it was following up on observations previously made by the NCGA and in response to matters discussed during its four public agenda hearings.

Consistent with these concepts, the GASB has promulgated several significant financial reporting requirements outside the basic financial statements. For example, it has expanded the statistical section of the comprehensive annual financial report to include more details on revenue capacity, debt capacity, demographic and economic data, and indicators of operating performance. It has made use of “required supplementary information” to require data on the funding progress of pension plans. It made extensive studies of service efforts and accomplishments reporting, leading to a concepts statement that provides guidance on the subject.

Although some projects subsequently explored by the GASB may differ from those explored by previous standards-setters (partly because of improved managerial techniques and new technology), the concept of providing data outside the basic financial statements to ensure public accountability and to meet user needs is no different today than it was before creation of the GASB. Requiring the GASB to seek FAF approval for proposed agenda items outside the basic financial statements is therefore a barrier unsupported by governmental standards-setting history.

The FASB Could Logically Deal with “Expanded Accountability” Reporting

The FAF proposal applies to the GASB, but not to the FASB. Yet the issue of financial reporting outside the basic financial statements might well apply to the FASB. FASB Concepts Statement No. 4 (Con4), “Objectives of Financial Reporting by Nonbusiness Organizations,” says at par. 53: “Ideally, financial reporting should also provide information about the service efforts of a nonbusiness organization.” Con4 was written at a time when the ability to measure service accomplishments was not well developed; the Board suggested, however, that more research was needed and that: “If such measures are developed, they should be included in financial reports.” Since Con4 was issued, governments have made advances in developing such measures and it is likely that non-governmental nonbusiness organizations have done so as well. It is therefore possible that, at some time in the future, the FASB will consider adding a service efforts and accomplishments project to its agenda. Further, from time to time, questions have been raised about the potential for business enterprises to report on such matters as the impact of their activities on the environment and on the market share of their operations. Such matters would also probably require reporting outside the basic financial statements. The potential for dealing with these matters puts the FASB in the same position as the GASB with regard to the issue.

FAF Proposal Interferes with GASB Role in Standards-Setting

The Background section of the FAF proposal notes that the FAF does not “direct” the standards-setting activities of the GASB and the FASB, but it that it is responsible for resolving questions of jurisdictional authority as between the two Boards. Footnote 1 of the proposal states that the terms “scope of authority” and “jurisdiction” are used interchangeably in the request for comment. Although many years have elapsed since I was involved in discussions leading to creation of the GASB, I do not recall any instance where the term “jurisdiction” was used by members of the FAF to refer to matters other than the *types of entities* for which each Board had responsibility.

Setting the agenda is one of the most important aspects of standards-setting. Hence, requiring the GASB to seek FAF approval for putting certain types of items on the agenda is tantamount to “directing” the standards-setting activities of the GASB. I doubt that governmental officials who participated in creating the GASB would have agreed to any approval process regarding the types of items it could place on the agenda.

Potential Adverse Impacts of FAF Proposal

I fear that the special approval requirement set forth in the FAF proposal could have several adverse effects:

- a. It may stifle the initiative and creativity of GASB members and staff. The Independent Academic Study notes that other governmental accounting standards-setters are dealing with “expanded accountability reporting.” Basic financial statements issued in the private sector are effective in reporting performance because profit is a fundamental indicator of performance; but basic financial statements issued by governments (and not-for-profit entities) do not do an adequate job of demonstrating performance. The GASB should be encouraged to think outside the box of the basic financial statements. I fear the FAF proposal might cause the Board and staff to concentrate on the basic statements without considering the usefulness of other data.
- b. It may diminish the stature of the GASB and the GASAC in the eyes of the constituency. Requiring FAF approval of “Group 2” projects implies that the GASB and GASAC lack the ability to set the agenda on their own.

Conclusion

I suggest that the FAF needs to re-think the issues. Financial reporting must deal with whatever is needed to meet the needs of users of financial information; the Federal Accounting Standards Advisory Board and other governmental accounting standards setting bodies are exploring matters that require reporting outside the basic financial statements. Dealing with the agenda-setting process strikes me as an unwarranted response to the fact that a portion of the constituency is uncomfortable with potential GASB solutions.

The GASB often deals with controversial issues. I dissented in some standards while serving as a GASB member and I disagree with some standards issued after I left the GASB. Some constituents surely take a dim view of standards I like, and approve of standards I dislike. *But the standards-setting process works.* Board members are appointed by the FAF after careful screening. The GASB does not place items on the agenda willy-nilly. The constituency has ample opportunity to respond to proposed standards; a strong outcry from respondents to a proposed standard will result in a reassessment of the proposal. The real issue is whether the resulting standards are sound even though some may disagree with them; not whether an additional layer of approval is needed for a portion of the agenda.

Adding an approval layer to the agenda-setting process for “expanded accountability” issues does not ensure that the entire constituency will be happy with the standards that emerge from an approved

project. But the approval requirement could result in the failure to deal with an issue that deserves consideration. That is not an appealing prospect.

Sincerely,

Martin Ives

(Note: I served as the GASB's vice-chairman and director of research from 1984-1994. Before that I served 20 years as deputy comptroller of New York State and first deputy comptroller of New York City. After leaving the GASB, I served 16 years as distinguished professor of public administration at NYU's Graduate School of Public Service.)