



# The University of Georgia®

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## GASB's Scope of Authority

Ladies and Gentlemen:

This letter represents my views on the Financial Accounting Foundation Board of Trustees' Request for Comments on "GASB's Scope of Authority: Proposed Changes to Agenda-Setting Process." That proposal would adopt a requirement for the Governmental Accounting Standards Board in certain cases to involve the FAF Oversight Committee before it would be allowed to formally add a project to its agenda. This would reverse the normal roles of board oversight and management decision making and would be a serious mistake, in my view.

## Some Background

I served as Chairman of the Financial Accounting Standards Board from January 1987 through June 1997. Very early in my time at the Board I noticed that while the FAF had three principal responsibilities (appointment, fund raising, and oversight), there were standing committees only for the first two and not for the latter. Rather, oversight of the FASB had been performed through a series of periodic "special reviews" conducted under the auspices of the Trustees but often also involving participants from accounting firms, corporations, academe and other non-FAF parties.

One of those special reviews concluded in late 1989 and a key recommendation, based at least in part on a recommendation that I had made to the review

committee, was to establish a standing FAF oversight committee. That was done and, as reported in the November 27, 1989 issue of the FASB Status Report, the new oversight committee would, on an ongoing basis, evaluate whether the FASB's standard-setting activities were consistent with the Board's mission statement, more specifically to establish and improve standards of financial reporting and to:

Be objective in its decision making

Weigh carefully the views of constituents in developing concepts and standards

Issue standards only when the expected benefits exceed the perceived costs

Bring about needed changes in ways that minimized disruption to the continuity of reporting in practice, and

Review the effects of past decisions

In other words, the new oversight committee was put in place to "make sure the FASB was doing what it was supposed to be doing." A strong Board of Trustees that helps provide independence and objectivity by insulating the standard setters from some of the political and other pressures is a very important part of the checks and balances of the structure. And equally important is an active oversight committee to hold the standard setters accountable for performing in the public interest according to their respective missions.

As a bit of an aside, over the past dozen years I have served as a member of the board of directors and chairman of the audit committee for five large public companies, including two that had major financial reporting frauds from which to recover. While my work on all of those boards and particularly the latter two involved a great deal of time and effort, never did it get to the point of making fundamental accounting decisions or the like. Financial management always initiated these decisions and accepted full responsibility for them by signing SEC reports, etc. The audit committee performed appropriately in an oversight role.

#### The FAF's Authority

As noted earlier, the main responsibilities of the FAF Trustees continue to be those of appointing members of the FASB and GASB as well as the Advisory Councils,

arranging financing for the operations of the FAF and standards boards and approving budgets therefor, and overseeing the development of accounting and reporting standards for the private and public sectors. With respect to the oversight function, the By-Laws (Section 1) contain an important caveat to protect the independence of the two Boards:

“...the Trustees shall not, by or in connection with the exercise of their power of approval over annual budgets or their periodic review of such operating and project plans, direct the FASB or the GASB to undertake or to omit to undertake any particular project or activity or otherwise affect the exercise by the FASB or GASB of their authority, functions, and powers in respect of standards of financial accounting and reporting... (emphasis added)”

Further, in that same Section, the Trustees are tasked with their responsibility to oversee the Boards’ exercise of their authority, functions, and powers. That wording makes clear that the standing setting authority, which, of course, includes agenda setting, rests with the FASB and GASB, and the FAF oversight committee’s role is not one of contemporaneous involvement.

I do not know whether the Trustees have maintained an oversight committee continuously from 1989 through the present. However, I note the following from Section 8 of the Foundation’s current By-Laws:

“Among such committees shall be ... a Standard-Setting Process Oversight Committee (or successor committee), whose responsibilities shall include establishing, implementing and administering processes for the Trustees’ ongoing oversight and evaluation of the adequacy, transparency, efficiency and efficacy of the due process practices and procedures employed by the FASB and the GASB, respectively, in their establishing and improving financial accounting and reporting standards ...”

### The Proposal

The proposal would require that the GASB adopt a procedure for so-called Group 2 possible agenda topics. These are potential topics that the Board believes are within its standard –setting authority, but that are not clearly within “Group 1.” (Group 1 information includes the basic financial statements, footnotes thereto, and supporting information that “places financial statements or note disclosures in an appropriate historical context.” “Group 3” topics are those that are clearly beyond

the GASB's authority and, therefore, would not be candidates for possible agenda consideration.)

Without debating the merits of the specific procedures proposed for Group 2 projects, I believe it would be a mistake for the Trustees to mandate involvement of the oversight committee in the GASB's agenda setting process. First of all, I think this would be a clear violation of the By-Laws as quoted above. By possibly vetoing a possible agenda project through the new procedure, the oversight committee and full Board would certainly be causing the GASB to omit to undertake a particular project that it otherwise might choose to add to its agenda. While the proposed process is guised as a matter of jurisdiction rather than technical merit, in practice it may be difficult if not impossible to distinguish such matters in many cases.


Second, I see no reason why the Trustees should be in a better position to evaluate these matters than the Board members and supporting staff at the GASB. Only a few of the Trustees have a governmental background and I am not aware whether the oversight committee will include all of those Trustees. Further, as the final decision on these matters, according to the proposal, will be up to the full Board of Trustees, it would seem that the FAF will be asked to vote on complex and controversial matters on which, with respect, most members will have little or no experience.

Third, and most important, I think this kind of action would set a dangerous precedent for possible future activities. While this is well before all of the present Trustees were involved with the FAF, when I served at the FASB, one leading CEO suggested that there should be an independent agenda setting committee comprised of business people, etc. In other words, the FASB wouldn't have the power to determine what projects it was allowed to work on. This idea didn't get too far, although I have to say that we at the FASB didn't have as strong support from the Trustees to fend off such efforts then. Fortunately, SEC Chairman David Ruder was adamantly opposed to such a suggestion and it died a quick death. But these kinds of threats to standard setting independence do arise fairly regularly. The current proposal is not close to what had been proposed for the FASB many years ago, but it might be viewed as opening the door a little and who knows where that may lead.

In summary, I believe it would be a serious mistake to adopt the present proposal and I recommend that it be withdrawn. The Trustees should leave agenda setting in the hands of the GASB and continue active oversight of all standard setting

activities, including agenda setting. Oversight of agenda setting would include the types of matters enumerated in the mission-related factors set out in the objectives of the original FAF oversight committee as discussed on page 2 of this letter. For example, when possible agenda projects are considered by the GASB, was sufficient information gathered to make an informed decision, and were expected benefits and costs of a new standard factored into the decision. This would not include direct and contemporaneous participation by the oversight committee or full Board in the GASB's agenda setting process.

Sincerely,

A handwritten signature in black ink that reads "Dennis R. Beresford". The signature is written in a cursive style with a large, prominent "D" and "B".

Dennis R. Beresford  
Ernst & Young Executive Professor of Accounting