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September 27, 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 (FAF) document entitled *GASB Scope of Authority: Consultation Process Revised Proposal* (Revised Proposal) that was issued for comment on August 20, 2013. 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 Revised Proposal and most of the FMSB members generally agree with the Revised Proposal. We particularly wish to acknowledge our appreciation for the statement appearing in the Executive Summary that "(t)he Trustees believe that GASB's Stakeholders can provide valuable input on proposed process changes to resolve GASB Scope issues." We are pleased that the FAF, after considering input from GASB stakeholders on the original proposal, decided to revise the proposal and reissue it for comment. Following are our specific comments.

GASB Information Classification

The Revised Proposal is similar to the original proposal in that GASB will be asked to classify governmental financial information into one of three categories, Group 1, 2 and 3. We are pleased that the Revised Proposal makes reference to the GASB Concepts Statement 3 in establishing classification criteria that will be used to place governmental financial information into either Group 1, 2 or 3. For Group 1 and Group 3 information, we believe that the Revised Proposal adequately articulates the criteria to be used by GASB personnel when conducting reviews of information prior to agenda setting and during discussions with the Oversight Committee when the Committee has "the opportunity to monitor information Group classifications during its normal GASB project agenda oversight." The presented criteria should also be useful to GASB stakeholders during their considerations of GASB's Technical Plan, which includes descriptions of potential projects, approved research projects and projects set by the entire Board for active deliberation.



We were particularly pleased that the revised proposal provided greater specificity as to the definition of what information was included in Group 1, to include specific references beginning on page 12 to Concepts Statement 3 and related footnotes with specific quotations from GASB Concepts Statement 3. The specific reference in footnote 15 was especially important in affirming the inclusion of RSI in Group 1. Such RSI information is “essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic or historical context.” RSI can include information that is other than financial in nature as demonstrated in Statement 34 when GASB established the requirement for including infrastructure condition measures under the modified approach for reporting infrastructure. Although GASB has established RSI requirements infrequently, the FMSB considers it vital they not be inhibited from doing so. Fortunately, the definition of Group 1 information protects that interest and capability.

The government financial information that will fall into the Group 2 area naturally presents the most significant issues for GASB and the GASB stakeholders. On page 14 of the Revised Proposal, the FAF has chosen to reference Concepts Statement 1, paragraphs 77-79. We agree that paragraphs 77 – 79 of Concepts Statement 1 do provide guidance that can be helpful in determining if certain information falls into Group 2. The FAF might also consider referencing paragraph 74 through 76 from Concepts Statement 1 as well to insure the reference is comprehensive. Finally, we suggest the FAF include a statement that incorporates, by reference, Concepts Statements 1 and 3 in their entirety to insure that information is classified correctly and to avoid any future misunderstandings of the Trustee intent.

Consultation Process

The FMSB wishes to acknowledge the positive changes that have been made to the consultation or review process contained in the Revised Proposal versus the original proposal. It was this part of the original proposal that caused the gravest concerns to the FMSB. The original proposal provided the FAF’s Oversight Committee with the ability to reject a GASB project at two stages in the agenda setting process if it believed the GASB had exceeded its scope. It also allowed the Oversight Committee the authority to solicit its own independent feedback regarding a proposal. In our view, this original approach impaired the independence of the GASB, so we are generally supportive of the FAF’s Revised Proposal.

The Revised Proposal provides for the Oversight Committee to review GASB’s decisions regarding what governmental financial information belongs in Group 2 and is determined by GASB to be within scope. In reviewing this decision, the Oversight Committee will be required to review and discuss with GASB the research that has been conducted and the information GASB obtained through outreach to GASB stakeholders. If the Oversight Committee does not agree with GASB’s decision, the Oversight Committee may request GASB to conduct additional stakeholder research. If, after the additional research, the Oversight Committee is still not satisfied, the Oversight Committee will refer this matter to the Trustees for consideration. We believe the new approach is a significant improvement over the original process. The role of the Oversight Committee with regard to financial information considered during pre-agenda setting monitoring will become that of an advisor to the FAF.

Although the FAF’s Revised Proposal is a marked improvement over the original proposal it does and will call for flexibility in communications between the Oversight Committee and the GASB, and between the GASB and its stakeholders regarding the monitoring of information Group classification by the Oversight Committee. The FMSB assumes that the consultations between the GASB and the Oversight Committee will be collegial and timely, and that the GASB through its Chair will from time to time affirm to stakeholders that the consultation process is proceeding

In the Executive Summary, the phrase “pre-agenda GASB consultation” is used to characterize the new process and that the new process shall focus on information the GASB is “considering for standard setting activity”, not on specific standard setting projects. GASB’s current processes to disseminate information have centered on specific potential projects, approved research projects and projects designated by the GASB for active deliberation, and, conversely, have not focused on governmental financial information in general. The FMSB assumes that the Trustees have purposely not specified how the documentation and consideration of Group 2 information on a pre-agenda basis will occur in deference to allowing the professional judgment of the GASB and the Oversight Committee to shape how information Group classification will be brought forward, monitored and discussed.

The revised proposed processes do not appear to interject the Oversight Committee into GASB’s due process for establishing accounting standards on a specific topic. Furthermore, the statements in the Revised Proposal that the Trustees presume GASB will correctly assess the characteristics of information and classify it correctly into its proper Groups (1,2 or 3) is positive. The fact that Group 2 information is anticipated to be rarely brought forward and consultations on such information will occur on a pre-agenda setting basis offers—in the view of the majority of the FMSB—significant protections to the on-going independence of the GASB.

The FMSB recognizes that the agenda setting process is of the utmost importance to the standard setting body and can influence its work for many years. Determining what items are or are not added to the research and technical agenda has long term significance to the direction of the GASB. The agenda setting process directly impacts the topics, timeliness and ultimate quality of GASB pronouncements. We believe that the revisions found in the current proposal demonstrate that the Trustees wish to avoid having the consultation process impede, lengthen or delay the GASB’s standard setting process. If that is not the case, then we recommend the final Trustee pronouncement actively state the importance of timely consultations regarding Group 2 information and of the ultimate standards setting. In today’s environment, we should be seeking ways to speed along the process.

Other Considerations

As voiced in our letter of comment on the original proposal, the FMSB recommends that the FAF reinforce the important role that the GASB members should individually and corporately play in the agenda setting process. A review of the current standard-setting agenda process finds that the GASB members only become involved in the agenda setting process on step 7 when the proposed agenda is presented by staff for final consideration. The Board should be charged with amending its Rules of Procedure to ensure that GASB members consider what potential projects will be presented for comment to the GASAC, and to formally revisit those potential projects after GASAC input has been obtained. This modification would ensure that further structuring of a project benefits from the wisdom of the individual members, and that the Board holds discussions regarding GASAC proposals to drop a proposed project and/or to set its priority at a given level.

Alternative View from the FMSB

Some FMSB members have expressed an alternative to the views expressed by the majority of the FMSB. The alternative view suggests that the FAF eliminate the Group 2 designation and, instead, require information to be classified as either a Group 1 or a Group 3 and revise the definitions accordingly. It was also suggested that the proposed agenda be exposed for public comment. Additionally, if questions are raised about whether a project falls within Group 1, the GASB Board should have the responsibility to either drop the project or justify to the Trustees their position that the project falls within Group 1 before proceeding with any research or standard setting process. Some members believe the Trustees currently have the responsibility to monitor GASB’s research and technical project agendas and if they do not

approve a specific project to tell GASB to halt its work. Some members recommend that the proposed Three-Year Assessment be an annual responsibility for the FAF, and be integral to the Trustees' annual GASB funding decisions and Board member appointment responsibilities

In Conclusion

We appreciate the opportunity to comment on the FAF's proposal and would be pleased to discuss this letter with you at your convenience. A majority of the FMSB have approved of 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: Mary Peterman, CGFM, CPA
President

Financial Management Standards Board

July 2013 – June 2014

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