

FINANCIAL ACCOUNTING FOUNDATION

**GASB SCOPE OF AUTHORITY:
CONSULTATION PROCESS POLICY**



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FOUNDATION

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EXECUTIVE SUMMARY

The Financial Accounting Foundation (FAF) Board of Trustees (Trustees) and the Governmental Accounting Standards Board (GASB) will institute additional processes and procedures to help clarify the boundaries around the GASB's authority to issue concepts, statements, and guidance (Scope). The GASB and the FAF's Standard-Setting Process Oversight Committee (Oversight Committee) will consult in the pre-agenda phase (Consultation) about information meeting certain characteristics that the GASB determines may be included in potential standard-setting activity. The Consultation will focus on whether information the GASB is considering for standard-setting activity is financial accounting and reporting information within the context of its standard-setting mission. Information falling within that context will be considered to be properly in-Scope. The Consultation, however, will not focus on a specific standard-setting project.

Information Classification

The GASB will classify governmental financial information into three categories: information the GASB assesses as clearly in-Scope (Group 1), information it assesses as clearly outside its Scope (Group 3), and information the GASB assesses as being potentially in-Scope but not within Group 1 (Group 2).

Information having **all** of the following characteristics will be classified as Group 1 financial information and considered clearly in-Scope:

- Meets governmental financial statement users' common information needs.
- Results from economic or financial events affecting users' assessment of the governmental reporting entity.
- Is relevant to governmental financial reporting objectives.
- Falls within one or more of the following information categories included in general purpose external financial reports (GPEFR):
 - Historical, economic, or financial events recognized in basic financial statements
 - Disclosures in notes to the basic financial statements
 - Required supplementary information (RSI)
 - Historical financial supplementary information (SI).

Information having **any** of the following characteristics will be classified as Group 3 and considered to be outside GASB's Scope:

- Is not essential or useful to meet the common information needs of GPEFR primary users

- Has no relationship to information presented in GPEFR
- Has a special purpose to meet the needs of special-purpose report users pursuant to statute, regulation, or contract
- Does not meet at least one of the objectives of governmental financial reporting as defined in the GASB Concepts Statements (CON).

Information that (a) does not clearly possess the characteristics of either Group 1 or Group 3 information, **and** (b) meets **at least one** of the governmental financial reporting objectives will be classified as Group 2.

Consultation Process

Prior to including information for potential standard-setting activity in the current technical agenda process, the GASB will analyze it to determine whether the information is in-Scope. The Trustees presume that the GASB will assess the characteristics above and classify information into its proper groups. The Oversight Committee will have the opportunity to monitor information group classifications during its normal GASB project agenda oversight. If the GASB believes Group 2 information is in-Scope, the GASB and the Oversight Committee will engage in the following Consultation:

- Discuss the nature of Group 2 information: why concepts, standards or guidance covering the information are appropriate, and how they will improve governmental financial accounting and reporting
- Review the research supporting the GASB's conclusion that Group 2 information is in-Scope
- Consider the factors below in **CONSULTATION PROCESS AND OPERATING PROCEDURES—Scope Considerations** (page 17).

Oversight Committee and Trustees Actions

If, following the Consultation, the Oversight Committee is satisfied that the GASB demonstrated adequately that the Group 2 information is in-Scope, the GASB is free to include the Group 2 information in its normal standard-setting activity. If the Oversight Committee is not satisfied the GASB demonstrated adequately that the Group 2 information is in-Scope, the Oversight Committee will refer the matter for Trustee discussion.

If the matter is referred, the Trustees will discuss the Group 2 information and the supporting research with the GASB. If the Trustees are satisfied that the GASB demonstrated adequately that the Group 2 information is in-Scope, the GASB is free to include the Group 2 information in its normal standard-setting activity. If the Trustees are not satisfied that the Group 2 information is in-Scope, the GASB will exclude the Group 2 information from its standard-setting activity.

Scope Considerations

The Oversight Committee and the Trustees will consider the following factors, among others, in concluding whether the GASB has demonstrated adequately that Group 2 information is in-Scope:

- The GASB's analysis that there is a clear need for concepts, standards or guidance covering the Group 2 information
- The GASB's analysis that the Group 2 information clearly will improve

governmental financial accounting and reporting and GPEFR

- The GASB’s analysis that the Group 2 information meets a significant governmental financial reporting objective
- Whether the Group 2 information already is available generally to GPEFR users through other reporting regimes or mechanisms
- Whether any other group or entity is involved in, better equipped to, or more appropriately positioned or designed to standardize reporting for the Group 2 information.

Trustees’ Three-Year Assessment

Three years following the Consultation process implementation, the Trustees will review its effectiveness, efficiency, and effects on the GASB’s independent standard-setting process. They will evaluate whether the Consultation process is meeting its objectives to resolve effectively and efficiently GASB Scope issues and to assist the GASB in accomplishing its standard-setting mission.

BACKGROUND

The GASB’s mission is to establish and improve state and local governmental

accounting and financial reporting standards that will (a) result in useful information for financial report users, and (b) guide and educate the public, including issuers, auditors, and users of those financial reports (Stakeholders). Governmental Stakeholders have been debating within the context of the GASB’s mission (a) the types of reporting that should (and should not) be subject to the GASB’s standards and guidelines, and (b) the GASB’s appropriate role, if any, in setting guidelines for reporting nonfinancial governmental accountability measures. For convenience, we refer to this debate about information over which the GASB should set standards as the GASB’s scope of authority to issue concepts, standards, and guidance.

The FAF’s role in this Scope debate develops from its mission—to act as the apolitical, independent organization focused on establishing and improving financial accounting standards and enhancing the information found in financial reports. The FAF established the GASB to carry out the FAF’s mission with respect to governmental financial accounting and reporting information. The FAF, however, retained its oversight,¹ funding, and Board member appointment roles.

In carrying out its oversight and funding roles, the Trustees take care not to affect

¹The By-laws of the FAF, Chapter A, Article I-A, Section 1: “The Trustees shall review periodically the By-Laws of the Foundation and the basic structure of establishing and improving standards of financial accounting and reporting, and shall have responsibility for oversight of that structure and of the exercise by the FASB and FASAC and the GASB and GASAC of their respective authority, functions, and powers, pursuant to and in accordance with this Section 1 and Section 2 of this Article.”

adversely the GASB's standard-setting independence.² While protecting the GASB's standard-setting independence is critical, so too is the Trustees' responsibility to exercise appropriate oversight and to provide the GASB with appropriate advice and counsel.³

GASB Study

In May 2011, the FAF Board of Trustees commissioned an independent academic study (Study)⁴ to explore the accounting and reporting purposes of state and local governmental entities. The Study's objective was to provide the Trustees greater understanding of the needs and expectations of state and local governmental financial reporting Stakeholders. It also examined Stakeholders' understanding and expectations of financial accounting and reporting standards' role in assessing governmental accountability. The Study was specifically designed to focus on the overall scope of GASB's activities and did not target any particular project. The FAF

made the Study's [final report](#) public in August, 2012.

The Study revealed a lack of consensus about the boundaries for the GASB's activities to issue standards and guidance over accountability information and reporting. There is a wide range of information reported in governments' external reports. There is consensus about both information that is clearly within the GASB's Scope boundaries to issue accounting standards, and about information that is clearly outside its Scope boundaries. However, there is no clear consensus about GASB's authority to issue standards for financial information in between these two boundaries.

The Original Proposal

Following the GASB Study, the Trustees believed that process or procedural enhancements to the GASB's agenda-setting process would help clarify the GASB's Scope and better enable the GASB to serve Stakeholders

²*Ibid.* "... 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. The Trustees shall have the final responsibility for resolving questions involving the jurisdictional authority, functions, and powers of the FASB and of the GASB and as between the FASB and the GASB."

³*Ibid, Section 2.* "... In connection with the exercise of their authority, functions, powers, and oversight responsibilities under Section 1 of this Article, the Trustees, among other things, shall monitor, on an ongoing basis, the activities of the FASB and the GASB and their due process practices, policies and procedures, including, but not limited to, agenda setting, solicitation and consideration of public comments, and post-implementation evaluation of the effectiveness and efficiency of their standards and standard-setting activities; their performance within the context of their mission statements; and such other activities and matters as the Trustees, in their discretion, may determine. In exercising their oversight responsibilities, the Trustees, among other things, shall provide the FASB and GASB with **advice and counsel** [*emphasis added*]; maintain effective communications with, among others, the FASB and FASAC and the GASB and GASAC, and other interested persons and groups. . . . [However,] in carrying out their authority, functions, powers, and oversight responsibilities under Section 1 and this Section 2 of this Article, the Trustees shall not direct the FASB or 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 financial accounting and reporting and the establishment and improvement of financial accounting and reporting standards, and shall take care not to impair, in fact or perception, the independence and objectivity of the FASB and GASB."

⁴FAF. Independent Academic Study of the Scope of the GASB: Accounting and Accountability—Topics and Processes. (Authored by Deis, Rubin, and Smith). Norwalk, CT: 2012.

within the context of its mission. To that end, the Trustees discussed with the GASB its process for placing issues on its research and technical agendas⁵ that ultimately may result in governmental accounting standards and guidance.⁶ The outcome of those discussions was the Original Proposal.

The GASB's current agenda-setting process involves three principal phases: issue identification, research, and current technical agenda development. In the Original Proposal, the Trustees and the GASB proposed to modify the GASB's agenda-setting process to address the three categories of governmental financial information: information the GASB assesses as clearly within Scope (Group 1), information it assesses as clearly outside its Scope (Group 3), and information the GASB assesses is within its Scope but not within Group 1 (Group 2).

Under the Original Proposal, the GASB would have followed its established agenda-setting process without modification for Group 1 financial information projects. Consistent with current practice, the GASB would not have conducted any research on Group 3 financial information projects or added any Group 3 projects to the research or technical agendas. Also consistent with current practice, the Oversight Committee would have the opportunity to monitor, question, and clarify information group classifications during

its normal GASB project agenda oversight process.

For Group 2 financial information projects, under the Original Proposal, the GASB would have modified its established agenda-setting process as follows:

- In the issue identification phase, the GASB would have provided an expanded project proposal to the Oversight Committee. The Oversight Committee could have conducted, or requested the GASB to conduct, additional Stakeholder outreach on the proposed project. The Oversight Committee would have considered Stakeholder and other GASB input. It then would have made a recommendation to the Trustees about whether the project was within the GASB's Scope. If the Trustees decided that the project was within the GASB's Scope, the GASB would have updated its project descriptions in the technical plan and continued with its established agenda process.
- The Oversight Committee would have had the option of requesting to review the project prospectus at the end of the agenda-research phase. Factors that may have led to the Oversight Committee's review would have included project scope changes and additional Stakeholder input. If the Oversight Committee

⁵In the GASB's standard-setting process chronology, an issue is first added to the potential projects section of its technical plan for early consideration. After various inputs, the issue may progress to the GASB's research agenda for more thorough research on whether it merits addition to the formal GASB current technical agenda where accounting and reporting guidance is considered.

⁶Both the GASB and the Financial Accounting Standards Board (FASB) regularly consider information issues that may reflect on their authority to issue accounting and reporting guidance. The Trustees are considering GASB's Scope issues because of the factors leading up to, and the results of, the GASB Study. Governmental financial information and reports and the regulatory environment in which they are prepared have certain unique aspects compared to nongovernmental financial reporting and its regulatory environment. Therefore, the Trustees believe the GASB has unique Scope issues that need to be addressed currently, separate from any issues that the FASB may need to consider.

reviewed the project prospectus it could have decided to seek additional Stakeholder input. The Oversight Committee then would have evaluated whether the project was still within the GASB's Scope and made a final recommendation to the Trustees. If the Trustees determined the project still was within the GASB's Scope, the GASB would have updated the project prospectus and continued with its established agenda process.

Principal Stakeholder Concerns about the Original Proposal

The 60-day comment period for the Original Proposal ended on April 30, 2013. Respondents that agree with the Original Proposal generally concurred with the central concept in the GASB Study: that GASB's scope boundaries were not clear. Therefore, for those respondents, setting boundaries on the GASB's Scope is an appropriate Trustees' oversight exercise. They generally believed the Original Proposal was a practical way for the Trustees to exercise oversight of the GASB's standard-setting authority for issues falling in the gray areas. Some of those that **agree** believe the Trustees should delineate clearly the financial accounting and reporting information over which the GASB can set standards.

The **agree** respondents suggested a number of improvements to the Original Proposal:

1. The criteria for Groups 1, 2, and 3 should be more specific to narrow the GASB's flexibility to include accounting information in Groups 1 and 2.
2. The Oversight Committee's Group 2 Scope considerations should be transparent and follow the GASB's open due process procedures.
3. The Oversight Committee should have the authority to change the GASB's

initial Groups 1 and 2 project classifications to Groups 2 and 3, respectively, if a majority of Trustees agree.

4. GASB's scope should be limited to historical financial information.
5. At least two, if not all three, Governmental Trustees should vote on all GASB scope recommendations.

Respondents that **did not agree** with the Original Proposal were concerned principally about the Trustees inappropriately interjecting themselves into the GASB's independent standard-setting role, and the related effects on the standard-setting process. A number of nongovernmental respondents were concerned how the Proposal might affect the Financial Accounting Standards Board's (FASB) agenda-setting in similar situations. Stakeholders that **did not agree** with the Original Proposal expressed a number of principal concerns:

1. The Trustees do not have the authority to direct the GASB to undertake or omit any particular project or activity.
2. The Original Proposal inappropriately equates the By-Laws' jurisdictional authority over the FASB and the GASB to scope of authority to issue accounting standards.
3. The GASB members and staff are better equipped than the Trustees to resolve complex scope issues because only a few Trustees have governmental accounting and reporting backgrounds.
4. The GASB's decision-making process for adding projects to its agenda is a key part of the standard-setting; the Original Proposal represents a potential impairment to GASB's standard-setting independence.
5. The Proposal could disrupt effective and efficient standard setting (a) by

interjecting inexperienced Trustees and duplicative processes into agenda setting, and (b) by second-guessing the GASB's agenda decisions.

6. The Proposal would set precedent for the Trustees to be involved in FASB's Scope issues.

Consultation Process

In May 2013, the Chairs of the GASB and the FASB met with the Oversight Committee to discuss Stakeholder responses to the Original Proposal. A cross-organization working group was formed to review the Original Proposal in light of Stakeholder feedback. The working group was comprised of the GASB and the FASB Chairs, and members of the GASB, FASB, and FAF senior staffs. It was charged with developing a final process for addressing GASB Scope issues. The working group refined the Original Proposal to address the key concerns raised by Stakeholders, principally to exercise appropriate Trustee oversight over information that the GASB believes is within its Scope (but which is not clearly in Group 1), while ensuring the Trustees are not involved in the standard-setting process for financial information properly in-Scope.

The working group focused on Stakeholder concerns that the Original Proposal could involve the Trustees in agenda setting and interfere with the GASB's standard-setting process and independence. In analyzing the Trustees' relationship to the GASB, it is clear that governmental standard-setting

responsibility was given to the GASB, while the Trustees retained oversight of that responsibility.⁷ Key to determining the Trustees' advisory and oversight relationship to the GASB is agreement on what constitutes "financial accounting and reporting," which the Trustees have the authority to determine as part of their oversight responsibility. The working group concluded that "financial accounting and reporting" logically referred to the financial accounting and reporting information over which the GASB could issue concepts, standards, and guidance. Therefore, the GASB has the authority to issue accounting concepts, standards, and guidance for governmental financial accounting and reporting information; however, the Trustees have the oversight responsibility to determine the boundaries of information that lie within the context of financial accounting and reporting. Once information is determined to be (a) within the context of financial accounting and reporting, and (b) in-Scope, the GASB is free independently to include it—or not—in a standard-setting project, free from any external influence.

The Original Proposal recommended that the Oversight Committee review Group 2 information early in the GASB's agenda-setting phase. However, as Stakeholders pointed out, agenda setting is an important, integral part of the GASB's standard-setting process. Trustee involvement during agenda-setting could appear to be interfering with the GASB's independence. Therefore, the working group concluded that Trustee advice and

⁷The Charter of the FAF, Article FIFTH, paragraph (b): "There shall be a Governmental Accounting Standards Board (the GASB) to which there is hereby delegated all authority, functions, and powers of the Corporation and the Board of Trustees **in respect of standards of financial accounting and reporting** [*emphasis added*], including the conduct of all activities related thereto not reserved to the Board of Trustees or others in this Restated Certificate or in the By-Laws, in respect of activities and transactions of state and local governmental entities, which authority, functions, and powers shall be exercised by the GASB in conformity with the By-Laws."

counsel to the GASB should occur outside the standard-setting process for any specific project. Further, the Trustees' involvement should be limited to advising and counseling the GASB about whether information it is considering for standard-setting activity is within the context of financial accounting and reporting.

The Original Proposal was modified so that the GASB would consult with the Oversight Committee in the pre-agenda phase. The Consultation would occur when the GASB determines certain financial accounting and reporting information with Group 2 characteristics may be included in potential standard-setting activity. When the GASB believes Group 2 information is in-Scope, it could perform additional research and Stakeholder outreach it thinks appropriate to support its in-Scope conclusions. The GASB would discuss its Group 2 information classification, its scope conclusions, Stakeholder input, and supporting research during its Consultation with the Oversight Committee.

A summary of the new Consultation process and the Original Proposal is included in Appendix A.

KEY DISCUSSION ISSUES CONSIDERED BY THE TRUSTEES

Principal Stakeholder Concerns and Suggestions Addressed in the Consultation Proposal

The working group considered Stakeholders' suggestions and concerns about the Original Proposal in developing the Consultation process. Summarized in Appendix B are the principal Stakeholder suggestions and concerns and how they were considered in developing the Consultation process.

Principal Stakeholder Concerns and Suggestions about the Consultation Proposal

Because Stakeholders expressed widely diverse views that resulted in changes in the Consultation process, the Trustees decided to seek Stakeholder comment on the Consultation proposal. Given the diverse and strongly held Stakeholder views on Scope, it is not realistic to believe their concerns and suggestions can be resolved to all Stakeholders' satisfaction. The Trustees understand the Stakeholder issues raised about the Original Proposal, especially concerns about independence in standard-setting and in oversight. Therefore, the Trustees asked that Stakeholders comment on new issues that the Consultation proposal may present. The 30-day comment period for the Consultation Proposal ended on September 30, 2013.

Relatively few comment letters were received. Some Stakeholder respondents believe the Consultation process is an appropriate balance between oversight and independent standard-setting and had no further comment. Others had concerns and suggestions similar to those expressed in the Original Proposal comment process. The Trustees' consideration of the principal Stakeholder concerns and suggestions about the Consultation process follow.

Stakeholder Concerns

1. *The Consultation continues to involve the Trustees inappropriately in the GASB's agenda-setting process; the Trustees effectively have a potential "veto" over any GASB standard-setting project, thereby interfering with the GASB's due process and impairing its independent standard setting.*

The Consultation is about elements of financial information and whether information is “financial accounting and reporting information” over which the GASB can set standards. The Consultation occurs prior to any standard-setting activity involving the information. Therefore, the Consultation is not about a specific project proposed or placed on the GASB’s agenda. The outcome of the Consultation determines whether the subject information is within the GASB’s Scope. The GASB remains free to pursue—or not—any standard-setting project and include any information that is determined to be “financial accounting and reporting information”.

2. *The Consultation’s Group 1 information characteristics are not sufficiently detailed or defined to prevent the GASB from misclassifying information as Group 1 and being included inappropriately in a GASB standard-setting project.*

The Trustees regularly review the GASB’s agenda, and have the opportunity to question Group 1 classifications during their oversight review. The characteristics to determine the groups into which information falls are based on the GASB’s Concepts Statements. The Trustees and the GASB agree that the Concepts Statements are an appropriate basis for information characteristics because they deal with the nature of useful information and have been through due process. If the assessment characteristics are too broad or vague, they are not useful to help the GASB and the Trustees to conclude whether the information is properly classified and in-Scope. On the other hand, if the characteristics are too detailed, they may impinge on

the GASB’s ability to consider information important to assess accountability and the GASB’s standard-setting independence. The Trustees and the GASB believe the information characteristics in the GASB’s Concepts Statements strike the appropriate balance between oversight and independence to allow reasonable, good-faith Consultation on whether information is in-Scope.

3. *The Consultation process fails to provide definitions for the terms “accounting” and “financial reporting” which could lead the Trustees to make arbitrary rather than principled judgments.*

The definitions of the terms “accounting” and “financial reporting” could range from very narrow to very broad—the very issue that underlies the Scope debate and the need for Consultation. The Trustees believe developing a definition for these terms acceptable to all Stakeholders would be similar to developing the Consultation process. Even if acceptable definitions were developed, judgment still would be involved in applying the definitions, essentially the same process as the Consultation.

4. *The Consultation only occurs when the GASB classifies Group 2 information; the Consultation relies on the GASB correctly classifying information into its proper groups.*

The Trustees are confident that the GASB will properly classify information being considered for possible standard-setting activity. The Trustees undertake a rigorous vetting process—including technical expertise, experience, and professional judgment—in selecting the GASB members. The Trustees presume

that GASB members, when considering the assessment characteristics for information groups, will apply them faithfully using professional judgment. Nevertheless, the Trustees review all agenda projects in their normal oversight review, which presents the opportunity to question the GASB's Group 1 classification.

5. *The Consultation process is only a recommendation to the GASB; the GASB still could include a topic on its technical agenda because there is no clear requirement for the GASB to comply with the Trustees' recommendation.*

As discussed previously, the Consultation is about elements of financial information and whether information is "financial accounting and reporting information" over which the GASB can set standards. The Consultation occurs prior to any standard setting activity involving the information. Therefore, the Consultation is not about a specific project proposed or placed on the GASB's agenda. At the conclusion of the Consultation process the Trustees' views will be clear on whether information properly is within the GASB's Scope. The possibility that the GASB would pursue a project that includes out-of-Scope information is remote—no greater than any other unauthorized activity in which the GASB might engage. There is no history of the GASB undertaking any unauthorized activity, but if it were to happen, the FAF's By-Laws provide appropriate remedies.

6. *The GASB has the authority to amend the Concepts Statements, allowing it the opportunity to change the characteristics necessary to resolve Scope issues; the Consultation documents should incorporate GASB's Concepts Statements No. 1, Objectives of Financial Reporting (CON 1), and No. 3, Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements (CON 3), by reference to avoid future misunderstandings of the Trustees' intent.*

The Trustees believe the current Concepts Statements are an effective basis for the characteristics to assess whether information is in-Scope. The Consultation process is clarified to incorporate by reference CON 1 and 3, as amended by the GASB Codification and currently in effect. Any subsequent GASB amendment to the Concepts Statements involving Group 2 information would be subject to the Consultation process.

7. *The Consultation process is limited to the GASB's considerations and not applied similarly to the FASB.*

As discussed previously, the Trustees are considering GASB's Scope issues because of the factors leading up to, and the results of, the GASB Study. The Trustees believe the GASB has unique Scope issues that need to be addressed currently, separate from any issues that the FASB may need to consider. Governmental units are held accountable for not only the results of operations, but for the level and sustainability of the services provided. Therefore, GPEFR typically present additional information outside the basic financial statements requiring accounting standards and guidance that the FASB currently does

not need to consider. However, the FASB Chair is part of the working group that developed the Consultation process.

8. *The Consultation is redundant to the GASB's existing due process adding more time and expense to develop standards; it is unclear how the Consultation will work in practice and how Consultation results would be made public.*

As discussed previously, the Consultation is not part of the GASB's agenda-setting process, but rather part of the Trustees' oversight function. The early Consultation is designed to prevent spending significant GASB time and resources on out-of-Scope projects. The Trustees believe the Consultation will not add time and expense over existing GASB processes and procedures because out-of-Scope projects will not undergo due process. Because the Consultation is part of the Trustees' oversight responsibilities and independent from standard-setting, it is not subject to due process and public disclosure. Nevertheless, Group 1 information, and Group 2 information determined to be in-Scope and placed on the GASB's agenda will be subject to its due process and public disclosure. Group 2 information determined to be out-of-Scope will not be placed on the GASB's agenda. However, certain aspects of the Consultation process, including out-of-Scope Group 2 information, may become public, such as when additional Stakeholder outreach is undertaken.

Stakeholder Suggestions

1. *The Trustees (through the Oversight Committee) should review all proposed information topics the GASB classifies as Group 1.*

The Trustees currently review all agenda projects as part of their regular oversight, providing them the opportunity to question Group 1 classifications, if appropriate. Proactively reviewing all Group 1 information topics in the pre-agenda phase would have the Trustees effectively reviewing almost all GASB pre-agenda deliberations. The Trustees are concerned that an extensive proactive involvement would (a) change the Consultation collaborative process into an approval process, (b) duplicate and impede the GASB's normal pre-agenda process, and (c) far exceed the Trustees' oversight resources. There is a significant difference between the GASB seeking the Trustees advice and counsel on what constitutes "financial accounting and reporting information" and a required Trustee review of GASB's pre-agenda decisions. The former is consistent with Trustee oversight. The latter could be construed as interfering with the GASB's independent standard-setting process.

2. *The Oversight Committee should make a recommendation on Scope matters referred to the Trustees.*

The Consultation process is designed to provide the GASB advice and counsel on whether information is in-Scope. It implies a consensus process between the GASB and the Oversight Committee that Group 2 information is in-Scope.

The Oversight Committee will refer a Scope matter to the Trustees if there is no in-Scope consensus with the GASB. If there is no in-Scope consensus and the GASB wishes to pursue the matter, the GASB is free to consult with the Trustees when it is referred to them. However, requiring the Oversight Committee to make a Scope recommendation on referral would be akin to an approval process that caused Stakeholder concerns in the Original Proposal. The Trustees believe that the GASB should be able to consult with the Trustees without having to overcome the burden of asking the Trustees to disagree with the Oversight Committee's recommendation.

3. *Groups 1 and 3 characteristics should be clearly defined so that a Group 2 information category is not necessary; the GASB should explain and justify why proposed GASB research agendas and projects are classified in Group 1, and expose their justification for public comment to be provided to the Oversight Committee.*

The Group 2 category covers information in the Scope issue's gray area between information clearly within and clearly outside the GASB's Scope. Eliminating the Group 2 category would require very detailed, and possibly overly restrictive, characteristics for Groups 1 and 3 information. For reasons discussed previously, the Trustees believe if assessment characteristics are too detailed, they may impinge on the GASB's ability to consider information important to assess accountability as well as on the GASB's standard-setting independence. Adding a formal due process for the GASB's pre-agenda deliberations could further burden

the GASB's resources and extend the standard-setting development time.

4. *Proposed projects should require a GASB super majority vote affirming that the subject information clearly should be classified in Group 1 before being placed on agendas.*

As discussed previously, the Consultation occurs prior to any standard-setting activity involving the subject information. Therefore, the Consultation is not about a specific project proposed or placed on the GASB's agenda. The GASB has the authority to decide due process to follow after the Consultation process is complete. The FAF's By-Laws provide that a majority of the GASB members approve standard-setting and agenda matters. Requiring a super-majority vote on information being placed on the agenda would disrupt, and possibly overly restrict, the GASB ability to consider important financial accounting and reporting information.

5. *Group 1 assessment characteristics should be modified to include only information related to historic economic or financial events affecting current financial position or operations; Group 1 assessment characteristics should preclude projected information based on future events.*

The Consultation describes four characteristics that must be met to be classified as Group 1 information and clearly in-Scope (see **CONSULTATION PROCESS AND OPERATING PROCEDURES—GASB Information Classification**) (page 14). The GASB will assess these characteristics, including the fourth characteristic, in determining Group 1 information classification.

6. *The Trustees should review the Consultation's effectiveness, efficiency, and effects on the GASB's independent standard-setting process annually rather than every three years; the Consultation's review should be performed by parties independent from the FAF and GASB.*

The Trustees believe Consultations will be rare since they involve only Group 2 information. The Trustees review the GASB's agenda regularly, providing the opportunity to question any Group 1 information classifications. Therefore, an initial three-year assessment period should provide more Consultation experience for the review process than an annual review period. If the Consultations occur more frequently, the Trustees can adjust the review period. The Trustees also believe that the Consultation review is an internal assessment process, appropriately performed by the Trustees. They could engage independent consultants, if appropriate, to assist them in their assessment.

7. *The GASB should use and expand its existing due process alternatives to make in-Scope decisions about Group 2 information; the Trustees should limit their Scope involvement to determining whether GASB appropriately followed its due process.*

Expanding the GASB's due process to cover Scope determinations, while limiting Trustee oversight to reviewing the GASB's Scope due process, effectively leaves Scope boundary decisions to the GASB. However, the Trustees appropriately retained oversight responsibility to determine the boundaries of information that lie within the context of financial

accounting over which the GASB may set standards. The Trustees believe the Consultation balances the concepts of the GASB's independence and the Trustees' Scope oversight responsibilities.

8. *Simplify in-Scope determination by using Group 1 information characteristics (see **CONSULTATION PROCESS AND OPERATING PROCEDURES—GASB Information Classification**); information using some but not all Group 1 characteristics should require greater GASB support analysis; information not meeting any Group 1 characteristics should be excluded from GASB's standard setting.*

The Trustees and the GASB, through the working group, considered having only one set of characteristics to determine in-Scope information. They concluded that having the more specific guidance about Group 2 and 3 information was more helpful in assessing Scope determinations.

CONSULTATION PROCESS AND OPERATING PROCEDURES

Policy

The GASB will consult with the Oversight Committee when, in the pre-agenda phase, it determines certain financial accounting and reporting information with Group 2 characteristics may be included in potential standard-setting activity. In its pre-agenda considerations, the GASB will classify financial accounting and reporting information in Groups 1, 2, and 3 as discussed below in **GASB Information Classification**. Consistent with current practice, the Oversight Committee

has the opportunity to monitor information group classifications during its normal GASB project agenda oversight process.

When the GASB believes Group 2 information is in-Scope, it may perform additional research and Stakeholder outreach it thinks appropriate to support its in-Scope conclusions. The GASB will discuss its Group 2 information classification, its Scope conclusions, Stakeholder input, and supporting research during its Consultation with the Oversight Committee.

The GASB may consider standard-setting activity in the pre-agenda phase that includes information that falls into both Group 1 and Group 2. The consultation process involves determining only whether the Group 2 information is in-Scope, not on the merits of any potential project to issue concepts, standards, or guidance. If certain Group 2 information is determined to be outside the GASB's Scope, the GASB may continue its standard-setting process on the activity's Group 1 information and any Group 2 information determined to be in-Scope.

The new Consultation process will be effective after final Trustees' approval on November 19, 2013. GASB concepts, standards, and

guidance issued prior to that date are not subject to the additional Consultation process unless the GASB expects to expand the scope of existing concepts, or expects to expand or reclassify (among the basic financial statements, RSI, or SI—as each is described below in ***GASB Information Classification***) the information covered by existing standards or guidance.

GASB Information Classification

The GASB will consider financial accounting and reporting information having **all** of the following characteristics to be classified as Group 1 financial information and clearly in-Scope (parenthetical references are to the GASB's Concepts Statements⁸):

1. Meets common information needs of primary users⁹ of GPEFR¹⁰ (CON3, paragraphs 9 and 11)
2. Results from economic or financial events having the potential to make a difference in a primary user's assessment of the governmental reporting entity (CON 3, paragraph 13)
3. Is relevant to governmental financial reporting objectives (CON 3, paragraph 9 and CON 1, paragraphs 74–79)
4. Would fall within the first two categories of Figure 1—Diagram of Financial

⁸Referenced sections of GASB Concept Statements 1 and 3, as amended by GASB Codification sections pertaining thereto, each in effect as of August 20, 2013, are incorporated by reference in the Consultation Process and Operating Procedures. Any subsequent changes to the referenced Concept Statements and GASB Codification will not affect the Consultation Process and Operating Procedures, unless the Trustees, after consulting with the GASB, agree to amend the Consultation Process.

⁹Concepts Statement 1, paragraph 30, identifies three groups of primary GPEFR users: "... (a) those to whom government is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors)."

¹⁰Concepts Statement 3, paragraph 9, defines GPEFR as "... a means of communicating financial information to meet the common information needs of the primary users of a government's financial report."

Reporting for State and Local Governments, shown in Appendix C. Information in these categories can be identified as (CON 3, paragraph 29):

- a. Historical, economic, or financial events recognized¹¹ in basic financial statements¹² included in GPEFR
- b. Disclosures in notes to the basic financial statements¹³
- c. RSI presentations¹⁴
- d. Historical financial SI presentations.¹⁵

The GASB will consider information having **any** of the following characteristics to be classified as Group 3 information and clearly outside its Scope:

1. Is not essential or useful to meet GPEFR primary users' common information needs
2. Has no relationship to information presented in GPEFR that contain the basic financial statements, notes to basic financial statements, and supporting

¹¹*Ibid*, paragraph 33, defines recognition as a “. . . means [of] recording or incorporating an item into a financial statement as an asset, liability, revenue, expense, expenditure, or other element of financial statements. Recognition comprises both initial recognition and recognition of subsequent changes in or removal of previously recognized items.”⁹ Concepts Statement 1, paragraph 30, identifies three groups of primary GPEFR users: “. . . (a) those to whom government is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors).”

¹²*Ibid*, paragraph 31, defines financial statement as “. . . a tabulation of amounts, derived from accounting records and expressed in words and dollars, that displays either (a) the financial position of the reporting unit (that is, the group of activities covered by the financial statement) at a moment in time or (b) inflows and outflows of resources from transactions or other events during a period of time. Amounts recognized in financial statements are assets, liabilities, and [as amended] deferred outflows of resources, deferred inflows of resources, and net position, as well as inflows of resources and outflows of resources [Footnote references omitted.]”

¹³*Ibid*, paragraph 35, describes notes to the basic financial statement as “. . . integral to financial statements and are essential to a user's understanding of financial position or inflows and outflows of resources. Notes provide:

- a. Descriptions of the accounting and finance-related policies underlying amounts recognized in financial statements
- b. More detail about or explanations of amounts recognized in financial statements
- c. Additional information about financial position or inflows and outflows of resources that does not meet the criteria for recognition.

Notes may be narrative or quantitative with appropriate explanations and may include measures other than dollars.”

¹⁴*Ibid*, paragraphs 42-44, describes RSI as “. . . *essential* [emphasis added] for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context . . . RSI has a clear and demonstrable relationship to information in the basic financial statements or notes to basic financial statements to which it pertains. RSI may include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing the basic financial statements and notes to basic financial statements in context. However, RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit's future financial position, (b) predictions about the effects of future events on future financial position, or (c) information unrelated to the financial statements.”

¹⁵*Ibid*, paragraph 46, describes SI as “. . . *useful* [emphasis added] for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. SI is presented with the basic financial statements, notes to basic financial statements, and RSI in a government's general purpose external financial report.”^x

information presented with basic financial statements

3. Has a special purpose to meet the needs of special-purpose report users¹⁶ pursuant to statute, regulation, or contract
4. Does not meet at least one of the objectives of governmental financial reporting (CON 1, paragraphs 77–79).

The GASB will consider as Group 2 information, information that (a) does not clearly possess the above characteristics of either Group 1 or Group 3 information, **and** (b) meets at **least one** of the following governmental financial reporting objectives (CON 1, paragraphs 77–79):

1. Assists in fulfilling government's duty to be publicly accountable and enables GPEFR primary users to assess that accountability by reporting:
 - a. Whether current-year revenues are sufficient to pay for current-year services
 - b. Whether current-year citizens received services, but shifted the payment burden to future-year citizens
 - c. Whether previously accumulated resources were used up in providing services to current-year citizens
 - d. Whether current-year revenues increased accumulated resources
2. Assists GPEFR primary users in evaluating the operating results of the governmental entity for the year by reporting:
 - a. Sources and uses of financial resources and the extent to which inflows met outflows
 - b. How the governmental entity financed its activities and met its cash requirements
 - c. Whether the entity's financial position improved or deteriorated as a result of the year's operations.
3. Assists GPEFR primary users in assessing the level of services that can be provided and ability to meet obligations as they become due by reporting:
 - a. Financial position and condition
 - b. Resources and obligations, actual and contingent, current and noncurrent
 - c. Tax sources, tax limitations, tax burdens, and debt limitations
 - d. Physical and other nonfinancial resources having useful lives that
 - e. Whether resources were obtained and used in accordance with the entity's legally adopted budget
 - f. Whether other finance-related legal or contractual requirements were met
 - g. Information to assess the service efforts, costs, and accomplishments of the governmental entity.

¹⁶*Ibid*, paragraph 4, describes special-purpose report users and special-purpose reports as “. . . contrast[ed] to the users of general purpose external financial reports, special-purpose report users often have statutory authority or other ability to require a governmental unit to issue reports that meet their needs; they do not have to rely solely on information in general purpose external financial reports. As part of their requirements, special-purpose report users often specify the communication methods that should be used, as well as the content of special-purpose reports. Special-purpose reports are not part of general purpose external financial reporting... Special-purpose reports generally are issued to meet the needs and requirements of specific users. Examples of special-purpose reports include offering statements, budgets, and reports that federal grantor agencies and other senior levels of government or private donors require state and local governments to file with them.”

- extend beyond the current year, including the service potential of those resources
- e. Information to assess long- and short-term capital needs
- f. Legal or contractual restrictions on resources
- g. Risks of potential loss of resources.

Consultation Process

When the GASB has classified information as Group 2 and concludes that the Group 2 information is in-Scope, the Oversight Committee¹⁷ and the GASB will conduct the following process:

1. Discuss the nature of Group 2 information and the reasons why concepts, standards, or guidance covering the information are appropriate and will improve governmental financial accounting and reporting.
2. Review the research supporting the GASB's conclusion that Group 2 information is in-Scope. The supporting information will include the GASB's research material, resource group input, and other Stakeholder input on whether the information is within GASB's scope to develop concepts, standards, or guidance.
3. Consider the factors below in **Scope Considerations**.
4. Oversight Committee Actions following Consultation with the GASB:
 - a. If the Oversight Committee is satisfied that the GASB demonstrated adequately in its initial analysis (or its additional research and Stakeholder

- outreach) and conclusion that the Group 2 information is in-Scope, the GASB may begin its normal standard-setting process that includes the Group 2 information.
- b. If the Oversight Committee is not satisfied that the GASB demonstrated adequately in its initial analysis and conclusion that the Group 2 information is in-Scope, the Oversight Committee will ask the GASB to conduct additional research and Stakeholder outreach on the Scope issue.
- c. If following the additional research the Oversight Committee is not satisfied that the GASB demonstrated adequately that the Group 2 information is in-Scope, the Oversight Committee will refer the matter for discussion by the Trustees.
5. If referred to the Trustees, they will discuss the Group 2 information and the supporting research with the GASB.
 - a. If the Trustees are satisfied that the GASB demonstrated adequately that the Group 2 information is in-Scope, the GASB may begin its normal standard-setting process that includes the Group 2 information.
 - b. If the Board of Trustees is not satisfied that the Group 2 information is in-Scope, the GASB will exclude the information from its standard-setting process.

Scope Considerations

In reaching a conclusion that the GASB has demonstrated adequately that Group 2 information is in-Scope, the Oversight Committee

¹⁷For purposes of Group 2 information consultations, the Oversight Committee will include all Governmental Trustees.

or the Trustees, as the case may be, will consider the following factors¹⁸ (among others):

1. The GASB's analysis that there is a clear need for concepts, standards, or guidance covering the Group 2 information
2. The GASB's analysis that the Group 2 information clearly will improve governmental financial accounting and reporting and GPEFR
3. The GASB's analysis that the Group 2 information meets a significant governmental financial reporting objective
4. Whether the Group 2 information already is available generally to GPEFR users through other reporting regimes or mechanisms
5. Whether any other group or entity is involved in, better equipped to, or more appropriately positioned or designed to standardize Group 2 information reporting and disclosure.

Trustees' Three-Year Assessment

Three years following the Consultation process implementation, the Trustees will review its effectiveness, efficiency, and effects on the GASB's independent standard-setting process. They will evaluate whether the Consultation process is meeting its objectives to resolve effectively and efficiently GASB Scope issues and to assist the GASB in establishing and improving state and local governmental accounting and financial reporting standards.

Amendments to the Consultation Process and Operating Procedures

Following consultation with the GASB and considering any relevant Stakeholder input, the Trustees may amend or alter the Consultation process and operating procedures from time to time.

¹⁸The Oversight Committee and the Trustees may give greater weight to one or more factors in coming to consensus on whether Group 2 information is within the GASB's scope.

APPENDIX A

Summary of the New Consultation Process and the Original Proposal

Process	Consultation	Original Proposal
Oversight Committee and Trustee involvement	Consultation about information classification prior to beginning any specific standard-setting project.	Evaluation and determination of whether a specific project is in-Scope.
GASB agenda-setting process	Unchanged from current agenda-setting process.	<ul style="list-style-type: none"> Enhanced agenda-setting procedures in the agenda issue identification phase. Optional Oversight Committee Project Prospectus review in the agenda research phase.
Oversight Committee Scope evaluation and recommendation to Trustees	<ul style="list-style-type: none"> No Scope recommendation to Trustees. If the Oversight Committee is not satisfied the information is in-Scope the matter is referred to the Trustees. 	<ul style="list-style-type: none"> Oversight Committee evaluates whether project is in-Scope. Oversight Committee provides project scope recommendation to Trustees.
Trustees Scope evaluation and determination	<ul style="list-style-type: none"> Trustees and the GASB consult. Trustees are satisfied—or not—that the GASB demonstrated adequately that the Group 2 information is in-Scope. 	Trustees decide if project is in-Scope.
Stakeholder input	The GASB obtains input prior to the Consultation and before initiating a specific standard-setting project.	<ul style="list-style-type: none"> The GASB obtains input early in the agenda issue identification phase. Oversight Committee may obtain, or request that the GASB obtain, additional input in the agenda research phase.
Information classification	<ul style="list-style-type: none"> Information is classified into Groups 1, 2, and 3 (i.e., clearly in-Scope, not clear, and clearly out of Scope). Information characteristics are assessed primarily based on the GASB's Concepts Statements. 	<ul style="list-style-type: none"> Information is classified into Groups 1, 2, and 3. Information characteristics are assessed based on judgments about placement along the financial reporting scope spectrum (Figure 2 in the Original Proposal).

APPENDIX B

Principal Original Proposal Stakeholder Concerns and Suggestions

Summarized below are the principal Stakeholder suggestions and concerns and how they were considered in developing the Consultation process.

Stakeholder concerns

1. *The Trustees do not have the authority to direct the GASB to undertake or omit any particular project or activity.*

While the Trustees may not direct the GASB to undertake—or not—a specific standard-setting project, they clearly have the authority and responsibility to advise and counsel the GASB about what constitutes financial accounting and reporting information within the context of the GASB’s mission. The Consultation may involve elements of information, among many elements, that the GASB might include in standard-setting activity, such as a potential accounting standard project. The Consultation resolves whether certain information elements the GASB is considering are within the context of financial accounting and reporting and, therefore, in-Scope. The Consultation occurs in the pre-agenda phase, prior to any standard-setting process and before information elements are included in a specific project. Once the Consultation is complete, the GASB is free to include the information elements (if determined to be in-Scope)—or not—in a specific project. Therefore, the Consultation does not direct the GASB in any way to undertake—or not—a specific project.

2. *The Proposal inappropriately equates the By-Laws’ jurisdictional authority over the FASB and the GASB to scope of authority to issue accounting standards.*

The GASB has the authority to issue accounting concepts, standards, and guidance for governmental financial accounting and reporting information; however, the Trustees have the oversight responsibility to determine the boundaries for information that lies within the context of financial accounting and reporting (see footnotes 1 through 3, and 7). The Consultation clarifies that the Trustees have the authority to determine whether information is “financial accounting and reporting” information over which the GASB has the authority to issue standards.

3. *The GASB members and staff are better equipped than the Trustees to resolve complex scope issues because only a few Trustees have governmental accounting and reporting backgrounds.*

The Consultation process calls for the GASB to perform additional research, including Stakeholder outreach, to inform whether Group 2 information is in-Scope. The Trustees presume that the GASB will classify information properly by assessing the characteristics discussed on page 14 under the heading **CONSULTATION PROCESS AND OPERATING PROCEDURES—GASB Information Classification**. The GASB will present its support for Group 2 information being in-Scope in its Consultation with the Oversight Committee. Therefore, sufficient GASB resources should be employed to inform the Oversight Committee on whether Group 2 information

is in-Scope. In addition, all Governmental Trustees will be invited to participate in the Oversight Committee Consultation process. Therefore, the Trustees believe adequate resources and expertise will be employed in Consultations.

4. *The GASB's decision-making process for adding projects to its agenda is a key part of the standard-setting process—the Proposal represents a potential impairment to GASB's standard-setting independence.*

The Consultation occurs in the pre-agenda phase, before the GASB begins its agenda-setting process. The Consultation is about whether information is financial accounting and reporting information over which the GASB can set standards, a Trustee oversight function. The GASB Chair and the GASB members agree that the Consultation process should not encroach on standard-setting independence.

5. *The Proposal could disrupt effective and efficient standard setting by (a) interjecting inexperienced Trustees and duplicative processes into agenda setting, and (b) by second-guessing the GASB's agenda decisions.*

The Consultation is designed for the GASB to perform early research in the pre-agenda phase to support its Group 2 in-Scope determinations. The Trustees believe the Consultation clarifies Groups 1 and 3 information characteristics so that Group 2 information Consultations will be rare. The early, pre-agenda Consultation should occur before substantial resources are expended on standard-setting projects, and obviate the need for the Trustees

to be involved in any specific project agenda setting.

6. *The Proposal would set precedent for the Trustees to be involved in FASB's Scope issues.*

The Trustees are considering GASB's Scope issues because of the factors leading up to, and the results of, the GASB Study. The Trustees believe the GASB has unique Scope issues that need to be addressed currently, separate from any issues that the FASB may need to consider. The FASB Chair is part of the working group that developed the Consultation process. The working group believes the Consultation process should not impair the GASB's standard-setting independence.

Stakeholder suggestions

1. *The criteria for Groups 1, 2, and 3 should be more specific to narrow the GASB's flexibility to include accounting information in Groups 1 and 2.*

The Consultation expands and clarifies the descriptive characteristics of Group 1 financial information to be more specific. The information characteristics are based on the GASB's Concepts Statements 1 and 3. Group 3 financial information is clarified as information that does not have any relevance to users' needs, has no relationship to information presented in GPEFR, or is a special-purpose report. Group 2 financial information is clarified to be information that (a) does not clearly possess the characteristics of either Group 1 or Group 3 information, and (b) meets at least one of Concepts Statement 1 governmental financial reporting objectives.

2. *The Oversight Committee's Group 2 Scope considerations should be transparent and follow the GASB's open due process procedures.*

The Consultation is not part of the GASB's agenda-setting process, but rather part of the Trustees' oversight function—a clarification of the Original Proposal. Because the Trustees' oversight is an internal FAF function, it is not subject to open due process. The Trustees believe it is not appropriate for them to subject their oversight to open due process because oversight is separate and independent from the standard-setting process. Certain aspects of the Consultation process may become public, such as when additional Stakeholder outreach is undertaken.

3. *The Oversight Committee should have the authority to change the GASB's initial Groups 1 and 2 project classifications to Groups 2 and 3, respectively, if a majority of Trustees agree.*

The Consultation concerns financial accounting and reporting information and whether it is within GASB's Scope. The Consultation occurs prior to the GASB's standard-setting process and before information is included in a standard-setting project. Therefore, because the Consultation involves a determination of whether information is in-Scope and not the merits of a specific project, a project reclassification concept is not necessary.

4. *GASB's Scope should be limited to historical financial information.*

The Trustees agree with the GASB Chair and staff that limiting Scope only to

historical information (a) could preclude the GASB from considering information important to assess accountability when it could be the most appropriate organization to provide guidance, and (b) create significant disruption for existing standards and guidance that may involve nonhistorical, nonfinancial information. The Consultation could result in non-historical and nonfinancial information being classified as Group 2 information if it meets at least one of the GASB's governmental financial reporting objectives. Group 2 information could be considered in-Scope after completing the Consultation process.

5. *At least two, if not all three, Governmental Trustees should vote on all GASB Scope recommendations.*

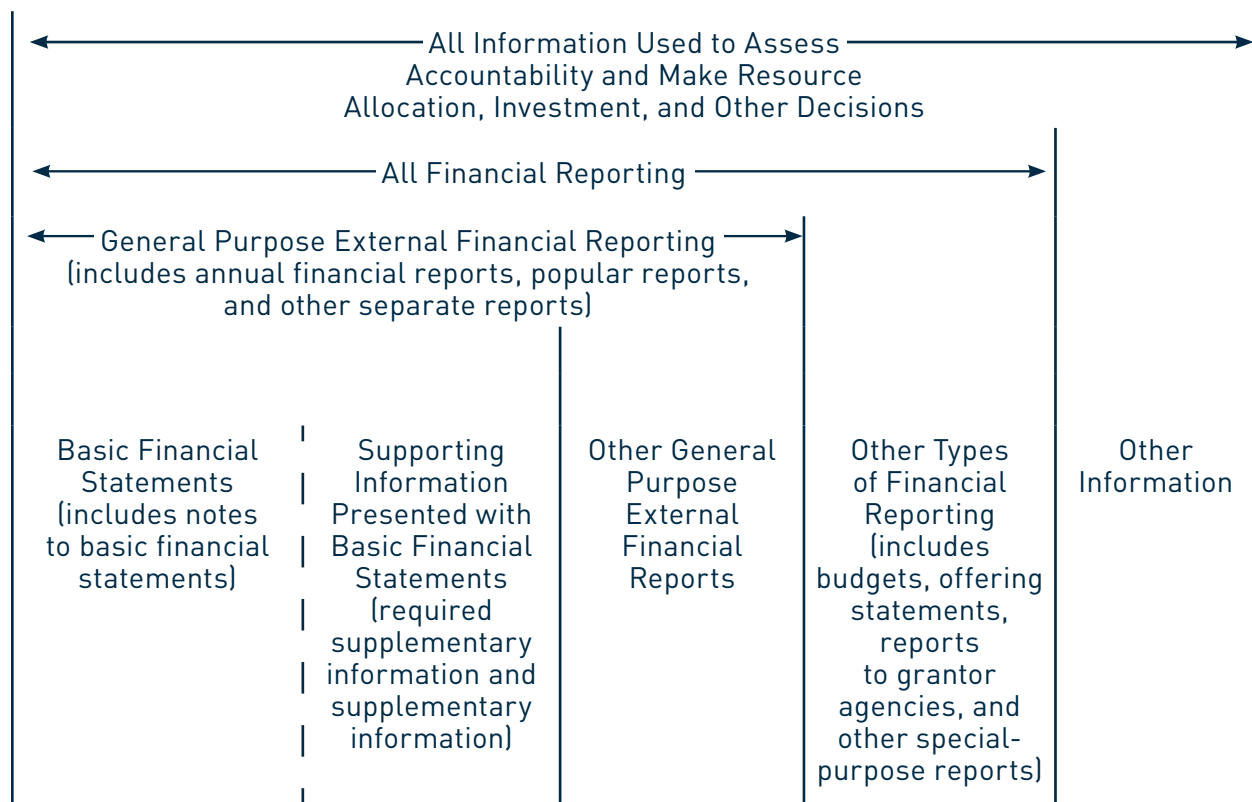
If a Consultation occurs, all Governmental Trustees will be asked to participate.

APPENDIX C

Financial Reporting Spectrum

The GASB establishes boundaries to define accountability in the context of general purpose external financial reporting in the state and local government environment. A clear acknowledgement of boundaries to the GASB’s scope of authority is illustrated by the following diagram that evolved in GASB’s Concepts Statements. The diagram illustrates the types of financial reporting and other information that extend beyond general purpose external financial reporting.

Figure 1—Diagram of Financial Reporting for State and Local Governments



The GASB has addressed a wide range of topics from issuing standards that establish accounting and financial reporting requirements for tax revenues (a fundamental transaction in the state and local government environment) to issuing suggested guidelines for service efforts and accomplishments (SEA) reporting. Those standards and guidelines can be arrayed on a continuum along the financial reporting scope spectrum. Seven key points have been identified based on current GASB pronouncements, practices, and the Study.

Figure 2—Information within the Scope of the GASB’s Standards (and Guidelines) Issued to Date

Narrow Scope			Broad Scope			
Category						
1	2	3	4	5	6	7
Items recognized in basic financial statements	Notes to the basic financial statements—descriptions of the policies underlying amounts recognized in financial statements; more detail about or explanations of amounts recognized in financial statements	Required Supplementary Information and supplementary information—historical context (e.g., trend information for pensions and OPEB)	Notes to the basic financial statements—nontraditional information about financial position or inflows and outflows of resources that do not meet the criteria for recognition (e.g., capital asset condition information)	Required Supplementary Information—operational or economic context (e.g., financial projections)	Supplementary Information (e.g., service capacity information)	Other general purpose financial reports (e.g., SEA reporting suggested guidelines)