

FINANCIAL ACCOUNTING FOUNDATION
BOARD OF TRUSTEES

**GASB'S SCOPE OF AUTHORITY:
PROPOSED CHANGES TO
AGENDA-SETTING PROCESS**

REQUEST FOR COMMENT



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FINANCIAL ACCOUNTING FOUNDATION REQUEST FOR COMMENT GASB'S SCOPE OF AUTHORITY: PROPOSED CHANGES TO AGENDA-SETTING PROCESS

BACKGROUND

The Financial Accounting Foundation's (FAF) Board of Trustees is responsible for, among other things, the oversight, funding, and appointment of members of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). The roles of the FAF and of its standard-setting Boards are more fully described in the *By-Laws* of the Financial Accounting Foundation. While the Board of Trustees does not direct the standard-setting activities of the GASB or the FASB, the Trustees have the final responsibility for resolving questions involving the jurisdictional authority¹, functions, and powers of the GASB, the FASB, and between the GASB and the FASB.

As part of its oversight of the GASB, in May 2011, the FAF commissioned an independent academic study² to explore the purposes of financial accounting and reporting of state and local governmental entities. The primary objective of the Study was to provide insights to the FAF Board of Trustees on how the GASB can best serve stakeholders within the context of its mission. 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. That report is available at the [FAF website](#).

The Trustees believe a principal study finding was that the GASB's independence and rigorous due process

it follows in establishing standards are highly valued and well-respected. The study also found that the notion of government accountability has multiple dimensions. Besides financial accountability, other types of accountability include political accountability, accountability for performance in dynamic/new situations, fairness, and responsiveness.

There is a lack of shared understanding about which aspects of accountability are suited for assessment through financial reporting. This lack of shared understanding has led stakeholders to adopt differing views about the scope of GASB's activities and involvement in accountability reporting. Although some areas of governmental accountability may be beyond its scope, there is no bright line for demarcating the limits of the GASB's scope of authority. Given the multiple dimensions of governmental accountability, it would be difficult to set bright lines for information within the GASB's scope of authority.

The Trustees have been exploring the potential for better defining and distinguishing the nature of GASB's authority in setting standards for financial accounting and reporting. There are areas of financial reporting generally considered by stakeholders to be clearly within GASB's authority. In other areas of financial reporting there is less agreement and a wider range of views. Some of the areas where there is less agreement may fall into the overlapping

¹ The FAF By-Laws refer to "jurisdiction" of the GASB and the FASB to set accounting and reporting standards. The term "scope of authority" is used in the same context as the By-Laws referring to the Boards' jurisdiction. The terms "scope of authority" and "jurisdiction" are used interchangeably in this request for comment.

² FAF. Independent Academic Study of the Scope of the GASB: Accounting and Accountability – Topics and Processes. (Authored by Deis, Rubin, and Smith). Norwalk, CT: 2012.

categories of reporting information labeled by the study as “financial accountability reporting” and “expanded accountability reporting.”

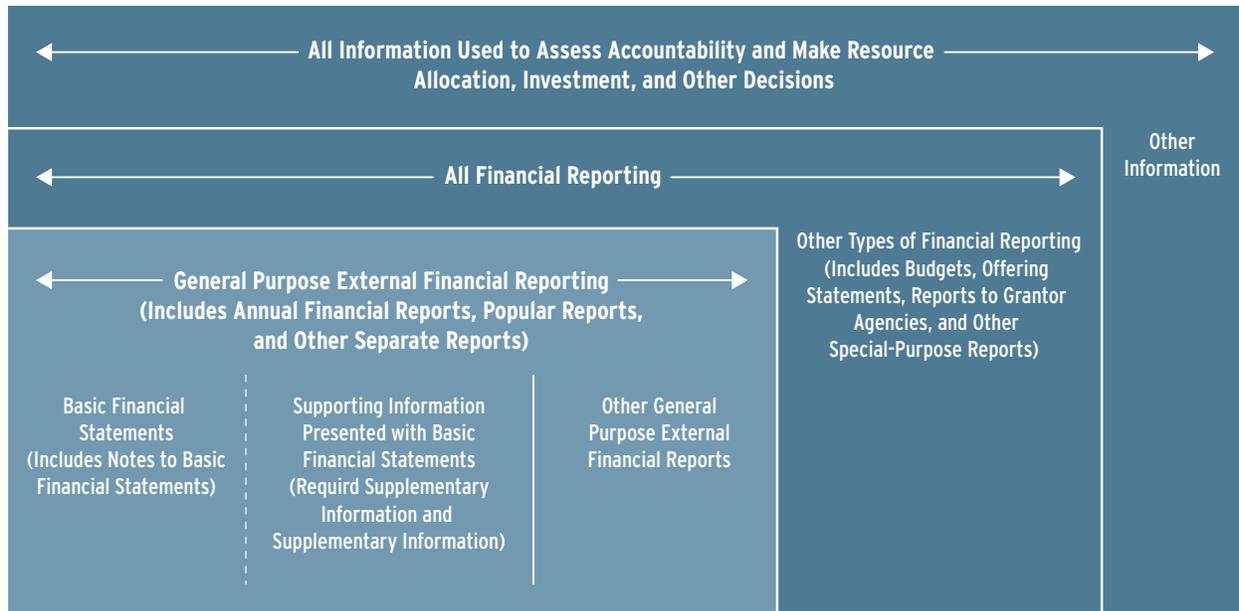
The Trustees are considering whether process or procedural enhancements will help clarify the GASB’s scope of authority and better enable the GASB to serve stakeholders within the context of its mission. To that end, the Trustees have been discussing with the GASB its process for placing issues on its research and technical agendas,³ ultimately resulting in governmental accounting standards and guidance.⁴ The Trustees are seeking stakeholder input on proposed changes to the GASB’s agenda-setting process.

They believe stakeholder views will provide valuable input on whether the proposed changes will help resolve the GASB’s scope of authority issues while maintaining GASB’s standard-setting independence.

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 the GASB’s Concept Statements. The diagram illustrates the types of financial reporting and other information that extend beyond general purpose external financial reporting.

DIAGRAM OF FINANCIAL REPORTING FOR STATE AND LOCAL GOVERNMENTS⁵



³ In the GASB’s standard-setting process chronology, issues are 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.

⁴ Both the GASB and the FASB regularly consider issues that may reflect on their authority to issue accounting and reporting guidance. The Trustees are considering GASB’s scope of authority 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 accounting and reporting jurisdictional issues that need to be addressed currently, separate from any jurisdictional issues that the FASB may need to consider.

⁵ GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, Figure 1, as amended.

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.

INFORMATION WITHIN THE SCOPE OF THE GASB'S STANDARDS (AND GUIDELINES) ISSUED TO DATE

NARROW SCOPE	
1	Items recognized in basic financial statements.
2	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.
3	Required supplementary information. Historical context (e.g., trend information for pensions and OPEB).
4	Notes to the basic financial statements. Non-traditional information about financial position or inflows and outflows of resources that do not meet the criteria for recognition (e.g., capital asset condition information).
5	Required supplementary information. Operational or economic context (e.g., financial projections).
6	Supplementary information (e.g., service capacity information).
7	Other general purpose financial reports (e.g., SEA reporting suggested guidelines).
BROAD SCOPE	

CURRENT GASB STANDARD-SETTING AGENDA PROCESS

The GASB currently has the following chronology for adding items to its technical plan:⁶

Issue Identification

1. Identify a potential project by considering: technical inquiries; discussions with the GASB members, Governmental Accounting Standards Advisory Council (GASAC) members, constituent organizations, individual preparers, and auditors; and feedback from users associated with agenda articles, speeches, and other outlets.
2. The GASB chairman and staff assess that potential projects are within the GASB's scope of authority and meet the criteria of significance, pervasiveness, feasibility and cost/benefit criteria in [Appendix B](#).
3. Review potential projects with the GASAC for GASAC member feedback.
4. Prepare a potential project description based on GASAC member feedback and the GASB chairman approval.
5. Add the potential project description to the technical plan's potential projects section, incorporating preliminary research information. Consult with the GASAC regarding additions to the research agenda.
6. Prepare a project proposal based on the GASAC member feedback and the GASB chairman approval of selected projects.
7. Present the proposed technical plan, including potential project proposals, to the GASB members for consideration.

8. Obtain a GASB decision about adding the project to the research agenda.

Research

9. If the project is added to the research agenda, finalize the project research plan and conduct project research.
10. Review the project research results with the GASB members.
11. Prepare a Project Prospectus summarizing project research and Board considerations.

Current Technical Agenda Development

12. Consult with the GASAC about adding the research project to, and its priority on, the technical plan's current technical agenda section.
13. Review the proposed technical plan, including project research information and GASAC input, with the GASB members for a GASB decision to add the project to the current technical agenda.
14. If the GASB approves, add the project to the GASB's current technical agenda.

⁶ In connection with the Trustees' oversight role, the GASB chairman reports additions and other changes to the GASB research and current technical agendas to the Standard-Setting Process Oversight Committee.

PROPOSED CHANGES TO GASB'S AGENDA-SETTING PROCESS⁷

In the months since completion of the Study, the FAF's Standard-Setting Process Oversight Committee and the GASB have engaged in discussions on ways to help clarify the GASB's scope of authority and better enable the GASB to serve stakeholders within the context of its mission. The Oversight Committee believes modifying the GASB's agenda-setting process is the best way to address scope of authority issues. Having the Oversight Committee assess a project to be "in scope" early in the agenda-setting process allows appropriate Trustee oversight without affecting GASB's standard-setting independence.

The GASB has proposed to the Trustees modifications to the GASB's current agenda-setting process to address the scope of authority issues. Generally, the GASB proposes to categorize governmental information into three groups relating to the GASB's authority to issue financial reporting standards and guidance:

Group 1

Information the GASB assesses as clearly being within the GASB's standard-setting authority. Generally, Group 1 financial information is consistent with Categories 1–3 in the above financial reporting scope spectrum. Specifically, Group 1 information would include:

- Financial information related to the form and content of historical general purpose external financial statements.
- Note disclosures that have a clear and demonstrable relationship to the financial statement information to which they pertain.
- Supporting information that places financial statements or note disclosures in an appropriate historical context.

Group 2

Information that the GASB believes is within its standard-setting authority, but that is not clearly within Group 1. Generally, Group 2 financial information is consistent with Categories 4–7 in the above financial reporting scope spectrum. For example, it could include information not directly the result of financial transactions or events that have already occurred.

Group 3

Information clearly recognized as being outside the GASB's standard-setting authority. Generally, Group 3 information is beyond Category 7 in the above financial reporting scope spectrum (i.e., Figure 1 information that is outside general purpose external financial reporting).

⁷ The GASB's *Rules of Procedure*, Section IV Operating Procedures, would be revised to reflect any approved changes to the GASB's agenda-setting process.

PROPOSED GASB AGENDA-SETTING PROCESS

The GASB currently reports on a regular basis to the Oversight Committee on changes to its research and technical agendas. The Oversight Committee will review project Group classifications during its normal review. It also will monitor, through its oversight activities, the GASB's continued compliance with established standard-setting processes.

Group 1

Follow the current GASB agenda-setting process described above for adding items to its technical agenda. Should the Oversight Committee question whether the classification of a potential project as Group 1 is appropriate, then Group 2 procedures will be performed.

Group 2

Add the following four steps to the agenda-setting process (See [Appendix A](#) for a side-by-side comparison of current agenda-setting processes with the proposed changes.):

Step 1— During the GASB's issue identification phase described above, and before adding a project to the research agenda (i.e., after Agenda Process 3):

1. The GASB will:
 - a. Develop an expanded project proposal including the project's objectives, scope (identifying any items that are not clearly within Group 1), research plan, and the need for issuing guidance on the issue.
 - b. Conduct outreach with the GASB stakeholders.⁸
 - c. Revise the project proposal based on the GASB stakeholder feedback.

2. The GASB chairman will provide the revised project proposal to the Oversight Committee. The project proposal will summarize stakeholder input and the GASB's preliminary views on whether to add the project to its research agenda.
3. The Oversight Committee will:
 - a. Review the project proposal.⁹ It may request the GASB to obtain additional stakeholder input or conduct its own stakeholder input process.¹⁰ Additional stakeholder input may be obtained from issuing the project proposal for public comment, discussing the proposal at public round-table meetings and/or with the GASAC, and from other sources.
 - b. Evaluate whether the project is appropriately within the GASB's jurisdiction.
 - c. Make a recommendation to the Trustees for a final determination on whether the project is within the GASB's jurisdiction to issue financial reporting standards and guidance.
4. If the Trustees determine the project is within the GASB's jurisdiction to issue financial reporting guidance:
 - a. The Oversight Committee would decide whether to review the Project Prospectus before the GASB adds the project to the current technical agenda¹¹. The Project Prospectus' additional research could confirm or revise the Oversight Committee's evaluation and recommendation on whether the project is within the GASB's jurisdiction.

⁸ GASB stakeholders include: financial statement users, preparers, and auditors.

⁹ The Oversight Committee's review will focus on the GASB's assessment of the underlying need for accounting and reporting guidance compared to stakeholder input on the need for guidance.

¹⁰ Stakeholder input would address the GASB's need to consider the issue and whether it is within the GASB's jurisdiction.

¹¹ Factors that could affect the Oversight Committee's decision to review the Project Prospectus include: project scope changes, stakeholder controversy, and other stakeholder input.

- b. If the Oversight Committee decides not to review the Project Prospectus, the GASB would complete Step 2.
- c. If the Oversight Committee decides to review the Project Prospectus before the GASB adds the project to the current technical agenda, Steps 3 and 4 would be completed.

Step 2— If the Oversight Committee does not request to review the Project Prospectus before the project is added to the current technical agenda, the GASB will:

1. Update project descriptions in the GASB technical plan.
2. Obtain GASAC feedback on agenda priorities.
3. Continue with Agenda Process 4.

Step 3—If the Oversight Committee reviews the Project Prospectus before it is added to the current technical agenda, the GASB will:

1. Present the Project Prospectus to the Oversight Committee for review.
2. If the GASB's preliminary view is that the project should be added to its current technical agenda, the Oversight Committee will:

- a. Perform the following additional procedures:
 - i. Review the Project Prospectus. It may request the GASB to obtain additional stakeholder input or conduct its own stakeholder input process.
 - ii. Evaluate whether the project is appropriately within the GASB's jurisdiction.
 - iii. Make a recommendation to the Trustees for a final determination on whether the project is within the GASB's jurisdiction to issue financial reporting standards and guidance.
- b. If the Trustees determine the project is within the GASB's jurisdiction to issue financial reporting guidance, the GASB will complete Step 4.

Step 4— The GASB will update the Project Prospectus, and continue with Agenda Process 12.

Group 3

Consistent with current practice, the GASB will not conduct any research on the project, will not request other organizations or individuals to conduct research, and will not add the project to the research or technical agendas.

CONCLUSION

The GASB's agenda-setting process is overseen by the Foundation's Board of Trustees. As part of its oversight, the Trustees review the GASB's process for identifying issues that might be added to its technical agenda. Questions about the GASB's authority to add items to its technical agenda rarely arise. In the rare instances when such questions arise, the Trustees believe the proposed process changes will allow early stakeholder input on projects not clearly within the GASB's scope. The revised agenda process, when combined with the GASB's established methods for identifying accounting and reporting issues, will help the Trustees resolve any GASB scope of authority matters.

Based on the GASB's history, the Trustees anticipate that most projects clearly will be within Group 1 and will not require further review. In the case of Group 2 projects, the Trustees will have final oversight responsibility to resolve any GASB jurisdictional issues. Stakeholder and other input will provide valuable insights to the Trustees as they resolve such issues. The Trustees' priority will be to ensure that the GASB's standard-setting processes are independent and free from undue influence or special interests. Therefore, the Trustees believe the revised agenda-setting processes will be part of its GASB oversight, not an appeals process for GASB standard-setting.

The Trustees seek stakeholder views on the proposed changes. Please email any written comments to GASBScope@f-a-f.org by April 30, 2013.

Those without email should send their comments to "GASB Agenda Process," FAF, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. Please do not send responses by fax. All comments received will be part of the FAF's public file. The FAF will make all comments publicly available by posting them to the FAF website. An electronic copy of this plan is available on the FAF's website.

APPENDIX A

GASB STANDARD-SETTING AGENDA PROCESS

GASB STANDARD-SETTING AGENDA PROCESS

Summary of Current Agenda Process	Summary of Proposed Process
Issue Identification	Issue Identification
1. Identify potential projects.	1. Same
2. Assess whether potential projects are within the GASB's scope of authority and meet the criteria of significance, pervasiveness, feasibility, and cost/benefit.	2. Same
3. Review potential projects informally with the GASAC.	3. Same
4. Prepare potential project description.	4. If project encompasses Group 2 information: <ol style="list-style-type: none"> a. Develop expanded project proposal. b. Conduct outreach with GASB stakeholders. c. Revise project proposal. d. Review project proposal with Oversight Committee. e. Oversight Committee decides whether to obtain additional GASB stakeholder input. f. Oversight Committee evaluates whether project is within the GASB's scope. g. Oversight Committee provides project scope recommendation to Trustees. h. Trustees decide if project is within the GASB's scope of authority. i. Oversight Committee decides whether to review Project Prospectus. If so, complete 11.
5. Add potential project to the technical plan's potential projects section. Consult with the GASAC.	5. Same
6. Prepare a project proposal.	6. Same
7. Present potential project proposals to the GASB members. Finalize project research plan.	7. Same
8. Obtain GASB decision to add project to the research agenda.	8. Same

Summary of Current Agenda Process	Summary of Proposed Process
Research	Research
9. Conduct project research.	9. Same
10. Review the project research results with GASB members.	10. Same
11. Prepare Project Prospectus.	11. Same if no Oversight Committee Project Prospectus Review. If Oversight Committee reviews Project Prospectus: <ol style="list-style-type: none"> a. Oversight Committee reviews Project Prospectus. b. Oversight Committee evaluates whether to repeat above process 4.e through 4.h.
Current Technical Agenda Development	Current Technical Agenda Development
12. Consult with the GASAC about adding the research project to the current technical agenda.	12. Same
13. Review the proposed technical plan with GASB members to add project to the current technical agenda.	13. Same
14. Add project to the GASB's current technical agenda.	14. Same

APPENDIX B

POTENTIAL PROJECT ASSESSMENT CRITERIA

The GASB chairman and the Director of Research and Technical Activities assess issues to add to the GASB's technical plan potential projects section using the following criteria:

1. Significant to financial reporting objectives—the project would improve financial reporting in terms of:
 - Meeting the GASB's financial reporting objectives.
 - Providing decision-useful information important to users.
 - Reflecting economic substance of transactions or events.
 - Enhancing the credibility of financial reporting.
2. Pervasive accounting or financial reporting issue among state and local entities—the issue affects current accounting and reporting practice in terms of:
 - Impacting a broad number of users, constituents, and state and local government entities.
 - Addressing persisting/long-term issues.
 - Reducing divergence of practice.
 - Addressing difficulties experienced by stakeholders.
3. Feasibility—a feasible GASB solution can be developed in terms of:
 - Leveraging existing research, standards, and/or guidance from the GASB or other standard-setters and stakeholders.
 - GASB having sufficient resources and expertise to accomplish the project.
4. Cost/Benefit—the benefits of a project are expected to exceed the perceived costs of implementation, if known.



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