



April 30, 2013

Board of Trustees
Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: GASB Agenda Process

Dear Trustees:

The American Institute of Certified Public Accountants (AICPA) has reviewed the Financial Accounting Foundation (FAF) Board of Trustees Exposure Draft (ED), *GASB's Scope of Authority: Proposed Changes to Agenda-Setting Process*, and is pleased to offer its comments. While we commend the FAF for attempting to address the concerns of certain stakeholder groups regarding the scope of the Governmental Accounting Standards Board's (GASB) activities in such an open and transparent manner, we believe that the process and procedural changes proposed in the ED could have the unintended consequence of affecting the GASB's independence. For this and other reasons outlined in this letter, we strongly object to the FAF's proposed changes to the agenda-setting process of the GASB.

The following section of this letter, "Significant Comments and Recommendations," further describes our concerns with the proposal and our related recommendations. The final section of the letter, "Specific Comments on Proposed Process for GASB Agenda-Setting," includes our feedback on the specific process steps outlined in the ED in the event the FAF proceeds with its proposal.

SIGNIFICANT COMMENTS AND RECOMMENDATIONS

FAF Involvement in Agenda-Setting Could Affect GASB's Independence. The AICPA has long been a proponent of independent accounting standard-setting which is evidenced in prior congressional testimony, comment letters, and other public forums. We are also very supportive of active and effective oversight of accounting standard-setting bodies. However, we are very concerned that the ED modifies the FAF's role from that of an oversight body to being directly involved in the standard-setting process. As a result, we believe that there is a strong likelihood that the GASB's independence could be impaired if the FAF moves forward with the changes proposed in the ED. For example, GASB may be reluctant to even consider Group 2 projects going forward, regardless of how important or necessary the Board views potential projects. Further, if the GASB performs its own due diligence and decides to pursue a Group 2 project in the future, the new process would permit the FAF to take exception with the GASB and overrule a Board decision. These concerns are the primary reason we object to the FAF proposal.

GASB Expertise Better Suited for Evaluating Potential Projects. The outlined steps in the ED indicate that the Oversight Group will review the project proposal, evaluate whether it is appropriately within the GASB's jurisdiction, and make a recommendation to the Trustees for a final determination. Even though the proposal states that the Oversight Committee's review would focus only on the GASB's assessment of the need for a project as compared to stakeholder input, we question how the Trustees will assess what to do with a project when GASB recommends that a project is needed but stakeholder feedback is mixed or in opposition. In our view, the GASB members and staff are in the best position to make such evaluations in light of their strong expertise in governmental accounting and their understanding of related trends both in the United States and internationally.

FAF Proposal Sets Precedent for FASB Agenda-Setting Process

We are also concerned that the process proposed by the FAF could set a precedent for the Financial Accounting Standards Board (FASB) agenda-setting process if FASB were to explore similar Group 2-type projects in the future. Said another way, we question how the FAF could conclude that an adjusted process is necessary for GASB and not conclude the same for FASB if it decided to take on similar projects. We would oppose any similar FAF involvement with the FASB agenda-setting process in the future as well.

AICPA Recommends Utilizing Other Existing Alternatives if Changes Deemed to be Necessary by FAF. While the AICPA may not always agree with specific nuances of GASB proposals, the AICPA has not expressed a concern about the GASB's standard-setting scope. While we acknowledge that some stakeholders may believe otherwise, we believe the GASB's current agenda-setting process, along with strong FAF oversight, to be effective. Additionally, the recent change by the FAF to the GASB standard-setting process, which requires agreement by a majority of the GASB members to add projects to Board's agenda (versus Chairman only), will further bolster the agenda-setting process. Certainly, continued FAF oversight, ensuring GASB's adherence to process requirements and careful consideration of due process feedback, continues to be critical going forward. Regular interaction between the FAF and the GASB is also essential.

If the FAF determines that changes to the process are needed, instead of adopting the ED's approach, we recommend that the FAF and GASB look at utilizing other existing alternatives that would still allow GASB to maintain its independence in terms of deciding whether to add Group 2 projects to its agenda. For example, using a Discussion Memorandum (DM) or an Invitation to Comment (ITC) for projects that include Group 2 information would be one alternative to consider. Issuing a DM or an ITC would provide a formal process to solicit stakeholder feedback early on in a project and add transparency to the process. The Governmental Accounting Standards Advisory Committee (GASAC) could also be more effectively engaged in discussing and getting feedback on potential projects. The GASAC's membership is a broad representation of preparers, attestors, and users of governmental financial statements. Thus, further engaging this group early in the agenda-setting process to provide feedback would give the GASB a broad perspective on potential projects. If the FAF determines that action needs to be taken, we believe that these

enhancements, combined with strong FAF oversight, would be a better approach than the FAF Trustees approving Group 2 projects.

SPECIFIC COMMENTS ON PROPOSED PROCESS FOR GASB AGENDA-SETTING

The following comments are intended to provide FAF with feedback on the revised GASB agenda-setting process in the event the FAF moves forward with the proposal.

Proposal Assumes a “Linear” Standard-Setting Process. The proposed process assumes that all standards are developed in a “linear” process. We are unclear how the process would work with a complex project that involves numerous “twists and turns.” For example, consider a project such as GASB Statement No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*, which involved reexamining the governmental financial reporting model. We question how the proposed process would be utilized on such complex projects that begin clearly within the Group 1 context, but evolve to incorporate one or more elements that could be considered Group 2. Would the FAF Trustees need to be consulted for approval in the midst of the project in such instances? Would the GASB automatically be precluded from considering Group 2 elements because they had not been considered at the outset of the project? We urge the FAF to carefully consider how the process would be used or modified for projects that evolve to include Group 2 information.

Distinction Between Certain Group 2 Information Not Clear. The ED makes a distinction between notes to the financial statements that would be considered Group 1 information and other notes that would be considered Group 2 information. Notes described as Group 2 information include 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). We found this distinction confusing in that GASB defines all notes to the financial statements as information essential for fair presentation of the basic financial statements. In light of the GASB’s definition, we question how any notes to the basic financial statements could be considered outside the scope of the GASB’s standard-setting authority as by their very definition the notes are essential for fair presentation of the basic financial statements. This is an area that the FAF should reconsider or clarify.

Method of Outreach Needs to be More Clearly Defined. The proposed process for Group 2 projects requires that the GASB conduct outreach with the GASB stakeholders and indicates that the Oversight Committee may request the GASB to obtain additional stakeholder input or conduct its own stakeholder input process. The proposal does not define how this outreach would occur or how formal the outreach process would be. The method of outreach may be important to certain organizations like the AICPA and we recommend that a more formal approach be taken for several reasons. For example, it would be challenging for the AICPA to provide informal feedback in that we collect member feedback and get clearance on positions from the AICPA’s Financial Reporting Executive Committee to ensure a response that is representative of our membership and to provide the most useful information. Additionally, requesting feedback from stakeholders in a more formal manner

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will typically require more diligence and deliberation from respondents which ultimately produces more thoughtful feedback. Therefore, we suggest that the FAF consider a more formal approach when it determines how the outreach on potential GASB projects will occur.

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The AICPA appreciates the opportunity to submit its comments and would be pleased to discuss them with you at your convenience.

Sincerely,

AICPA

A handwritten signature in black ink, appearing to read "R. Caturano". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Richard J. Caturano, CPA
Chairman of the Board