



April 13, 2016

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 3-13E
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

The American Institute of Certified Public Accountants (AICPA) has reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Fiduciary Activities*, and is pleased to offer its comments. Overall, we found the ED a great improvement from the previous Preliminary Views document (PV) in terms of readability and the framework for determining whether an activity is fiduciary in nature. We also appreciate the Board's responsiveness to many of the issues we raised in our April 6, 2015, comment letter responding to the PV.

However, consistent with our response on the PV, we continue to strongly believe that fiduciary activities are best communicated in the notes to the financial statements. We also have concerns about the potential for varied interpretations of "government services" and "control," "both of which are key aspects of the criteria for identifying fiduciary activities. Our rationale for these positions and our other significant comments are included in the next section of this letter. The "Other Comments" section below includes our editorial comments and several less significant matters.

SIGNIFICANT COMMENTS

Reconsider Reporting Fiduciary Activities in the Notes to the Financial Statements. In our comment letter on the PV, we strongly encouraged the Board to eliminate the reporting of fiduciary activities as funds, and instead to require that fiduciary activities be described in the notes to the financial statements. However, in paragraph B21 the Board reaffirms its view that note disclosure is not an adequate substitute for recognition in basic financial statements. We would like to reiterate our continued view that reporting fiduciary activities in separate fund financial statements makes the financial reporting model overly complex and has the potential to distort the government's own financial activities and net position. Some fiduciary activities have the potential to minimize other activities of the government (e.g., tax collections) which may cause users to change their perception of the activities of the government itself. Other fiduciary activities may have significantly greater net position than that of the government (e.g., pension plans) which may cause users to erroneously conclude that the net position of fiduciary funds are resources available to the government. For all of these reasons, we continue to recommend the government's accountability for assets held in a fiduciary capacity be communicated through a description of the activities in the notes to the financial statements.

Provide Additional Clarification for the Control Criteria in Paragraph 10. Our concern with the ED's control criteria is that we believe preparers will have difficulty interpreting the criterion in paragraph 10(b), leading to an inconsistent application in practice. Specifically, paragraph 10(b)

provides that a government controls the assets if “the government has the ability to administer or direct the use, exchange, or employment of the present service capacity of the assets.” For example, within the group of members assisting us with this letter, there were varying interpretations as to whether the following activities would meet the control criteria in paragraph 10(b):

- Selecting external vendors or administrators;
- Selecting investment options (e.g., selecting a menu of funds that participants in a 457 Deferred Compensation Plan may invest in); and
- Establishing the benefit levels for a pension or other postemployment benefit plan.

We recommend the Board provide additional clarification and examples in the final Statement to promote a consistent understanding of what does and does not constitute control.

Clarify Control Criteria are Not Applicable for Component Units that are Fiduciary in Nature. We recommend the Board be more explicit in paragraph 9 regarding the *inapplicability* of the control criteria (described in paragraph 10) when considering component units that are fiduciary in nature. While we acknowledge that paragraph B17 states that a primary government would not need to consider whether it controls the assets of component units, we are concerned users of the Statement are likely to overlook this nuance. Adding to the confusion, paragraph 9 references to the criteria in paragraphs 7(a) – 7(d) and 8(a) - 8(c) for purposes of determining whether a component unit is fiduciary in nature. While these references exclude the lead-in sentences to paragraphs 7 and 8 (which incorporate the control criteria), we believe the natural inclination of readers will be to read paragraphs 7 and 8 in their entirety. To improve readability and understanding, we suggest the Board expand paragraph 9 to clearly state the primary government does not need to consider whether it controls the assets of component units, similar to the discussion in paragraph B17.

Define What Constitutes a Service When Identifying Fiduciary Activities. Paragraphs 7(b) and 7(c) focus, in part, on a government’s “services.” We recommend the Board clarify this notion of “services” as we are concerned that some will interpret it too broadly. It is our view that “services” should not pertain to administrative activities such as treasury operations, billing, collecting taxes, calculating payroll tax withholdings, or administering another entity’s payroll. However, we expect that without further clarification, some will consider these types of activities as “services” when identifying fiduciary activities. Therefore, we strongly suggest the Board clarify the meaning of “services” for purposes of this standard and state that “services” are not intended to include administrative activities such as those previously described.

Reporting Exceptions Should be Based on a One Year Concept. We generally support the reporting exceptions for business-type activities (BTAs) in paragraph 16 and custodial funds in paragraph 21. However, we recommend the Board base both exceptions on resources expected to be held for 12 months or less, rather than the 3 months or less criterion proposed. We believe a 12 month horizon is more reasonable, while still providing useful information. While we understand that some users cited a need for detailed reporting of additions and deductions as discussed in paragraph B29, we believe the costs associated with tracking and reporting inflows and outflows of resources for resources expected to be held less than a year will exceed the benefit of providing users with such information.

OTHER COMMENTS

Clarify Meaning of “All Other Pension and OPEB Arrangements.” Our members had difficulty interpreting the meaning of “all other pension and OPEB arrangements” as used in the last sentence of paragraph 8 which states,

For all other pension and OPEB arrangements, a government should report the activity as a fiduciary activity if the assets are held in a trust or equivalent arrangement as described in paragraph 7a and are not available to the government for another purpose.

While paragraph B19 attempts to explain these other arrangements, the discussion did little to enhance our understanding and included examples that we found to be obscure. Based on discussions with GASB staff, we understand the Board’s intent is to cover those pension and OPEB plans that are held in trust which do not meet the scope of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, but that do meet the trust criteria in the ED. It is also our understanding that there are few of these other arrangements. We recommend the Board revise paragraph 8 as follows to clarify what “all other pension and OPEB arrangements” is trying to address.

For **all-other** pension and OPEB arrangements **that are not within the scope of GASB Statement Nos. 67 or 74**, a government should report the activity as a fiduciary activity if the assets are held in a trust or equivalent arrangement as described in paragraph 7a and are not available to the government for another purpose.

Finally, we suggest the Board either expand paragraph B19 to better describe these other arrangements or delete the paragraph altogether.

Provide Clarifying Guidance on Benefit-Burden Relationship for Pension and OPEB Plans. We believe there are many pension and OPEB plans that are improperly identified as being a component unit of a primary government because of a misinterpretation that contributions to the plan result in a benefit-burden relationship. However, paragraph 27 of GASB Statement No. 14, *The Financial Reporting Entity*, as amended states, “Exchange transactions between the organization and the primary government should not be considered manifestations of a financial benefit or burden relationship.” While this potential misinterpretation does not currently affect whether the plans should or should not be reported as a fiduciary activity, it could going forward due to the change in control criteria and the potential that many of these plans will no longer meet the criteria to be reported as a fiduciary fund. Therefore, we recommend that the Board develop a new question for the Implementation Guide clarifying that contributions to a plan do not constitute a benefit-burden relationship.

Make Clarification to Ensure Certain Nuances in the Statement Are Not Overlooked. We have concerns that several important nuances regarding this Statement may be overlooked by users since they are only identified through a reference to another GASB standard or reflected solely in the Codification Instructions. We identified the following citations in the ED that we recommend be clarified by the Board in the body of the final Statement to ensure an appropriate understanding and consistent application:

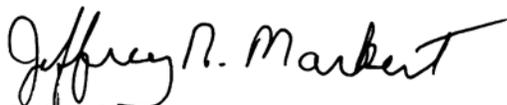
- Paragraph 8(c) cites paragraph 116 of Statement 73, as amended. We suggest the narrative from that citation be brought into the final Statement so that the guidance is complete.
- Paragraph 9 addresses the reporting for component units that are fiduciary in nature. However, it does not address how fiduciary activities of a discretely presented component unit should be treated. Our assumption is that the fiduciary activities of a discretely presented component unit would not be considered a fiduciary activity of the primary government. However, this point is not apparent from reading the ED.
- Paragraph 11 requires governments to report fiduciary activities in the basic financial statements in fiduciary funds. We suggest the Board clearly state that it also applies to BTAs. The Codification Instructions to Sp20, *Special-Purpose Governments*, makes this change clear, but it could be missed by those who refer only to GASB Statements and not the Codification.

Terminology Suggestions. Paragraphs 16 and 21 discuss certain exceptions for resources that are expected to be held for three months or less. As noted above, we are recommending the time horizon be expanded to 12 months. Regardless, we suggest replacing “expected to be” with “typically” or “normally” as these terms convey a consistency in practice or pattern.

* * * * *

The AICPA appreciates the opportunity to comment on the ED. This comment letter was prepared by members of the AICPA’s State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,


Jeffrey N. Markert
Chair
AICPA State and Local Government
Expert Panel


Mary M. Foelster
Director
AICPA Governmental Auditing and
Accounting

cc: State and Local Government Expert Panel
James Dolinar
Dan Noll