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United States Government Accountability Office
Washington, DC 20548

April 30, 2013

GASB Agenda Process
Financial Accounting Foundation
401 Merritt 7
PO Box 5116,
Norwalk, CT 06856

Dear FAF Trustees:

Subject: *GASB's Scope of Authority: Proposed Changes to Agenda-Setting Process*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Financial Accounting Foundation (FAF) request for comments on *GASB's Scope of Authority: Proposed Changes to Agenda-Setting Process*. Under the proposal, the Trustees of the FAF would decide if certain projects are within the Governmental Accounting Standards Board's (GASB) scope of authority.

The independence of and the effective oversight of the GASB by the FAF are critical elements to effective standard-setting by the GASB. These elements, along with others, are designed to provide assurance that the standards issued by the GASB are generally accepted and in the public interest. As discussed further below, we are concerned that the proposal, if implemented, would impair both the independence and oversight of the GASB.

As noted in the proposal, a principal finding of the recent academic study was that "the GASB's independence and rigorous due process it follows in establishing standards are highly valued and well-respected." The GASB has well-established due process procedures including those related to agenda setting. As noted in the proposal, such agenda-setting procedures include a consideration of 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. At least annually, GASAC discusses potential agenda topics and GASAC members provide direct input to the GASB on how they prioritize potential GASB projects. In addition, the FAF recently enhanced agenda-setting for both the GASB and the Financial Accounting Standards Board (FASB). Now, decisions regarding project plans, agenda setting, and priority of projects will

be approved by a majority vote of the respective Boards in public meetings instead of by the Board chair alone.

FAF has certain responsibilities for oversight of the GASB, which are expressed in the FAFs By-Laws. Section 2 of the FAF By-Laws state that "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."

The FAF Board of Trustees have delegated certain responsibilities to its *Standard-Setting Process Oversight Committee* (Oversight Committee), whose purpose is to "conduct, on behalf of the Board, ongoing oversight and evaluation of the adequacy, transparency, independence, and efficiency of the standards-setting processes employed by the FASB and GASB (Standards Boards) in establishing and improving financial accounting and reporting standards." The Committee Charter also states that in exercising its responsibilities, "the Committee may not direct the Standards Boards to undertake or to omit to undertake any particular project or activity or otherwise affect the exercise of their authority, functions, and powers in establishing and improving financial accounting and reporting standards."

We are concerned that the proposed requirement for approval by the Oversight Committee and the FAF for certain projects, before they can be placed on the GASB's agenda, would significantly interfere with the GASB's due process and consequently impair its ability to independently set accounting and reporting standards that it determines, through due process, are appropriate to meet the needs of users of general purpose external financial reports. Also, it seems to conflict with the provisions of the FAFs By-Laws and the Committee's Charter that are discussed above. Under the proposed changes, it appears that the FAF could decide that a project should not be initiated even if the Board closely followed its due process procedures and the project was supported by the Board's various constituencies, including users, preparers, and auditors. In addition, it is unclear why this issue is perceived to be unique to GASB, as asserted in footnote 4, as FASB could consider projects beyond traditional historical financial statements in Group 1, as defined in the proposal.

Further, we are concerned that the proposal would impair the FAF's oversight of the GASB. Under the proposal, the FAF and the Oversight Committee would become an integral part of the GASB's due process. This would seem to create a significant conflict of interest and impair the FAF's ability to objectively and effectively provide the oversight over the GASB's due process to which it is charged. In essence, the FAF would be in a position of overseeing its own actions.

While we do not believe that our position hinges on the interpretation of the term "jurisdiction," we are concerned that the proposal equates "jurisdiction" with "scope of authority" which appears to expand the term beyond its meaning in the Trustee's By-Laws. Section 1 of the By-Laws states that the FAF Trustees 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. However, the definition of "jurisdiction," when that clause in the FAF's By-Laws was initially written appears to refer to the entities over which the GASB and FASB standards apply. When the GASB was being established, questions arose as to the respective entities that would be under the "jurisdiction" of GASB and FASB. The FAF assumed responsibility for resolving disputes over jurisdiction authority between the FASB and GASB. Such use of "jurisdiction" is referenced in several documents, including GASB Statement 62 and its related release notice and in FASB's SFAS 99. They in turn refer to other documents, including (1) the "Agreement Concerning the Structure for a Governmental Accounting Standards Board " issued in 1984, and (2) the Jurisdiction Determination issued in 1989, in which "the trustees of the Financial Accounting Foundation reaffirmed the 1984 jurisdiction agreement which established the GASB's status as the standards setter for all state and local governmental entities.

The jurisdiction agreement distinguished those entities that would follow GASB standards from those that would follow FASB standards." The Jurisdiction Determination was intended to settle concerns expressed at the time over which Board had jurisdiction over certain special entities (e.g., colleges and universities). Further, interpreting "jurisdiction" to equate to "scope of authority" would, as noted above, seem to directly conflict with the provisions of the FAFs By-Laws and the Committee's Charter, whereas interpreting it to relate to the entities over which the GASB and FASB standards apply would not.

We thank you for considering our comments on these important issues.

Sincerely yours,



Steven J. Sebastian,
Managing Director
Financial Management and Assurance

