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**United States Government Accountability Office
Washington, DC 20548**

September 30, 2013

GASB Scope
Financial Accounting Foundation
401 Merritt 7
PO Box 5116,
Norwalk, CT 06856-5116

Dear FAF Trustees:

Subject: *GASB's Scope of Authority: Consultation Process*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Financial Accounting Foundation's (FAF) request for comments on *GASB's Scope of Authority: Consultation Process*. Under the revised proposal, the Trustees of the FAF would decide if certain information is within the Governmental Accounting Standards Board's (GASB) scope of authority. We appreciate the FAF's efforts to address comments received on the original proposal.

The independence of the GASB 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 continue to have concerns that the revised proposal, if implemented, would impair both the independence and oversight of the GASB.

The revised proposal appears to continue to include the Oversight Committee and the FAF as part of the GASB's due process. Under certain conditions, the GASB would be required to obtain the approval of the Oversight Committee and perhaps the FAF to proceed with the inclusion of certain types of information in the scope of its projects. For the reasons expressed in our comments in the original proposal, we continue to have concerns that inclusion of the Oversight Committee and the FAF in the due process of the GASB would significantly interfere with the Board's due process and consequently impair its ability to independently set accounting standards that it determines, through due process, are appropriate for users of general purpose external financial reports. We do believe it would be appropriate for the Oversight Committee and the FAF, as part of their oversight role, to determine whether the GASB appropriately followed due process in determining whether information was within its scope. Such due process would include developing

sufficient support for GASB's determination that such information sufficiently met the appropriate characteristics and was within its scope. It would also be important for the FAF to ensure that it has clear procedures and criteria for determining whether the GASB appropriately followed its due process, both for these determinations as well as other components of GASB's due process.

We agree that it is important to clarify characteristics for the GASB to use to determine, through due process, whether information is within the scope of its accounting standard-setting. However, we believe that it would be clearer to simplify the characteristics of information within the GASB's scope. Rather than specifying separate characteristics for Groups 1, 2, and 3, it would seem more appropriate to use one set of characteristics that should be considered by the GASB in determining whether information is within its scope. The 4 characteristics listed on page 12 seem to be reasonable and appropriate criteria to consider. For information that meets some, but not all 4 of the characteristics, it would seem appropriate that GASB would be expected to develop a more substantive analysis of why it believes the information should be considered for inclusion in a GASB standard. Also, it seems that if none of the 4 characteristics are met, the GASB would determine that it would not be appropriate to include such information in its standard-setting process.

We support a three-year assessment of the impact of any changes on the effectiveness and efficiency of the GASB, and on the independence of the GASB's standard-setting process. However, to ensure objectivity, we strongly encourage the FAF to use parties independent of the FAF and GASB to perform such an assessment.

In addition, we do not believe that the revised proposal clarifies why the same processes should not also be applied to the Financial Accounting Standards Board (FASB). Footnote 6 asserts that it applies only to the GASB, but it seems that similar limits on authority would exist for the FASB, even though they may not be currently present. As noted in that footnote, both the GASB and FASB regularly consider information issues that may reflect on their authority to issue accounting and reporting guidance.

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

Sincerely yours,

A handwritten signature in black ink, appearing to read "Steven J. Sebastian". The signature is written in a cursive, flowing style.

Steven J. Sebastian,
Managing Director
Financial Management and Assurance