

I fully support the Governmental Accounting Standards Board's ("board") recent Preliminary View to require the preparation of financial projections. A key tenet of a well-functioning capital market system is robust, transparent, and timely disclosure. This proposal would aid investors in addressing that basic tenet. While I agree with the board's preliminary view that this is essential information, I disagree with the inclusion of the financial projections as required supplemental information ("RSI"). I strongly believe that the financial projections should be a basic financial statement subject to the same implementation rigor and oversight as the current basic financial statements and the notes.

Our firm strongly considers the financial reporting practices of a municipality in evaluating new bond purchases as well as existing client holdings. I have had analytical responsibility for coverage of municipal bonds since 1999. Since that time, we, in the analyst community, have experienced the reporting requirements spawned by GASB Statement 34. One of the dimensions of the new reporting requirements under that standard was the creation of Management's Discussion and Analysis ("MD&A"). Hopeful that this reporting would emulate the SEC reporting requirement for publicly held corporate entities (registrants), the analyst community was encouraged that written communication about a municipality's financial condition, changes in financial condition and results of operations would be provided. Additionally, authorship of MD&A was to reside with the party (municipal financial management) most knowledgeable of the reason(s) for any changes. Initial reports provided some insights but appeared to be less robust than those provided by the examples in GASB's guides. In the ensuing years, many reports contained language that either appeared to be copied from the prior year or that was "boilerplate" from other statement issuers. Additionally, there was a tendency to provide "elevator" (this went up, that went down) reporting versus a clearly articulated rationale for why a change occurred. Finally, many municipalities ceased to attempt to prepare an MD&A upon learning that an unqualified opinion was obtainable from the external auditor without its inclusion. If the "spirit" of the MD&A section was to enhance a reader's understanding of the municipality's financial condition, changes in financial condition and results of operations, then the breadth and depth of this written analysis should have increased substantially during the Great Recession. However, the actual result appears to have been a decline in the insights provided to statement readers.

I believe that one of the reasons for this unintended consequence is MD&A's treatment as RSI, which results in a significantly lower level of review by the external auditor than that required of a basic financial statement. In my experience, it appears that a heightened review by the external auditor tends to drive a greater level of rigor in the statement preparation process. Evidence of this is contained in GASB's implementation guide. The depth and breadth of guidance required to implement the Other Post Employment Benefits (Statements 43 and 45) is significantly greater than that of the Statistical Section (Statement 44).

In conclusion, I strongly support this new reporting initiative and would encourage the board to reconsider its placement in the financial statement hierarchy in order to allow for evolution into a more valuable statement and to avoid the unintended consequences that occurred with Statement 34, MD&A reporting. Thank you for the opportunity to respond.

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