June 22, 2020

Mr. David Bean, Director of Research and Technical Activities
Project Number 3-34
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Submitted via email to director@gasb.org

Dear Mr. Bean:

Thank you for the opportunity to provide these comments regarding the proposed Concepts Statement of the Governmental Accounting Standards Board (GASB, the Board), Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements (ED, the ED). I commend the Board for recognizing the concept of “essential” in paragraph 36 of Concepts Statement No. 3, Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements (Concepts Statement No. 3) has been interpreted in different ways and for reconsidering the essentiality criterion. In addition, I appreciate this opportunity to respond to the ED. My comments reflect my views as a former government finance officer and recently retired academician who was responsible for teaching undergraduate and graduate level courses in governmental accounting and auditing.

General Comments

Paragraph B3 notes one of the primary findings of the pre-agenda research related to the length and complexity of note disclosures. I find it amusing the ED proposes nine paragraphs to replace the five existing paragraphs relating to financial statement notes in Concepts Statement No. 3. Overall, however, I believe the proposed changes may reduce diversity in applying the concept of essentiality to note disclosures.

In light of the above mentioned research finding and my own anecdotal evidence, I believe the qualitative characteristic of understandability should be elevated to a concept for purposes of note disclosures. For example, certain information relating to pensions and other post-employment benefits (OPEB) may be essential to users making economic decisions about a government. However, much of the currently required information is not understandable even to “responsible” users of governmental financial statements. I believe the usefulness of pension and OPEB information is diluted because it is not understandable.

Specific Comments

Paragraph 7 and Paragraph 11

Based on my reading of the comment letters posted as of June 20, 2020, it appears a number of respondents take issue with (b) in paragraph 7 relating to “…making economic, social, or
political decisions…” Paragraph 76 of Concepts Statement No. 1, *Objectives of Financial Reporting* (Concepts Statement No. 1), clearly states “…financial reporting should provide information to assist users in … (b) making economic, social, and political decisions.” In addition, I believe the objectives of “financial reporting” in paragraphs 77-79 of Concepts Statement No. 1 provide clear direction to the Board when establishing accounting and financial reporting standards as has been evidenced the past 23 years.

Paragraph 8

I support adding (c) noting users of notes to the financial statements are responsible for “applying relevant analytical skills”. However, I am concerned this could lead to additional required types of marginally verifiable nonfinancial information in order for users to apply “relevant” analytical skills.

Paragraph 10

In paragraph 10 (a), the word “government’s” has been used instead of “reporting unit’s” which is currently used in paragraph 37 of Concepts Statement No. 3. Whether the proposed language of “reporting units” in paragraph 13 remains in the final concepts statement or not (see comments below), it seems the language used in paragraph 10 (a) should be consistent with the language in paragraph 13.

I agree with the addition of item (c) in paragraph 10 relating to generic general or educational information being in appropriate for financial statement notes. In light of the stated responsibilities of a user of the notes, such generic discussions should be unnecessary. Additionally, keeping this type of information out of the notes is likely to reduce the amount of information disclosed which addresses the findings of the pre-agenda research.

Paragraph 11

Based on my personal experiences with credit and other financial analysts, I have great concerns regarding the characteristic of essential discussed in part (b). In my experience many analysts ask for all kinds of information which they may or may not use or that may or may not ultimately be relevant to their analyses. Personally, I believe if an analyst is asked in pre-agenda research if they would utilize proposed information they would say “yes” whether or not they would ultimately use the information.

Relying on feedback to be provided in the standards-setting process could also be ineffective in the case of proposed information requirements. Respondents to exposure documents may not always have experience with the underlying accounting or financial reporting requirements being proposed. As such, they may not offer comments relating to proposed note disclosures or agree with the proposals even though they do not fully understand the cost and/or benefit of the proposed requirements.
Paragraph 12

I do not agree that evaluating evidence at the individual items of information is the most appropriate means to identify which items of information are essential. In my opinion many of the items of information required to be disclosed today reflect decisions at the individual item level. This in turn has led to extremely lengthy notes which are in some cases reporting duplicative or very similar information. Again, looking at the results of the pre-agenda research, many participants believed the current note disclosures were lengthy and complex.

As an alternative, I believe the overall usefulness of a note disclosure in the aggregate should be considered when evaluating the essentiality of the information to be disclosed. Using an individual item approach, for example, might have resulted in the requirement to provide the net pension liability sensitivity analysis. However, looking at pension disclosure requirements in the aggregate, users might have concluded sufficient information was disclosed without including the sensitivity analysis.

Paragraph B17 clearly states the Board will exercise “professional judgment” when evidence of use or potential use for a proposed not disclosure may not be conclusive. However, this distinction is not clear from the wording in paragraph 12 leading financial statement preparers and their auditors to conclude this is a judgment they would make. I realize the purpose of concepts statements is to provide guidance to the Board in the standard setting process and because of this there should not be any confusion with paragraph 12 as it is currently written. However, I would encourage the Board to consider clarifying the language to avoid confusion among financial statement preparers, auditors, and users.

Paragraph 13

Like other respondents, I am concerned with reporting units being the level of detail in the notes rather than something more aggregate such as “government” or “primary government”. However, I realize due process could affect the level of disclosure ultimately adopted for any future disclosures.

I am particularly concerned with additional note disclosures that may be required for discretely presented component units. In reality, management of the primary government may have little control over the financial reporting of its discretely presented component units. Additionally, the auditor of the primary government may not be the auditor of any or all discretely presented component units. As such, I do not believe the benefits of such information would exceed the costs of obtaining and reporting it.

Paragraph 14

I agree the cost-benefit considerations of note disclosures should be evaluated separately from and in addition to the cost-benefit considerations of the related accounting or financial reporting requirements. As currently written, however, paragraph 14 does not state this very clearly. In my opinion, the Board should consider the revision proposed in the response of the NACUBO as I believe it clarifies the Board’s intent.
Concluding Remarks

As always, thank you for the opportunity to respond to this due process document. Should you have any questions regarding the above, please contact me at (321) 277-1536 or lkmdennis@gmail.com.

Sincerely,

Lynda M. Dennis, CPA, CGFO, PhD