March 6, 2015

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Project No. 3-13P

Comments Regarding Preliminary Views  Financial Reporting for Fiduciary Responsibilities

Dear Director:

Thank you for the opportunity to respond to the Preliminary Views (PV) on Financial Reporting for Fiduciary Responsibilities. This letter serves as the Illinois Government Finance Officers Association’s (IGFOA) Technical Accounting Review Committee’s (TARC) response to this PV.

The TARC has reviewed and discussed this PV and would like to offer several comments and suggestions:

In summary, TARC is generally supportive of the views articulated in the PV and the views which articulate improvements to the current reporting of fiduciary funds and agency funds.

TARC, however, is concerned that the PV would result in the reporting of deferred compensation plans (such as 457 or PEHP plans) as a fiduciary fund and questions the appropriateness of this if that is the intent. For example, In Chapter 2, paragraph 8 you explain that the “…Board’s preliminary view is that a government controls assets in a fiduciary capacity if those assets are (a) used by the government (or its assignee) to provide benefits to specified or intended beneficiaries and (b) have a present service capacity that can be (1) used; (2) exchanged for another asset, such as cash; or (3) employed in any other way that provides benefits”. In Chapter 3, the PV expands on what constitutes a fiduciary or a fiduciary responsibility for financial reporting purposes. In paragraph 8, you explain that the “…Board’s preliminary view is if the government is not directly responsible for administering the exchange of the assets, it would nevertheless be considered to have sufficient responsibility for administering the exchange of assets when it has the ability to do all of the following: make decisions about the types of assets held, assign the responsibility for those decisions and reassign the responsibility for those decisions,

TARC would like clarification in a scenario where an employer offers a 457 plan to employees and:

   a. the full cost of the plan is borne by the employee,
b. the employee makes their selection from a menu of choices (employer has discretion to change the investment options offered, within the range of investment options the 457 provider offers),
c. the employee determines any changes in contributions
d. employer could elect to change 457 providers which could result in a change in investment options.

Would such a plan constitute a fiduciary responsibility for the government with the resulting financial reporting responsibility in their basic financial statements under this PV? We could not ascertain in reviewing the PV whether such a plan would be a paragraph 10 b or c, meaning a column 2 or 3 situation. We also looked to paragraphs 20 and 21 for clarification, in particular the last sentence in paragraph 21. Does the determination hinge on the government’s ability to force employees to move to a different provider? It is not unheard of for a government to change 457 plan providers, yet making the determination of fiduciary responsibility hinge on that happening did not seem to be consistent with the stated objectives of this project.

Given these questions and the nature of most deferred compensation plans TARC does not believe that the level of control over assets that most governments have with these types of plans elevates the reporting of these plans to the level of a fiduciary fund by virtue of it being a fiduciary activity. TARC also notes that many deferred compensation plans do not provide the regular reporting of information to employers that would be necessary in order to account for these plans. In addition, the information necessary to properly report changes in net position may not be present or may be summarized in more general categories. Further these plans do not represent assets available to the government to fund any services they provide. Nor do they represent any further obligation of the government, if they prove to be inadequate for the employee’s retirement needs, unlike a pension plan where a government may have further funding obligations should the resources available prove to be insufficient.

TARC also believes that the time and cost to local governments of reporting on these activities would outweigh the expected benefits of providing this information to financial statement users and preparers. GASB’s pre-agenda research on this topic (Chapter 1 Paragraph 7 and 8) showed that there was little interest in new requirements for reporting additional types of fiduciary activities.

TARC has thoughtfully considered this PV and this response and appreciates the opportunity to provide feedback. If you have any questions or require further information, please contact me at (630) 897-8228 x225 or via email at bhannah@vil.north-aurora.il.us

Sincerely,

Bill Hannah
Chairperson, IGFOA Technical Accounting Review Committee