March 25, 2015

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board (GASB)
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB or the Board) on the Preliminary Views document (PV) entitled Financial Reporting for Fiduciary Responsibilities (Project No. 3-13P) which was issued on November 11, 2014. The FMSB is comprised of 24 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The PV document presents the Board’s initial views on what it believes are the primary issues associated with reporting of activities in which a government has a fiduciary responsibility. In brief the PV document states that a government is a fiduciary and has a fiduciary responsibility when it controls assets from (1) a pass through grant, (2) in accordance with a trust agreement or equivalent arrangement in which the government is not a beneficiary or (3) for the benefit of individuals, organizations or other governments that are not part of the reporting entity. The PV further defines what is meant by the term control of assets. The FMSB has reviewed this PV and has a general concern regarding the PV document as well as some specific concerns regarding specific matters covered by the document.

Overall, the FMSB found the PV document to be difficult to decipher in some aspects and unclear in certain areas. As a result, the members of the FMSB had a difficult time following how the concepts proposed in the PV differed from the accounting standards currently employed. The FMSB felt that the PV (as well as any future exposure drafts on this topic) would benefit greatly from some examples that would illustrate areas of possible changes in reporting that would occur if the concepts in the PV were used instead of the existing standards. We also believe that a better summary should be incorporated into any future pronouncements on this matter. The lack of illustrations made it difficult for the FMSB members to see the applicability of the PV concepts in all circumstances. We suggest that the Board also consider, when issuing an eventual exposure draft, including practical examples that better illustrate the proposed changes. Furthermore, transition provisions should be considered for existing agency funds that would be reclassified to custodial funds. No mention is made of beginning balance restatements usually found in changes in accounting principle.

As the fiduciary project moves forward the FMSB has some concerns as to whether the benefits outweigh the costs and if all potential costs have been considered. It appears that some of the changes proposed by the Board may require changes to long-term contracts and trust agreements as well as to laws and regulations. We would hope that GASB also considers the implementation costs when developing the proposed standards and adjust the standards to gain the desired outcome with the least amount of effort to implement. These costs may be difficult to calculate, however they need to be fully considered.
results of the field testing will be very important and we recommend that the field tests include trustees, custodians and employers.

Following are our specific comments regarding the PV document which we hope GASB will keep in mind when drafting the future exposure draft on this matter.

Chapter 2

In reviewing paragraphs 3a-c, we believe the GASB needs to clarify the provisions of paragraph 3 to eliminate the use of double negatives. This would improve the readability of the standard and enhance user understanding. For example, paragraph 3. a. states that a fiduciary is subject to the guidance in the document unless they are a legally separate entity that meets the definition of a component unit AND that meets one of the criteria in paragraph 6a-c, should not apply the provisions of Chapter 3, however the component unit would be reported as a fiduciary fund in accordance with chapter 4 unless otherwise noted. This complex sentence should be clarified in future documents. We have the same concerns with the current wording in paragraph 4. In paragraph 3. b. we suggest the Board reference the applicable exposure draft (34-1P or 34-1NTP). GASB needs to consider developing a table or flow chart to demonstrate what activities and entities are in-scope or out-of-scope. As an alternative, GASB should consider moving flowcharts 1 and 1a closer to the topics covered in paragraphs 3 and 4 in any exposure draft. These add clarity to the overall PV.

In reviewing paragraphs 6 a-c, we suggest the matters covered in footnote 2e be incorporated into the criteria rather than left in a footnote. Specifically, we suggest that paragraph 6 c be revised as follows:

“For the benefit of individuals that are not required to be part of the citizenry as a condition of being a beneficiary, or organizations or other governments that are not part of the financial reporting entity. As used in this document, the term Citizenry includes not only the residents of general purpose governments but also the recipients of goods and services provided by business-type entities, such as a student in a public university or patient in a public hospital.”

Paragraph 21 - We agree with the Board’s preliminary views that a government determined to be a fiduciary has a fiduciary responsibility to report its fiduciary activities for financial reporting purposes. We suggest that readers be referred to the provisions of Chapter 4 to clarify relationships to fiduciary component units in accordance with paragraph 3a, where the Board of the fiduciary component unit acts as a trustee or administrator.

Chapter 3

Paragraphs 3 and 9 - We wish to complement the Board’s flowcharts associated with paragraphs 3 and 9. We found these flowcharts to be clear and concise.

Paragraphs 11-19 - We are pleased that the Board considered alternative approaches and resolved preliminary views with systematic and rational results. Indeed, there will be some structures that will attempt to obfuscate the provisions of paragraphs 11-19, but the view is written well to allow for that variability. We agree that the concepts of holding, controlling or parameter establishment are hallmarks of a fiduciary and therefore fiduciary reporting. Finally, Table 2 is easy to understand, with our knowledge that any final statement text must be read to fully comprehend what is contained in the table. We suggest that the Board remind readers to refer to the applicable text that underlies each cell.
Chapter 4

We agree with the concepts expressed by the Board that fiduciary funds should continue to report the fiduciary activities of a government in its basic financial statements and the classification should be based in part on the availability of a trust agreement or equivalent.

We also agree that pension (and other employee benefit trust funds,) investment trust funds and private-purpose trust funds should continue to be reported in accordance with the Board’s preliminary views, if the government is a fiduciary. We note there are some governments, especially states that may be sponsors of pension (and other employee benefit trust funds) that are reporting the entirety of the position and activity in plans, yet have no fiduciary responsibility for the plans. That responsibility is vested in the Boards of the plans. We would hope that the provisions of paragraph 8 would clarify this matter.

Paragraphs 13-20 - Though we agree on the concept of custodial funds, we believe that the accounting model has not been fully developed. We agree on the definition of a liability based on Concepts Statement no. 4. However, there is no discussion of deferred inflows of resources or deferred outflows of resources which are required reporting per paragraph 3 of the Chapter. Conceivably, both could be present in transactions involving government mandated nonexchange and voluntary nonexchange transactions that are remitted from or to another government currently accounted for in an agency fund may have deferred inflows of resources or deferred outflows of resources per paragraph 10 of GASB-65.

Paragraph 22 - We agree that custodial funds should report additions and deductions like other fiduciary funds and that this improvement shall improve reporting. However we are concerned that many governments may not be prepared for this sort of change in reporting. We would encourage the Board to focus on this section as part of its outreach in development of any exposure draft, especially any transition provisions.

Paragraphs 31-36- We agree with the Board’s preliminary views that a stand-alone Business Type Activity (BTA) also engaged in fiduciary activities has a fiduciary responsibility for financial reporting purposes and that a BTA’s fiduciary activities should be reported in separate fiduciary fund financial statements in its basic financial statements. We would encourage the Board to clarify that this is only for stand-alone BTA’s and not for BTA’s that are part of a primary government.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA’s staff liaison for the FMSB, at ssossei@agacgfm.org or at 518-522-9968.

Sincerely,

[Signature]

Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: William Miller, CGFM
AGA National President
Association of Government Accountants
Financial Management Standards Board

July 2014 – June 2015

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