March 25, 2015

Director of Research and Technical Activities  
Project No. 3-13P  
Governmental Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Dear Director of Research and Technical Activities:

We are pleased to provide our response to the Preliminary Views of the Governmental Accounting Standards Board on Financial Reporting for Fiduciary Responsibility (the PV). We applaud the Board and GASB project staff in their effort to bring clarity to the concept of fiduciary activities. However, we strongly encourage the Board to combine this project with the future reporting model reexamination project. We understand the Board is currently conducting pre-agenda research, exclusive of fiduciary reporting, to reexamine the financial reporting model, including Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. We are very supportive of this research and believe fiduciary reporting should be included within its scope.

Overall, we believe the reporting model today (e.g., basic financial statements) is too complex with the government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements. We also believe the proliferation of note disclosures has led to information overload for users that inhibits their ability to understand what is truly important in terms of financial position or inflows and outflows of resources. To this end, the research conducted for the PV does not appear to have addressed a fundamental question of whether it is appropriate to include fiduciary funds within the basic financial statements. One of the initial GASB staff research papers for the August 2013 board meeting explored relevant literature from other standard setters related to fiduciary responsibility. In addition to the GASB, the “Other Relevant Literature” cited in this paper included the Chartered Professional Accountants (Canada), the Australian Accounting Standards Board, the Financial Reporting Council (United Kingdom), the Federal Accounting Standards Advisory Board (US), and the Financial Accounting Standards Board (US). This discussion of Other Relevant Literature considered the notion of who is a fiduciary and who has a fiduciary relationship in those other financial reporting frameworks, but does not appear to have put it in context with how fiduciary activities are reported in those other financial reporting frameworks. To our knowledge, no other financial reporting framework in the world reports fiduciary activities as financial statements within the basic financial statements.

The remainder of our letter provides our comments to the PV assuming the Board proceeds with this project.
Reconsider Conceptual Underpinning of Fiduciary

We are concerned with the conceptual underpinning of fiduciary to the notion of control, which is included in the definition of an asset in GASB Concepts Statement 4, *Elements of Financial Statements*. Specifically, assets are defined as resources with present service capacity that the government presently controls. However, this definition appears to be intended for assets in which the government utilizes the present service capacity for its own purposes, not for assets held in a fiduciary capacity.

We are also concerned with the ability to apply the concepts of holding and administering consistently in evaluating whether control exists for purposes of reporting fiduciary activities. The term administering seems to be a vague concept that could be interpreted in many ways. In the PV, it states: “Administering the assets being held may include activities such as investing and ultimately disbursing those assets for their intended purposes. Not all aspects of the administering process are applicable to all fiduciary activities”.

Specifically, in evaluating the level of responsibility for administering the exchange of assets, we found it particularly difficult to determine whether certain circumstances, such as a deferred compensation plans, fall under category 2 (assigned and can reassign the responsibility for administering the exchange of assets) or category 3 (no responsibility for administering the exchange of assets, but can establish parameters for those who are responsible). We found that many additional words were needed to clarify the delineation between category 2 and category 3 in the examples included in the PV. We understand that in the Board’s research the concepts of holding and administering were either directly or indirectly included in guidance of the Chartered Professional Accountants (Canada) and the Federal Accounting Standards Advisory Board (US). However, the guidance in those financial reporting frameworks is primarily in the context of considering whether trusts should be excluded from the financial reporting entity. We are concerned these criteria will be problematic in properly identifying and reporting all fiduciary activities.

We also believe these criteria will result in the exclusion of many defined benefit pension and OPEB plans that today are reported as fiduciary funds.

Simplify Definition of Fiduciary

We found the definition of a fiduciary in paragraph 6 of Chapter 2 to be confusing. Specifically, the introduction of a filter in paragraph 6a to eliminate pass-through grants from the potential reporting as fiduciary activities seems contrary to the objective of establishing positive criteria for defining fiduciary activities (instead of defining what is not). We understand that a conflict arose between the criteria in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and the notion of level of responsibility for
administering the exchange of assets in the definition of a fiduciary. Paragraph 5 of GASB Statement No. 24 introduces “administrative involvement” and “direct financial involvement” to distinguish between pass-through grants that should be recognized as revenue and expenditures or expense of the primary government and pass-through grants that should be recognized as assets and liabilities only (agency) funds. In essence, the terminology in GASB Statement No. 24 is in direct conflict with the original definition of fiduciary and could have potentially resulted in preparers thinking that most pass-through grants should be reported as fiduciary activities (when the government has administrative or direct financial involvement in the program). If the board continues to believe it is appropriate to evaluate whether a government is a fiduciary based on the concept of control using the criteria of holding and administering, we recommend the Board revise the criteria in GASB Statement No. 24 instead of including a filer in paragraph 6a of the PV.

Additionally, we believe the criteria in paragraph 6C (e.g., a government is a fiduciary if it controls assets that are for the benefit of individuals that are not required to be part of the citizenry) is confusing and may lead to inconsistent application in practice. First, it does not seem logical the term citizenry would apply to recipients of goods and services provided by the government. Second, the term citizenry has many connotations that we believe will be difficult to consistently interpret. We recommend the Board retain the language from the current standards, which requires that resources cannot be used to support the government’s own programs. We understand the potential conceptual flaws that were discussed in the GASB staff paper for the April 2014 board meeting. However, we believe this concept is well understood today and could be enhanced with some additional fencing built around it that would facilitate consistent application in practice.

Retain Agency Funds

Overall, we strongly agree with the Board’s preliminary view that the classification of fiduciary activities within a particular fiduciary fund should be based on the presence or absence of a trust agreement or equivalent arrangement. We also are very supportive of the use of the new custodial fund type to account for certain circumstances in which a trust agreement or equivalent arrangement does not exist. However, we are concerned about the use of custodial funds in circumstances where resources are held for a relatively short time and for which the government does not have responsibility for administering the exchange of assets (e.g., category 4). These types of transactions today are reported as either a gross up (e.g., asset and liability) in the statement of financial position, or within an agency fund. We believe there is no significant benefit to users in the requirement to report inflows and outflows for these types of transactions. We recommend the Board consider retaining the agency fund type for reporting resources that are held for a relatively short period of time and for which the government has no responsibility for administering the exchange of assets.

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If you have any questions or need additional information about our comments, please contact Mr. Jeffrey Markert at 212-909-5306 or jmarkert@kpmg.com.

Sincerely,

KPMG LLP