August 31, 2021

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Dear Board and Staff:

The Public Pension Financial Forum (P2F2) is pleased to have the opportunity to respond to the Governmental Accounting Standards Board (GASB) Project No. 32-1, an Exposure Draft (ED) of a proposed statement for Accounting Changes and Error Corrections an amendment of GASB Statement No. 62.

P2F2 was formed in 2004. The purpose of this organization is to promote excellence in public pension plan financial operations, provide educational programs of current interest to the membership, promote the exchange of ideas concerning financial operations and reporting between public pension plans, and to foster sound principles, procedures and practices in the field of public pensions related to the financial operations of such plans. Membership is open to any finance employee of a public pension who supports the purposes of P2F2. The organization currently has 350 members representing 125 employee benefit plans, offering defined benefit, defined contribution and hybrid plans.

We would like to thank GASB for considering public comments to this ED and believe public comments are an integral part of the process to determine accounting and financial reporting standards and related authoritative guidance.

We believe the creation of a dedicated statement for accounting changes and error corrections has inherent benefits compared to this guidance being included in GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Many of the explanations in the ED that define error corrections; changes in reporting entity, changes in accounting principles and changes in accounting estimates are helpful to understanding the proposed standard. In regards to the ED’s definition for a change in accounting principle, we ask the GASB to consider including actual examples to illustrate what might constitute a change in accounting principle. The GASB might consider including similar language found in GASB Statement No. 62, paragraph 68 which states “Changes in accounting principle are numerous and varied. They include, for example, a change in the policy for determining which short-term, highly liquid investments will be treated as cash equivalents.”
We agree that the adoption of a new accounting principle should only be permitted if the newly adopted principal is preferable to the accounting principle before the change. However, we disagree with requirement in paragraph 16 of the ED that requires the restatement of prior periods to report a change in accounting principle. Given the overall costs of preparing financial statements and supplementary information to comply with existing pronouncements, we believe this requirement may inadvertently cause some preparers to forgo changing to a preferable accounting principle if the existing accounting principle is merely “acceptable” due to the costs involved with analysis, accounting system enhancements, and/or external vendor services to accommodate some restatements.

Additionally, we believe the complexity involved with accounting for certain fiduciary activities requires professional judgement to conclude one accounting principle is preferable over another. In practice, different professionals inevitably arrive at different conclusions about whether one accepted accounting principle is preferable to another due to the amount of factors involved in the decision making process. As a result, we believe the decision to restate prior periods or prospectively report changes in accounting principles must be based on professional judgement rather than the “one size fits all” approach in the ED. Our understanding is that GASB Statement No. 62 paragraph 77(a) requires “prior periods included for comparative analysis to be presented as previously reported” for governmental and proprietary funds. We believe the new standard should provide an option for fiduciary funds as long as a there is a note disclosure that explains the change in accounting principle, an estimate due to the change and the fact the change is being recognized prospectively.

Governmental post-employment plans have incurred significant costs due GASB Statements No. 67 and 74, as well as, costs related to providing information to affiliated employers in a multiple-employer arrangement to assist them with their reporting requirements under GASB Statement No. 68 and 75. We are very concerned about the ED’s requirement to restate prior period financial results for the required supplementary information (RSI) schedules. Current pronouncements require these schedules for pension and OPEB plans to contain (or to eventually contain) ten years of reported information. In a multiple-employer arrangement, information in these schedules are utilized by hundreds or even thousands of participating employers to produce their ten year RSI schedules. We question the cost-benefit of restating certain prior period information due to an error correction pursuant to paragraphs 35-36 in the ED; which could include up to ten years of historical information. We respectfully ask the GASB to consider various scenarios specific to post employment benefit plans that involve restating ten years of information. We kindly ask the GASB to consider the various internal costs (i.e. staff time, accounting system development) and external costs (i.e. revised actuarial reports, revised custodian bank reports, audit costs) that would be required in each scenario. Additionally, we feel it’s important to mention there could be instances where restating periods requires the entity to resurrect the required information from a legacy application that is no longer used due to a system conversion. We believe this would likely add significant additional costs in preparing a restatement. We support the notion of providing users of financial statements relevant multi-year trend information and believe this is a critical aspect of financial reporting for pension and OPEB plans. However, we kindly request the GASB to consider realistic test cases involving restatements with a focus on (1) the level of detailed financial records that need to be available to facilitate a prior period restatement and (2) the length of time records must be retained to comply with this aspect of the ED. We also respectfully request the GASB to consider the number of years the IRS and other Standard Setters have set for record retention as it assesses the cost/benefit of this aspect of the proposed standard to assess whether the implied record
retention requirements in the ED is an industry outlier. Due to the costs involved with preparing a restatement, we feel there are instances where restating periods to be consistent with periods presented in the financial statements and referencing the related note disclosure strikes the best balance between preparers and users of financial reports.

We are concerned about the ED’s disclosure requirement in paragraph 22(b) involving a change in methodology employed in the determination of an estimate. In regards to determining the fair value of investments, post-employment plans can own thousands of investments and typically receive valuation services from independent third party pricing vendors through their custodial bank. GASB Statement No. 53, paragraph 105 recognizes that some valuation methods are considered proprietary by pricing vendors and there is an absence of uniformly available information. As a result, preparers sometimes have limited information to meet the requirement in paragraph 22(b). We kindly request the GASB to consider whether this reporting requirement can be relaxed when a pricing service is providing estimates for the investment.

The P2F2 Board of Directors has not taken a position on any of the remaining aspects of this Exposure Draft.

Again, we appreciate the opportunity to comment on this project. Should you have any additional questions regarding these comments, please feel free to contact our organization by emailing Lawrence Mundy at lmundy@copera.org.

This response was prepared by a collective effort of the P2F2 Board. By our e-mail submission, the P2F2 Board of Directors substantially agrees with the views in the form presented in this response. However, there are some areas where one or more P2F2 directors may have a slightly different perspective which will be shared with the Governmental Accounting Standards Board in their systems' separate responses to the proposed revision.

Sincerely,

P2F2 President