



Missouri State Employees' Retirement System

Letter of Comment No. 147  
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TO: GASB Director of Research and Technical Activities  
(Via e-mail to [director@gasb.org](mailto:director@gasb.org))

FROM: Gary Findlay

SUBJECT: Project No. E-34 – Pension Accounting and Financial Reporting

DATE: October 10, 2011

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This is in response to the following question presented regarding the proposed changes in accounting and reporting standards for public pension plan financial activity:

Do the proposed changes improve comparability, transparency, accountability, decision-usefulness, and inter-period equity?

At the highest level, the following simple test can be applied in assessing whether application of the proposed changes would constitute an improvement with respect to each of those five outcomes. Specifically:

Would the changes stemming from implementation of the proposals result in financial statements that increase or decrease the potential for misleading inference?

In my opinion, the proposed changes would have the very unfortunate impact of significantly increasing that potential in each of the stated areas of interest. I base that opinion on close to four decades of direct involvement in the advocacy of sound funding and financial reporting practices by and for public employee retirement arrangements. I am firmly convinced that if changes had been proposed which would have decreased the potential for misleading inference they would have been embraced by industry professionals who are desirous of improvements and fairness in pension plan accounting and financial reporting. However, the opportunity to pursue those ends does not appear to be on the table.

As I understand it, the Board is not interested in anything other than possible minor modifications to the proposal. The fact is that the theories underlying the proposal are so fundamentally flawed from real world and practical application perspectives that nothing short of starting over would produce a reasonable end result. Accordingly, it appears that the challenges facing report preparers will be (i) the development of MD&A explanations of why employer financial statement representations of pension expenses and liabilities should be patently disregarded and (ii) the production of alternative disclosures that get at the real heart of the matter.

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Given that the genesis of the GASB was preservation of fairness in accounting and reporting by public sector defined benefit plans, the Board's current direction is both astounding and sad. Users of public sector financial reports deserve better.

If you are interested in a constructive alternative to your proposals and actual improvements in the current standards, I would volunteer to assemble a group of authorities who I believe would be able to present the Board with a viable product in fairly short order. If that offer is of no interest to the Board, please just go ahead and issue the statements and bring this painful exercise to a conclusion. Concluding it now would at least allow those who are knowledgeable about these matters to focus their attention on something more productive like determining how to best cope with the mass confusion that is undoubtedly going to ensue.