



February 20, 2020

Ms. Kathleen Casey, Chair
Financial Accounting Foundation
401 Merritt 7
Norwalk, CT 06856-5116

Dear Ms. Casey:

Our organizations, representing state and local governments, wish to express our strong concern over governance issues that led to the Financial Accounting Foundation's (FAF's) recent selection of a private sector representative to be the next chair of the Governmental Accounting Standards Board (GASB).

A number of governance issues that emerged during this appointment process give us grave concern. Further, we believe the intent and spirit of the 1984 agreement creating the GASB between the government organizations and the FAF were disregarded.

States, as sovereign governments, have the authority to determine accounting and financial reporting standards in their respective jurisdictions. This is a responsibility that states take very seriously. After operating under a different governance model for many years, states granted this responsibility to the GASB under the general oversight of the FAF in 1984. Just as the Securities and Exchange Commission (SEC) has authority to override the Financial Accounting Standards Board (FASB) and set standards for publicly traded entities, state governments have similar authority to override GASB for themselves and other governments within their jurisdictions. Simply stated, the auditing profession's self-governance notwithstanding, GASB gets its authority from the states.

The FAF's decision regarding the new GASB chair is historic, unprecedented and of great concern to state and local governments for several reasons, most notably:

1. The diversity and composition of the GASB was unilaterally and fundamentally changed. In July 2007, the Board of Trustees established a Special Committee on Governance Review to reexamine the overall structure, effectiveness, and efficiency of the governance processes of the FAF, FASB, and GASB. After a period of due process where feedback was received from 59 respondents, the FAF concluded in its 2008 report that the size and composition of the GASB should **not** change. However, in 2020, with no due process and no consultation with state or local governments, the FAF decided to fundamentally change the GASB's composition.
2. For the first time in GASB's 36-year history, the chair will not be a representative of state or local government. GASB sets standards for state and local governments. Would it be appropriate for a representative from government to chair the FASB? We do not believe so, nor do we believe the

FAF would consider this appropriate. How then did the FAF consider it appropriate that the GASB chair not come from the public sector?

3. The government trustees on the FAF were outvoted by the non-government trustees on an appointment to the GASB. It is telling that the FAF trustees with the best understanding of state and local government were unanimously opposed to the unilateral action; yet, their private-sector colleagues were willing to disregard their experience-based judgment. With only three of 18 trustees representing government, it is now clear that oversight of the GASB is controlled solely by the non-government trustees.

A long-standing provision in the FAF bylaws that provided the three government trustees with meaningful input over GASB appointments states that:

“Whenever candidates are being considered for appointment to the GASB, the Governmental Trustees then serving on the Board of Trustees shall serve as ex officio members (to the extent not already members) of the Appointments and Evaluations Committee (or any such successor committee) in respect of such appointments, and the Appointments and Evaluations Committee shall not recommend a particular candidate or candidates to the Board of Trustees for appointment to the GASB unless at least two Governmental Trustees shall not object to such candidate or candidates being recommended.”

However, the next sentence in the bylaws, which was added by the FAF in 2008, states:

“The foregoing shall not be deemed to limit the power or authority of the Board of Trustees to appoint to the GASB any individual possessing the qualifications prescribed in Section 2 of Chapter A, Article IV of these By-Laws who it determines appropriate, whether or not such individual receives a recommendation from the Appointments and Evaluations Committee.”

This change in the bylaws proved to be critical in the case of the recent GASB chair selection. The government trustees exercised their two-thirds authority at the Appointments Committee level by rejecting the private sector candidate only to have the selection elevated to the full Board of Trustees where a similar provision does not exist. As a result, the government trustees were outvoted by the non-government trustees. A private sector representative was selected as GASB chair over the strong objection of the government trustees. This leads us to conclude that the government trustees no longer have a meaningful voice in the selection of GASB members or in the oversight of GASB.

This is not the governance model that state and local governments agreed to in creating the GASB in 1984, and it is certainly not what the founders envisioned as fair and equitable oversight.

We would like to further discuss our concerns on these important governance issues with the leadership of the FAF. Please contact Chris Morrill, GFOA, at (312) 977-9700 or Sherri Rowland, NASACT, at (859) 276-1147 to arrange for this meeting.

Thank you,



Tim Storey
Executive Director
National Conference of State Legislatures



David Adkins
CEO and Executive Director
Council of State Governments



Matthew D. Chase
Executive Director
National Association of Counties

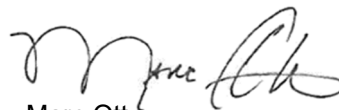


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President
National Association of State Treasurers



Terry Stone
President
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cc: John Auchincloss, Acting Executive Director, FAF