



July 21, 2022

Kathleen L. Casey, Chair, FAF Board of Trustees
John W. Auchincloss, Executive Director, FAF
401 Merritt 7
Norwalk, CT 06856-5116

Dear Ms. Casey and Mr. Auchincloss:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, the Government Finance Officers Association and the National Conference of State Legislatures, we appreciate the opportunity to respond to the Financial Accounting Foundation's draft strategic plan. We also request and would greatly appreciate a consultation meeting with the Board of Trustees to further discuss the strategic plan.

Overall, we support the FAF's mission, vision, and values as set forth in the draft strategic plan. The draft plan contains laudable goals to maintain a robust, independent standard-setting process and continuously improve financial reporting.

Our general observation is that there are differences in financial reporting considerations for the Governmental Accounting Standards Board and the Financial Accounting Standards Board which are not fully captured and acknowledged in the strategic plan. To us, the plan seems better suited for oversight of private-sector accounting standard setting than for overseeing the standard setting applicable to U.S. state and local governments, for which accountability for public resources is paramount, and a cornerstone of our democratic and federal system of government.

The nature of activities, identities of stakeholders (e.g., the importance of oversight bodies in government in addition to investors, and the overarching obligation of governments to be accountable to taxpayers and the public at large), needs of stakeholders, and resources of preparers differ widely between the two boards, despite the mutual goal of promulgating high-quality and relevant accounting standards. We recommend the FAF, with input from FASB and GASB, determine the strategies most important and applicable to its stakeholders to ensure the final strategic plan is equally effective for both of the boards the FAF oversees. Moreover, the FAF should explicitly acknowledge the extent to which a goal more closely aligns with the objectives of an individual board when the goal is tailored to an individual board and its stakeholders.

We offer several additional specific comments below for the FAF's consideration in finalizing its strategic plan.

Our Values, Independence with Accountability

The last part of the last sentence "... we ensure the Boards commit to amend, improve upon, or revisit previous decisions as new information and perspectives emerge" could give the reader the impression that the FAF directly impacts the standard setting process. In its oversight role, it is appropriate for the FAF to ensure that the FASB and GASB commit to revisiting previous decisions when circumstances change or new information becomes available, but specific standard-setting

action is required to amend or improve upon previous decisions. We suggest the FAF consider removing "amend or improve upon" from the sentence.

Goal #2: Ensure financial accounting and reporting standards evolve

We believe there are some opportunities to tie this goal more effectively into the FAF's mission by expanding the goal and related objectives to address all stakeholders (in addition to investors and other financial statement users) and to consider preparers' abilities to implement standards. While there is ample due process for the development of new standards where various criteria are debated, we believe timeliness and understandability should be core to the strategic evolution of financial reporting. Reduction, consolidation, or simplification of accounting standards improves timeliness by alleviating capacity challenges, particularly for governmental preparers who have limited resources. Incorporating these considerations into the strategic plan will benefit all stakeholders by evolving financial accounting and reporting standards in a balanced and efficient way.

A common definition for the word "evolve" is to "develop gradually, especially from a simple to a more complex form." As moving from simplicity to more complexity would not necessarily improve the standards, we suggest replacing the word "evolve," with a phrase like "continuously improve" or "continue to adapt and improve."

Moreover, it is important that neither board enter into a cycle of constant reassessment and revision of standards based on an overly-broad interpretation of this goal. While GAAP can be endlessly tweaked for marginal improvements, this kind of "standards churn" is incredibly expensive for preparers and auditors. While continuous improvement is vital, changes should only be made when existing standards are clearly in need of revision to meet user needs and, of course, the benefits significantly exceed the costs of making changes. We recommend that the wording be adjusted to emphasize the value of consistency and the cost of frequent changes.

We strongly agree with the third objective to encourage the boards to use clear language in the standards and educational materials. However, we do caution the use of the term "encourage" in the draft plan as we consider it more important that the FAF reinforce and maintain its independence from the boards in the standard-setting process. We are concerned that "encouragement" may encroach upon each board's independent standard-setting process.

Goal #3: Incorporate new technologies to make the standard-setting process more effective and productive, from initial stakeholder input through the delivery and consumption of standards

The nature of the goal as titled and the information incorporated therein appear to relate to the internal operations of the FAF, GASB and FASB. However, the second sentence in the second objective appears to address external financial reporting by stating, "This discussion should include longer-term technology trends that expand the sources of information available to users of financial reports, and what resources we need to provide to enable the Boards to leverage these trends." We believe further refinement to the definition of the goal would be useful in clarifying the extent to which the goal is for internal operations, external financial reporting, or both.

Goal #4: Build on our commitment to greater diversity, equity, and inclusion

With regard to the FAF's commitment to increasing trustee diversity, we note that in recent years many governments have purposefully identified, supported, and used a more diverse group of municipal advisors, including many minority-owned firms. We suggest that you consider municipal advisors as a source of more diverse candidates for board of trustee positions. While the second objective of this goal addresses stakeholder outreach by the FASB and GASB, the other objectives do not address those boards.

We would encourage the FAF to recognize that the use of clear language in standards (a stated objective of Goal #2) will aid in making standards more accessible to a new generation of learners. Accordingly, this could also be identified as an objective for this goal.

Goal #5: Exhibit leadership in global financial reporting

We question the value of global convergence for GASB's standard setting. Consideration of international developments, and seeking opportunities for international convergence are not a high priority for government, where accountability to taxpayers and the general public is paramount in our system of governance, and there is a very limited international market for municipal bonds.

Goal #6: Engage with stakeholders, regulators, and Congress to determine the appropriate way, if any, for the organization to contribute to future sustainability reporting

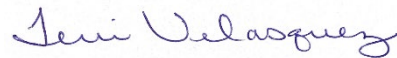
As the purpose of sustainability reporting significantly differs from financial accounting and reporting, we believe Goal #6 is outside the mission of the FAF. While it may be appropriate for the FAF to be engaged in conversations about sustainability reporting and what organization should be responsible for establishing applicable reporting standards, we believe it is outside the scope of authority for GASB to be directly involved in sustainability standards setting. Investors may find sustainability information useful in decision making, but we believe sustainability information should generally be separate from financial reporting. We would not support the establishment of sustainability reporting standards specific to state and local annual comprehensive financial reports.

We appreciate the opportunity to provide our comments, and look forward to the chance to meet to discuss this further. Please contact Kinney Poynter of NASACT and Chris Morrill of GFOA, at the numbers below, if you have any questions and, with regard to the possibility of scheduling a consultation.

Sincerely,



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