National Association of State
**Auditors, Comptrollers
and Treasurers**

NASACT

Headquarters Office
449 Lewis Hargett Circle, Suite 290
Lexington, KY 40503-3590
P (859) 276-1147, F (859) 278-0507
www.nasact.org

Washington Office
The Hall of the States
444 N. Capitol Street, NW, Suite 234
Washington, DC 20001
P (202) 624-5451, F (202) 624-5473

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Charles Cox
Daniel Ebersole
Nancy Kopp
Financial Accounting Foundation
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: GASB Jurisdiction

Dear FAF Government Trustees:

In its February 2014 *Point of View* document, PwC requested that the Governmental Accounting Standards Board and the Financial Accounting Foundation consider whether the use of standards from the Financial Accounting Standards Board by certain governmental businesses would be beneficial to investors. PwC points out that some entities that raise capital in the municipal securities market prepare financial statements using GASB standards while others report using FASB standards.

PwC indicates that the use of different accounting models results in different levels of financial statement transparency and a lack of financial statement comparability, particularly between government businesses (e.g., special purpose governments such as state universities, utilities, transit systems, etc.) and their private sector counterparts. As a result, PwC recommended that the FAF evaluate whether muni-market investors would be better served if a subset of governmental businesses used accounting standards promulgated by FASB rather than GASB.

This issue, commonly referred to as the "jurisdiction issue," has been debated and carefully reviewed in the past. In fact, jurisdiction was an integral part of the 1984 agreement between the FAF and the government organizations that created the GASB. It was considered again in 1989 as part of the GASB's five-year review process. The agreement reached in 1984 and reaffirmed in 1989 is clear – the GASB will establish standards for activities and transactions of state and local government entities, and the FASB will establish standards for activities and transactions for all other entities.

Some of the entities contemplated in the PwC document are not legally separate from the primary government. In those cases where the entities are legally separate, many are component units of the primary government and are presented with the primary government's financial statements. In many cases, the entities' operations are intertwined with the primary government. For example, one may subsidize the other, or entities may share governance structures. In other cases, they share pension obligations in some manner. A change in jurisdiction would result in one set of governmental financial statements that includes financial activity prepared in accordance with GASB and other components prepared under standards promulgated by FASB. We see this as an unworkable model.

NASACT firmly believes that the jurisdiction agreement should remain intact and does not believe it should change. The model has worked well for many years, and as PwC points out, recent standards issued by GASB, such as GASB Nos. 67 and 68 on public pensions, promote greater transparency of relevant information and will improve an investor's ability to compare financial statements prepared using GASB standards with statements prepared using FASB standards. The standards that will soon be issued on other postemployment benefits (OPEB) will further enhance transparency and comparability.

States have the sovereign right to establish accounting standards for themselves and their local governments. This responsibility was delegated to the GASB in 1984 under an agreement reached with the FAF. We would strongly object to any change to the basic principles of that agreement, including the jurisdiction of GASB's scope. In our view, if an entity is governmental, it should follow GASB standards.

If you would like to discuss this matter further or have any questions about our position, please contact me at (505) 955-1172 or Kinney Poynter, NASACT's executive director, at (859) 276-1147.

Respectfully,

James B. Lewis
President

cc: Terri Polley
President and CEO
Financial Accounting Foundation