



September 30, 2022

Mr. Alan Skelton
Director of Research and Technical Activities
Governmental Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Mr. Skelton:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED), *Certain Risk Disclosures*. We have several concerns with the proposed guidance and are providing the following comments that we believe the Board should consider.

The proposed approach appears to be a contradiction of GASB Concepts Statement 7, paragraph 10 which identifies "predictions about the effects of future events on future financial position" as the type of information not appropriate for notes to financial statements. The forward-looking provisions in the ED pose a burden on preparers and auditors to predict future outcomes. As a result, we do not believe this should move forward to a final standard without significant revision to the forward-looking aspect. However, if the Board moves forward with this approach, it would be helpful if the Board included its rationale in the Basis for Conclusions as to why this is an appropriate item for disclosure under Concepts Statement 7.

The proposed approach will likely lead to difficulty in auditing the information, as well as inconsistency in application and reporting of the proposed standard across different yet similar governments. The foundation for proposed disclosure requirements seems subjective in nature for the preparer. For example, the note disclosure requirements contained in paragraph 6 are built off references including "more likely than not," "at least reasonably possible" and "substantial effect." Although these references are established accounting terms, they require professional judgment in their application. We are concerned that the subjective nature of these terms, coupled with the long-term time frame, could make it difficult for independent auditors to opine on them and could lead to inconsistencies in application.

The Board should consider meeting the objective of providing government financial statement users with essential information about risks related to current vulnerabilities due to certain concentrations and certain constraints by making these required elements of Management's Discussion and Analysis (MD&A), as opposed to required financial statement disclosures. Specifically, this could be included in the existing MD&A section covering facts, decisions, or conditions that management is aware of that is expected to have a significant effect on financial position. Placement in this section would also alleviate some of our concerns related to auditability.

In addition to the general comments above, we have the following specific comments:



Paragraph 5

We request that the Board differentiate between self-imposed and externally imposed constraints and limit the disclosure requirements to externally imposed constraints. Internally imposed constraints, even those imposed at the highest-level, could be eliminated in dire situations, thus eliminating the need for “early warning.”

Paragraph 6.b.

We believe that the Board should establish a set timeframe instead of including the “shortly thereafter” provision. If the intent is to look out 15 months, the guidance should say “occur within 15 months.” However, once again we believe any disclosure should be in the MD&A section since the notes should be conditioned on events that have already occurred as of the financial statement date or as a subsequent event.

Paragraph 6.c.

In general, we are not opposed to disclosing information about concentrations and constraints occurring as of the financial statement date, or that arose in the subsequent event period prior to the issuance of the financial statements. However, we are concerned that the three-year period related to determining if there will be a substantial effect is too long of a timeframe to be meaningful. It seems too speculative and would be difficult to justify to an auditor; therefore, we believe the time frame should be shortened to one year. Additionally, it may be difficult for an auditor to be comfortable with the assumptions.

Paragraph 8

We believe the guidance in this paragraph could result in inconsistent application in practice. We believe that the focus should be on the primary government due to concerns with the ED that we have already voiced in our response. We also request that the Board revise the paragraph to more clearly convey what is required.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O’Ryan of NASACT at (859) 276-1147 or me at (217) 782-2211.

Sincerely,

Michael Frerichs
President, NASACT
State Treasurer, Illinois