

February 8, 2008



Ms. Teresa S. Polley
Chief Operation Officer
Financial Accounting Foundation
Email: tspolley@f-a-f.org

LETTER OF COMMENT NO. 37

Dear Ms. Polley:

On behalf of the Illinois Government Finance Officers Association, the Technical Accounting Review Committee (TARC) appreciates the opportunity to provide comments on the Financial Accounting Foundation's Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB and GASB.

Proposed Action 1: Expand the breadth of individuals and organizations that are invited to submit nominations for the FAF Board of Trustees with the understanding that final authority for all appointments rests solely with the Board of Trustees.

Comment: No objection to expanding the field of individuals and organizations that are eligible to submit nominations. With a concern not to liquidate the government organizational input, we recommend that the Government Finance Officers Association and the National Association of State Auditors, Comptrollers, and Treasurers continue to have the responsibility to nominate the candidates for three seats based on the input of the nine Governmental Nominating Organizations. To provide a check and balance process, we agree with the proposal that the final authority of all appointments rests with the Board of Trustees, but if nominees are rejected, the GFOA and NASACT would be able to offer alternative nominees and must be the ultimate source for the three governmental trustees.

Proposed Action 2: Change the term of service for Trustees from two three-year terms to one five-year term.

Comment: The committee felt that five-year terms were too long; it would be difficult to recruit interested candidates due to the longer time commitment. This also seemed to be inconsistent with the stated goals of needing to be more nimble to react to changes in the global market place. It is recommended to either keep the two three-year terms or go to three two-year terms.

Proposed Action 3: Change the size of the Board of Trustees from sixteen members to a range of fourteen to eighteen members.

Comment: We support this flexibility which is why we did not agree with proposed action 2.

Proposed Action 4: Strengthen and enhance the governance and oversight activities of the Trustees as to the efficiency and effectiveness of the standard-setting process.

Comment: The proposed increased governance and oversight role as proposed is broad and provides too much power to vest in the FAF. A more active role should be focused on the retrospective evaluation of the effectiveness and efficiency, including the cost benefit, of the standards after they have been issued. This could be accomplished by reestablishing the oversight committee (as mentioned in Dennis Beresford comments) or through the entire board. The effectiveness of the research staff at both FASB and GASB should be evaluated by the FAF Board. Currently this is only done by the Director of Research of the respective bodies. The FAF should also be reviewing research projects to make sure funding is going to proper areas. Why spend research time and funds were not appropriate.

Proposed Action 5 and 7: Reduce the size of the FASB from seven members to five. Realign the FASB composition.

Comment: The size or the composition of the Board is not the issue with FASB or GASB, but instead the limited research staff available to the Boards. The inadequacies in the number and quality of research staff diminishes both Boards ability to react efficiently and effectively to issues in the industries that they serve. We have little support for an academic on the board. The academic community should focus on supplementing the research staff (that is what professors do, research). In addition, if FAF is concerned about reacting to International Financial Reporting Standards (IFRS), reducing the Board from seven to five doesn't make sense. Instead, the Board should be kept at seven and fill the positions with members from the international/global community.

Proposed Action 6: Retain the FASB simple majority voting requirement.

Comment: With support of a seven member board, we also support a 5-2 vote. It would be difficult to say a standard with a 4-3 vote was generally accepted at the standard setting level.

Proposed Action 8: Provide the FASB Chair with decision-making authority to set the FASB technical agenda.

Comment: This would allow too much power in one position; Chair should not have the power to set the agenda without the vote of the rest of the board.

Proposed Action 9: Secure a stable mandatory funding source for the GASB.

Comment: The proposed action doesn't provide any suggested sources. To remain independent, state funding will not work. If the primary users of our financial statements are investors and creditors, then the most secure, independent funding source would be an SEC requirement that a premium of one to five basis points be placed on all tax exempt debt issued in the United States, paid by the investor (added on to the bid price, so as not to reduce the funding to the issuer). This would provide a consistent, independent funding source. As previously mentioned, we suggest and support additional funding for the research staff of GASB.

Proposed Action 10: Retain the current size, term length, and composition of the GASB.

Comment: We suggest the GASB should be comprised of five full-time members. In addition, accounting and financial reporting for not-for-profits should be shifted from FASB to GASB as FASB has historically ignored non-for-profits and more than likely will continue to do so in the future with the need to focus more resources on IFRS.

Proposed Action 11: Provide the GASB Chair with decision-making authority to set the GASB technical agenda.

Comment: We strongly oppose this action. The board needs to have this authority.

Additional Comment:

GASB has been unresponsive to comments on exposure drafts. For example, under GASB 45, governments are required to report implicit costs of retiree health insurance. During the draft stage, Illinois governments commented that by law they have to provide coverage to retirees and the same cost as the government pays for the active employees. The actuarial costs are expensive, especially to small governments, without any benefit since there isn't a liability to disclose that the Board made a decided upon.

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The IGFOA appreciates the opportunity to comment on the proposed changes and would be happy to discuss our comments with you at your convenience. You can contact me at 847-968-3223 or bmcleod@co.lake.il.us. Thank you.

Sincerely,

Bonnie M. McLeod
Chair, Technical Accounting Review Committee
Illinois Government Finance Officers Association