

LETTER OF COMMENT NO. 59

Edward J. Mazur, CPA 1700 Bayberry Ct., Suite 300 Richmond, Virginia 23226 February 22, 2008

Ms. Teresa S. Polley Chief Operating Officer Financial Accounting Foundation 401 Merritt 7 Norwalk, CT 06856-5116

Subject: Comments on Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB

Dear Ms. Polley:

It is a pleasure to provide you and the Trustees of the Financial Accounting Foundation (FAF) with comments and recommendations concerning proposed changes to the oversight, structure, and operations of the FAF, FASB, and GASB.

These comments are offered from the perspective of one who served for 10 years as a member of the Governmental Accounting Standards Board (GASB), until June 30th, 2007. During my tenure on the GASB, I met periodically with FAF Trustees to discuss progress in the development of standards applicable to state and local governments, and other matters pertaining to work and progress of the GASB. These comments also reflect understandings and experiences gathered during twelve years of service as State Comptroller of the Commonwealth of Virginia, and as Past-President of the National Association of State Auditors, Comptrollers, and Treasurers (NASACT). Comments provided are solely my own and do not reflect positions and opinions of any organization with which I am currently affiliated.

#### Nomination and Election of Trustees

Regardless of the ultimate Trustee nomination process employed by the FAF, it is vital that the Trustees have the clear right and responsibility to accept or reject any specific individuals nominated for membership on the Board of Trustees. That would necessitate amending current arrangements relating to Trustees candidates nominated by the NASACT, GFOA, and, on a rotating basis, from the Public Interest Group organizations.

NASACT has provided the GASB with the most consistent and sustained support of any organization. NASACT has participated vigorously in due process opportunities, appointed thoughtful and positive representatives to the Governmental Accounting Standards Advisory Committee (GASAC), and provided, without interruption, approximately \$1 million a year toward the financial support of the GASB since its

establishment in 1984. Because of this stewardship in the national interest, I recommend that procedures be amended to ensure that one government-related position on the Board of Trustees always be occupied by a representative of NASACT, whose credentials and experience are found acceptable by the Trustees.

I recommend that a maximum of two additional government-related Trustees be selected from among individuals nominated by the GFOA and the several Public Interest Group organizations, where the credentials and experience of individuals selected to serve in these positions are found acceptable by the Trustees. This approach would alter the current arrangement by no longer requiring the Trustees to accept the nominee put forward by the GFOA nor specifically reserve a Trustee position for a GFOA representative.

The basis for providing this increased flexibility to the Trustees derives from an attack on the independence of GASB that began in the fall of 2006 and continues to this day by an organization that possesses current authority to name a particular individual to serve on the Board of Trustees, and to name a particular individual to sit on the GASAC, and which has historically providing financial resources in support of the GASB. These three factors must be present for certain actions by an organization to qualify as an attack on independence. In my view, the FAF Trustees must have the flexibility to ensure that organizations that attack the independence of the GASB be prohibited from representation on the Board of Trustees until such time as such attacks cease and a position of support for independent standards setting is reestablished and publicized.

# Terms of Trustees

I concur with the proposal to permit Trustees to serve just one 5-year term. Given the complexity of issues and the need to sustain independent standard-setting in the United States, a Trustee's ability to exercise a long-term perspective should benefit the work of the Foundation

#### Size of the Board of Trustees

I endorse the proposed flexibility to have between 14 and 18 Trustees serve at a given time. However, I recommend that the Board make clear in its public minutes the basis for any change in the number of serving trustees and, further, to indicate its openness to considering future modifications to the size of the board if circumstances change.

## Governance and Oversight Activities

Based on the recent creation of a strategic plan for the FAF, and accompanying strategic plans for the FASB and GASB, it is very logical and appropriate that the Trustees would move to ensure that performance measures and benchmarks were developed. While the FASB and GASB currently provide considerable reporting of activities to the Board of Trustees, the upgrading of such reporting mechanisms to ensure that the Trustees have the highest level of assurance as to the efficiency and effectiveness of the standard-setting processes carried out by both units would seem appropriate and reasonable

## Size of the FASB

Having been invited to membership on the GASB at a time when the size of the Board was being increase from five to seven members, I have particular sensitivity to any changes in the size of standard-setting boards. I recommend that the Trustees exercise great caution and care in considering a reduction in the size of FASB from seven to five members. Despite savings from reduced Board member compensation costs and proportionate reductions in supporting research staff, I am concerned with the potential harm that such a reduction might visit on the quality of standards issued by the FASB. Perhaps one way the Trustees might resolve the issue of Board size would be to ask themselves the question, "what past standard would have been improved had the membership of the FASB been set at five rather than seven." Effectiveness and efficiency should be an objective for the FASB, but that effectiveness and efficiency can be greatly affected by the ready availability, or lack thereof, of different experiences, knowledge bases, and perspectives.

# **FASB Voting Requirement**

Continuing to require a simple majority vote of FASB to approve new standards is appropriate. The ability to issue "alternative views" in Exposure Drafts and to register and publish "dissenting views," in final standards provides adequate assurance that a standard has received adequate levels of approval.

#### FASB Composition

If the Trustees decide to change the FASB to a five-member unit, the recommendations for revised composition seem reasonable.

# Setting the FASB Technical Agenda

I oppose the recommendation to permit the FASB Chair to have decision-making authority for the Board's agenda. Although this might seem to endorse higher efficiency, it could, instead, breed disharmony and inefficiency among the members of the FASB. The ability to set an agenda based on achieving consensus among Board members is the preferable methodology to employ.

## **GASB Funding Source**

The GASB has been in existence for 24 years and has never had an adequate, independent, and stable source of funding; a clearly unacceptable circumstance. The GASB is not now, nor has it ever been, provided with the financial resources necessary to ensure that it had the capacity to address important reporting issues on a timely basis. Recent increases in the budget of GASB, as approved by the Trustees, are increases from a period of time, extending several years in length, when the budget of GASB was virtually frozen.

I recommend that the Trustees, in conjunction with the Chairman the Securities and Exchange Commission and Members of Congress, work to put in place a new fee to be applied on a mandatory basis to every state and local government bond issue, whether that issuance occurs on a negotiated or competitive basis. Further, I recommend that the Trustees endorse the creation, under the auspices of the SEC, of a central electronic repository to which would be deposited in the current comprehensive annual financial report of all state and local governments that have outstanding bond issues, and that there be a charge collected at the time those deposits of electronic files are made. These two sources could be set at a level that would provide adequate funding for the ongoing needs of the GASB. These arrangements would eliminate the need for experimental fund raising activities, such as those employed in recent years

# GASB Size, Term Length, and Composition

I wholeheartedly endorse the proposal to maintain the size, term length and composition of the GASB.

### Setting the GASB Technical Agenda

The GASB is a collegial body comprised of individuals who are knowledgeable in areas pertinent to the work of the GASB, and who have demonstrated considerable dedication to raising the level of state and local government accountability through strong financial reporting practices. The GASB Chair, who is the only full-time member, plays a vital leadership role in the work of the GASB. More than any other member of the board, he is in constant interaction with representatives of state and local government, auditors who serve such governments, and the users of state and local government financial statements. However, the other members of the GASB also maintain effective relationships with preparers, users, and auditors, and maintain a high level of understanding for the need to improve and strengthen financial reporting standards. Accordingly, I recommend that the Trustees continue to endorse the establishment of an agenda for the GASB that is based on the deliberations and attainment of consensus among the seven members of the Board.

Thank you for considering these comments and recommendations.

With kindest regards,

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Edward J. Mazur