

## **Policy Statement**

### **The Financial Accounting Foundation Board of Trustees Should Provide Governmental Trustees and State and Local Government Associations with Meaningful Input on GASB Appointments**

The Government Finance Officers Association (GFOA), on behalf of its 21,000 members, urges the Financial Accounting Foundation (FAF) to reform its appointments process to the Governmental Accounting Standards Board (GASB). The reforms should promote transparency and insure state and local government associations and the FAF governmental trustees have input into the selection of GASB members, as was provided for in the 1984 agreement creating the GASB.

#### **The Issue**

In December 2019 the private sector members of the FAF Board of Trustees overrode the unanimous opposition of its own Governmental Trustees in voting to appoint an individual with no prior service in government to be the incoming Chair of the GASB. This was an unprecedented decision that will result in the GASB not being led by a representative from state or local government for the first time in its history. The FAF, in not honoring the spirit of the 1984 agreement, has broken trust with state and local government associations who founded the GASB.

#### **Background**

The following background highlights are explained in more detail in the attachment.

- Under the US Federal system of government, the states have sole authority to establish accounting and financial reporting standards.
- The GFOA and other state and local government associations created the GASB in 1984, under general oversight of the FAF.
- The GFOA and states were significant funders of the GASB until 2010 when they supported more sustainable funding as part of the Dodd-Frank Act.
- The important role of the FAF governmental trustees has been diminished over time.

#### **Recommendation**

GFOA strongly supports reforms of Financial Accounting Foundation governance to promote transparency and insure the knowledge and expertise of the governmental trustees and state and local government associations are considered in any appointment to the GASB, particularly to the position of chair.

## **Background on FAF Governance Policy Statement**

### **State Authority**

Under the US Federal system, states, as sovereign governments, have sole authority to establish accounting and financial reporting standards for themselves and local governmental entities in their respective jurisdictions. The states chose to delegate this authority to the GASB in 1984. Under the US Constitution any state or states have the power to resume authority over government accounting standards.

### **1984 Agreement Creating the GASB**

With the agreement of GFOA (then known as the Municipal Finance Officers Association), the National Association of State Auditors, Comptrollers, and Treasurers (NASACT) and the “Big 7” state and local government associations,<sup>1</sup> the GASB was created to set standards for accounting and financial reporting by US state and local governments in 1984, under the general oversight of the FAF.

In this 1984 Agreement, three governmental trustees were added to the FAF, bringing the total number of trustees to fifteen<sup>2</sup>. The Agreement created the Government Accounting Standards Advisory Council (GASAC) primarily made up of representatives from state and local government associations. The GASAC was provided the authority to “review and approve those persons nominated by the Foundation to serve on GASB.”

The 1984 Agreement required a “mandatory review of the governmental accounting standards-setting structure after GASB has been in operation for approximately five years. The Foundation would have various choices of action following such a review. Among those choices [include]... putting GASB under an independent Foundation separate from the Financial Accounting Foundation.”

From its founding, the GASB Chair has always come from a background of government service. The states and local government associations have considered this a foundational qualification because it is important the GASB Chair have experience and understanding of the challenges faced by governments that must implement GASB accounting and reporting standards. This has served the GASB -- and state and local governments -- well for 36 years.

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<sup>1</sup> Council of State Governments; National Governors Association; National Conference of State Legislatures; National League of Cities; United States Conference of Mayors; National Association of Counties; International City/County Management Association

<sup>2</sup> Since 1984 three private sector trustees have been added to the board bringing the total number of Financial Accounting Foundation trustees to 18.

## **Funding of the GASB**

At its founding in 1984, the GASB was funded substantially by contributions from GFOA and the states. This sometimes caused concerns about the financial sustainability of the organization. To assist the FAF and the GASB, GFOA, NASACT and the states were instrumental in securing dedicated funding for the GASB in section 978 of the Dodd-Frank Act (July 2010).

## **Role of the FAF Government Trustees**

In 1989, at the five year review period, FAF oversight was allowed to continue. However, a major change in governance was adopted, replacing the GASAC's review and approval of FAF appointments to GASB with providing a substantial role for the governmental trustees in the GASB appointment process. This was done by amending the FAF bylaws with the following provision.

The Appointments and Evaluations Committee shall not recommend a particular candidate or candidates to the Board of Trustees for appointment to the GASB unless at least two [of the three] Governmental Trustees shall not object to such candidate or candidates being recommended.

The role of the governmental trustees was significantly diminished by the FAF in 2008 when additional language was added to the FAF bylaws:

The foregoing shall not be deemed to limit the power or authority of the Board of Trustees to appoint to the GASB any individual possessing the qualifications prescribed in Section 2 of Chapter A, Article IV of these By-Laws who it determines appropriate, whether or not such individual receives a recommendation from the Appointments and Evaluations Committee.

## **Concerns with FAF Governance of the GASB**

The FAF began its search for a new GASB chair in 2019. State and local government associations made it clear to the FAF that the tradition of the GASB chair coming from government was of primary concern.

Despite having qualified candidates with government experience, the FAF Appointments and Evaluations Committee nominated a finalist who, for the first time since GASB's founding, had no direct experience in government. The nomination was sent to the FAF board despite the objection of all three governmental trustees. The FAF Board selected the nominee with no government experience, overruling the three governmental trustees who were unanimously opposed to this unprecedented action.

GFOA and other state and local government associations were provided no input or consideration in the selection process other than being interviewed as one of many stakeholders before the search was launched. The GFOA and state associations were

informed of this unprecedented action by the FAF the day before it was publicly announced.