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Standards Watch

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By: Tom L. Allen, CPA

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Standards-setting is a delicate juggling act of trying to provide the best information to inform financial decisions while taking into account the natural resistance to change and the burden that falls upon those who are asked to provide and audit the newly desired information.

In the governmental environment, standards-setting is complicated by several factors, including the complex nature of governments and their financial statements, and the fact that few citizens, taxpayers and others affected by government fiscal decisions know how to read financial statements, or take the time to do so. Those desiring financial information about their governments usually rely on short media sound bites of information, demonstrating the crucial need for easily understood government financial reporting.

Sometimes, even those who already use financial statements are resistant to change. Several years ago, as I waited my turn to address a conference as the chair of the Governmental Accounting Standards Board (GASB), I listened to a speaker representing one of the large bond rating agencies. He shared his firm's experience of arguing strongly against the Financial Accounting Standards Board's (FASB) proposed changes to financial reporting by not-for-profits and private colleges and universities. He then delivered his presentation on how much better the information is under the new financial reporting requirements once his firm got used to the new reports. His presentation was one of the reasons I dissented from the GASB's proposed standard for government college and university reporting. That dissent position was strongly favored by due process feedback and later became the new standard.

Financial statement preparers who shoulder the burden of preparing the new information often are resistant to change. One of GASB's critical organizational challenges came years ago, as the position of the National Association of State Comptrollers (NASC) was that it would not prepare governmentwide financial information on a full accrual basis of accounting. As I remember, the war cry was "chop the top."

Later, under the leadership of J.D. Williams, JD, MPA, CGFM, and following an open two-day discussion of all interested state finance officials in March 1996,[1] the position of NASC was to do away with the reporting requirements in place at that time and require both governmentwide and fund reporting on a full accrual basis of accounting.[2] GASB's challenge then became to argue that fund reporting best provided information on cash flows/current resource flows and should be maintained rather than changed.[3]

The Federal Accounting Standards Advisory Board's (FASAB) structure lessens some of the standards-setting challenges I experienced at GASB, but increases and introduces others.

The other day, as I turned on the television, I caught part of Federal Reserve Chairman Ben Bernanke's presentation to the Cato Institute in Washington D.C.[4] During the question and answer session, he was asked how the Federal Reserve responds when its desired policy direction may be different than that of the current administration. He seemed to quickly understand the underlying meaning behind the question and immediately started defending his public expressions of concern with the country's long-term fiscal imbalance.

Unlike the Federal Reserve, FASAB has no policy position or intent to influence fiscal policy in any particular direction. However, FASAB does have a responsibility to ensure that the impact of the federal government's fiscal policy decisions is clearly and understandably reflected in its financial statements. FASAB's most important and most challenging standards-setting decisions in the foreseeable future will be to ensure that the fiscal impact of social insurance obligations are clearly and understandably reflected in the financial statements of the federal government. The magnitude of these obligations, in the trillions of dollars, are so great that, ironically, one of the arguments put forth against reporting them on the balance sheet and operating statement is that they are so large that they will dwarf the rest of the federal government's financial operations.

The 2006 preliminary views document highlighted the significant difference of opinion between the current administration and the nonfederal members of FASAB. The administration does not want social insurance obligations to be reflected on the federal government's balance sheet; nonfederal FASAB members want them included. Much feedback on this issue was received during due process, both in written form and public hearing testimony. Comments were divided between the two positions; feedback on other positions was heard as well. In this delicate juggling act of standards-setting, FASAB is exploring ways to meet its responsibility to ensure that the financial impact of the federal government's fiscal policy decisions are clearly and understandably reflected in its financial statements.

One of the primary ways in which FASAB is working toward this goal is through our project on fiscal sustainability. As I mentioned in the Fall issue,[5] the scope of the sustainability project is broad, focusing primarily on providing information to assist federal financial statement readers in assessing whether future budgetary resources of the U.S. government will likely be sufficient to sustain public services and to meet obligations as they come due. FASAB's sustainability reporting project is being accelerated in an effort to get meaningful information out to the readers as soon as possible to enable them to assess the potential future impact of current levels of spending and taxation. In my opinion, it is crucial that a report on sustainability reflects the amount of services that have been received against the amount of revenue that has been raised within a given generation and link to other financial reports of the government. Some of the challenges within this project include determining how to best report on this intergenerational shift of fiscal sustainability and dealing with the uncertainty caused by fiscal projections, including the inherent difficulty in reporting on projected expenditures that may change in the future.

In addition, within the project on social insurance, different formats for presenting the federal government's statements of position and results of operations are being explored along with alternative displays for essential information. There is considerable support for a highlights document that would showcase traditional financial information along with social commitments without saying one type of information is more important than another. The highlights document could then link to other financial statements to enable the reader to obtain additional information in any particular area of interest. I am confident that through the hard work of the FASAB members and staff and through the important due process procedures of gathering meaningful feedback from FASAB's constituents, FASAB will successfully meet its challenge of clear and understandable financial reporting for the federal government.

End Notes

1. "State comptrollers oppose GASB reporting model," *The CPA Journal*, July 1996, p. 9.
2. Williams, J.D., "Challenge of Change Requires Cooperation," *NASACT News*, February 1997, pp. 1–2.
3. "Despite opposition, GASB will issue reporting model ED," *Journal of Accountancy*, January 1997, p. 16. This article refers to the January 1997 release of exposure draft *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.
4. Chairman Ben S. Bernanke at the Cato Institute's 25th Annual Monetary Conference, Washington, D.C., November 14, 2007.
5. "FASAB Takes a Closer Look at Fiscal Sustainability," Tom L Allen, *Journal of Government Financial Management*, Fall 2007, pp. 8–9.

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