August 24, 2021

Mr. Alan Skelton
Director of Research and Technical Activities
Project No. 32-1
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Skelton:

Members of the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel have reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Accounting Changes and Error Corrections,* and are pleased to offer our comments. Overall, we support the Board's efforts to enhance accounting and financial reporting requirements for accounting changes and error corrections. While we generally agree with the proposed guidance, we do have three significant concerns that appear in the following section. Our remaining comments and recommendations are in the "Other Comments" section of the letter below.

<u>Significant Concerns</u>

Delete Proposed Guidance on Change in the Measurement Methodology

We recommend the Board eliminate the proposed guidance in paragraph 8 of the ED relating to a change in accounting estimate that results from a change in the measurement methodology. First, in discussing this paragraph, we struggled coming to consensus about what would be considered a new measurement methodology. For example, would a change in the index used by a pension plan to determine the 20-year, tax exempt general obligation municipal bond rate in accordance with paragraph 40a of GASB Statement No. 67, *Financial Reporting for Pension Plans* or a change in just one of several factors an entity uses to determine the allowance for accounts receivable be considered a change in the measurement methodology? The lack of definition surrounding what a new measurement methodology is will cause inconsistency in practice.

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Additionally, we believe the proposed guidance that the change be justified as preferable is unnecessary and lacks clear benefit, particularly in instances where GAAP explicitly allows multiple methodologies such as the three valuation approaches allowed to determine fair value under GASB Statement No. 72, *Fair Value Measurement and Application*. The subjective nature of a preferability assessment will make a change in methodology difficult to challenge, in practice.

If the Board does not accept our recommendation to delete this requirement, we suggest better defining the Board's intent for the types of changes that should be considered and providing examples of changes in measurement methodologies to, at a minimum, ensure a more consistent understanding of the types of accounting changes to which this guidance applies.

Changes in Fund Presentation Should Not be Subject to Certain Disclosures and Presentation Requirements

We agree with the provision in paragraph 9b that a change in the fund presentation as major or nonmajor should be considered a change to or within the reporting entity, but recommend that paragraph 9b not be subject to the requirements in paragraphs 24 and 31. While we agree that these types of changes should result in an adjustment to beginning net position, fund balance, or fund net position, as applicable, for the effect of the change, we believe the disclosures required by paragraph 24 and the display requirements in paragraph 31 may lead readers to conclude that this change is more substantive than simply a change in the government's reporting units, as contemplated in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Therefore, the disclosure required by paragraph 25 alone should be adequate to inform users of major or nonmajor fund changes.

Other Financial Reporting Requirements – Display in the Financial Statements

Paragraph 31 requires, for each reporting unit, the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position (as applicable) be displayed on the financial statements. We disagree with this display requirement and believe that the note disclosure requirements, as described in the ED, would provide adequate information for users to gain a clear understanding of the magnitude of the effects on the financial statements. Therefore, we recommend that GASB eliminate the financial statement display requirement proposed in paragraph 31 and only require note disclosure relevant to the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position (as applicable).

Other Comments

Clarification of Differences Between Types of Accounting Changes
We found the proposed guidance in paragraph 11 of the ED difficult to understand. Until reading the example in B12, we could not identify any situations where there could be both a change in accounting principle and a change in the financial reporting entity. We recommend, to provide clear and concise guidance, that the Board revise paragraph 11 of the ED as illustrated below:

> 11. Fund changes (for example, major or nonmajor changes; GAAP-based movement between funds such as the consolidation of activity into the general fund; etc.,) should always be considered a change in financial reporting entity, even in situations where the government has changed internal policies resulting in the fund reclassifications.

First Time Adoption of GAAP Needs Clarification
We support the concept in paragraph 14 of the ED that the first-time adoption of U.S. generally accepted accounting principles (GAAP) is neither an accounting change nor an error correction. However, we are concerned that some may mistakenly conclude that paragraph 14 is also intended to cover situations where an entity has previously been reporting in error using U.S. GAAP established by the Financial Accounting Standards Board (FASB) or situations in which an entity appropriately moves from FASB standards to GASB standards due to a change in the structure of the entity. Paragraph 14 should clarify that the types of changes that involve moving from FASB to GASB standards either due to a previous misapplication of GAAP or due to a change in governance structure would not be considered a first-time adoption of the U.S. GAAP financial framework.

Clarify Significant Change in Accounting Estimate
The guidance in paragraph 22 indicates a government should provide certain disclosures for each *significant* change in accounting estimate. While we are not asking GASB to define the term *significant*, we do recommend that GASB clarify from what perspective "significance" should be determined (e.g., entity as a whole or significant to the impacted change). For example, when changing valuation methodologies from the market to income approach, would significance be determined based on the impact to that particular investment or the impact to the entity as a whole?

Removal of Tabular Format Disclosure Requirement
Paragraph 32 indicates that when a government has a change in accounting principle, a change to or within the financial reporting entity, and/or an error correction the effects on beginning net position, fund balance, or fund net position (as applicable) should be disclosed by reporting unit in a *tabular format* that reconciles beginning balances as previously reported to beginning balances as restated. Although we agree that the effects on beginning balances should be disclosed, the Board should not require such a specific means of presentation. While displaying the information in tabular format may

be best in some cases, we believe that preparers should have the option of using other formats (e.g., a written explanation) depending on their facts and circumstances. Therefore, the Board should delete the requirement in paragraph 32 to display the information in a tabular format.

Provide Additional Clarification on Note Disclosures for Accounting Changes - Required Supplementary Information and Supplementary Information

Paragraph 37 states that when prior period information is presented in the required supplementary information (RSI) or the supplementary information (SI) and is not consistent with current-period information as a result of an accounting change, an explanation of why the information is not consistent with the current-period information should be provided. We are unclear about where this explanation would be provided. If the intent is for the information to be included in the notes to the financial statements, we would not support that approach due to the difference in the levels of audit assurance provided on the notes to the financial statements versus MD&A, RSI, or SI. If providing the explanation in the notes to the financial statements is not the intent, we suggest that GASB provide additional clarification that the explanation of why the information is not consistent should be located in the same place that the inconsistency is presented (i.e., in the MD&A, RSI or SI).

Effective Date Should be for Fiscal Years

As discussed in paragraph 38 of the ED, the proposed effective date of this Statement is for periods beginning after June 15, 2023. We believe the benefit of requiring governments that prepare interim financial statements to implement this Statement prior to their year-end will not outweigh the related costs. We recommend the Board revise the effective date from *periods* beginning after June 15, 2023, to *fiscal years* beginning after June 15, 2023. We also recommend that for future GASB statements the Board continue to use fiscal year end effective dates unless there is a specific reason for a statement to be implemented for interim reporting periods.

Request for Additional Examples and Illustrations

To be most useful to preparers and users of financial statements, we encourage GASB to include additional example illustrations beyond those already included in Appendix C. For example, if the Board retains the requirements to include the financial statement presentation for accounting changes and error corrections that have an effect on beginning net position (paragraph 31), the Board should illustrate the presentation. Additionally, illustrative note disclosures should be provided related to the reason for a change in accounting estimates that results from a change in measurement methodology, including why the method is preferable.

Reconsider Deletions from Codification
The ED indicates that paragraph .711-4 of Section D-40 and paragraph .741-2 of Section I50 are to be deleted from the Codification. We are unclear why these questions and answers are being deleted as we have found them to be useful to both preparers and users of financial statements. If the reason for the deletion is that they are now outdated, our preference would be for the Board to update the information rather than deleting the paragraphs from the Codification. Although we believe the answers would not change due to revisions in the proposed guidance, if the deletion is due to a change in the answer, it would be helpful for GASB to provide the justification in the basis for conclusions.

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The AICPA appreciates the opportunity to comment on the ED. This comment letter was prepared by members of the AICPA's State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,

Michelle Watterworth | Mary M. Foelster

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