AICPA

April 10, 2020

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 3-38
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

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), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32,* and are pleased to offer our comments. We generally support the Board's efforts to address, in category A of the hierarchy of generally accepted accounting principles, the appropriate treatment regarding potential component units where the primary government performs the duties that a governing board typically would perform (referred to herein as the "no board" scenario) and appreciate the burden relief it will provide. We also support the Board's efforts to improve the reporting of Internal Revenue Code Section 457 deferred compensation plans.

Our preference would have been for the Board to adopt a more conceptually pure solution that would have resulted in the exclusion of all defined contribution plans from being reported as a fiduciary activity unless the primary government has control of the assets. However, we generally support the approach taken in the ED as an interim step since it will have the immediate result of carving out from the scope of GASB Statement No. 84 many defined contribution plans and result in considerable burden relief. With that said, we do have several concerns and clarifications we believe need to be made as further described in our comments below.

**Specific Comments**

**Situations Where Defined Contribution Plan Reporting Will Continue**
Our understanding from paragraph 4 of the ED, related sections of the Basis for Conclusions, and discussions with GASB staff is that defined contribution plans will be reported as a fiduciary activity in any of the following 3 scenarios:

1. The primary government is controlling the assets.
2. There is a separate board, the primary government appoints a voting majority of the board, and the primary government is able to impose its will on the organization.
3. There is no board, or the primary government doesn't appoint a voting majority of the board, but both the fiscal dependency and financial burden component unit criteria are met.

As it relates to #1, we agree that defined contribution plans should be reported as a fiduciary activity when the primary government has control of the assets. However, for this to be consistently applied in practice, we recommend the Board more clearly explain how control is manifested. For example, does control exist when the sponsoring government selects the defined contribution plan administrator and a menu of investment options, but ultimately the participants make the investment decisions? What if the selection of investment options is the only function performed by the employer and the menu of investments is limited to only a handful of choices, or only two, or perhaps only one? Understanding how governments should apply the control criteria to common scenarios would be helpful to ensure a consistent understanding of this aspect of the standard.

As it relates to #2 and #3, we disagree that those scenarios should continue to be reported as fiduciary component units. However, we subsequently learned that this project would have required an amendment of GASB Statement No. 14, *The Financial Reporting Entity,* to exclude those scenarios. Therefore, we acknowledge and support this short-term solution, but encourage the Board to consider a longer-term project on this in the future (see our related comment below "Reopening of GASB Statement No. 14").

**Understandability of the ED**
We found the ED to require significant analysis to understand which defined contribution plans will be included and which will be excluded from the government's financial statements. For this reason, we are concerned that this standard, as currently written, will not be interpreted accurately and consistently. While we acknowledge it may not be the Board's normal practice, we recommend the Board develop a plain English document that consolidates the standards and implementation guidance in a manner that will be helpful to users to enhance their understanding of the requirements for reporting fiduciary activities.

**Unintended Consequences**
Paragraph 4 applies to all legally separate organizations with a "no board" scenario. While we are not aware of specific "no board" scenarios outside of the pension and other postemployment benefit plans arena, we recommend the Board consider whether there are other situations that may need consideration to ensure that this standard, issued to fix one problem, does not create another.

**Effective Date**
We were challenged to fully understand the effective date discussion in paragraphs 8-12 and the Basis for Conclusions. After reviewing the sections numerous times, our consensus view on what we believe the impact of the effective date will be is as follows:

- Question 4.6 in Implementation Guide 2019-2 will be superseded, and Question 4.5 will be amended to be effective immediately.
- Defined contribution plans and other employee benefit plans with no board will be carved out of the "no board" component unit criteria, effective immediately.
- Paragraph 7 of GASB Statement No. 84 will be amended to limit applicability to only trusted defined benefit plans, effective immediately.
- Paragraph 9a will result in paragraph 4 not being effective for defined benefit plans until reporting periods beginning after June 15, 2021.
- Paragraph 9b will result in paragraphs 6 and 7 becoming effective for reporting periods beginning after June 15, 2021.

Arriving at this conclusion was not easy, and we are still uncertain whether our analysis is correct. Assuming it is, we support the effective date provisions proposed by the Board. However, without further clarity, we believe there is the potential for the effective date provisions to be misunderstood. Therefore, we recommend the Board redraft the effective date section and consider an approach similar to our summarized description above to provide a more plain English explanation (see related comment above titled, "Understandability of the ED").

We also noted the effective date provisions refer to fiscal years as it relates to the provisions of paragraphs 6 and 7 and reporting periods for all other provisions. We are unclear as to the need for this difference and recommend the Board more fully explain this nuance, perhaps within the Basis for Conclusions.

**Reopening GASB Statement No. 14**
We recommend that on a longer-term basis, the Board give strong consideration to reopening GASB Statement No. 14 to address the remaining component unit criteria related to defined contribution plans that otherwise are not addressed in this ED. This recommendation is based on our belief that for situations other than when the primary government has control of the assets, the application of the remaining component unit criteria to defined contribution plans seems conceptually inconsistent with the exclusions offered in this ED.

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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,

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Chair
AICPA State and Local Government
Expert Panel

Mary M. Foelster
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cc: State and Local Government Expert Panel
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