



April 10, 2020

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 3-34
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), *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*, and are pleased to offer our comments. Overall, we appreciate this effort to enhance the concepts used by the Board when establishing disclosure requirements in financial reporting standards and also strongly support the underlying concept of essentiality for note disclosure. While we agree with many other aspects of the ED, we offer the following comments for the Board's consideration to ensure that the final conceptual framework is consistent in the level and content of disclosure.

Importance of Understandability

We recommend the Board directly address understandability in the conceptual framework for note disclosures. This is particularly important in light of the vast amount of explanation required for many existing note disclosures and likely for new disclosures going forward. While paragraph 6 of Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, states that the application of the concepts in the overall Concepts Statement should enhance understandability, we also suggest the Board emphasize the overarching concept of understandability specific to note disclosures in the final Statement. Such emphasis could be placed in paragraph 7 or at the end of paragraph 9 (after item 9d) and also encourage the use of plain English and avoidance of acronym use, etc.)

More Detail vs. General or Educational Information

We are concerned about what we perceive to be a contradiction between paragraphs 9b and 10c of the ED. Paragraph 10c states general or educational information that is not specific to the government is not appropriate for notes to the financial statements. However, paragraph 9b states that notes provide, "more detail or explanations of

amounts recognized in financial statements.” While some information in the notes, particularly in the reporting entity and accounting policies notes, may be educational in nature, it could also be viewed as necessary for putting specific information about the governmental entity in context and to explain or provide further detail about the government. We suggest the Board clarify the meaning of paragraph 10c to ensure there is a consistency in approach going forward when evaluating the need for and content of potential note disclosure requirements.

Disclosure Should Also be Objective and Verifiable

We support the concept in paragraph 10 of the ED that certain types of information are not appropriate for notes to financial statements. However, we believe the list of exclusions in this paragraph should be expanded to indicate that when information is not objective or verifiable it is not appropriate for disclosure. Disclosures that do not meet these criteria present challenges to both preparers and auditors.

Reporting Units and Disclosures

Paragraph 13 indicates notes, “at a minimum, should provide information that corresponds to the reporting units presented in the financial statements.” Our concern with this statement is that certain notes to the financial statements are not currently required by GAAP to be presented at the reporting unit level of detail; for example, the cash and investment disclosures. We believe some existing disclosures are more appropriately reported at an entity-wide level and anticipate the same may be true for future standards that emerge. Adding additional detail by reporting unit in some cases may serve to obfuscate the understandability of certain disclosures, rather than providing additional value to the reader. Therefore, we encourage flexibility to address the appropriate reporting unit disclosure considerations with each future standard.

Evaluating the Cost Benefit for Disclosures

We found paragraph 14 difficult to understand. Based on paragraph B19 in the Basis for Conclusions, we believe the Board’s intent in paragraph 14 is to explain that the cost and benefits of disclosing information in the notes to the financial statements should be considered separately from the accounting provided in the overall pronouncement when establishing disclosure requirements. We support this notion but recommend the Board reword the paragraph to provide more clarity.

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Mr. David Bean

April 10, 2020

Page 3

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,



Heather S. Acker
Chair
AICPA State and Local Government
Expert Panel



Mary M. Foelster
Director
AICPA Governmental Auditing and
Accounting

cc: State and Local Government Expert Panel
Angela Newell
Dan Noll