



**GASAC Meeting**  
**February 21–22, 2013**

**To:** GASAC Members  
**From:** Blake Rodgers, Michelle Czerkawski, Ken Schermann, and Kelly Amos  
**c:** Board Members, David Bean, GASB Staff, and Meeting Observers  
**Date:** January 28, 2013  
**Re:** GAAP Hierarchy Project: Major Tentative Decisions Reached by the Board

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## **INTRODUCTION**

The purpose of this paper is to provide the Governmental Accounting Standards Advisory Council (GASAC) members with background as to the Board's deliberations since the November 2012 GASAC meeting and to seek feedback from GASAC members on the major tentative decisions reached to date by the Board.

## **EVALUATING GUIDANCE IN THE COMPREHENSIVE IMPLEMENTATION GUIDE**

Given the Board's tentative decisions in previous meetings to expose the Comprehensive Implementation Guide (CIG) for public comment and to evaluate the guidance in the CIG prior to exposure, the Board discussed at the November 2012 Board meeting how to approach the evaluation of guidance in the CIG on an individual question-and-answer (Q&A) basis. The Board discussed characteristics of a Q&A that would be considered authoritative, nonauthoritative, or could be removed from the CIG. The Board discussed these characteristics along with a preliminary analysis of the Q&As in Chapter 2 of the CIG, noting that many Q&As exhibited all three characteristics. Because guidance in the CIG is authoritative in the existing GAAP hierarchy, the Board tentatively concluded that Q&As would remain authoritative unless one or more of the following is true:

- The answer **only** demonstrates the required or preferred accounting treatment in the form of a sample calculation, sequence of journal entries, and/or financial reporting

presentation (financial statements, notes to financial statements, supplementary information, and so on)

- The answer **only** provides guidance that is quoted verbatim or essentially rephrased from the standards section of the related pronouncement(s)
- The answer could be applied in a manner that is inconsistent with existing authoritative GASB literature without adding some clarification.

### **DISCUSSION QUESTION**

- 1. Do you agree with the Board’s approach to evaluating the individual Q&As in the CIG prior to its public exposure? Why or why not?**

### **EVALUATING APPROPRIATENESS OF NONAUTHORITATIVE LITERATURE**

At the January 2013 Board meeting, the Board reexamined paragraphs 5 and 6 of GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

5. If the accounting treatment for a transaction or other event is not specified by a pronouncement or established in practice as described in categories (a)–(d), a governmental entity should consider accounting principles for similar transactions or other events within categories (a)–(d) and may consider other accounting literature. A governmental entity should not follow the accounting treatment specified in accounting principles for similar transactions or other events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or other event or indicate that the accounting treatment should not be applied by analogy.

6. Other accounting literature includes, for example, GASB Concepts Statements; the pronouncements referred to in categories (a)–(d) of the GAAP hierarchy for nongovernmental entities if not specifically made applicable to state and local governmental entities by the GASB; Financial Accounting Standards Board Statements, Interpretations, and Concepts Statements; Federal Accounting Standards Advisory Board (FASAB) Statements, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Public Sector Accounting Standards of the International Public Sector Accounting Standards Board or International Financial Reporting Standards of the International Accounting Standards Board, or pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, GASB Concepts Statements would normally be more influential than other sources in this category.

There are a few differences between the current approach to nonauthoritative literature for state and local governments and the approach taken by other standards-setters. Other standard setters have introduced additional clarifications including:

- A statement that an accounting or financial reporting treatment chosen based on nonauthoritative guidance cannot conflict with or contradict authoritative GAAP
- The level of influence given to the conceptual framework
- Explicit references to qualitative characteristics of information in financial reporting.

Informed by the approach to nonauthoritative literature taken by other standards-setters as well as unique issues relevant to state and local governments, the Board discussed several alternatives for revisions to the discussion of nonauthoritative literature in the GAAP hierarchy for state and local governments.

### **Does Not Conflict With or Contradict Authoritative GAAP**

The International Public Sector Accounting Standards Board (IPSASB) and the International Accounting Standards Board (IASB) include a statement that the accounting or financial reporting treatment selected from nonauthoritative literature cannot conflict with their authoritative literature. While it may seem intuitive that an accounting policy could not be selected from nonauthoritative literature that contradicts authoritative guidance, the guidance in the existing GAAP hierarchy could be interpreted to mean that any appropriate nonauthoritative source could be used if the accounting treatment for a transaction or other event is not specified by an authoritative pronouncement. The Board tentatively concluded to propose the revision below to clarify that if a nonauthoritative source is used, it should not conflict with or contradict authoritative GAAP.

If the guidance for a transaction or event is not specified within a source of authoritative GAAP for state and local governments, a governmental entity should first consider accounting principles for similar transactions or events within a source of authoritative GAAP and then consider nonauthoritative guidance from other sources that does not conflict with or contradict authoritative GAAP. A governmental entity should not follow the accounting treatment specified in accounting guidance for similar transactions or other events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or other event or indicate that the accounting treatment should not be applied by analogy.

## DISCUSSION QUESTION

- 2. Do you agree with the addition of the phrase above to clarify that nonauthoritative guidance used to determine the appropriate accounting and financial reporting treatment for a transaction or event cannot conflict with or contradict authoritative GAAP? Why or why not?**

### The Role of the Conceptual Framework

The IASB has given their conceptual framework greater importance by requiring that nonauthoritative literature selected cannot conflict with the IASB's *Conceptual Framework for Financial Reporting*. The GASB, as well as the Financial Accounting Standards Board (FASB), the Federal Accounting Standards Advisory Board (FASAB), and the IPSASB do not require compliance with their respective conceptual frameworks when selecting an accounting treatment based on nonauthoritative literature. The existing GASB GAAP hierarchy for state and local governments uses the GASB Concepts Statements as an example of evaluating the appropriateness of nonauthoritative sources by stating that they would normally be more influential than other nonauthoritative sources. The FASB had the same example; however, it was removed in FASB Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*, to avoid any implication of a hierarchy within nonauthoritative literature and because the FASB felt that the example was not needed to clarify what is meant by the phrase, “the appropriateness of other source of accounting guidance depends on the sources’ relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority.”

The Board first considered whether compliance with the GASB Concepts Statements should be required in a manner similar to the IASB's approach; however, the Board believes that would create another level in the hierarchy and also acknowledges that, in certain circumstances, exceptions to the GASB Concepts Statements can be put forth in Statements if there is appropriate justification for the deviation. In addition, the issuance of a new Concepts Statement does not require immediate reexamination of all GASB pronouncements existing at that time

and, therefore, Statements issued prior to the issuance of Concepts Statements could be inconsistent with the Concepts Statements.

The Board then discussed how to appropriately express the importance of the consideration of the GASB Concepts Statements to the evaluation of the appropriateness of nonauthoritative literature. The Board believes that the existing language that refers to the GASB Concepts Statements as an example of nonauthoritative guidance that would normally be considered more influential does not provide clarity about their level of influence. Section IV.H.4.a of the GASB Rules of Procedure discusses the importance of GASB Concepts Statements in resolving accounting and financial reporting issues (emphasis added):

Statements of Governmental Accounting Concepts are intended to establish objectives and concepts that the GASB will use in developing governmental financial accounting and reporting guidance. They are intended to help **establish reasonable bounds for judgment in preparing and using financial reports**. Statements of Governmental Accounting Concepts **assist in resolving certain issues of governmental financial accounting and reporting that are not addressed in authoritative pronouncements**. They also enhance the assessment by users of the nature, content, and limitations of information provided by governmental financial accounting and reporting and thereby further the ability to use that information effectively.

The Board believes that the selection of an accounting policy based on nonauthoritative literature should be informed by the GASB Concepts Statements. Under this approach, alternative choices among nonauthoritative literature would be evaluated not only on relevance, specificity, and the authority of the author, but also for consistency with the Concepts Statements. The Board tentatively decided to propose a modified paragraph that would provide that governments should consider consistency with the GASB Concepts Statements when evaluating the appropriateness of a nonauthoritative source.

In evaluating the appropriateness of nonauthoritative literature, a government should consider ~~depends on its consistency with the GASB Concepts Statements,~~ its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. ~~For example, GASB Concepts Statements would normally be more influential than other sources in this category.~~

The revised wording would elevate the importance of the GASB Concepts Statements above other nonauthoritative literature by requiring them to be considered as part of the evaluation of nonauthoritative guidance, but would not require that the selected accounting or financial reporting treatment comply with the GASB Concepts Statements.

## DISCUSSION QUESTION

- 3. Do you agree with the Board's tentative decisions concerning the level of influence of the GASB Concepts Statements on the evaluation of the appropriateness of nonauthoritative literature? Why or why not?**

### Qualitative Characteristics and Prioritization

The IASB and the IPSASB both require that qualitative characteristics are considered when exercising judgment to develop an accounting policy for which no authoritative literature exists. While the FASAB guidance does not reference qualitative characteristics, it does require that the substance of the transaction be evaluated to determine if there is similar authoritative literature that can be applied by analogy before considering nonauthoritative literature. The existing guidance in paragraphs 5 and 6 of GASB Statement 55 does not mention substance over form or the characteristics of information in financial reporting identified in GASB Concepts Statement No. 1, *Objectives of Financial Reporting*. The Board tentatively decided not to explicitly identify the qualitative characteristics as it would be redundant should the Board continue with their tentative decision to include “consistency with the GASB Concepts Statements” as a consideration when evaluating the appropriateness of nonauthoritative literature.

The Board also discussed whether specific nonauthoritative sources, other than the GASB Concepts Statements, should have more influence than others. The Board believes that the determination of which source is more influential can vary depending on many circumstantial factors including the type of government, the specific issue in question, and the alternatives that are available. Thus, the Board tentatively concluded that the principle of evaluating the appropriateness of the nonauthoritative literature based on its consistency with the GASB Concepts Statements, its relevance, specificity, and authority of the author sufficiently describes how nonauthoritative literature should be applied.

## **DISCUSSION QUESTIONS**

- 4. Do you agree with the Board's tentative decisions regarding not explicitly mentioning the qualitative characteristics when discussing the evaluation of the appropriateness of nonauthoritative literature? Why or why not?**
- 5. Do you agree with the Board's tentative decisions regarding not elevating the influence of specific nonauthoritative literature above others with the exception of the GASB Concepts Statements? Why or why not?**
- 6. What specific nonauthoritative guidance are you aware of, if any, that is being applied in practice? Would that guidance continue to be used given the Board's tentative conclusions on how the appropriateness of nonauthoritative literature would be evaluated? Why or why not?**

## **INCORPORATION OF EXISTING TECHNICAL BULLETINS**

As discussed at the November 2012 GASAC meeting, the Board tentatively decided in October 2012 to discontinue the use of GASB Technical Bulletins and Interpretations. The Board also tentatively concluded that existing Interpretations would be incorporated by reference in a manner similar to the approach taken in GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*, to incorporate guidance issued by the National Council on Governmental Accounting (NCGA). Interpretations have the same authority as Statements in the existing GAAP hierarchy and, thus, the Board tentatively concluded that a reference to the existing Interpretations would be appropriate. However, the Board did not reach tentative decisions regarding the existing Technical Bulletins at the October 2012 Board meeting.

At the January 2013 Board meeting, the Board discussed several alternatives for incorporating existing Technical Bulletins into the highest level of GAAP and tentatively decided to incorporate them by reference in a manner similar to the approach taken in GASB Statement 1 to incorporate NCGA guidance, which is consistent with the tentative decision made for Interpretations in October 2012. The Board based this decision on the fact that Technical

Bulletins have been publicly exposed, they address a narrow scope of the issues, and they are already closely related to Statements.

**DISCUSSION QUESTION**

- 7. Do you agree with the Board's tentative decisions regarding the incorporation of existing Technical Bulletins into the highest level of GAAP by reference in a manner similar to the approach taken in GASB Statement 1 to incorporate NCGA guidance? Why or why not?**