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# Stakeholder conflict and standard-setting foundation oversight

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ABSTRACT

This study examines foundation oversight authority as a distinct tool used to maintain the accounting profession's delegated authority to set standards. Prior literature traditionally focuses on the standard-setting boards and technical arguments surrounding proposed accounting standards. We examine whether the Financial Accounting Foundation (FAF) can manage stakeholder conflict and legitimize contentious activity through exercise of its oversight role. The presented case is a qualitative analysis of the FAF's *GASB Scope of Authority* project, a rare public exercise of FAF oversight authority, in which the FAF applied its authority despite stakeholder disagreement on the line between oversight and standard setting. We observe the FAF's oversight of standard setting due process as opposed to the content of proposed standard setting projects. The policy formalizes private consultation at this blurred boundary to safeguard board autonomy and delegated authority. Implications and precedence for the FASB and other contentious accounting issues (e.g., deliberations around ESG reporting) are discussed.

## 1. Introduction

On June 11, 2007 founding stakeholders of the Governmental Accounting Standards Board (GASB) called for state and local governments to disband the GASB and transfer governmental accounting standards to the FASB (Ackerman, 2007; Hume, 2007; GFOA, 2007). Driving this dispute were a set of controversial GASB standards setting projects related to non-financial performance measurement and forward-looking financial projections. The Financial Accounting Foundation (FAF) criticized the Government Finance Officers Association (GFOA) proposal as prioritizing self-interest over the public good and highlighted this threat to independent accounting and reporting standards as "what the FAF is here to protect against" (DeSantis, 2007; Roybark et al., 2012b). Only six years later, FAF trustees would need to address growing stakeholder tension by revising the GASB's scope of authority.

The FAF imposed limits on GASB authority in November 2013, despite opposition from other stakeholder groups including former members of the Financial Accounting Standards Board (FASB) and of GASB, Deloitte, KPMG, the Government Accountability Office, the American Institute of CPAs, and the National Federation of Municipal Analysts. The policy at the heart of the debate, the *GASB Scope of Authority – Consultation Process*, places the FAF trustees in consultation with the GASB to decide topics considered for its agenda. Those opposed to the policy viewed such oversight as an infringement upon GASB independence and a dangerous precedent

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for the FASB. In this study, we examine arguments made around the GASB *Scope of Authority* project to better understand the mechanisms standard-setting foundations use to maintain standard-setting board delegated authority.

This analysis is timely, because standard setters face increasingly contentious questions (e.g., fair value accounting, credit losses, and deliberations around ESG reporting). Resulting conflicts between – and among – different stakeholder groups must be managed to ensure standard-setting outcomes are accepted as legitimate. Prior literature traditionally focuses on standard-setting boards as these bodies have the direct authority to promulgate generally accepted accounting standards. Discussion of standard-setting foundations, to the extent it occurs, focuses on appointment authority as the primary lever for board control (e.g., Mattli and Büthe, 2005a; Roybark et al., 2012a; Zeff, 2018).

Standard-setting foundations and boards operate with delegated authority and require legitimacy with their stakeholders to maintain that authority (Suchman, 1995; Deephouse et al., 2017; Richardson and Eberlein, 2011). Delegated authority varies with the institutional environment (Mattli and Büthe, 2005a). The GASB operates with less formal delegated authority than the FASB because the Securities and Exchange Acts of 1933 and 1934 exempt state and local government securities from federal regulation (SEC, 2007). In place of the SEC, a diffuse group of elected representatives and appointed officials delegate authority to the GASB as the accounting standard setter for state and local governments (SEC, 2007; Roybark et al., 2012a). The GASB must navigate these diverse stakeholder views, and when the sources of authority disagree, the FAF not the SEC, must manage conflict among the GASB's stakeholders.

Prior studies identify the FAF as a distinct, novel, and influential institution (Mattli and Büthe, 2005a; 2005b). This paper examines how the FAF manages stakeholder conflict and maintains standard-setting board legitimacy. In the face of stakeholder conflict, standard-setting boards typically leverage technical arguments (supported by conceptual frameworks) to overcome the competing preferences of stakeholder groups (Young, 2014). We document actions employed by the FAF to legitimize contentious activity and maintain necessary levels of stakeholder support.

We analyze FAF source documents relating to the *Scope of Authority* policy. Findings highlight stakeholder conflict resulting from a breakdown in engagement by the GASB as the driving force behind FAF introduction of the GASB *Scope of Authority* (FAF, 2013a). *Scope of Authority* established three groups of governmental financial information: "clearly in-scope", "unclear", and "clearly out of scope" (FAF, 2013b, 2). Critical to those opposing the policy, the FAF trustees must now be consulted before any standard-setting projects relating to "unclear" information can be considered for the GASB agenda (FAF, 2013a). Since adoption, the GASB has yet to raise a consultation request (FAF, 2017). However, this rare, public exercise of FAF oversight authority highlights mechanisms used by standard-setting foundations to manage stakeholder conflict and maintain legitimacy of the standard-setting boards.

A systematic review of documentary evidence indicates that the concept of oversight is loosely defined, with commenting stakeholders raising diverse – and occasionally conflicting – concerns. Stakeholders opposed to the FAF's original *Scope of Authority* policy expressed concern that FAF oversight could impair GASB independence. FAF oversight activity under the *Scope of Authority* framework seeks to ensure sufficient research, stakeholder engagement, and due process considerations for proposed standards. Standard-setting activity focuses on the content and implementation of proposed standards. We conclude that stakeholders opposed to the GASB *Scope of Authority* proposal were primarily concerned with actions of the FAF and their potential impact on the content of proposed and issued standards.

A common objection voiced throughout the *Scope of Authority* deliberations is the potential for FAF oversight of the GASB to set a precedent for the FASB. However, ongoing debate about fair value; credit losses, as well as environmental, social, and governance (ESG) reporting suggest continued controversy (Maurer, 2021; FAF, 2022). Our analysis identifies foundation oversight as a legitimizing tool to manage stakeholder conflict and contributes to the literature examining how standard setters retain their delegated authority from a public delegator (Mattli and Büthe, 2005b; Richardson and Eberlein, 2011). To our knowledge, our study is the first to directly identify the importance of foundation oversight, as opposed to nominations or funding mechanisms, in maintaining the legitimacy and delegated authority of the accounting profession.

The prior literature typically focuses on standard-setting board characteristics (e.g. Allen and Ramanna, 2013; Jiang et al., 2018), the economic consequences of accounting standards (e.g., Zeff, 1978; Chuk, 2013; Anantharaman and Chuk, 2018), influence of outside constituents (e.g., Larson, 2002; Bamber and McMeeking, 2016), and the factors commonly associated with stakeholder legitimacy related to standard setting (Durocher et al., 2019; Sanada, 2020). Our analysis complements research connecting board characteristics to the agenda-setting due process (e.g., Allen, 2018). FAF oversight is a novel element in the private pre-agenda phase for controversial GASB projects. Specifically, the revised FAF proposal exercises process oversight with respect to GASB stakeholder engagement during its pre-agenda phase. With this mechanism, the FAF formalizes private due process to maintain GASB legitimacy and preserves delegated authority from its stakeholders.

Our analysis documents the FAF's evolving oversight role as both a check on unilateral action by the standard-setting board, and a tool to maintain perceptions of balance and fairness within the broader stakeholder community. We conclude that FAF process oversight aims to maintain a broad base of political support for the GASB's delegated authority and increases the perceived legitimacy of proposed standards. This finding has direct implications for the process through which standards are promulgated (e.g., Young, 1994; Reither, 1997; Young, 2014; Pelger, 2016; Baudot, 2018) and the legitimacy of that process (e.g., Johnson and Solomons, 1984; Wallace, 1990; Fogarty, 1992). While prior literature has examined the FASB's use of technical arguments (e.g., Young, 2014) or due process (e.g., Zeff, 1978), the *Scope of Authority* policy identifies a formalization of the third element of the FAF's mission – oversight – as a tool used to prompt stakeholder engagement necessary to overcome political resistance.

In the next section, we provide a primer on the delegated authority of the FAF, FASB, and GASB and review related literature. Then, we explain our analysis method and present our case data analyses in sections 3 and 4. We discuss conclusions drawn from our analysis and implications for contentious accounting issues in sections 5 and 6.

## 2. Institutional background and prior literature

### 2.1. Institutional background on delegated authority in the United states

The United States Congress established the Securities and Exchange Commission (SEC) with a mandate to regulate capital markets and enforce the newly passed Securities Act of 1933 and Exchange Act of 1934 (Mattli and Büthe, 2005a; 2005b). Regulatory authority vested within the SEC includes the ability to set, monitor, and enforce financial reporting standards (Mattli and Büthe, 2005a). In 1938, the SEC delegated authority to set financial accounting standards to the private sector. Despite periodic challenges and controversy, the accounting profession has maintained that authority to the present day (Mattli and Büthe, 2005a).

Accounting standard setting is an archetypical example of an elected legislature delegating authority to a private agent (Mattli and Büthe, 2005a; 2005b). Drivers of delegated authority include a need to engage subject-matter experts (Epstein and O'Halloran, 1999) and desire to avoid direct responsibility for controversial action (Mattli and Büthe, 2005a). Systems of delegated authority are legitimized through acts of commission and omission by democratically-elected representatives and legislatively enacted public institutions (Coase, 1937; Williamson, 2000; Mattli and Büthe, 2005a). Organizations or individuals who act with delegated authority must work to maintain perceptions of legitimacy through actions observed to be, "desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, 574; Richardson and Eberlein, 2011; Deephouse et al., 2017).

Public due process is a longstanding tool for legitimizing accounting standards through opportunities for stakeholder participation and influence (Johnson and Solomons, 1984). However, an accounting standard setter's legitimacy is similar, but not equivalent, to the perceived legitimacy of a particular accounting standard (Baylin et al., 1996). Organizational design, such as dividing tasks between a standard-setting board and a foundation, exists to foster the structural and procedural legitimacy necessary to maintain autonomous, private rulemaking (Johnson and Solomons, 1984; Wallace, 1990; Fogarty, 1992). Extant studies examine the ways in which *standard setters* garner stakeholders' support (e.g., Young, 2014); or provide insight into factors influencing proposal, success, implementation, and the economic consequences of *standard setter* activity (e.g., Zeff, 1978; Larson, 2002; Bamber and McMeeking, 2016; Anantharaman and Chuk, 2018; Jiang et al., 2018; Durocher et al., 2019; Sanada, 2020).

Prior literature in accounting also examines the effects of standard setter characteristics (e.g., Jiang et al., 2018) and influence by outside constituents (e.g., Larson, 2002; Bamber and McMeeking, 2016). These factors are commonly associated with stakeholder legitimacy perceptions of accounting standards issued by the FASB and IASB (Durocher et al., 2019; Sanada, 2020). Much less attention has been paid to the role the FAF or standard-setting foundations play in maintaining the legitimacy of their respective boards. [1] One explanation for the limited analysis of FAF oversight is the rare public exercise of this authority over board standard-setting projects. While there is a trend toward more transparency, facets of standard-setting foundation activity are historically private.[2]

The current study employs delegated authority (Mattli and Büthe, 2005a, 2005b) and related legitimating mechanisms (Richardson and Eberlein, 2011) as theoretical lens used to examine the FAF as standard setting parent for the FASB and GASB. The FAF response to a recent GASB conflict with its stakeholders provides a rare opportunity to observe a standard-setting foundation manage conflict between a board and its stakeholders. Prior literature tangentially mentions the FAF during discussion focused on various standards setting boards (Mattli and Büthe, 2005a, 2005b; Richardson and Eberlein, 2011). By examining the FAF directly, we seek to further our understanding of the mechanisms through which the accounting profession maintains its delegated authority to set accounting standards within the United States.

### 2.2. The FAF and the FASB – Institutional background and theoretical underpinnings

The SEC delegates authority to set accounting standards to the accounting profession. The accounting profession created new standard-setting institutions in the early 1970′s to address concerns that its part-time standard-setting board was slow to act and dependent upon business interests (Mattli and Büthe, 2005b; Zeff, 2015). In 1972, the AICPA established the FAF to manage administrative, financing, and appointment duties for standard-setting boards; and to shield boards from potential conflicts of interest (Mattli and Büthe, 2005b; Zeff, 2015). In 1973, the FAF appointed the FASB as a full-time standards setter. While accounting professional societies continued to exert some influence over standards setting boards (Zeff, 2015), the creation of the FAF as a separate parent organization to oversee independent standard setters was a novel design choice (Mattli and Büthe, 2005b). Prior literature has not examined the specific role(s) played by the FAF within the U.S. standards setting environment.

Fig. 1 presents the FAF's own description of its role as a standard-setting foundation (FAF, 2021a). The FAF Board of Trustees (FAF Trustees) is an appointed group of at most 18 individuals who collectively represent the diverse set of FASB and GASB stakeholders. The FAF Trustees are charged with oversight over and maintenance of "an independent and effective *standard-setting process*" (FAF,

[1] The most direct examination of FAF oversight that we found is Blouin and Robinson (2014)'s discussion of their role in the first post-implementation review (PIR) for a FASB standard, which is a FAF oversight function. However, the focus of that paper is on the substance of the PIR (i.e., FIN 48R) and its implications, not the legitimating role of oversight.

[2] Beginning in 2023, the FAF standard-setting oversight committee meetings now include a publicly-observed segment (FAF, 2023a).

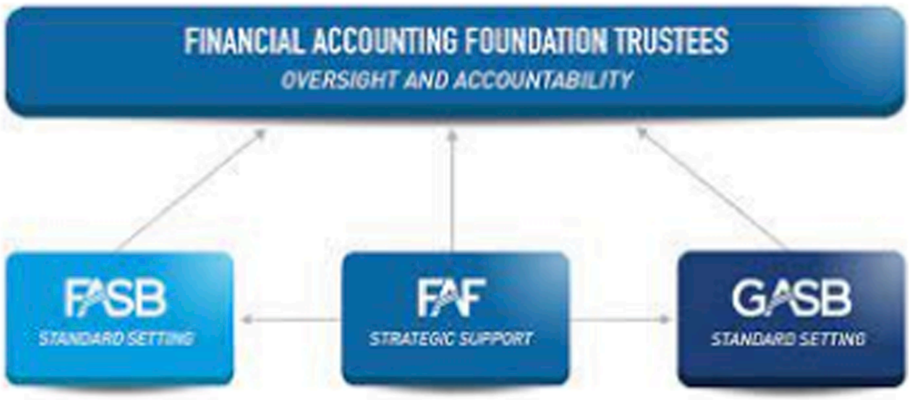


**Fig. 1.** FAF ORGANIZATIONAL HIERARCHY CHART. The figure above is an image from the Financial Accounting Foundation website that depicts its hierarchy (FAF 2021a).

2015; 2021b, emphasis added), while FAF management focus on the administrative mission for standard-setting activities (e.g., communications, human resources, information technology). The FAF serves an integral role U.S. financial reporting and standards setting (Bricker, 2018; Bricker and Compton, 2018); and as an influential template for standard-setting institutions across the globe.[3] As highlighted in Fig. 1, FAF Trustees govern the budget, membership, and oversight of the FASB and GASB. As such, the FAF By-Laws attempt to draw a stark line between the FAF Trustees and the standard-setting activities of the FASB and GASB through the following prohibition (emphasis added):

> "In carrying out its authority, functions, powers, and oversight responsibilities under this Article, the **Board of Trustees shall not direct the FASB or the GASB to undertake or to omit to undertake any particular project or activity** or otherwise affect the exercise by the FASB or the GASB of their respective authorities, functions, and powers in the establishment and improvement of financial accounting and reporting standards, and the Board of Trustees shall take care not to **impair, in fact or perception, the independence and objectivity** of the FASB or the GASB in the establishment and improvement of financial accounting and reporting standards."[4]

The quote above highlights the delicate balance that the FAF Trustees navigate in their role as a standard-setting foundation. Prior research in political science specifically points to accounting standard setting as a novel principal-agent relationship. For example, the FASB has both a public principal in the SEC and a private principal in the FAF (Mattli and Büthe, 2005a). As a result, the FASB has an incentive to select standards preferred by both the SEC and FAF and this opens the door for business groups to shape board member selection, due process, and the content of the standards (Mattli and Büthe, 2005a, 409).

Furthermore, research in accounting draws upon principal-agent models of delegated authority to examine how organizations create and maintain legitimacy (Richardson and Eberlein, 2011). Richardson and Eberlein (2011, 224) find that issuing standards (i.e., output, or results-based, legitimacy) was necessary for the *initial* legitimation of the IASB, but the IASB had to also adopt due process mechanisms perceived as increasing fairness, transparency, and the "rigor of decision-making" to maintain its legitimacy.

Notably, none of these studies directly examine the role played by standard-setting foundations. Instead, the FASB and IASB are the focus of examination and the standard-setting foundations (i.e., FAF, IFRS Foundation, and IFRS Monitoring board) exist on the periphery. One explanation for this trend is that the actions of the FAF and other standard-setting foundations are intentionally private in order to maintain legitimacy of standard-setting institutions. Another explanation is that the FAF actions coincide with FASB or SEC activity making it challenging to isolate standard-setting foundation activity from other actors. Our study examines a period of prolonged threat to the legitimacy of the GASB, during which the FAF took direct, public action to maintain the standard setting authority delegated to the accounting profession. In so doing, we provide insight into the role played by standard-setting foundations within the broader accounting standard-setting ecology.

### *2.3. The FAF and the GASB – Institutional background and theoretical underpinnings*

When the United States Congress established the Securities and Exchange Commission (SEC) in 1934 to regulate capital markets, it explicitly exempted municipal securities. The Tower Amendment strengthened the exemption in 1975 by expressly prohibiting the SEC from requiring periodic reports by those issuing municipal securities (SEC, 2007). As a result, the 90,000 state and local governments

[3] The IFRS Foundation is the primary example (Burland and Colasse 2011). Canada, the United Kingdom, Australia, and New Zealand all adapted the FAF/FASB/GASB model to their own national standard-setting institutions (Brown and Tarca 2001; Financial Reporting Council (FRC) 2022, Financial Reporting Council (FRC) 2022; Accounting Standards Oversight Council (AcSOC) 2022; External Reporting Board (XRB) 2022).

[4] FAF By-Laws Chapter A, Article 1, Section 1(b) (FAF, 2021b).

in the U.S. retain sovereign authority over their financial reporting standards (SEC, 2007). Governmental accounting was defined by ad hoc, volunteer, and part-time standards setters until 1984 (Roybark et al., 2012a); when a coalition of eight governmental professional organizations, the FAF, and AICPA formed the Government Accounting Standards Board (GASB).[5]

The GASB receives its authority to set accounting standards not from a singular federal regulator, but from a diffuse group of elected representatives and appointed officials (SEC, 2007; Roybark et al., 2012a). As a result, the authority of GASB pronouncements varies by political jurisdiction. Several states legally mandate state and local government financial statements follow GASB standards, others either require their own modified standards or do not have an explicit legal requirement (SEC, 2007). The SEC estimates that 20,000 municipal bond issuers follow an alternate or modified basis of accounting in their financial reports instead of GASB standards (SEC, 2007). Given this institutional environment, the GASB must balance the interests of each state and local government as a public principal against the interests of private stakeholders (i.e., municipal bond investors, taxpayers and other users of governmental reports, as well as public accounting firms).

The lack of a dominant public principal (e.g., SEC) to step in when stakeholder interests conflict suggests a more visible role for the FAF trustees in governmental accounting standards. Recall Fig. 1, where the FAF Trustees provide oversight and accountability of both the FASB and GASB. Even the FAF by-laws reflect the differences between the FASB and GASB institutional environments. For example, three of the fourteen FAF trustees must have governmental accounting expertise and be nominated by the eight governmental associations who partnered with the FAF and AICPA to create the GASB (FAF, 2021b). Conversely, the nominations of the remaining "at-large" trustees come from a broad list of FASB stakeholders (FAF, 2021b).

Prior governmental accounting research has much to say on the economic consequences of GASB standards that seek to more closely align measurement and reporting models with corporate financial statements (e.g., pension accounting) (Kim et al., 2022). However, discussion of the projects prompting GASB *Scope of Authority* revisions are relatively absent from the academic literature (Roybark et al., 2012b; Kim et al., 2022).

The current study examines perhaps the only case of the FAF publicly debating the legitimacy of a standard-setting board with its stakeholders (Roybark et al., 2012b). A series of controversial projects, which we discuss in the following section, sparked discontent from the state and local governments that delegate authority to the GASB and led to calls for its dissolution. By examining the FAF's response to ensuing conflict, we seek to understand mechanisms employed by the FAF to maintain the legitimacy of the GASB and its delegated authority to set accounting standards. We engage in a detailed analysis of the FAF response to calls to dissolve the GASB to investigate the following research question:

**RQ:** How did the FAF maintain the GASB's delegated authority to issue state and local government accounting standards in the United States?

## 3. Methodology

Extant studies in accounting and political science identify accounting standard-setting institutions as a novel design to manage delegated authority (Mattli and Büthe, 2005a; 2005b; Richardson and Eberlein, 2011). The empirical portion of our study employs qualitative analysis of historical records to identify how the FAF, as a private standard-setting foundation with delegated authority, responded to questions of the limits of that authority and legitimacy of the GASB. As noted above, actions by the FAF and other standard-setting foundations are typically private. The case examined, the *GASB Scope of Authority* project ("SOA" or "SOA project"), represents a rare public, formal discussion of the limits of standard-setting authority, allowing study of FAF's role in maintaining the legitimacy of the accounting profession to set its own standards. The result was contentious and highlights the continued evolution of delegated authority within U.S. standard-setting.

Fig. 2 presents a timeline of sources related to the GASB *Scope of Authority* Project. Prior research suggests the study of extreme cases can provide distinct insights because extreme cases trigger stronger responses from stakeholders (Flyvbjerg, 2001; Young, 2014). The SOA project embraced public due process resulting in an archive of conflict, debate, and compromise between various stakeholders and the FAF trustees. Public documents used in our empirical analysis include: 1) Deis et al. (2012)'s independent study, 2) the original SOA proposal (FAF, 2013a) 3) the revised SOA proposal (FAF, 2013b), 4) the final SOA policy (FAF, 2013c), and 5) the comment letters received at every due process stage.

The original SOA proposal would have further inserted the FAF trustees into standard setting due process. The final SOA policy adds a novel requirement for the FAF's Oversight Committee to consult with the GASB on information classification and places the onus on the GASB to demonstrate stakeholder support for standard setting around a proposed topic. Negotiations observed in response to the original proposal (FAF, 2013a) to final policy (FAF, 2013c) illuminate FAF mechanisms to maintain the accounting profession's

[5] The FAF By-Laws name these governmental organizations as: the Government Finance Officers Association (GFOA), the National Association of State Auditors, Comptrollers and Treasurers (NASACT), the Council of State Governments, the International City/County Management Association, the National Association of Counties, the National Conference of State Legislatures, the National Governors' Association, the National League of Cities, and the National Conference of Majors (FAF 2021b).

***Scope of Authority* Revision Timeline**

| | ***Scope of Authority* Event** | **Primary Sources** |
|---|---|---|
| **May 2011** | FAF Trustees and GASB commission an independent study of the GASB's *Scope of Authority*. | |
| **August 2012** | Independent study released to the public. | Final Report (Deis et al. 2012) |
| **February 2013** | FAF releases *Scope of Authority* Original Proposal and requests comments. | SOA Proposal (FAF 2013a) and Comment Letters |
| **August 2013** | FAF releases Revised *Scope of Authority* Proposal and requests comments. | SOA Revision (FAF 2013b) and Comment Letters |
| **November 2013** | FAF releases Final *Scope of Authority* Policy. | SOA Final (FAF 2013c) |
| **August 2017** | FAF releases three-year review of GASB *Scope of Authority*. | SOA Post Implementation Review (FAF 2017) |

**Fig. 2.** *Scope of Authority* Revision Timeline. The timeline above outlines key dates leading up to the *Scope of Authority* project, through its revision, and its subsequent review. The comments letters can be accessed on the FAF's webpage at the following project page: https://www.accountingfoundation.org/jsp/Foundation/Page/FAFSectionPage&cid = 1176162236146.

delegated authority to set state and local government accounting standards.

The first two coauthors engaged in an independent open coding process on the 55 comment letters received to identify the general themes and patterns of support. Emerging themes were subject to a prolonged period of iterative-inductive review, consolidating codes as associations became apparent.[6] Comment letters were analyzed by due process round (i.e., Original proposal: 40 comments letters; Revised proposal: 15 comment letters) and by stakeholder to identify shifts, changes, or areas of reemphasis in arguments or positions toward the policy. The third coauthor reviewed results alongside source documentation to validate findings presented.

Three themes emerge from our analyses of the FAF's role in maintaining the GASB's delegated authority over standard setting: oversight, due process, and precedent. Oversight includes comments related to FAF oversight of the boards, with independence and expertise as key subthemes. Due process includes discussion of standard setter due process activities and the decision to make the boundaries used to check those activities public or private. Finally, precedent includes stakeholder perceptions of the implications of this change for future conflict and the FAF's role as the arbiter of precedent for the accounting profession in the U.S. We present our case evidence in chronological order in the following section, including tables of exemplar quotations to illustrate identified themes.

## 4. Case evidence

Revision to the GASB *Scope of Authority* did not result from a single technical issue, standard, or stakeholder complaint (Roybark et al., 2012b). Initial project documents cite increasing criticism from state and local government preparers to several GASB projects addressing non-financial performance information and reporting (e.g., Service Efforts and Accomplishments) and forward-looking financial projections (e.g., Economic Condition Reporting).[7] The FAF and GASB commissioned an independent study to investigate sources of conflict and the proper scope of government accounting standard setting (GASB, 2022). The study sought to explore "the purposes of financial reporting by state and local government entities, the needs and requirements of users of financial reports for these governmental entities, and insights regarding the value of information about the accountability of governments" (FAF, 2011).

Findings from the study note broad agreement amongst GASB stakeholders around accounting standards for financial accountability topics but disagreement around expanded accountability topics (Deis et al., 2012). The authors define financial accountability within the governmental setting as primarily concerned with historical, financial transactions. In contrast, expanded accountability topics incorporate forward looking information and nonfinancial data. The study concludes by confirming that stakeholders do not agree about the proper role for the GASB around expanded accountability topics. To address identified concerns, the study suggests a

[6] As we discuss in the introduction, these 55 Comment Letters include a varied group of knowledgeable and engaged stakeholders including: several former FASB and GASB chairs and members, public accounting firms (e.g., Deloitte and KPMG), major accounting professional societies (AICPA, Government Finance Officers Association), government regulators (Government Accountability Office), and investors (e.g., National Federation of Municipal Analysts, Canvanal Hill Investment Management).

[7] The conflict between the GASB and its stakeholders grew so intense that the president of the GFOA, a founding stakeholder of the GASB, called for the FAF to disband the GASB and transfer governmental standards to the FASB. He cited the Service Efforts and Accomplishment project as the "immediate stimulus" for the call to disband GASB and described the conflict between the GFOA and GASB as building over time (Ackerman 2007; GFOA 2007, 2).

need for additional stakeholder outreach, shared definitions, and expanded due process (Deis et al., 2012). The FAF highlighted this conclusion from the independent study as the impetus for its *GASB Scope of Authority* project.

### *4.1. Original Proposal: FAF review within GASB due process*

The FAF developed, issued, and then requested comment on a *Scope of Authority* Proposal that would significantly expand GASB agenda-setting due process ("Original Proposal") in February 2013 (FAF, 2013a). Alongside procedural changes, the original proposal proposed a new three-tiered framework to define the GASB's *Scope of Authority* over various governmental accounting topics (FAF, 2013a). Group 1 covers all commonly accepted aspects of general purpose external financial reporting and Group 3 covers all information commonly accepted as outside GASB standard setting authority (FAF, 2013a). These information groupings are largely unchanged from prior framing within the GASB Conceptual Framework (FAF, 2013a).

One significant change was the addition of Group 2 information that formally describes topics not generally accepted as in scope (Group 1) or out of scope (Group 3). No strict definition is provided for Group 2 in the original proposal, but the FAF suggests it would likely contain information that is not the result of financial transactions or not historical in nature. Examples include financial projections, reporting on operational information, service capacity, and non-financial performance measurement of service efforts and accomplishments (FAF, 2013a). Each of these examples was highlighted in the FAF-commissioned independent study as an expanded accountability topic driving conflict between GASB stakeholders (Deis et al., 2012).

The FAF states most governmental accountability topics are clearly identified as being in (e.g., Group 1) or out (e.g., Group 3) of scope (FAF, 2013a). As such, due process for most GASB activity would continue unchanged under the original proposal (FAF, 2013a). All topics that cannot be clearly identified as in or out of scope (e.g., Group 2) would be subject to additional FAF oversight as they move through GASB due process (FAF, 2013a).

Fig. 3 summarizes proposed changes and increased role for the FAF's Standard Setting Process Oversight Committee (Oversight Committee, hereafter) and FAF Trustees within standard setting due process. The Oversight Committee defines oversight as a set of activities focused on ensuring the "adequacy, comprehensiveness, effectiveness, and adherence" of the FASB and GASB's standard-setting activities to their stated due process procedures (FAF, 2021c). Its charter explicitly states that the committee should not interfere in setting standards (FAF, 2021c).[8] The additional FAF oversight proposed includes additional procedural hurdles that any Group 2 project must overcome *before* being added to the GASB research agenda (FAF, 2013a). The first hurdle was at the issue identification phase of GASB agenda-setting, and a second round of review was added to the issue research phase.

The "enhanced agenda-setting procedures" in Fig. 3 call for the FAF Oversight Committee to review a GASB staff created summary of all stakeholder outreach and engagement activity before recommending a scope determination to the FAF Trustees (FAF, 2013a). The FAF Trustees would then cast a binding vote on whether the Group 2 information was within the GASB's jurisdiction (FAF, 2013a). If the project passed the first vote, the project could move to the research phase, which now included the second hurdle involving a more detailed outreach report to be submitted by GASB staff and voted upon by the Oversight Committee and, if needed, full group of trustees (FAF, 2013a). The Oversight Committee would also have the discretion to solicit its own stakeholder input during either phase (FAF, 2013a). The FAF Trustees justified proposed changes citing FAF By-Laws that place questions of standard-setting board "jurisdiction" or "scope of authority" under Trustee oversight (FAF, 2013a).

### *4.2. Pushback: comment letter response & stakeholder resistance*

The FAF received forty comment letters in response to the SOA Original Proposal, with the majority of stakeholders in opposition. Stakeholder comments primarily focused on whether expanded due process: (1) is an appropriate oversight role for the FAF, (2) would improve the quality of GASB standard-setting, and (3) sets a generalizable standard-setting precedent for the FASB. Oversight emerges as the common theme within each concern, often with questions as to whether the proposed expansion in FAF oversight would effectively maintain the accounting professions' delegated authority to set standards. Questions of independence and expertise emerge as additional criticisms of an expanded FAF role in GASB agenda-setting.

While almost every comment letter discussed FAF oversight, most did not include a specific definition for the term. A systematic review suggests comment letter writers did not agree on what oversight entails, let alone a boundary between appropriate and inappropriate oversight activity. Former FASB Chairman Dennis Beresford is a notable exception. Referring to the Oversight Committee, he defines oversight as evaluating whether standard-setting activities are consistent with the Board's mission. Beresford and others cite the same FAF By-Laws cited in the original proposal as justification, but they interpret the by-laws as a limit to oversight,

[8] The Standard Setting Process Oversight Committee (Oversight Committee, hereafter) was created in 2008 (FAF, 2009). The Committee monitors standard-setting projects from the agenda phase to post implementation review. Monitoring can take many forms including: 1) measuring project cycle time and milestone targets, 2) coordinating between the boards and other groups (e.g., between FASB and Private Company Council), 3) consulting on questions of jurisdiction (e.g., between FASB and GASB), 4) recommending independent study or independent council for risks of external influence, 5) attending advisory group and Private Company Council (PCC) meetings to keep direct lines of communication open, and 6) oversee post-implementation review process (FAF 2021b). The stated objective is a set of checks and balances that together monitor whether actions taken by U.S. standard setters comply with stated policy.

**Summary of the New Consultation Process and the Original Proposal**

| Process | Consultation | Original Proposal |
|---|---|---|
| Oversight Committee and Trustee involvement | Consultation about information classification prior to beginning any specific standard-setting project. | Evaluation and determination of whether a specific project is in-Scope. |
| GASB agenda-setting process | Unchanged from current agenda-setting process. | • Enhanced agenda-setting procedures in the agenda issue identification phase.<br>• Optional Oversight Committee Project Prospectus review in the agenda research phase. |
| Oversight Committee Scope evaluation and recommendation to Trustees | • No Scope recommendation to Trustees.<br>• If the Oversight Committee is not satisfied the information is in-Scope the matter is referred to the Trustees. | • Oversight Committee evaluates whether project is in-Scope.<br>• Oversight Committee provides project scope recommendation to Trustees. |
| Trustees Scope evaluation and determination | • Trustees and the GASB consult.<br>• Trustees are satisfied—or not—that the GASB demonstrated adequately that the Group 2 information is in-Scope. | Trustees decide if project is in-Scope. |
| Stakeholder input | The GASB obtains input prior to the Consultation and before initiating a specific standard-setting project. | • The GASB obtains input early in the agenda issue identification phase.<br>• Oversight Committee may obtain, or request that the GASB obtain, additional input in the agenda research phase. |
| Information classification | • Information is classified into Groups 1, 2, and 3 (i.e., clearly in-Scope, not clear, and clearly out of Scope).<br>• Information characteristics are assessed primarily based on the GASB's Concepts Statements. | • Information is classified into Groups 1, 2, and 3.<br>• Information characteristics are assessed based on judgments about placement along the financial reporting scope spectrum (Figure 2 in the Original Proposal). |

**Fig. 3.** FAF Comparison of Policy Negotiation. The figure above is taken from the final *GASB Scope of Authority: Consultation Process Policy* issued in November 2013 (FAF 2013c).

noting prohibitions on direct involvement by the FAF in GASB or FASB standard-setting decisions, as depicted in the first opposing quote in Table 1.[9] Even those in favor of the original proposal acknowledge that it is an expansion of FAF oversight to allow the FAF Trustees to direct the GASB to omit a project from its agenda, but they contend the benefits of additional oversight outweigh the costs of recent GASB standard-setting activity.[10]

Table 1 presents representative quotes from the comment letters of those in favor and those opposing the *Scope of Authority* that focus on FAF oversight. Quotes 2 and 3 from those opposed suggest stakeholders opposed to the SOA Original Proposal share the definition of oversight expressed by former FASB Chairman Beresford above. This definition limits oversight to backward-looking assessments of whether the GASB fulfilled its mission as a standard-setter, and bars forward-looking assessments of whether certain projects should be placed on a future agenda.

Stakeholders supporting the change argue the proposed solution did not sufficiently resolve conflict around the boundaries of accountability reflected in general purpose government financial reports (e.g., Deis et al., 2012). Favorable quotes argue the proposal

[9] GASBSCOPE.0003, Dennis Beresford, Former FASB Chair. For each comment letter, we provide the FAF assigned comment letter number and the name of the individual or organization. We omitted or edited select language from quotes for brevity and clarity.

[10] GASBSCOPE.0010, Government Finance Officers Association of Texas.

**Table 1**
Thematic Analysis: Oversight in Standard Setting.

| Favor | Oppose |
|---|---|
| *1. Government Finance Officers Association:*<br>In recent years, a number of professional and public-interest groups have voiced growing concern that the GASB has sometimes exceeded the proper scope of its authority as an accounting and financial reporting standard-setting body. Accordingly, the GFOA applauded the FAF's decision to address such concerns and supported most of the specific procedural changes proposed in The GASB's Scope of Authority: Proposed Changes to Standard-Setting Process – Request for Comment, which the FAF released earlier this year. The GFOA supports many aspects of the revised proposal that the FAF issued this past August:<br>Jurisdictional Oversight. We believe the FAF has both the right and the duty to oversee the GASB's operations, and that jurisdictional oversight in no way compromises the GASB's independence as a standard-setting body. | *1. Former FASB Chair Dennis Beresford:*<br>The Trustees are tasked with their responsibility to oversee the Boards' exercise of their authority, functions, and powers. That wording makes clear that the standing setting authority, which, of course, includes agenda setting, rests with the FASB and GASB, and the FAF oversight committee's role is not one of contemporaneous involvement. |
| *2. Colorado Government Finance Officers Association Technical Issues Task Force:*<br>The Taskforce feels that the Oversight Committee should consider performing a cursory review of all potential GASB research projects early in the issue identification phase of the agenda-setting process, prior to significant resources being committed or expended….It would seem that a brief review by the Oversight Committee is a reasonable request of FAF time and resources prior to committing to a project that is either unnecessary or out of the GASB's scope of authority. | *2. Cavanal Hill Investment Management Vice President/Senior Municipal Credit Manager Douglas Benton:*<br>The introduction of groups 1, 2, and 3 is clearly an attempt to thwart the separation of the GASB from the FAF. Any attempt to "insert" themselves in the GASB's due process is clearly motivated by those who would benefit from stopping the progress in improving financial disclosure in the municipal marketplace. By adding another layer of approval for any idea to be considered for enhancing disclosure is to the benefit of those who control the boards. The statement reader community is already poorly represented in these bodies and this will further alienate and/or create impediments for these voices to be heard. |
| *3. Assistant Finance Director City of Tarpon Springs, Florida:*<br>What you are doing with this RFC is important and needed to ensure that GASB has the necessary oversight and hopefully will listen to its constituents. | *3. U.S. Government Accountability Office:*<br>We do believe it would be appropriate for the Oversight Committee and the FAF, as part of their oversight role, to determine whether the GASB appropriately followed due process in determining whether information was within its scope. Such due process would include developing sufficient support for GASB's determination that such information sufficiently met the appropriate characteristics and was within its scope. It would also be important for the FAF to ensure that it has clear procedures and criteria for determining whether the GASB appropriately followed its due process, both for these determinations as well as other components of GASB's due process. |

could be strengthened by subjecting every research project considered by the GASB to expanded due process (see favorable quote 2 in Table 1). In addition, these supporters press for explicit examples of Group 2 and Group 3 information within the final standard, and a requirement that all FAF and GASB members with governmental accounting experience participate in the research phase of GASB agenda-setting.[11] These additional requirements seek to impose a more robust set of guardrails around topics considered for the GASB agenda.

Stakeholders in favor argue that two especially contentious projects – *SEA* and *ECR* – would not have been added to the agenda if the entire FAF Trustees were involved at the research phase. Calls for FAF Trustees to referee jurisdiction provide further support that the FAF Trustees serve to maintain the delegated authority of the profession to set its own standards. Notably, state and local governmental stakeholders from the very governmental entities that delegate authority to the GASB favor the SOA Original Proposal that would have expanded FAF oversight activities over GASB agenda-setting due process.

The importance of GASB independence is repeatedly discussed in the academic study (Deis et al., 2012), the original proposal, and almost every comment letter response. Stakeholders who felt the proposal would impede GASB independence feared expanded FAF oversight of standard-setting due process could inappropriately expand to standard-setting outcomes.[12] Comments around impairment of GASB independence cite FAF By-Laws that specifically bar actions that impair GASB independence in fact or appearance (FAF, 2021b, Section 1, Par B).[13] Such comments question proposals for expanded due process as clearly within the FAF's oversight role, and frame such changes as an intrusion on GASB independence that could denigrate the profession's delegated authority.[14]

Several comment letters express concern that proposed due process expansion might grant standard-setting authority to the Oversight Committee through a veto on GASB standard-setting.[15] Group 2 information sits at "the leading edge, difficult to handle topics in financial accounting and reporting for governments". Opponents contend "the FAF's proposal leaves the easy decisions to GASB and removes the more difficult decisions from GASB's control."[16] This viewpoint reframes the original proposal from a clarification of existing FAF oversight to a shift in standard-setting responsibility from the GASB to the FAF Trustees.

Several comment letters, both in favor and in opposition, express concern that expanding agenda-setting due process as described would dilute the oversight role of governmental accounting experts who serve as FAF trustees or on the GASAC and further delay GASB

[11] GASBSCOPE.0025, American Institute Certified Public Accountants.
[12] GASBSCOPE.0005, Financial Reporting Committee of the Institute of Management Accountants.
[13] GASBSCOPE.0013, Former FASB member Edward Trott.
[14] GASBSCOPE.0023, KPMG LLP.
[15] GASBSCOPE.0009, Association of Local Government Auditors.
[16] GASBSCOPE.0006, Association of Government Accountants.

due process.[17] The FAF included 3 trustees with governmental experience within its members at the time of the SOA proposal, but the Oversight Committee charter only required one to serve on that committee (FAF, 2014; FAF, 2021c). Because the original proposal sets the Oversight Committee as the lead reviewer of any Group 2 topics considered, opponents questioned whether this group would have the requisite knowledge to interpret cost-benefit and personnel constraints in many state and local governments.[18]

While both sides shared concerns around expertise, there was less agreement around the costs and benefits of additional FAF oversight of GASB agenda-setting due process. The GASB is not the only standard setter to receive criticism about a slow due process, but Table 2 presents examples of those opposing the original proposal who discussed the potential for significant delays in an already slow due process (see opposing quote 2 of Table 2).

Those in support of the original proposal often called for application to every project, not just Group 2 projects (see favorable column quotes 1 and 2 of Table 2). They reminded the FAF that, "The time and resources invested by many in any one GASB project can be immense. It would seem that a brief review by the Oversight Committee is a reasonable request of FAF time and resources prior to committing to a project that is either unnecessary or out of the GASB's scope of authority."[19].

A final theme within SOA comment letters is the potential precedent for future changes to FASB due process. In Table 3, we provide exemplar quotes from those in favor and opposed to the SOA proposal. A quarter of the letters directly discussed questions of implications for the FASB, and others discussed the implications for the FAF and the future of independent standard setting.

Several agree that the GASB needs to improve the process around navigating scope of authority questions, but express concern that the solution sets a precedent with global implications. Deloitte states "As the FAF model is emulated around the globe by organizations seeking to establish appropriate oversight and governance related to the establishment of independent standards, such direct involvement in the agenda-setting process would also establish a precedent that could have far-reaching implications for other independent standards setters, including the FASB."[20].

Both historical and theoretical arguments were presented to support the concern that the SOA Original Proposal would be applied to FASB due process with several former FASB and GASB members sharing their direct experiences with threats to the independence of U.S. standard-setting due process. Edward Trott, FASB member from 1999 to 2007, cautioned that many are likely unaware that the Sarbanes-Oxley Act of 2002 gave the SEC veto power over FASB board and FAF trustee appointments and line-item veto of the FASB support fee.[21] Dennis Beresford, FASB Chairman from 1987 to 1997, shared the following historical event to show that in the past there have been near intrusions into FASB agenda setting:

"I think this kind of action would set a dangerous precedent for possible future activities. While this is well before all of the present Trustees were involved with the FAF, when I served at the FASB, one leading CEO suggested that there should be an independent agenda setting committee comprised of business people, etc. In other words, the FASB wouldn't have the power to determine what projects it was allowed to work on. This idea didn't get too far, although I have to say that we at the FASB didn't have as strong support from the Trustees to fend off such efforts then. Fortunately, SEC Chairman David Ruder was adamantly opposed to such a suggestion and it died a quick death. But these kinds of threats to standard setting independence do arise fairly regularly. The current proposal is not close to what had been proposed for the FASB many years ago, but it might be viewed as opening the door a little and who knows where that may lead."[22]

In its letter, KPMG LLP notes several recent examples of FASB projects that could spark stakeholder disagreement including "... the FASB's disclosure framework project, the FASB's project to consider other financial communications by not-for-profit entities, and future consideration of the impact of integrated reporting (ESG) on financial accounting standards."[23] Martin Ives, a GASB member from 1984 to 1994, similarly questions the logic of excluding the FASB from the SOA Original Proposal given the potential for very similar standard-setting conflict to arise. He cites FASB Concepts Statement No. 4 "Objectives of Financial Reporting by Nonbusiness Organizations" as the FASB equivalent of service, efforts, and performance measurement and argues that the FASB could also propose a project on SEA that its stakeholders hold as "reporting outside the basic financial statements.".

Others point to examples in which the FASB delved into areas outside the basic financial statements. The original proposal attempted to dissuade such beliefs with a footnote stating expanded oversight would not apply to the FASB (FAF, 2013a). Stakeholder responses demonstrate continued concern the proposal could set a precedent for the profession and question whether the "enhanced agenda setting due process" described in the Original Proposal would maintain or undermine the delegated authority of the FASB.

### *4.3. Compromise: FAF Pre-Agenda consultation*

The FAF responded to stakeholder concerns with a revised *Scope of Authority* proposal in August of 2013. To clarify information as clearly Group 1 or Group 3, the FAF put forth expanded definitions that list explicit characteristics rooted in the GASB Conceptual Framework and remove possible areas of subjectivity. A common theme within Group 1 criteria is data of a historical, economic, or financial nature. Group 3 information retains its central description as data outside the scope of general purpose external financial

[17] GASBSCOPE.0009, National Federation of Municipal Analysts. See Table 4 for the quote in its entirety.

[18] GASBSCOPE.0002, Colorado Office of the Controller.

[19] GASBSCOPE.0007, Colorado Government Finance Officers Association Technical Issues Task Force.

[20] GASBSCOPE.0039, Deloitte & Touche LLP.

[21] GASBSCOPE.0013, Former FASB member Edward Trott.

[22] GASBSCOPE.0003, Dennis Beresford, Former FASB Chair.

[23] GASBSCOPE.0023, KPMG LLP.

**Table 2**
Thematic Analysis: Due Process in Standard Setting.

| Favor | Oppose |
|---|---|
| ***1. New York State Government Finance Officers Association:*** Further we would recommend that, once approved by the Board, the proposed project agendas be exposed for public comment using the same process GASB uses for exposing proposed concepts or exposure drafts for standards. The exposure of the proposed agendas should not be limited to the GASAC members as is currently done. If comment letters are received that suggest a proposed project does not fall within the scope of Group 1 as defined, then GASB should have the responsibility to either drop the proposed project or to justify to the Trustees' Oversight Committee their position that the project clearly falls within the scope of Group 1 before proceeding further with any research or standard- setting process. | ***1. New York State Comptroller's Office:*** During the thirty years of the GASB's existence, it has generally stayed on point and the standards issued by the Board have related directly to governmental accounting and financial reporting issues. Accordingly, given GASB's solid track record over several decades, there is no reason why the current agenda-setting process should be changed. The GASB should be allowed to continue to employ its current agenda-setting process, which has proven to be rigorous, transparent, inclusive and politically neutral. |
| ***2. National Governors Association and National Association of State Budget Officers:***The proposed changes will help FAF in its oversight role to resolve questions involving jurisdictional authority and determine the appropriate scope of GASB standard-setting activities. Specifically, the additional involvement of the Oversight Committee in step 4—especially steps 4e through h—with an opportunity to re-engage those processes at step 11, is a robust change that will enhance the involvement of both FAF and GASB stakeholders. Allowing FAF to increase stakeholder input earlier in the standard setting process (step 4e) , also will allow GASB to better serve state and local government stakeholders while maintaining a necessary degree of independence, essential respected standards of financial reporting. | ***2. National Federation of Municipal Analysts:*** As regards the FAF Proposal for Group 2 to create an additional four step "outreach" process to reach "stakeholders", it seems to be duplicative of GASB's current process with GASAC and may create undue delay and wasted resources in selecting and advancing the appropriate GASB mission projects for several reasons. First, GASB (and arguably FAF) have spent many years developing a comprehensive industry group "sounding board" -and it is GASAC. Members of GASAC are appointed based on their interest, experience and dedication to dealing with GASB projects. GASAC members are hand-picked by their industry groups to best represent the views and concerns of their constituencies. Consequently, there seems to be no good reason to dramatically limit GASAC's role in the GASB Agenda Process for Group 2 projects. |

**Table 3**
Thematic Analysis: Precedence in Standard Setting.

| Favor | Oppose |
|---|---|
| ***1. New York State Government Finance Officers Association:*** We also question why this proposal for Scope of Authority is limited to GASB. We do not find any justification that the Trustee's' oversight responsibilities should be set differently for GASB versus FASB. If these proposed procedures are deemed necessary to ensure that GASB is operating within its competent jurisdiction, then FASB should be subject to similar oversight. | ***1. Deloitte & Touche LLP:*** As the FAF model is emulated around the globe by organizations seeking to establish appropriate oversight and governance related to the establishment of independent standards, such direct involvement in the agenda-setting process would also establish a precedent that could have far-reaching implications for other independent standards setters, including the FASB. |
| ***2. Association of Local Government Auditors:***The revised proposal is unclear as to how the consultative process would actually work and when and how the results of the consultation(s) would be made public. In addition, if the FAF feels it needs more oversight, we question why a similar proposal is not being considered for the FASB. | ***2. Former GASB Member Martin Ives:***The FAF proposal applies to the GASB, but not to the FASB. Yet the issue of financial reporting outside the basic financial statements might well apply to the FASB. FASB Concepts Statement No. 4 (Con4) , "Objectives of Financial Reporting by Nonbusiness Organizations," says at par. 53: "Ideally, financial reporting should also provide information about the service efforts of a nonbusiness organization."…It is therefore possible that, at some time in the future, the FASB will consider adding a service efforts and accomplishments project to its agenda. Further, from time to time, questions have been raised about the potential for business enterprises to report on such matters as the impact of their activities on the environment and on the market share of their operations. Such matters would also probably require reporting outside the basic financial statements. The potential for dealing with these matters puts the FASB in the same position as the GASB with regard to the issue. |

reports. Group 2 information remains a residual category for any information that does not have ***all*** of the characteristics necessary for classification as Group 1, but also does not have ***any*** of the characteristics necessary for classification as Group 3.

The most substantial change is in the process used to consider Group 2 information. The Fig. 3 column labeled "Consultation" describes the revised proposal. Due process changes for Group 2 information are now contained within a new pre-agenda process and no longer expand the FAF's role within the agenda-setting process as it currently exists. Instead, the new pre-agenda process functions as a private, yet official, review of proposed agenda items. Once the GASB classifies information as Group 2 and *within* its scope of authority, it would request consultation with the FAF Oversight Committee. The Oversight Committee, now including all three governmental trustees on Group 2 decisions, would then review relevant research and stakeholder outreach used to support the GASB's scope assessment (FAF, 2013c). If the Oversight Committee is not satisfied, it can request additional research and stakeholder outreach by the GASB and/or refer the consultation to the full set of FAF Trustees (see Stakeholder Input in Fig. 3; FAF, 2013c).

This change implies the main task of the Oversight Committee is not to make a direct recommendation on specific topics (see Fig. 3), but to assess whether the GASB sufficiently gathered information and stakeholder input for Group 2 agenda items that may be controversial. It is only after this work is performed that the FAF Trustees would discuss scope considerations with the GASB and take a binding vote. The GASB cannot proceed with its agenda-setting due process protocols for projects employing the Group 2 information unless the Trustees approve that information falls within GASB's scope of authority.

The fifteen comment letters responding to the revised proposal offer general support, especially the shift toward pre-agenda oversight rather than direct involvement in current due process.[24] While comment letters reiterate prior concerns that the pre-agenda consultation process was duplicative and inefficient, the shift to pre-agenda phase was described as an improvement. Comment letters also note "the pre-agenda consultation better recognizes GASB's independent role as a standard setting body."[25] Independence concerns were further alleviated by the support for periodic reviews on both sides of the debate. However, the Government Accountability Office (GAO) called attention to the need for consistency in the new consultation process:

"It would also be important for the FAF to ensure that it has clear procedures and criteria for determining whether the GASB appropriately followed its due process, both for these determinations as well as other components of GASB's due process."[26]

Comment letters from governmental practitioners and their professional societies frame the revised proposal as a compromise between the interest groups outlined in the FAF-commissioned independent study. These groups state a preference for the original proposal's expanded FAF role within GASB due process, and question whether the revised pre-agenda consultation would have avoided recent contentious standard-setting projects.[27] Despite continued concerns, they support the revised proposal over the alternative with no change to extant GASB agenda-setting due process.[28] Comments from those in favor of the original proposal suggest the state and local government entities that delegate governmental standards setting authority were satisfied, conditional on FAF trustees maintaining a formal mechanism to intervene in the future.

The need for standard setter independence and the possible precedent that could apply to the FASB were persistent concerns within several comment letters on the revised proposal. The FAF provides a direct response citing conflict between GASB stakeholders as outlined in the Deis et al. (2012) independent academic study. The FAF defends its decision to exclude the FASB from the revised SOA noting the absence of such conflict and a history of constructive stakeholder engagement (FAF, 2013c, Convery et al., 2022). Several comment letter respondents (e.g., GAO, AICPA, and KPMG LLP) found this logic unconvincing and argued that the SOA Proposal either *would* or *should* also be applied to the FASB. Others renewed their concerns that this SOA Proposal sets a precedent for the FASB that should be avoided.[29] For example, former FASB Chair Dennis Beresford again asserted that the existence of "direct and contemporaneous participation by the Oversight Committee" violates FAF By-Laws and impairs GASB independence.[30]

The FAF issued its final *GASB Scope of Authority: Consultation Process Policy* on November 19, 2013. The issued policy summarizes the diverse stakeholder feedback received on the original proposal (i.e., expanded due process), and highlights points of convergence in the revised proposal (i.e., pre-agenda consultation). Pre-agenda consultation for Group 2 information within the final implemented process recast the final policy as a coalition building activity focused on broad-based compromise rather than FAF trustee decree.

While the FAF did not change the process in its final policy, it did formally rebut several criticisms of both the *Scope of Authority* Consultation Process and its role within governmental standard setting. The FAF noted that the Oversight Committee already reviews GASB agenda-setting due process for every project as part of its oversight role. They also cite existing precedent where, "There is no history of the GASB undertaking any unauthorized activity, but if it were to happen, the FAF's By-Laws provide appropriate remedies (FAF, 2013c, 10)." For those critical of the definitions in the revised and final proposal, the FAF acknowledged that "gray areas" are unavoidable in modern standard-setting activity. For those favoring application to the FASB, the FAF expanded on its argument that the GASB was currently in a position distinct from the FASB:

"Governmental units are held accountable for not only the results of operations, but for the level and sustainability of the services provided. Therefore, general purpose external financial reporting typically present additional information outside the basic financial statements requiring accounting standards and guidance that the FASB currently does not need to consider. However, the FASB Chair is part of the working group that developed the Consultation process (FAF, 2013c, 11).".

In its final rebuttal, the FAF trustees acknowledge differences in accountability for the state and local governments while highlighting participation by the FASB Chair in the policy's design that suggests awareness and understanding of the policy as well as the delegated authority concerns that led to its implementation by the FAF trustees.

## 5. Discussion

The revised GASB *Scope of Authority* went into effect in November 2013. A three-year review of the pre-agenda consultation process notes no Group 2 issues were considered over the review period (FAF, 2017). This result echoes comment letter criticisms that the SOA project was an unnecessary addition to a functional standard setting process. Nonetheless, the FAF trustees retained the policy and

[24] GASBSCOPE2.0004, Robert Jaros, Colorado State Controller.
[25] GASBSCOPE2.0008, National Association of State Auditors, Comptrollers, and Treasurers.
[26] GASBSCOPE2.0010, U.S. Government Accountability Office.
[27] GASBSCOPE2.0005, Colorado Government Finance Officers Association Technical Issues Task Force.
[28] GASBSCOPE2.0005, Colorado Government Finance Officers Association Technical Issues Task Force.
[29] GASBSCOPE2.0012, American Institute Certified Public Accountants.
[30] GASBSCOPE2.0001, Former FASB Chair Dennis Beresford.

agreed with the majority of stakeholders who believed it provides a set of *checks and balances* necessary to ensure issues considered by the GASB remain within scope (FAF, 2017: 1).

This section concludes with three primary takeaways from our case analysis: 1) the evolving role of FAF oversight as a mechanism to legitimize standard-setting activity, 2) the formalization of a private, pre-agenda phase in standard setting to maintain the GASB's delegated authority, and 3) possible implications for FAF oversight of the FASB. Findings presented have implications for regulators, practitioners, and academics interested in the continued evolution of standard setting due process as a tool used to maintain the accounting profession's delegated authority.

### *5.1. The evolving role of FAF oversight within governmental standard setting*

Use of the phrase "checks and balances" by the FAF, GASB, and stakeholder comment letters is especially telling, although perhaps not surprising within a governmental accounting context. To paraphrase James Madison, who wrote at length about the need for checks and balances within the United States Constitution: "You must first enable a [standard setter] to control the [standardized], and in the next place oblige it to control ***itself***" (Madison, 1788)..[31] *Scope of Authority* restrictions act as a check and balance by defining the process that must be used as the GASB considers, formalizes, and eventually decides whether information is, or is not, within its jurisdiction. When the professional societies that formed the GASB and nominate governmental representatives to the FAF threatened to withdraw delegated authority to the standard setting board (Roybark et al., 2012b), our analysis concludes that only the FAF trustees had jurisdiction to respond.

The FAF trustees had other opportunities to address stakeholder complaints without changes to GASB due process. Examples include use of appointment or financing authority to change the board's composition, incentives, or budget. A prime opportunity to do so emerged when the GASB Chair announced his early retirement in July 2013 (FAF, 2012). FAF trustees could have abandoned the SOA project and resolved extant complaints through the appointment of a new chair. Instead, the FAF trustees persisted in their exercise of oversight authority and increased involvement in GASB agenda-setting. We conclude that the *Scope of Authority* Policy represents an evolution of FAF Oversight to resolve stakeholder conflict and maintain the delegated authority of the accounting profession to set accounting standards (Mattli and Büthe, 2005a, 2005b; Richardson and Eberlein, 2011).

Oversight is open to interpretation and evolution because it is not directly defined in the FAF By-Laws. However, examples referenced include the monitoring of: 1) FASB and GASB due process activities such as agenda-setting; 2) individual meetings with members of the FASB, GASB, and respective advisory councils; and 3) the issuance of periodic reports (FAF, 2021b, 6). The FAF trustees apply this loose definition of oversight to maintain authority delegated to the accounting profession by external stakeholders. Comment letters opposed to the SOA consultation policy, including several former GASB and FASB members, argue FAF influence over a standard-setting body should be limited to appointment and budget processes. Those opposed to the original proposal argued it would result in oversight *contemporaneous* with the standard-setting project. The final consultation policy shifted the timeline *earlier* to place FAF oversight *before* public due process.

The revised *Scope of Authority* assumes continued cooperation among the FAF and GASB. FAF trustees describe the likelihood that the GASB would pursue a project containing out of scope information as "remote – no greater than any other unauthorized activity in which the GASB might engage (FAF, 2013c, 10)." The FAF also notes no unauthorized activity by the GASB to date. However, FAF by-laws list potential remedies should this occur in the future (FAF, 2013c, 10). These existing remedies in combination with repositioning the SOA consultation before a specific project is underway support an evolution in FAF oversight in the maintenance of the GASB's delegated authority (Mattli and Büthe, 2005a, 2005b; Richardson and Eberlein, 2011).

Though absence of evidence is not evidence of absence, the lack of Group 2 information noted in the three-year review is a further suggestion that revisions to FAF oversight were primarily concerned with procedure and not the content of the standards. The use of "checks and balances" language by the FAF when describing its effect highlights the way in which a standardized process acts to legitimize the GASB with its stakeholders. Should controversy arise, the SOA consultation policy provides an outlet for FAF oversight to check whether the GASB has considered its stakeholder groups' reactions prior to adding an issue to the agenda.

The FAF role within the revised GASB *Scope of Authority* is an important topic for both academics and practitioners to understand in greater detail. While prior research understandably focuses on GASB and FASB members and/or SEC commissioners (e.g., Jiang et al., 2018), future governmental accounting research must now consider the makeup and expertise of the FAF as it exerts influence over the most controversial types of accounting information. Several comment letter writers did not object to the *Scope of Authority* consultation process, but did raise concerns as to the expertise of the FAF trustees in governmental accounting. They argued that without adequate representation, trustees would not appreciate the differences between the corporate and governmental settings. Ultimately, the FAF agreed and added all three governmental trustees to the Oversight Committee when governmental accounting questions arise (FAF, 2013c).[32] Future research could examine the ways in which foundation trustee membership does (or does not) evolve due to expanded oversight responsibilities.

[31] Madison, J (1778). Federalist 51: The Structure of Government Must Furnish the Proper Checks and Balances Between the Different Departments. Quote adapted to the present case using words in brackets. Emphasis added.

[32] Since its inception, the Oversight Committee has been co-chaired by one governmental trustee and one at-large trustee. The SOA project marked an increase in representation as now all three governmental trustees participate for *Scope of Authority* classification questions (FAF 2013c).

### 5.2. The formalization of private due process

Stakeholder conflict around *Scope of Authority* revisions highlight political aspects of standard setting alongside technical concerns. Standard-setting due process works to manage conflict, promote legitimacy, and maintain the autonomy of independent standard-setting boards (Johnson and Solomons, 1984; Wallace, 1990; Fogarty, 1992). However, stakeholders must feel they have an opportunity to participate. Formal due process requires all parties to the process to agree upon a specific set of decision rules before conflict emerges. Stakeholder groups may disagree on the specifics of a particular standard-setting outcome, but effective due process maintains delegated authority through common understanding (Convery et al., 2022). Due process ensures external stakeholders understand how issues emerge, get placed on the agenda, and proceed to final standard.

Pre-agenda FAF oversight over GASB scope considerations suggest a need for formal, but private, mechanisms to complement public due process. The *Scope of Authority* consultation policy mandates private forums for the GASB and its stakeholders to debate controversial agenda items. Formal agenda consultations have evolved through time, but those consultations are the work of the standard-setting boards, not foundations. Walton (2020, 304) describes how the IFRS Foundation trustees and Monitoring Board must approve the IASB's 5-year agenda consultation project decisions. Similarly, the FASB, overseen by the FAF, concluded its 5-year agenda consultation project in 2021 (FASB, 2022). In the GASB *Scope of Authority* revisions, the FAF now formally applies its expertise overseeing public due process to the private coalition building activities of the pre-agenda phase.

Informal consultations between FAF trustees and industry leaders are a well-established part of standard setting practice (e.g., Bricker and Previts, 2002). Alongside scope of authority changes, incoming GASB chair David Vaught oversaw several additional efforts to improve stakeholder engagement. These include a new, user-friendly website; "plain-English" videos explaining projects; a quarterly newsletter; a GASB news email alert; and increased stakeholder outreach by the chair, board, and their staff (FAF, 2014). These conversations now exist alongside a formal, and similarly private, pre-agenda consultation process.

If a project sparks controversy, governmental accounting practitioners not privy to private meetings can review the consultation process outcome. Many stakeholders publicly wondered how prior agenda items like non-financial performance reporting and forward-looking financial projections arrived on the GASB agenda in the first place. Formal due process maintains legitimacy, and ultimately delegated authority, through a clear understanding of the steps through which the process took place, a check on unilateral action, and a broader sense of procedural fairness. Newly enacted pre-agenda processes allow stakeholders to review available evidence and understand the rationale behind a FAF scope decision before controversy reaches the standard-setting phase. Future research can investigate the degree to which these *Scope of Authority* consultations become public and the manner of resulting consultations.

### 5.3. Precedence in accounting standard setting

The primary, and in some cases only, concern voiced within many GASB *Scope of Authority* comment letters was the possible precedent for similar restrictions on the FASB agenda. Influential stakeholders raising this concern include former standard setters and Big 4 public accounting firms. Documentation of the SOA decision by the FAF clearly articulates changes made only apply to the GASB and its agenda. However, scholars of organizations have long known that solutions are often developed independent from particular problems and "lie around waiting to be used" (Cohen, March, and Olsen, 1972). Revisions to the SOA policy are not a binding precedent for FASB decision making, but the framework outlined exists as a potential solution should a similar legitimacy crisis occur in the future.

Institutional differences between the FASB and GASB help to explain why the FAF moved forward, despite concerns over precedence. First, the presence of the SEC as the dominant public principal for FASB decision making (Mattli and Büthe, 2005a). Second, the FASB had a strong track record of effective stakeholder engagement and commitment to expansion going forward (Convery et al., 2022). These facts directly contrast with the GASB's diffuse grant of authority and history of conflict with stakeholder groups like the GFOA. The issued *Scope of Authority* revision clearly states an intent for revised policies to apply to the specific concerns raised around the GASB (FAF, 2013c). However, retained is the ability to apply similar due process to the FASB in the future should challenges to its delegated authority emerge.

Public calls for the FASB to weigh in on Environmental, Social, and Governance (ESG) disclosures have come from CEOs of publicly traded companies (Maurer, 2021).[33] As the public principal of the FASB, the SEC defined the climate-related portion of ESG disclosures within scope for consideration. Proposed climate-related disclosures include disclosure of how "any climate-related risk identified" has or is likely to have "a material impact" on the business or its strategy, business model, or outlook over the "short-, medium-, or long-term" (SEC, 2022). Public accounting firms are actively courting new engagements aimed at meeting the SEC's expectations, and advertising expertise necessary to create the resulting disclosures (PWC, 2023; Warren, 2023). Proposed disclosures require nonfinancial and forward-looking information with characteristics similar to GASB projects that preceded *Scope of Authority* revisions.

Future tensions between stakeholders and standard-setting boards around specific projects, such as climate-related disclosures, may prompt further revision to standard setting due process. While the FASB currently conducts substantially more stakeholder

[33] The IFRS Foundation has received similar calls and responded with the creation of the International Sustainability Standards Board (ISSB) in 2021 (IFRS 2021a; 2021b).

outreach than the GASB,[34] additional engagement may not be sufficient if future projects stoke conflict that culminates in questions of rescinding delegated authority. Given similarities and differences between the GASB and FASB, future research should examine the role of precedence in due process oversight throughout the standard setting ecosystem.

## 6. Conclusion

Beginning in 2023, the FAF standard-setting oversight committee meetings now include a publicly-observed segment (FAF, 2023a). Stakeholders can now raise potential concerns directly to the committee on the FAF website (FAF, 2023b). These changes suggest FAF oversight continues to evolve. This study examines a rare case of the FAF publicly negotiating the limits of its oversight authority, thereby enhancing our understanding of the role standard-setting foundations can play in maintaining delegated authority of standard-setting boards. We conclude that the FAF's oversight role evolved in the case of the GASB *Scope of Authority* consultation policy to create a formal, private check on unilateral action by the GASB.

While the FAF did not yield to concerns that the policy would or should set a precedent for the FASB, it did retain the authority for future consideration. The mandated consultation marks a new interpretation of FAF oversight that formalizes private due process to maintain the legitimacy of the GASB and its delegated authority. We highlight several areas for future research including examining the composition of FAF trustees, the frequency or extent to which the GASB considers controversial standard-setting projects for its agenda, and the precedence for the FASB as it navigates its own contentious topics around fair value, credits losses, and deliberations around ESG disclosures.

## Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

## Data availability

Data will be made available on request.

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[34] See Convery et al. (2022). The FAF 2020 Annual Report notes FASB members and staff participated in 585 project-specific outreach meetings while the GASB held 34 stakeholder outreach meetings (FAF 2021d, 3).

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