



FAF and GASB: Bringing a Foundation of Trust to Investors and Taxpayers

By: Jack Brennan

Some of the most alarming data that I've reviewed in the past many years comes from the 2009 Edelman "Trust Barometer"—the public relation firm's 10th annual trust and confidence survey of individuals. Some particularly disturbing findings that Edelman has unveiled reveal that trust in business is at the lowest level in the Barometer's tracking history—even lower than it was following Enron and the dot-com bust. The Trust Barometer indicates a steep slide to an alarming 38 percent level of trust—from 58 percent last year.

Just as unsettling is Edelman's finding that "in the United States, not even half (49 percent) say that the free market should be allowed to function independently."

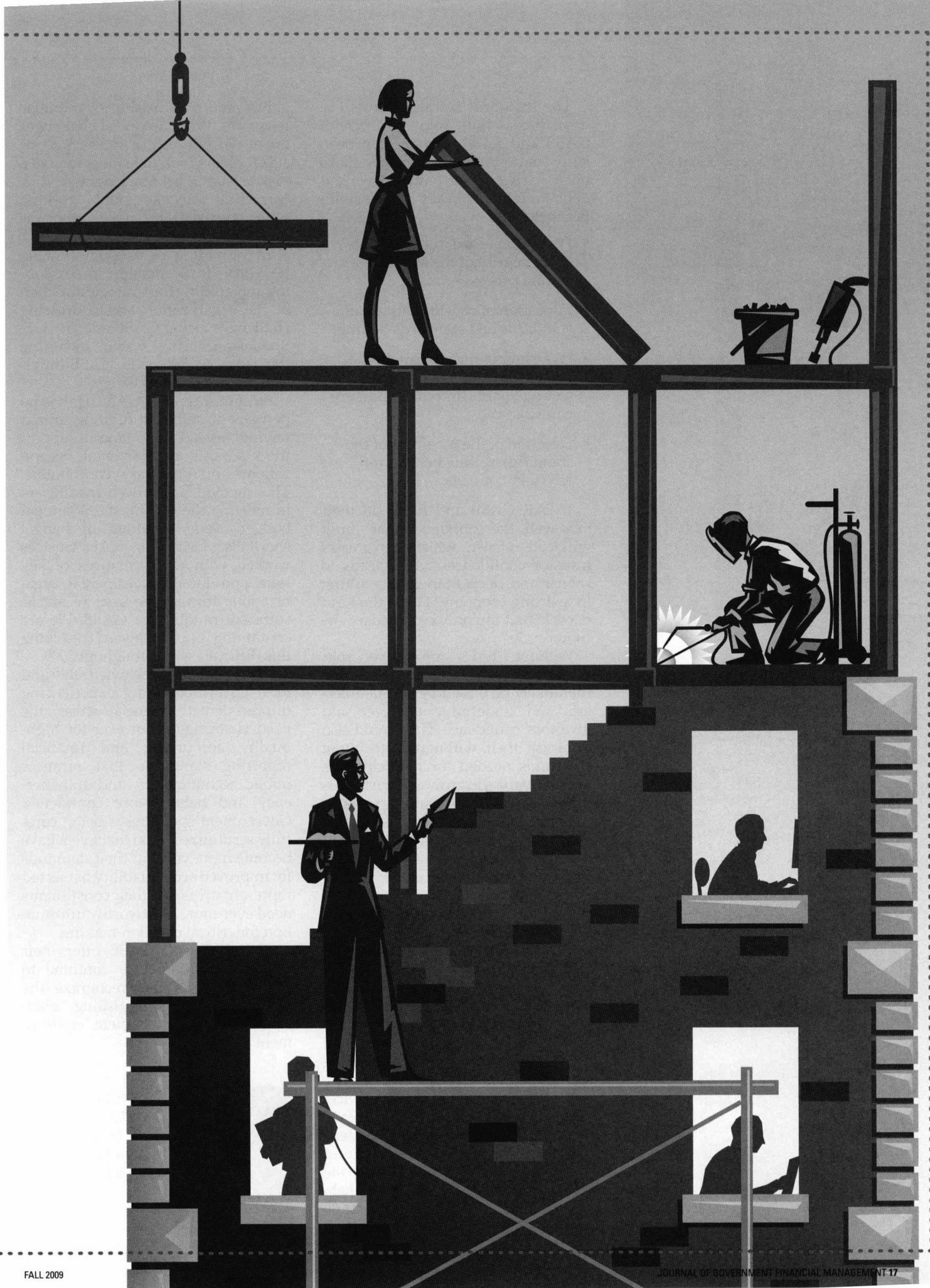
That is a truly disturbing and foreboding statistic.

When looked at in the context of the past couple of years, the Edelman data might not be all that surprising. But, expected or not, it should be disturbing. Our economy, along with local and state governments, will not thrive—or even function, in my view—without trust in business, trust in government, trust in markets.

A sense of trust in institutions, markets and governmental financial reporting can be lost for many reasons. It can erode because of mismanagement, or such erosion may occur due to a lack of confidence in the effectiveness of regulatory oversight. In the worst cases, high-profile, outright fraud may cause people to lose trust in the basics of our market-based, capitalistic system.

The independent, nonprofit Financial Accounting Foundation (FAF) helps provide a measure of trust the capital markets need to properly function—accurate, transparent and yes, trustworthy financial information. And the two organizations for which the FAF has oversight—the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB)—have the responsibility to set unbiased financial reporting standards for both the public and private sectors.

Only standards developed through an independent process—one that encourages input from all interested and affected individuals and organizations—will lead to the transparent, confidence-inspiring financial reporting that provides trustworthy information to investors and citizens.



The standards-setting process I've described is built into the DNA of GASB and FASB, and they've been long committed to a process that's open, transparent, inclusive and deliberative. FAF's key responsibilities include:

- Protection of the independence and integrity of the standards-setting process;
- Education of constituents about standards and standards-setting;
- Oversight of the administration and finances of its standards-setting boards and their advisory councils; and
- Selection of the members of the standards-setting boards and advisory councils.

If FAF, GASB and FASB do their jobs well, the confidence that's built will lead to trust...which then creates investor confidence...which leads to robust and deep markets...resulting in a strong economy. That's the kind of cycle that can only be called a "virtuous cycle."

Without FAF's protective role, accounting standards would more than likely be biased by special interests and undermine taxpayer and investors' confidence. This would also diminish their willingness to invest the funds needed for municipalities and companies to grow and create jobs producing new goods and services.

Since 1984, GASB has issued 56 statements to address government financial reporting issues and establish standards that meet the unique and distinguishing requirements of state and municipal governments. GASB exists based on the recognition that the differences between state and local government and private sector enterprises require uniquely different accounting standards. Now in its 25th year, GASB is recognized as longest-serving state and local government financial reporting standards-setting organization in the United States.

While governments are service-oriented rather than profit-driven, they are accountable to their citizens as to how revenues collected are used for operations and services to the community. GASB standards help government officials demonstrate to their constituents their account-

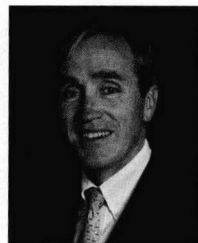
ability and stewardship over public resources. When financial challenges arise within local governments, stakeholders look to leaders to take a visible lead in acknowledging errors, correcting mistakes and working with taxpayers to avoid problems going forward.

In providing oversight to GASB, FAF provides leadership in developing and guiding the strategic direction of the organization and addressing challenges facing GASB and the U.S. financial reporting system, including the issue of adequate GASB funding—an ongoing challenge.

Since its inception, GASB has had no permanent, sufficient funding source, relying instead on financial support from several governmental organizations and voluntary contributors. This method has proven insufficient in meeting the organization's annual budget needs, resulting in budget shortfalls. Last year, FAF trustees worked with representatives of key state and local governmental organizations toward the goal of stable, sufficient funding for GASB. We are continuing efforts toward resolving this difficult issue throughout 2009.

Now, during a time when state and local governments are experiencing unprecedented financial stress, the need is stronger than ever for high-quality accounting and financial reporting standards that promote public accountability and transparency and help restore confidence. Government spending is being carefully scrutinized. And taxpayers have become more vocal in their demands for improved accountability, as elected representatives and their constituents need ever-more trustworthy information for critical decision-making.

Both FAF and GASB offer their strong commitment to continue to evolve in ways that recognize the unique and distinguishing challenges of the government environment ahead. ■



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