August 26, 2021

Mr. Alan Skelton
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: Project No. 32-1

Dear Mr. Skelton:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the GASB's Exposure Draft, *Accounting Changes and Error Corrections* (the "ED"). Overall, we support most of the clarifications and changes proposed in the ED and believe they will enhance the consistency and understandability of governmental financial reporting. However, we have concerns regarding the proposed accounting and financial reporting for changes in accounting estimates resulting from changes in measurement methodology. That, and other comments, are explained further below.

We support the following aspects of the ED:

- We agree with the Board's decision to require changes in accounting policy to be applied retroactively to the earliest period presented in the basic financial statements (if practicable).
- We think the description of what constitutes a change in accounting estimate is an improvement over GASB 62.
- We commend the Board for providing guidance on the impact of accounting changes and error corrections on supplementary information. We believe the proposed guidance will eliminate the current diversity in practice in how governments present accounting changes and error corrections outside the basic financial statements.

Change in accounting estimate resulting from a change in measurement methodology

While we agree with the Board that a change in measurement methodology is an example of a change in accounting estimate, we believe the ED fails to adequately define or provide illustrations of what would be considered a change in measurement methodology. As a result, we believe there will be diversity in how both preparers and auditors interpret what constitutes a change in measurement methodology. Consider the following example:

- A government estimates its allowance for uncollectible accounts by applying percentages to the balance of accounts in various aged categories (buckets).
- In the current reporting period, the government becomes aware that a customer has filed for bankruptcy and decides to apply a specific reserve to that party's receivable.
- Some practitioners may view this as a change in measurement methodology because the government had never before applied specific reserves, while others may view this as a change to the data or assumptions (i.e., other inputs to the accounting estimate which are not subject to preferability).

We believe that requiring a preferability assessment for changes in measurement methodology, which therefore requires governments to distinguish this special class of changes in accounting estimates, imposes an unnecessary cost on governments that is not justified by the benefits to users of the financial statements. In addition to the inherent difficulty in distinguishing changes in measurement methodology from other changes in estimates, in order to implement such a standard, governments and auditors would have to inventory the detailed methodology for each estimate and evaluate each element of each change in estimate to determine whether it is preferable. Inherent in any accounting estimate is the notion that management is utilizing the methodology and data that will result in the best estimate. Therefore, management is already required to determine the preferable measurement methodology because that will yield the best estimate. Additionally, as a general principle, we believe that differences in accounting standards between the public and private sector should be justified by the unique aspects of the reporting entity as a business or a government. In the context of accounting estimates, there is no meaningful distinction and private sector preparers, both in the United States and internationally, are not required to perform a preferability assessment for changes in estimate (unless the change in estimate is effected by a change in accounting principle).

If the Board chooses to proceed with requiring a preferability assessment for changes in measurement methodology, we believe the requirement to disclose the reason why the change in methodology is preferable will be prone to boilerplate language and potentially confusing to financial statement users. GAAP does not currently require governments to disclose their measurement methodology in all areas where estimates occur. The ED would require governments to disclose why a change is preferable but does not require the government to disclose the prior or new methodology. Therefore, we believe many governments will simply disclose that they changed their methodology because it provided a more accurate estimate without providing further detail. If the Board believes that financial statement users need further information on how estimates are made, the Board should require specific disclosures in the applicable sections of the codification.

In addition, although not yet final, we do not believe the proposed disclosure requirement regarding preferability of changes in measurement methodology meets the requirements detailed in the Board's Exposure Draft (Revised), *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements-an amendment of GASB Concepts Statement No. 3*, related to essential and decision-useful notes to financial statements.

We also recommend the Board reconsider whether the current guidance for changes in estimate effected by a change in accounting principle should be superseded. Removing the guidance in Codification 2250, paragraph 133, means that practitioners lack guidance for these situations, particularly when the change is caused by a change in circumstance, new information, or more experience (i.e., a change in estimate not caused by a change in measurement methodology). The ED does not make clear whether such situations are subject to a preferability assessment.

Transition provisions

We recommend that transition be for fiscal years beginning after June 15, 2023 rather than reporting periods. Adoption as of a reporting period leads to inconsistent financial reporting for those governments that issue quarterly financial statements. If a government has a calendar year end, that government would be required to reflect the guidance in this ED in the third quarter, but not the first or second quarter or the annual report for 2023. We do not believe such reporting meets the Board's qualitative characteristics of financial reporting (i.e., understandability, reliability, relevance, timeliness, consistency, and comparability). We recommend the Board adopt a policy of issuing transition guidance based on fiscal year in all future pronouncements unless there is a clear reason to deviate from that policy.

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If you have any questions regarding our comments, please contact Heather Horn at heather.horn@pwc.com, Christina Dutch at christina.dutch@pwc.com, or Chris Salem at christopher.e.salem@pwc.com.

Sincerely,

PricewaterhouseCoopers LLP

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