

October 21, 2024

Financial Data Transparency Act  
Federal Register Number: 2024-18415  
Docket ID OCC-2024-0012  
File Number S7-2024-05

Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

On behalf of the staff of the Governmental Accounting Standards Board (GASB), we thank the Securities and Exchange Commission (SEC) for the opportunity to comment on the proposed rule for *Financial Data Transparency Act Joint Data Standards*, File Number S7-2024-05. The comments expressed in this letter are solely those of the GASB staff. Official positions of the Board are only reached after extensive due process and deliberations.

We do not express any views about the collections of information (section II-A), legal entity identifiers (section II-B), other common identifiers (section II-C), data transmission and schema and taxonomy format standards (section II-D), or general request for comment (section II-F). Our comments are limited to section II-E, as provided below.

## **Section II-E: Accounting and Reporting Taxonomies**

### **Definition of the Term *Taxonomy***

Section II-E of the joint rulemaking proposal requests comments on whether the Agencies should define the term “taxonomy.” We believe that term should be defined in the final joint rule because we believe different stakeholders presume the term is narrower or broader than the Agencies may intend. In addition, the proposal uses the term *taxonomy* simultaneously or interchangeably with (1) transmission standards, (2) schemas, and (3) taxonomies, which is consistent with the proposal’s footnote 12 as follows:

Within the field of data science, the terms “schema,” “taxonomy,” and “ontology model” are used in various and sometimes conflicting ways. For

example, sometimes the term schema refers only to the description of the syntax of a data asset, while other times, the term can refer to a description of the syntax, semantic meaning, and organizational structure. Similarly, sometimes the term taxonomy refers only to the description of the semantic meaning of a data asset, while other times, the term can refer to a description that includes syntax, semantic meaning, and hierarchical structure.

As a result, and consistent with the footnote cited, we believe the intended meaning of the term *taxonomy* within the proposed rule is unclear.

### **Joint Standards versus Specific Taxonomies**

Section II-E of the proposal communicates that the Agencies chose not to propose joint standards related to accounting and reporting taxonomies because the Financial Data Transparency Act (FDTA) does not explicitly require the Agencies to do so. However, the Agencies invited comments on the potential to include joint standards in a final rule and that such joint standards may be based on “certain properties”(option 1). The Agencies indicated that, alternatively, the final rule could include specific taxonomies listed as examples in the regulation (option 2). We appreciate the Agencies’ consideration of this issue, and we agree with the decision *not* to provide guidance about accounting and reporting taxonomies in the joint rulemaking process. Furthermore, we believe that a decision regarding accounting and reporting taxonomies is better suited for Agency-specific rulemaking, as each agency would be able to evaluate whether and what type of taxonomy is most appropriate for each collection of information that would be subject to the FDTA.

### ***Concerns with Options 1 and 2***

It is difficult to respond to option 1 without understanding the *properties* that the Agencies believe are necessary to describe a joint standard for taxonomies.

Also, we are concerned about option 2 because the proposal indicates that this path would entail the establishment of specific taxonomies for collections of information in a joint rulemaking effort. We are unsure whether this approach would require the enumeration of existing taxonomies as the formalized methods to provide information identified as collections of information. We believe that this approach is problematic because the taxonomies mentioned in the example are, in our opinion, not suitable to address state and local government financial reporting. If the taxonomies identified in the proposal are set forth in the final rule, and the rule only includes existing taxonomies, it is our view that governments in the municipal securities market would not have a suitable vehicle to communicate financial reporting information—assuming that the SEC identifies financial statements submitted to the Municipal Securities

Rulemaking Board (MSRB) as a component of the collections of information subject to FDTA implementation.

### ***Broad Concerns about Accounting and Reporting Taxonomies***

We advocate that the Agencies address the issue of accounting and reporting taxonomies in their Agency-specific rulemaking process because of the need to consider specific state and local governments' reporting requirements. We believe that our position is consistent with the requirements of Section 124(c)(1)(B) of the Financial Stability Act, which among other requirements, establishes that "the data standards must, to the extent practicable . . . use, be consistent with, and implement accounting and reporting principles."

The GASB staff has expressed an opinion since 2019 that each accounting and reporting taxonomy should be circumscribed, individually, to each of the three U.S. generally accepted accounting principles (U.S. GAAP)<sup>1</sup> that they purport to describe. That is, we believe that each U.S. GAAP framework should have its own stand-alone accounting and financial reporting taxonomy underpinned by each conceptual framework to the extent electronic reporting for the respective entities is required as a result of the implementation of FDTA.

Alternatively, if the Agencies consider as one of the properties of joint taxonomy standards the establishment of a single semantical model, we envision challenges. Establishing a joint standard for taxonomies or creating standardized data definitions or semantic meanings for specific data elements would be difficult considering the wide range of regulated and financial entities covered by the FDTA and the proposed joint rule. That is, we believe that a single GAAP semantical model for all entities reporting financial statements in the United States is not feasible. We also agree with the Agencies' view expressed in footnote 54 as follows:

Note that many of the Agencies' collections of information are authorized by statutes that permit or require the issuing Agency to use accounting and financial reporting standards other than U.S. GAAP, which may mean that the U.S. GAAP Taxonomy is not germane to such collections of information.

The accounting for governments is different from the accounting for for-profit business enterprises because, among other reasons, the entities affected have different organizational purposes, different stakeholders, different processes of generating

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<sup>1</sup> Rule 203 of the AICPA Code of Professional Conduct establishes that U.S. GAAP is promulgated by three standard-setting bodies as follows: (1) the Financial Accounting Standards Board, (2) the Governmental Accounting Standards Board, and (3) the Federal Accounting Standards Advisory Board.

revenues, different budgetary requirements, and a propensity for longevity. Users of government financial reports are broad and include the citizenry, legislative bodies, and those in the municipal market. Governments do not have equity owners and, consequently, measures such as earnings per share have no meaning to users of government financial reports. Creditors of both businesses and governments are interested in information on the ability to repay debt. Government creditors consider a government's "annual performance." In addition, they are concerned with (1) the government's ongoing ability and willingness to generate sufficient resources to cover its costs and repay its debts and (2) how the provision of services competes with debt repayment.

As a result of those differences, U.S. GAAP for state and local governments is created using a different conceptual framework than that for U.S. GAAP developed for other entities. The most relevant component of a conceptual framework is the definition of elements of financial statements such as assets, liabilities, or residual elements (equity, net position, net assets). Those definitions (and differences thereof) produce different recognition outcomes for transactions and other events. The FASB and GASB definitions of assets are not the same and, as a result, can produce different accounting conclusions. For example, under certain circumstances, a private-sector entity that purchases another entity and provides consideration larger than the prescribed measurement of the acquired entity will recognize goodwill as an asset. If the same circumstance eventuates when government A purchases government B, the element recognized is a deferred outflow of resources (not an asset).<sup>2</sup> There are countless examples of different reporting outcomes that element definitions provide. For this reason, we believe that a semantical model should be developed to accompany each accounting taxonomy that corresponds to the conceptual framework developed in each set of accounting and financial standards.

## Conclusion

We believe that an attempt to consolidate or standardize the meaning of financial data elements for the state and local governments covered under the FDTA necessitates changes in reporting requirements established by each Agency. As a result, we advocate for the Agencies to retain the position taken in the joint rulemaking proposal to not establish any guidance about accounting and reporting taxonomies in the joint

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<sup>2</sup> A deferred outflow of resources is an element of financial statements reported in a balance sheet or the statement of net position that represents "a consumption of net assets by the government that is applicable to a future reporting period" (GASB Concepts Statement No. 4, *Elements of Financial Statements*, paragraph 32).

rulemaking phase and to postpone those decisions for the Agency-specific rulemaking phase.

Also, we have begun the development of a *voluntary* governmental financial reporting taxonomy that state and local governments can use when reporting under the GASB U.S. GAAP framework. We are available to work with the SEC in expanding our taxonomy if this work is useful as the Agency-specific rulemaking is developed.

Lastly, we do advocate for the inclusion of a definition of the term *taxonomy*.

Thank you again for the opportunity to comment on the proposed rule for *Financial Data Transparency Act Joint Data Standards*, File Number S7-2024-05. If you have any questions regarding this response, please contact Alan Skelton at (203) 956-3474 or by email at [askelton@gasb.org](mailto:askelton@gasb.org) or Paulina Haro at (203) 956-3449 or by email at [pharo@gasb.org](mailto:pharo@gasb.org).

Sincerely,



Alan Skelton,  
Director of Research and Technical Activities  
Governmental Accounting Standards Board