Letter of Comment No. 2
File Reference: 26-5P
Date Received 9/9/13

State of Arkansas

Department of Finance and Administration

Preliminary Views of the Government Accounting Standards Board on major issues related to:

Fair Value Measurement and Application

Response by the State of Arkansas Department of Finance and Administration, Office of Accounting

Paul Louthian, Administrator

Brenda Horner, Assistant Administrator

Prepared by Gerald Plafcan, Accounting Manager

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To the Director of Research and Technical Activities

RE: Project 25-5P

We appreciate the opportunity to present our comments on the preliminary views of the Governmental Accounting Standards Board. The information needs of decision-makers and users of financial information require careful study and input from preparers.

The proposed definitions of fair value, acquisition value, and investments appear reasonable. The new definitions should not significantly change current practices.

The terms "observable inputs" and "unobservable inputs" are not sufficiently defined which could lead to errors in application and reduce comparability. In particular, "unobservable inputs" seems inadequate and misleading for the concept. We urge the Board to find a term that would be more understandable and better convey the concept that some inputs used to determine fair value are not directly related to the item being measured.

We object to the new disclosures being proposed. The proposed disclosures seem excessive and confusing. The time and effort necessary to compile and process the information necessary to produce the disclosures would be very significant and, in our estimate, would outweigh the perceived benefits.

On the following pages are our responses to the questions posed in the preliminary view document.

Issue 1—Definition of Fair Value

It is the Board's preliminary view that the definition of fair value should be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Chapter 2, paragraphs 3–6.) Do you agree with this view? Why or why not?

Response: We agree with the definition. It is consistent with FASB and IASB guidance. Changing the definition should not significantly change current practice

Issue 2—Transaction Costs

2. It is the Board's preliminary view that transaction costs to sell an investment should be treated as period costs. That is, transaction costs would not be a reduction of an investment's fair value in the statement of financial position. Transaction costs would be reported as expenses or expenditures in the period an investment is sold. (See Chapter 2, paragraphs 21 and 22.) Do you agree with this view? Why or why not?

Response: We agree with this view. This proposal is consistent with the treatment of bond issuance costs in GASB Statement 65.

Issue 3—Definition of an Investment

3. It is the Board's preliminary view that the definition of an investment should be a security or other asset that a government holds primarily for the purpose of income or profit, and its present service capacity is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry. (See Chapter 3, paragraphs 2–4.) Do you agree with this view? Why or why not?

Response: We agree with this view. The definition is consistent with the definition of an asset and sufficiently describes the purpose of an investment.

Issue 4—Measurement of Investments

4. It is the Board's preliminary view that investments generally should be measured at fair value on a recurring basis. (See Chapter 3, paragraphs 14–16.) Unless specifically excluded from a fair value measurement, investments would no longer be valued using amortized cost or other measures. (See Chapter 3, paragraph 19.) Do you agree with this view? Why or why not?

Response: We agree with this view. This provides a consistent measurement requirement for most investments and is consistent with the proposed definition of an investment. Use of a specific exclusion standard would indicate those investments for which fair value measurement is impractical or irrelevant.

Issue 5—Disclosures

5a. It is the Board's preliminary view that the disclosures discussed in Chapter 4 should be required. Are any of the proposed disclosures not essential to a financial statement user's understanding of financial position or inflows and outflows of resources? Why or why not?

Response: We find the proposed disclosures to be excessive. The time and effort that would be required to prepare the disclosure would exceed the benefits derived. We believe the disclosures in paragraphs 13 – 15 of Chapter would be excessive if such alternative investments are not significant to the reporting entity. If adopted, these disclosures should only be required if the alternative investments are significant to the entity.

5b. What other disclosures related to fair value should the Board consider? Why?
Response: No other disclosures should be considered. Current disclosure requirements are sufficient.