

September 30, 2013

Mr. David Bean, Director of Research and Technical Activities
Project Number 26-5P
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Submitted via email to director@gasb.org

Dear Mr. Bean:

Thank you for the opportunity to provide these comments regarding the Preliminary Views of the Governmental Accounting Standards Board (GASB, the Board) on major issues related to *Fair Value Measurement and Application* (the "PV"). The Board is to be commended for taking this step toward an Exposure Draft of a Statement of Governmental Accounting Standards rather than issuing an Exposure Draft on such a complex concept as fair value.

Overall Comments

Fair value is one of the most complex and controversial measurement concepts the relevance of which has been hotly debated in recent years. As a measurement technique, fair value can be extremely difficult to apply when observable inputs do not exist. In addition, it can be difficult for preparers, auditors, and users of any entity's financial statements to understand and interpret. Therefore, it is particularly important that the Board consider that many auditors and users of governmental financial statements are already familiar with the FASB's fair value concepts and requirements.

I am truly thankful the Board took on this project and has incorporated much of the guidance of the Financial Accounting Standards Board (FASB) in these preliminary views. In addition, I would like to thank the Board for preparing and disseminating a Plain Language Supplement combining this PV with the Proposed Statement of the Governmental Accounting Standards Board on concepts related to, *Measurement of Elements of Financial Statements*.

Questions for Respondents

Question 1 – Definition of Fair Value

As the proposed definition of fair value is consistent with the current definition in the literature of the FASB, I am in agreement with the Board's proposed definition of fair value. I believe the concept of fair value as currently defined in the FASB literature is appropriate to measure items currently required by the Board to be measured and/or reported using fair value..

Question 2 – Transaction Costs

I am in agreement with the Board’s preliminary view that transaction costs should be treated as period costs and not as a reduction of an investment’s fair value.

Question 3 – Definition of an Investment

I am not in agreement with the proposed definition of investment as I believe the requirement that an investment be held “primarily for the purpose of income or profit...” to be too restrictive. Some governments routinely invest in land to secure a favorable price today for land it may either use or sell in the future. The first part of the proposed definition appears to exempt land as an investment in this scenario even though such a transaction meets the second part of the proposed definition related to its present service capacity. If the Board persists in this definition of an investment, I would suggest that a survey of governments be conducted, among other things, to learn how extensive the practice of buying and holding land is and the extent the proposed definition would require reclassification from how such investments are currently recorded. I also base my disagreement with the proposed definition of investment as I believe (1) it differs significantly from how investments are currently defined in both the GASB and FASB literature and (2) there is no fundamental or cost-beneficial reason to change the current definition of an investment.

The examples in paragraphs 6 through 13 of Chapter 3 of the PV are very helpful in understanding the Board’s proposed definition of investment. However, the examples in paragraphs 10 through 12 support my comment above related to the primary purpose aspect included in the definition of investment. I believe most users of governmental financial statements would view all three of these examples as investments because the income from which (regardless of its frequency) provides current financial resources for the funding of programs. The nuances of the proposed definition of an investment do not add any useful decision making information for and will likely create confusion among users of governmental financial statements. In addition, the fair value of the examples in these paragraphs is easily determinable using Level One inputs.¹

Question 4 – Measurement of Investments

I agree with the Board’s preliminary view that investments should be generally measured at fair value on a recurring basis. In addition, I agree that the exclusions listed in paragraph 19 of Chapter 3 should continue to be excluded from being measured at fair value on a recurring basis.

However, I do not agree with the Board’s preliminary view that the items listed in paragraph 23 of Chapter 3 should be measured using acquisition value (which appears to be “replacement cost” in the Proposed Statement of the Governmental Accounting Standards Board on concepts

¹ The example in paragraph 10 of Chapter 3 aptly describes the Permanent University Fund created by the State of Texas to fund public higher education within the state. This is the only example of natural resources noted as meeting the proposed definition of an investment and it is interesting that Board member, Dr. Michael H. Granoff, is a long-time member of the McCombs School of Business faculty at the University of Texas at Austin. Others knowledgeable of these circumstances might view this to be less than objective standard setting.

related to, *Measurement of Elements of Financial Statements*) because I do not believe acquisition value is a useful and cost-beneficial measurement attribute.² As a concept of the FASB, fair value presumes the initial transaction price to be fair value and if it is not, adjustments are made accordingly to reflect the market, orderly, etc. aspects of fair value. By defining acquisition value as an entry price and concluding it is appropriate for the items listed in paragraph 23, you are creating what will likely be a minimal difference between acquisition value and fair value as defined and discussed in this PV. In addition, because acquisition value as proposed is an “entry” price measurement based on entity-specific circumstances, comparability among governments would be limited, if at all.

There seems to be very little cost-benefit to using acquisition value versus historical cost or fair value. For example, in a service concession arrangement, the price the government would pay for the transferred asset may likely be the same, or nearly the same, as the exit price (i.e. the price the transferor is willing to accept for the assets transferred). The concept of acquisition value is one that will require significant judgment when developing inputs and assumptions by governments in determining what they would pay to acquire the items delineated in the PV. As such, it will create another area where comparability among governments will not be achieved.

Question 5 – Disclosures

I am in agreement with the Board’s preliminary views regarding fair value disclosures except for those related to investments in certain entities that calculate net asset value (NAV) per share. While most of the discussion in paragraphs 13 and 14 of Chapter 4 is consistent with the FASB guidance in 820-10-50-6A of the FASB Accounting Standards Codification™, there are some differences. In an area this complex, I do not understand why the existing FASB literature was not embraced in full in the preliminary views. For example, in paragraph 14 (d), the term “likely” is used where the FASB uses the term “probable” (820-10-50-6A item g). Likewise, the wording in paragraph 14 (e) is less clear than that in 820-10-50-6A item h.

I am not clear how a government would obtain the information paragraph 14 (f) requires. Therefore, I do not believe that providing such disclosures would be cost-effective and therefore do not agree with the Board’s preliminary views with respect to this item.

As always, thank you for the opportunity to respond to this due process document. Should you have any questions regarding the above, please contact me at (407) 869-9254 or lkmdennis@gmail.com.

Sincerely,

Lynda M. Dennis, CPA, CGFO, PhD

² Similar comments are noted in my comments dated September 30, 2013 on the Proposed Statement of the Governmental Accounting Standards Board on concepts related to, *Measurement of Elements of Financial Statements*.