Letter of Comment No. 17 File Reference No. 26-5P Date Received: 9/30/13



September 25, 2013

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

Re: PV on Fair Value Measurement and Application (Project No. 26-5P)

Dear Sir:

The Michigan Government Finance Officers Association (MGFOA) has reviewed the Preliminary Views of the Governmental Accounting Standards Board on major issues related to Fair Value Measurement and Application, dated June 3, 2013. We offer the following comments and observations:

Issue 1—Definition of Fair Value

We understand that the Board's proposed definition is consistent with its Exposure Draft for the Concept Statement on Measurement of Elements of Financial Statements. As long as the Concept Statement is approved as presented in the ED, we agree with this view. We believe that the related Concept Statement is important as it emphasizes that there may be situations in which something other than an exit price is the most appropriate measure to use, and presents options other than fair value to use in those cases.

Issue 2—Transaction Costs

We agree with the Board's view. Transaction costs are not part of the inherent value of an investment, but rather associated with the act of buying or selling the investment.

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Issue 3—Definition of an Investment

We are concerned that the Board's proposed definition is not sufficiently clear. While we believe we understood the intent, a discussion of real-life situations led to some disagreement on application; for instance, would a capital asset that is acquired for purposes of income or profit be considered an investment and then be reported at fair value? What if the profit was gained while providing services to residents? While most governmental assets are not held primarily for the purpose of income or profit or the ability to generate cash, we believe that in certain limited cases an asset could simultaneously meet the existing definition of a capital asset and the proposed definition of an investment. We recommend that the Board modify its proposed definition of investments, accordingly.

Issue 4—Measurement of Investments

We agree with the Board's view. Since the Board plans to scope certain types of investments out of the requirement for fair value measurement, and we always have the option of excluding immaterial items from this calculation, there is no obvious need for other measures, such as amortized cost.

Issue 5—Disclosures

In general, we support the Board's suggested note disclosures. However, we would also encourage some plain-language disclosure requirements such as "determining the fair value of certain investments requires the use of estimates", and "actual results may vary". Further, we would appreciate additional clarification on the Board's example of the "marketability" and "control premium" unobservable inputs, which we found to be somewhat less than completely explained.

These comments represent the consensus opinion of the Accounting Standards Committee and have been approved by our Board of Directors. Thank you for your consideration and the opportunity to express our points of view.

Very truly yours,

Karen Lancaster, President Michigan Government Finance Officers Association