August 15, 2014

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

Re: Project No. 26-5E — Exposure Draft of Proposed GASB Statement Fair Value Measurement and Application

Dear Mr. Bean:

Deloitte & Touche LLP is pleased to comment on the exposure draft of a proposed GASB Statement, Fair Value Measurement and Application.

We agree with the proposed guidance on fair value measurement and application. A consistent definition of fair value and additional guidelines on when to apply fair value to investments will improve the comparability and decision usefulness of financial statement information. In addition, we have outlined some recommendations to improve the proposed Statement in the appendix below.

Deloitte & Touche LLP appreciates the opportunity to comment on the proposed Statement. If you have any questions concerning our comments, please contact Adrian Mills at (203) 761-3208.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl
    W. Michael Fritz
Consistency With the FASB’s Guidance

We agree that the concept of fair value should not be different for governmental entities and those that apply the FASB’s standards. ASC 820\(^1\) provides conceptually sound, time-tested guidance on how to measure fair value, and it “has met its objectives” according to the Financial Accounting Foundation’s post-implementation review. Accordingly, we support the GASB’s decision to align the definition of fair value with that in ASC 820.

However, we recommend that to reduce the potential for inconsistent interpretations by constituents, the Board clarify whether the following ASC 820 guidance applies to fair value measurements by government entities:

- **Application to financial assets and financial liabilities with offsetting positions** — ASC 820-10-35-18D through 35-18H allow for an exception to the general requirements for measuring fair value for each financial unit of account (as defined by other standards) separately when an entity manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risks. The exception, which is commonly used by entities with derivative portfolios, permits an entity to measure fair value on the basis of the price that would be (1) received to sell a net long position (i.e., an asset) for a particular risk exposure or (2) paid to transfer a net short position (i.e., a liability) for a particular risk exposure.

- **Blockage factor** — The proposed Statement prohibits an entity from applying a blockage factor for Level 1 inputs (i.e., those inputs for which there is an active market for the identical investment). This guidance is consistent with ASC 820. However, unlike the proposed Statement, ASC 820 also prohibits a blockage factor for investments that are traded in inactive markets or are not traded (i.e., those with Level 2 and Level 3 inputs). ASC 820-10-35-36B and the related discussion in paragraphs BC73 through BC80 of the Basis for Conclusions in ASU 2011-04\(^2\) describe the FASB’s guidance and its intent. This guidance indicates that making an adjustment because the entity’s amount of a holding in an investment is in excess of the market’s normal trading volume is not consistent with the market participant approach to a fair value measurement (i.e., it is entity specific). Accordingly, such an adjustment is not permitted at all levels of the hierarchy (unless another standard indicates that the unit of account is the entire holding).

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1. FASB Accounting Standards Codification Topic 820, *Fair Value Measurement*.
Transition

We are concerned that constituents may incur undue costs and expend excessive effort to analyze whether retrospective application of the final guidance is practical. We recommend that the Board require prospective transition for changes in fair value measurement methods and disclosures. Such an approach is consistent with the transition guidance in Statement 157\(^3\) (i.e., ASC 820) and the concept in paragraph 22 of the proposed Statement that changes in fair value methods are changes in estimates.

We recommend that the Board require that a cumulative-effect adjustment be made to the beginning net position for the period of adoption (i.e., the current period) for measurement attribute changes from cost to fair value. Similarly, for measurement attribute changes from fair value to cost (i.e., for those assets no longer measured at fair value), we support a cumulative-effect adjustment or the use of the current carrying value (i.e., the fair value) as the initial cost basis.

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\(^3\) FASB Statement No. 157, *Fair Value Measurements* (superseded).