August 14, 2014

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

Subject: Project # 26-5E

Dear Board and Staff,

The Utah Retirement Systems (URS) appreciates the opportunity to comment on the Governmental Accountings Standards Board’s Exposure Draft (ED) regarding “Fair Value Measurement and Application.” URS is responsible for administering defined benefit plans and defined contribution plans for the benefit of State, local governmental, and public education employees in the state of Utah. URS is comprised of six defined benefit systems. The Public Employees Noncontributory Retirement System, Public Employees Contributory Retirement System, and the Firefighters Retirement System are multiple employer cost-sharing public employee retirement systems; the Public Safety Retirement System is a mix of agent and cost-sharing, multiple-employer employee retirement systems, and the Judges Retirement System and the Utah Governors and Legislators Retirement Plan are single-employer service employee retirement systems. URS has over 460 participating employers. URS also administers five defined contribution plans.

We would like to thank GASB for considering changes to the Fair Value Measurement and Application ED. We are in general agreement with the ED as we believe users of financial statements deserve to know how URS investments are valued and what portion of our plans investments are valued using valuation techniques with observable inputs (more reliable) and which portion of investment positions are valued using valuation techniques with unobservable inputs (less reliable).

- URS agrees with the Board’s decision to eliminate the disclosure regarding quantitative analysis and we concur with the Board’s reasoning for doing so. As a pension plan, we already prepare detailed disclosures regarding the risks associated with various types of investment instruments. We agree that the additional schedule showing the fair value hierarchy would provide some useful information to a limited number of users of our financial statements.
• We disagree with the Board’s requirement to include a narrative description of the valuation techniques used to measure fair value (paragraph 78(a)(3)) and the disclosure of a change in valuation technique that had a significant impact on income (paragraph 78 (a)(4)). This year URS’ custodial bank is reporting around 20 different pricing types. Our custodial bank provides us with a pricing guide that includes descriptions for some of the pricing types as using “extrapolated data, proprietary model, and indicative quotes.” URS believes very few users of our financial statements would gain any useful information regarding the types of valuation techniques used across the thousands of investments pension plans hold.

• URS also agrees with the Board’s decision to not include a reconciliation of level 3 inputs. With the large volume of transactions occurring in pension funds and the exclusive benefit to which it would apply, this disclosure would have provided little benefit in comparison to the cost to prepare.

• We disagree, however, with the disclosure (see paragraph 78(a) (5)) to report the effect of level 3 non-NAV investments on income. Because of the large volume of transactions occurring throughout the year in a pension fund, we believe the task to track this information would be costly and have little value to the users of our financial statements. We would only be disclosing a subset of a larger subset of investments and will not provide any essential information for the users. Our initial evaluation shows only 3% of our investments are level 3 other than NAV. We believe the same reasons the Board proposed to not include the reconciliation of level 3 investments are applicable to this requirement as well.

• URS’ agrees with the Board’s approaches and rules permitting the use of a practical expedient for investments that calculate a NAV. We do find the ED to be vague regarding the use of NAV by referring to “the Financial Accounting Standards Board’s measurement principle for investment companies.” It becomes cumbersome for government entities to have to dig through FASB standards to determine how to report under GASB standards.

• URS is comfortable with the layout of the sample disclosures for pension funds provided in the ED with the following exceptions:
  o In FASB 157/ACS 820, private equity was not classified under hedge fund investments as reflected in this disclosure. We believe both real estate and private equity should be their own classifications.

• 87% of our commercial mortgage-backed securities and collateralized debt obligations are classified as level 2 by our custodian. Also, 93% of our residential mortgage-backed securities are classified as level 2 by our custodian. The ED disclosure reflects the majority or all of these investments would be in level 3, which may be misleading.

• URS does not agree with the requirement outlined in paragraph 79 for investments in entities that calculate a NAV per share (or its equivalent). URS owns hundreds of these types of investments and disclosing this information concerning the nature and risk of the investments does not have value to the user of the financial statements. URS is also concerned about the requirement to disclose plans to sell a portion of these investments for an amount different from the current NAV per share. Disclosing plans to sell a number of investments or a portion could impact the sale price of the investment and breach trust and fiduciary duty.
The cost to implement – GASB 67 and 68 increased our audit hours from 1,560 to 3,600 hours, increasing our costs 131%. Additional fees will also be incurred for the SOC1 audit. We are concerned what impact this new standard would have on our audit costs as well. In addition to audit costs, each standard places other financial burdens on governments that have limited resources with which to comply. With pressure increasing across the nation to cut governmental costs, we urge the Board to consider the cost/benefit of each new standard as it relates to pension plans and other government agencies. Standards that may be relevant for government agencies at times can be impractical for public pension plans such as URS. Language within the proposed standards could provide alternative disclosures or exceptions for pension funds from other government agencies whose investment portfolios are substantially smaller and have a much different investment mix than a pension plan.

In summary, URS is in agreement with the Board that our members and users of our financial statements deserve to know what portion of plan investments are valued using valuation techniques with observable inputs (more reliable) and which portion of investment positions are valued using valuation techniques with unobservable inputs (less reliable). We strongly believe the volume of additional disclosures required outside paragraph 78(a) (1) and (2) would provide very limited benefit to the users of our statements at a price that would considerably outweigh the benefit.

URS appreciates the Board’s time and review of our comments. Once again, URS is pleased to be involved in what we view as a critical step in the process of standard setting for governmental entities.

Sincerely,

Daniel D. Andersen
Executive Director

Robert K. Kellersberger
Finance Director