August 15, 2014

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

Re: Proposed Statement on Fair Value Measurement and Application (Project No. 26-5E)

Dear Sir:

The Michigan Government Finance Officers Association (MGFOA) has reviewed the Proposed Statement of the Governmental Accounting Standards Board on Fair Value Measurement and Application, dated May 5, 2014. We offer the following comments and observations:

Valuation Techniques and Approaches (Paragraph 21)

We are concerned that the Board’s valuation technique to recalibrate the fair value of a government’s assets or liabilities using unobservable inputs, rather than the fair value transaction price at initial recognition, will provide less accurate measurements of the assets and liabilities. We believe that the transaction price at initial recognition would provide the most accurate representation of the government’s fair value.

Fair Value Hierarchy of Inputs

We support the Board’s prioritizing of fair value hierarchy of inputs. We also support the alignment of the Board’s fair value hierarchy of inputs prioritization with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820.

Investment Measurement and Other Statements (Paragraph 69, Section F(3))

We are concerned that without the significant factors considered in the Basis for Conclusions that the treatment of investments in joint ventures or component units as provided in Statement 14, as amended, will be treated incorrectly. We suggest that the board incorporate the following wording into this section, “If a government owns common stock that meets the criteria for either the equity or cost method but that ownership does not meet the definition of an investment, the equity or cost method should continue to be applied”.

Recognition and Reporting

In general, we support the Board’s suggested recognition and reporting of changes in the fair value of investments. When changes in fair value of investments are identified separately as an element of investment income, we would appreciate more flexibility in the identification of this change. We believe that ‘net increase (decrease) in the fair value of investments’ is too prescriptive and other captions such as ‘net change in fair value of investments’ would provide the same value to the users of the financial statements.

Definitional Differences

We noted that the term “Investment” as defined in the Proposed Statement Glossary, differs from the definition in paragraph 66 of the Proposed Statement. In our review of the Proposed Statement it appears that the definition talks about investments being “held” with the expectation of income, while paragraph 66 talks about them being “acquired” with that expectation.
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 point of view.

Very truly yours,

[Signature]

Thomas Skrobola, President
Michigan Government Finance Officers Association