July 31, 2014

David Bean, Director of Research and Technical Activities
Project No. 26-5E
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: GASB Exposure Draft – Fair Value Measurement and Application

Dear Mr. Bean:

We appreciate the opportunity to respond to the GASB’s Exposure Draft (ED) Fair Value Measurement and Application. Generally, we agree with the requirements of the ED and agree that there is a need to (1) clarify the definition of fair value for financial reporting purposes, (2) establish general principles for measuring fair value and (3) enhance the fair value application guidance. Our specific comments follow.

Paragraph 3 and Appendix D (section I60). Codification Instructions for Section I60 – Securities Lending identifies that GASB 40, paragraph 10, is amended by paragraphs 77 and 78 of this ED; however, paragraph 3 does not identify that GASB 40 is amended by this ED. We suggest amending the Scope and Applicability of This Statement section, paragraph 3, to include that this ED amends GASB 40.

Paragraph 5. “Measurement date” is not defined in the ED. Paragraph B6 of the Basis for Conclusions (BFC) states some respondents to the Preliminary Views expressed confusion between the term measurement date in the definition of fair value and the financial reporting date. The BFC goes on to explain the measurement date is determined by the standards that require the fair value measurement and that the measurement date can be different than the financial reporting date. We suggest incorporating this information into the statement, possibly in paragraph 5 (general principles), or paragraph 83 (glossary).

Paragraph 8. The second sentence states “the unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for recognition purposes as provided by the accounting standards.” Because this is written as “the accounting standards,” it comes across to the preparer that the Board is referencing a specific standard. We suggest clarifying which accounting standards are being referred to in paragraph 8.

Paragraph 8. The fourth sentence states “the measurement attributes are historical cost, fair value, replacement cost, and settlement value.” Concepts Statement No. 6, paragraph 34 lists the four measurement attributes for elements of traditional financial statements as “historical cost, fair value, replacement cost and settlement amount.” We suggest revising paragraph 8, sentence 4 to end with “settlement amount” to be consistent with Concepts Statement No. 6. The Board may also consider adding a footnote that states these four measurement attributes are defined in Concepts Statement No. 6.

Paragraph 10. We believe that governments generally would not knowingly sell assets or transfer liabilities on a routine basis in markets that do not provide the best value for the items being sold. Therefore, we agree with the Board that governments need not undertake exhaustive searches of all possible markets to identify the principal market and governments should take into account all reasonably available information. In addition, we agree that the market in which a government normally would enter into a transaction to sell an asset or transfer a liability is presumed to be the principal (or most advantageous) market.
Paragraph 11. This paragraph states that “if there is a principal market for the asset or liability, the fair value measurement should represent the price in that market…, even if the price in a different market is potentially more advantageous at the measurement date.” We feel this is reasonable, because it would be more conservative and a consistent approach to measuring assets (or liabilities) based on the market the government would generally use to sell an asset (or transfer a liability).

Paragraphs 42-43 and B24. The ED establishes a hierarchy of inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted market prices included within Level 1 that are observable. Level 3 inputs are unobservable inputs. We would like the Board to include more specific examples and illustrations of the types of investments that would be classified as Level 3.

Paragraph 72. We agree with the Board that donated capital assets, donated works of art, historical treasures and similar assets, and capital assets received in service concession arrangements should be measured at acquisition value. This is consistent with the measurement of other capital assets, such as buildings, equipment, etc.

Paragraph 77. This paragraph requires disclosures to be organized by type or class of asset or liability with the level of detail and disaggregation and the amount of emphasis to be placed on each disclosure requirement to take into account several considerations, including the type of government (sub-paragraph e). The ED goes on to say “for example, a primary government’s total investments may not be exposed to concentration risk. However, if the government’s capital projects fund has all of its investments in one issuer of corporate bonds, disclosure should be made for the capital projects fund’s exposure to a concentration of credit risk.” While we understand this could be significant to the capital projects fund in this example, we’re wondering if this only applies if the capital projects fund is a major fund of the government. Auditor’s express an opinion on each major governmental fund and the aggregate remaining nonmajor governmental funds as a whole. If the capital projects fund is not a major fund, it would be rolled into the “nonmajor governmental funds” column of the fund financial statements and therefore, may not be considered significant to the nonmajor governmental funds as a whole. We would appreciate if the Board would clarify this example and/or consider changing the language to say “…a government may consider disclosure for the capital projects fund’s exposure to a concentration of credit risk.”

Paragraph 77. We agree with the Board’s opinion, in sub-paragraph g, that a state government may consider reduced disclosures of Level 3 inputs of hedging interest rate swaps if the state’s housing finance authority (a discretely presented component unit) already provides detailed disclosures in its separately issued financial statements. We suggest describing how a government should decide what is appropriate to exclude from the disclosures in these circumstances.

Paragraph 78. We suggest adding the definitions of recurring fair value measurements and nonrecurring fair value measurements to the glossary in paragraph 83.

Paragraphs 80 & 82. We agree with the Board that restatement of assets that will no longer be measured at fair value should not be required if it is not practical. We also agree that it is appropriate to use acquisition value to value donated capital assets, donated works of art, historical treasures, & similar assets, and capital assets received in service concession arrangements on a prospective basis to new transactions.
Paragraph 83. In addition to the suggested additions to the glossary above, we also suggest adding definitions for terms that are more technical in nature such as “control premium” (paragraph 28) and “blockage factor” (paragraph 29).

Illustration 1. The fourth sentence says “those standards prescribe measurement attributes such as historical cost, fair value, acquisition value, and settlement value.” Should this sentence be revised to the measurement attributes per Concepts Statement No. 6: historical cost, fair value, replacement cost, and settlement amount?

If you have questions or need additional information regarding this response, please do not hesitate to contact Kim Knight at (515) 281-6523.

Sincerely,

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