August 11, 2014

Mr. David R. Bean
Director of Research and Technical Activities
Government Accounting Standards Board (GASB)
Project No. 26-5E
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Statement of the Governmental Accounting Standards Board on Fair Value Measurement and Application

Dear Mr. Bean,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to the GASB’s exposure draft on the Proposed Statement of the Governmental Accounting Standards Board (GASB) on Fair Value Measurement and Application. Our organization represents 345 audit organizations, totaling more than 1,900 members. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the exposure draft in its entirety. In general, the proposed Statement appears reasonable. However, we offer the following comments for your consideration:

**Scope and Applicability of This Statement**

Paragraph 2 – Consider clarifying in this paragraph that this Statement would require fair value measurements for certain investments not previously measured at fair value but would not extend the application of fair value measurements to other assets and liabilities that previously were not measured at fair value. This is discussed in Appendix B. Nevertheless, adding this language in paragraph 2 would provide clarity to the scope and applicability section of this proposed Statement, especially since the Statement doesn’t discuss this topic until paragraphs 64-76.

**General Principles**

- Paragraph 5 – Consider defining “measurement date.” The use of the term is explained in Appendix B, Basis for Conclusions; however, it could be beneficial to touch on this date within the proposed Statement to help further clarify the difference between the measurement date and the financial reporting date.

- Paragraph 7 – Consider providing an example of a “group,” such as a partnership, in order to be consistent with the example provided for a stand-alone asset or liability and to help further clarify paragraph 8.
• Paragraph 8 – Since the proposed Statement is focused on the fair value measurement attribute, consider rewording this paragraph to clarify this point when defining “unit of account.” For example, consider replacing the 3rd and 4th sentences with, “The unit of account is not unique to the fair value measurement attribute, and the way the assets and liabilities are measured vary depending on the measurement attribute applied.” Then define measurement attributes in the last sentence (bold and put in glossary) to tie in with the Concepts Statement No. 6, Measurement of Elements of Financial Statements.

• Paragraph 9 – To eliminate some redundancy and inconsistency, consider removing the last sentence since the discussion of “costs” is included in Paragraph 16.

• Paragraph 15 – To clarify how a government should identify characteristics that distinguish market participants, consider including the characteristics listed in the Glossary within this paragraph. Also consider removing the factors listed within this paragraph, as they seem self-explanatory. For example, consider replacing the last two sentences with, “When developing assumptions, the government should identify characteristics that generally distinguish market participants. Market participants should have all of the following characteristics: …”

• Paragraph 16 – Consider clarifying that the transaction costs should be considered when determining the advantageous market in order to maximize income or minimize losses, as discussed in Appendix B, Basis for Conclusions.

Valuation Techniques and Approaches
• Overall – Consider using a term other than “inputs.” The Glossary defines “inputs” as the assumptions that market participants would use. Since the terms “market participants” and “assumptions” are used throughout this Statement, introducing another term hinders the readability of the Statement and causes redundancies within the Statement. If the use of another term besides “assumptions” is necessary, consider using the term “elements.” The definition of the term “elements” is a component or constituent of a whole or one of the parts into which a whole may be resolved by analysis. The term “assumptions” or “elements” is more intuitive in nature than the term “inputs,” which is more in keeping with data entry.

• Paragraph 31 – Consider bullet pointing the three levels of inputs to help emphasize the individual levels, and to provide clarity on the definitions of these levels.

• Paragraphs 39 through 44 – To help improve readability and clarity on how the fair value hierarchy applies to net asset value (NAV), consider merging paragraphs 73-76 with paragraph 44 in order to fully capture the understanding of how NAV applies to fair value in one location. Also consider adding a reference to the NAV paragraphs within the Level 2 and Level 3 Inputs sections.

• Paragraph 42 – There is a statement in this paragraph noting that a government should adjust unobservable inputs if “reasonably available information indicates that other market participants would use different data.” To improve consistent use of Level 3 Inputs, consider providing in this paragraph or Appendix, Illustration 3, an example of what reasonably available data would include.

• Paragraph 43 – Consider removing the first sentence of this paragraph. This sentence is the definition of “inputs” and seems redundant.
• Paragraph 45 through 51 – The Level 3 Inputs section is the only inputs section that references these paragraphs. Further, paragraph 45 uses the term “professional judgment,” which would indicate that these measurements would be classified as Level 3 inputs. If the intent is for these instances to be considered Level 3 inputs, consider clarifying that intent within these paragraphs.

• Paragraph 47 – Consider clarifying the steps that a government should perform to calculate a risk premium. This paragraph is somewhat vague in stating simply that a risk premium calculation should be done, but not stating some of the considerations that should be given when calculating this. Clarifying some of the general considerations that should be included in risk premium calculations would provide more uniformity across governmental entities in these calculations.

• Paragraphs 52 through 54 – If the intent, as implied in paragraph 52, is that quoted prices can be considered a Level 1 or Level 2 input, consider clarifying this intent.

Measurement Principles

• Paragraphs 55 through 57 – To improve readability, consider adding a reference to paragraphs 65-68, which discuss the considerations in determining “highest and best use.”

Application of Fair Value to Certain Assets and Liabilities

• Paragraphs 69, 72 and 82 – We understand that there are exceptions to the application of the fair value measurement attribute, as implied in the section, Scope and Applicability of this Statement. However, these paragraphs do not seem applicable to this Statement, since there are other Statements, as referenced, that provide authoritative control over these transactions and application of other measurement attributes. Since the purpose of this Statement is not to be the authoritative control over application of all measurement attributes, we suggest removing these paragraphs or moving all exceptions to an appendix within the Statement to help alleviate the chance that updates to other Statements are not unintentionally omitted from this Statement. Alternatively, the exceptions might be better suited as a Q&A in the GASB Implementation Guide, in order to have a central location that references the different Statements and when they should be applied.

Respectfully submitted,

Harriet Richardson
Chair, Professional Issues Committee

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