Letter of Comment No. 3
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STATE OF TENNESSEE
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September 25, 2013

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

Dear Mr. Bean:

On behalf of the Tennessee Department of Audit, we thank the GASB for the opportunity to comment on its proposed Preliminary Views (PV), Fair Value Measurement and Application. We generally agree with the PV. We generally agree with the board’s conclusions for issues 1, 3, 4, and 5. However, as noted below we disagreed with the board’s conclusion on issue 2 (transaction costs).

**Issue 2—Fair Value Measurements**

In regard to Chapter 2 ¶21, we believe transaction costs are similar in nature to ancillary charges related to capital assets. That is, transaction costs are part of the basis costs of the investments, not separate identifiable transactions. GASB 37 ¶6 indicates that, “The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use.” GASB 34 ¶18 states that, “Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees.”

In addition, for ¶40 (“highest and best use”), we recommend clarifying the description within the third sentence (i.e., “Highest and best use refers to a market participant’s ability to generate economic benefits by using the asset according to its highest and best use or by selling it to another market participant who would use the asset according to its highest and best use.”). “Highest and best use” is used three times in this description and really presents a circular description. We realize that this is the exact same language as used by FASB in ASC 820-35-10. However, we suggest the following language: “‘Highest and best use refers to a market participant’s ability to
generate economic benefits by maximizing the use or value of the nonfinancial asset or group of assets and liabilities by selling it to another market participant who would use the asset.”

**Issue 5 – Disclosures**

For Chapter 4 (disclosures), we question why the lower of carrying value or fair value would be allowed in ¶8 since the proposed Concept Statement Exposure Draft (ED) on *Measurement* states in ¶55 the LOCOM (lower of cost or market) is a multiple attribute method and produces a biased measurement that was the lower of two values selected. Should the conclusion for the example of the impaired capital asset be reevaluated to use only fair value unless the amount was not representationally faithful.

Furthermore, in ¶14 related to “whether the investments are likely to be sold,” we believed this needs to be clarified from the perspective of how much effort would be needed (costs/benefits). The disclosure should be based on currently known facts at the statement of net position date, not “what if” scenarios.

In regard to ¶15 (page 26), the board indicates that these additional disclosures would be “useful.” Concept Statement 3 requires that disclosures should be essential to a user’s understanding of amounts in the financial statements. “Useful” does not meet that threshold.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,

Deborah V. Loveless, CPA
Director, Division of State Audit