September 26, 2013

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

Dear Mr. Bean:

We have read the Governmental Accounting Standards Board’s (Board) preliminary views (PV) on major issues related to *Fair Value Measurement and Application* and generally agree with Board’s preliminary views on this topic. Our responses to the questions posed by the Board in the PV are included below.

**Questions for Respondents**

**Issue 1—Definition of Fair Value**

1. *It is the Board’s preliminary view that the definition of fair value should be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Chapter 2, paragraphs 3–6.) Do you agree with this view? Why or why not?*

Yes, we agree that this definition is appropriate since the underlying concept is that the exchange is based upon market participants that are presumed to be protecting their own self-interest consistent with an orderly transaction.

**Issue 2—Transaction Costs**

2. *It is the Board’s preliminary view that transaction costs to sell an investment should be treated as period costs. That is, transaction costs would not be a reduction of an investment’s fair value in the statement of financial position. Transaction costs would be reported as expenses or expenditures in the period an investment is sold. (See Chapter 2, paragraphs 21 and 22.) Do you agree with this view? Why or why not?*

Yes, we agree that transaction costs should be treated as period costs as this would be consistent with the objective of achieving interperiod equity.

**Issue 3—Definition of an Investment**

3. *It is the Board’s preliminary view that the definition of an investment should be a security or other asset that a government holds primarily for the purpose of income or profit, and its present service capacity is based solely on its ability to generate cash, to be
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sold to generate cash, or to procure services for the citizenry. (See Chapter 3, paragraphs 2–4.) Do you agree with this view? Why or why not?

Yes, we agree with the Board’s definition of an investment and we appreciate the examples of investments found in Chapter 3 paragraphs 5-13. We request that in a future exposure draft, examples that address hedging instruments also be presented.

Issue 4—Measurement of Investments
4. It is the Board’s preliminary view that investments generally should be measured at fair value on a recurring basis. (See Chapter 3, paragraphs 14–16.) Unless specifically excluded from a fair value measurement, investments would no longer be valued using amortized cost or other measures. (See Chapter 3, paragraph 19.) Do you agree with this view? Why or why not?

We agree with the preliminary view to generally value investments at fair value on a recurring basis. We agree that this would allow for gains and losses to be recognized throughout the life of the investment.

Issue 5—Disclosures
5a. It is the Board’s preliminary view that the disclosures discussed in Chapter 4 should be required. Are any of the proposed disclosures not essential to a financial statement user’s understanding of financial position or inflows and outflows of resources? Why or why not?
5b. What other disclosures related to fair value should the Board consider? Why?

We are concerned with the growing amount of disclosures regarding investments that would be "essential" for the majority of financial statement users. For example, on page 35 of the ED, the disclosure informs the reader of the valuation technique used, which we find appropriate. However, we consider the additional disclosures of the nature of the unobservable input and the corresponding weighted average range as not essential for the vast majority of users. We offer no other suggestions regarding additional disclosures related to fair value.

We appreciate the opportunity to provide feedback on these important issues. If you have any questions regarding our comments, please contact me or Craig M. Murray, C.P.A., Director of Professional Practice.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Via e-mail