September 28, 2013

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

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB or the Board) on the preliminary views document entitled \textit{Fair Value Measurement and Application} (PV). The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has reviewed the PV and generally agrees with the views expressed by the Board regarding the definition of fair value and the methods used to measure fair value. Fair value, as presented in the PV, is defined as 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. We believe that the proposed definition clarifies several key aspects in defining fair value. The new definition clarifies that fair value is a market based measurement, not a measurement specific to the government or entity.

However we are concerned that the resulting benefits from the concepts discussed in the PV may disproportionately increase the burden upon preparers and auditors relative to the significance of the items affected by the pronouncement. We would ask that the Board examine the issue of cost benefit before it moves forward on this matter.

We have several comments to offer the Board relative to the PV, which we are providing in addition to our comments relative to the specific question posed. Following are our comments.

Chapter 2

In Chapter 2, paragraph 21 the Board states that transaction costs should be reported in the period incurred and not used as an adjustment to the fair value measurement. The FMSB supports this approach to accounting for transaction costs as it provides for measurement of the incremental costs only when such incremental costs are actually incurred, not when the asset is re-measured.
In Chapter 2, paragraphs 43 and 44 of the PV, the Board presents the view that governments should be permitted to calculate fair value of investments that do not have a readily determinable fair value by using a practical expedient. Paragraphs 43 and 44 then proceed to discuss a specific class of investments. We believe that the Board needs to clarify some of these matters. The Board should define the term “practical expedient” if the term is used moving forward. Paragraph 43 would also appear to allow application of a practical expedient to a wide range of investments without a readily determinable fair value, yet the application appears to be limited to a small class of equity securities based upon the discussion on paragraph 43 and the definition of “readily determinable fair value” in the glossary which is again limited to a specific type of investment. The result is inconsistent with the words. If it is the intent of the Board to restrict this approach to only this class of investments, it should define the term “practical expedient”, or rewrite this section to clarify the application of this approach. It should also either develop a term other than “readily determinable fair value” to convey its intent or clarify the definition.

Chapter 3

Paragraph 2 of Chapter 3 states that, “It is the Board’s preliminary view that an investment should be defined as 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 sold to generate cash or to procure services for its citizenry.” We believe that the word “provide” should be substituted for the word “procure” in this sentence as “procure” has a specific meaning relative to government organizations that is more limited.

Under paragraphs 5 through 13, the PV provides various examples intended to show differences in items that are held for investments versus items that are not held for investment. We believe that such examples are a positive feature and useful for the preparer and auditor. We might suggest that if this document moves into the exposure draft phase, the Board should also consider addressing the issue of a sports stadium or complex among the examples. Most of these large facilities are associated with a sports team and were intended to generate a positive cash flow for the government. However, in actual practice, a positive cash flow may or may not occur within a given reporting period or over the life of the facility. Would these facilities be classified as an investment? Such circumstances may, in many cases, be material and deserve special attention in any ultimate standard. We recommend that this be addressed.

Chapter 4

In reviewing Chapter 4, paragraph 11 through 12, the FMSB believes that the disclosure requirements set forth are too burdensome relative to the expected benefits it would provide. Likewise, the FMSB believes that the requirements of paragraph 13 present a burdensome requirement relative to benefits to be derived.

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?
FMSB Response: The FMSB agrees with the definition of fair value as stated in the PV. The definition recognizes that fair value is an exit price in an orderly transaction in an active market. The use of an exit price should provide a reliable method for determining fair value.

Issue 2—Transaction Costs

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?

FMSB Response: The FMSB agrees that transaction costs should be considered a period cost and not used in calculating fair value for an investment. Transaction costs are an incremental costs associated with an economic transfer. As such, the costs of transfer are incurred only upon the transaction occurring and should be associated with the period the resources are received or the liability is transferred.

Issue 3—Definition of an Investment

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 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?

FMSB Response: The FMSB agrees with definition of an investment as expressed in the PV. As stated in our remarks, we believe that the word “provide” should be substituted for the word “procure”. Procure is a term associated with acquiring goods or services for the government itself, and not directly for the citizens.

Issue 4—Measurement of Investments

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?

FMSB Response: The FMSB generally agrees with the statement that investments should be measured at fair value.

Issue 5—Disclosures

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?

FMSB Answer: The FMSB believes that certain disclosures are both unnecessary and burdensome to the preparer. Our comments regarding this matter were discussed in a prior section.

What other disclosures related to fair value should the Board consider? Why?

FMSB Answer: None
Please note that I intend to present at the Public Hearing scheduled on November 1, 2013 at the Sheraton LaGuardia East Hotel, Flushing New York on this topic.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of the FMSB members approved of the issuance of this letter of comments. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA’s staff liaison for the FMSB, at ssossei@agacgfm.org or at 518-522-9968.

Sincerely,

Eric S. Berman, CPA,
Chair- AGA Financial Management Standards Board

cc: Mary Peterman, CGFM, CPA
    AGA National President
Association of Government Accountants
Financial Management Standards Board

July 2013 – June 2014

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