August 28, 2015

Mr. David R. Bean
Director of Research and Technical Activities
Government Accounting Standards Board (GASB)
Project No. 3-29E
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Statement of the Governmental Accounting Standards Board on
Accounting and Financial Reporting for Certain External Investment Pools

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 Accounting and Financial Reporting for Certain External Investment Pools. ALGA represents more than 340 audit organizations and over 2,200 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 proposed statement in its entirety. In general, the proposed statement appears reasonable and we agree with the basic premise. However, we offer the following comments for your consideration.

Professional Judgment and Disclosure of Noncompliance

Paragraph 4 lists the summary criteria which external investment pools must meet to be eligible to report investments at amortized costs instead of fair value. We agree with the Board’s conclusion that requiring complete compliance without consideration of the facts or circumstances of a portfolio could result in undue burden for preparers (see paragraph B17). However, users of financial reports should be made aware if the pool is not compliant and still reporting amortized costs based on their professional judgment as allowed in paragraph 5.

We ask the Board to add a paragraph on noncompliance under the ‘Notes to Financial Statements’ section. The required disclosure should identify which of the six criteria categories listed under paragraph 4 the pool did not meet, if corrective action has or will be taken, and a brief statement why the noncompliance is not significant (i.e., one-time event, small percentage of portfolio, etc.). This disclosure would improve transparency into management’s assessment of significance and application of professional judgment to qualify for amortized reporting.
**Election to Report at Amortized Cost**

Paragraph 9 provides that an external investment pool can only elect to report investments at an amortized cost when they first qualify by meeting all of the criteria in paragraph 4 (and the proposed statement is in effect). They cannot make this change in subsequent reporting periods. We question why pools that qualify could not make this decision like any other normal accounting policy change. According to paragraph B5 the intent of the criteria is to limit the risk that amortized costs deviate from their fair value. As such, if a pool meets all of the criteria then the ability to switch should have minimal impact on reporting.

**Clarifying Language**

Paragraph 20 establishes guidance for selecting the credit rating of a security when it’s been rated by two or more rating organizations. Sub-item ‘a’ takes a conservative approach: when there are only two conflicting ratings, the security should be considered to be in the lowest category. Sub-item ‘b’ however, allows securities with more than two ratings to select the highest rating determined by at least two rating organizations. We believe a more prudent approach would be to set the security’s rating to the category determined by the majority of rating organizations or the lowest category if there is no agreement between the ratings.

Respectfully submitted,

Larry Stafford  
Chair, Professional Issues Committee

Key ALGA Contributors:
   Chris Constantin, Chico, CA  
   Larry Stafford, Clark County, WA