Accounting and Financial Reporting for Certain External Investment Pools

I am Denise Juvenal this is pleasure to have the opportunity to comment on this consultation, about Accounting and Financial Reporting for Certain External Investment Pools of the Governmental Accounting Standards Board - GASB, this is my individual commentary. I agree with this proposal and this is a great project.

I agree with topics related in this discussion paper, so in relation the points described as follows, I cited some points: in the point B18: "the Board also deliberated whether, and in what circumstances, the external investment pool that fails to meet the criteria for a certain reporting period should be allowed to return to the amortized cost measurement in subsequent reporting periods. … However, the Board decided that this approach would constrain an external investment pool to a certain measurement attribute even if the noncompliance was corrected" p17. I think that for this moment is important the Board’s if agrees that observes the taxation laws, because I do not know if the amortized cost measurement has some restrictions for subsequent periods in the legislation.

Mastilak (2011) cited that: "A common function of accounting is the classification of individual items of data. External financial reporting and tax return preparation, for example, involve classifying many individual accounts into several lines on financial statements or tax returns. Similarly, organizations must decide how to classify individual cost accounts into cost pools. p1709 … Of course, reliance on cost pool classifications as a guide for estimating cost behavior is not always detrimental. Cost pool classifications can be useful, and managers do not always have the required data to
determine whether they are. Also, managers are faced with constraints, such as time pressure, and cannot always make optimal judgments. Thus, these results should not be taken to imply that reliance on cost pool classifications is never appropriate". p1711

Moehrle et al (2001) described that: “There is a sizable body of accounting literature based upon the argument that financial reporting would be just as meaningful, if not more so, without the extensive regulation common to U.S. GAAP. 2 Regulators argue that the elimination of pooling will improve financial statement comparability by limiting the available reporting alternatives. 3 The proposed standard is an example of regulation that restricts manager choice, but in this case, at least, the standard effectively eliminates a reporting method allowable only to those firms that have met a highly restrictive set of criteria. p1162 ... A manager would be unconcerned with future goodwill amortization and asset depreciation if the asset write-up and goodwill amounts are small. However, as the amount of asset write-up and goodwill increases, the impact on future earnings of additional asset depreciation and goodwill amortization grows. The earnings decrease associated with purchase accounting results from acquisition price paid in excess of the recorded book value of the target firm. The magnitude of the earnings decrease is measured as a ratio of the amount paid to acquire the target firm in excess of the recorded book value of the target firm divided by total equity at the time of the merger. p123"

However, in the point "B34. The Board considered disclosure requirements that relate to the required criteria specified in this Statement. Those potential disclosures included the current and historical amount of liquid assets, the current and historical shadow prices, and the weighted average maturity and weighted average life of the investment portfolio. The Board notes that an external investment pool measuring for financial reporting purposes all of its investments on an amortized cost basis will have met all of the criteria required by this Statement; therefore, the information provided by the potential disclosures would be implicit in the fact that the external investment pool is measuring its investments on an amortized cost basis.p23".

I understand that the Board’s, if agrees, need to create method for internal audit and internal control for develop new structure for attend investment portfolio including taxation; for the GASB’s do not have questions in relation the aspects involved in this discussion, because some points are discussed but not included in this proposal. I suggest too that contact the International Federation on Accountants - IFAC – Public Sector and Audit and Assurance, International Valuation Standards Council – IVSC,

2 Stephen R. Moehrle, Jennifer A. Reynolds-Moehrle, and James S. Wallace - Pooling and Rescinded or Forgone Stock Repurchases - API Volume One 2001 - Accounting and the Public Interest
European Securities and Markets Authority – ESMA, European Commission and International Accounting Standards Board – IASB for to know if have specific point about portfolio that impact this discussion.

The point B36 cited: “One of the principles guiding the Board’s setting of standards for financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that standards (including disclosure requirements) address a significant user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.” and the B41 described Users need information about the value of a government’s investments. The criteria in this Statement were developed to limit the risk that amortized cost of the investments will deviate significantly from fair value. If the external investment pool does not meet the criteria and if the amortized cost is not congruent with fair value, the external investment pool would have to report using the guidance set forth in paragraph 16 of Statement 31, as amended.

In these points I think that the GASB can establish some rules for users considering the information for amortized cost because the principal interest of this information is the government, when it observes the federal taxation. I suggest for the Board contact the Internal Revenue Service, if agrees.

I agree with topics about Standards of Governmental Accounting and Financial Reporting, Scope and Applicability of This Statement, External Investment Pool Accounting and Financial Reporting, Portfolio Maturity Requirements, Portfolio Quality Requirements, Portfolio Diversification Requirements, Portfolio Liquidity Requirements, Shadow Price Requirements, Notes to Financial Statements, Qualifying External Investment Pools, Participants in Qualifying External Investment Pools and Effective Date and Transition.

Thank you for opportunity for comments this proposal, if you have questions do not hesitate contact to me, rio1042370@terra.com.br.

Best Regards,

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