August 26, 2015

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
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 Government Accounting Standards Board (GASB) on its June 22, 2015 exposure draft entitled Accounting and Financial Reporting for Certain External Investment Pools. The FMSB is comprised of 23 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.

This proposed standard would address accounting and financial reporting for certain external investment pools and their participants by allowing an external investment pool to elect to measure for financial reporting purposes all of its investments at amortized cost if it meets certain criteria or continue to adhere to SEC standards. It further proposes that upon implementation of this proposed Statement, an external investment pool that elects to measure its investments in accordance with other Statements (SEC standards), the external investment pool would not be allowed to reverse that election. However, an external investment pool that meets all of the specified criteria in this proposed Statement and elects to measure for financial reporting purposes all of its investments at amortized cost would be allowed to change that election in a future reporting period.

The FMSB has reviewed this exposure draft and generally supports the adoption of this proposed standard. The FMSB agrees with GASB’s decision to decouple the accounting standards from SEC regulations through this proposed change in standards which allows certain external investment pools an option as to how to measure its investments. This is the proper decision and we agree that continuing to reference SEC requirements would, in effect, result in GASB accounting standards changing based on changes in SEC’s rules or regulations. Changes in GASB accounting standards should be the result of GASB research and subject to the appropriate due process procedures. As discussed in paragraph B4 of the proposed standard, this situation occurred in July 2014 when the SEC made changes in Rule 2a7 which was incorporated by reference in GASB 31. The changes by the SEC would result in changes in financial reporting for external investment pools if left unaddressed by this proposed standard.

The FMSB is also supportive of the approach used by GASB in developing this proposed standard, namely – adopting specific prescriptive requirements versus adoption of a principle based standard. The subject matter of this proposed standard, while impacting a wide number of governments, is a narrow subject matter. We agree that this subject matter warrants a prescriptive approach as its applicability is to a single subject.
However the FMSB has concern regarding paragraph 9 and the restrictions proposed in the standard. Paragraph 9 states that, “If an external investment pool meets all of the criteria in paragraph 4 but does not elect to measure for financial reporting purposes all of its investments at amortized cost for a certain reporting period, that external investment pool may not subsequently change that election in a future reporting period. However, an external investment pool that meets all of the criteria in paragraph 4 and elects to measure for financial reporting purposes all of its investments at amortized cost may subsequently change that election in a future reporting period.” We believe that this restriction is unnecessary and counter to GASB standards and concepts. In effect, this standard allows external investment pools the option to either adopt the amortized cost approach for measuring investments or continue with the approach governed by SEC rules. However it restricts the ability of an external investment pool to switch to the amortized cost method if it elects, upon adoption of this standard, to use the approach required by the SEC. Yet it does allow external investment pools that adopt the amortized cost method to opt to the SEC approach in the future. We do not agree that the standard should be prescriptive in this area.

We believe that there is sufficient GASB and AICPA guidance regarding changes in accounting principle (see GASB 62, paragraphs 73-75 and AU-C 708, paragraph 7.d). This guidance ensures that any changes in principles are justified and would cover any change adopted by an external investment pool under this standard. The Board’s preference for fair value (described in paragraph B6) does not mean there will never be a justification for a pool to change reporting from fair value to amortized cost. While this preference creates a higher bar for any justification, the Board simply cannot anticipate the most appropriate accounting in light of every possible future change to structures, governance, objectives, policies, portfolios and user needs of every external investment pool.

Further, the requirements of the proposed statement are sufficient to ensure there will not be a significant difference between amortized cost and fair value. Therefore, if the logic of paragraph B3 for allowing this exception now is sound, then the same logic would apply to the future when a pool’s situation changes and they reevaluate their accounting principles. Finally, the GASB requirement would not be effective to create a permanent restriction. Rather, this will simply force a government to “shut down” its pool and “start” a new pool with exactly the same characteristics simply to make an accounting change. In other words, it would not prevent changes in accounting, but only increase the cost and inconvenience of making one. Therefore we suggest that this paragraph be eliminated from the final standard when adopted and that GASB allow existing mechanisms for changes to accounting principles be allowed to govern such changes. On this issue, we believe a principle based approach is the best approach.
We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Chris Collins, CPA, and AGA’s staff liaison for the FMSB, at ccollins@agacgfm.org or at 703-684-6931.

Sincerely,

Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: John E. Homan, MBA, CGFM, CPA, CGMA
   AGA National President
Association of Government Accountants
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