Letter of Comment No. 10
File Reference No. 26-5P
Date Received: 9/27/13

WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

September 26, 2013

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

Re: Preliminary Views-Fair Value Measurement and Application, Project No. 26-5P

Dear Mr. Bean:

The following is the response of the Government Accounting and Auditing Committee of the Washington Society of Certified Public Accountants (WSCPA). The views expressed are the views of the Committee and not necessarily the views of the individual members or the WSCPA as a whole. We are pleased to have the opportunity to respond to the Governmental Accounting Standards Board's (GASB) Preliminary Views (PV) Fair Value Measurement and Application.

We support the mission of GASB, to establish and improve standards of state and local governmental accounting and financial reporting.

Overview of Our Response:

We generally support this PV because its definitions of investments and fair value are consistent with generally accepted accounting concepts. However, we believe that the concept of control and related restrictions should be more heavily weighted in determining whether certain assets and liabilities should be remeasured at fair value on a recurring basis. We do not believe that fair value measurements for most nonfinancial assets using the highest and best use is appropriate.

Specific ED Comments:

Issue 1 Definition of Fair Value

We agree that in order to value an asset or liability at fair value a market must exist. For most investments that governments are allowed to invest, there is an active market, so that hypothetical purchases and sales are readily determinable in a reliable fashion. We are concerned about the application of fair value to non-financial assets using the "highest and best use" and certain financial liabilities because only a hypothetical (as opposed to an existing, active) market would exist. Many capital assets used in government operations are special purpose assets, for which there is no active market. For example, a government may use a historic building for its offices. There may be a market for commercial office space, even a market for conversions of historic

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buildings for condos, etc. but the fact that this market exists should not require the government to revalue that asset based on a "highest and best use" price. Similarly, bonds issued and reported at historical proceeds may not be callable for many years. While there may be a market wherein the government could acquire its own debt on the open market the fact that this market exists should not require the government to revalue that liability, especially when there is no intention to acquire those bonds on the open market.

Issue 2 Transaction Costs

Fair value measurement use hypothetical purchase and sales. Transaction costs are not hypothetical and are only incurred upon an actual transaction. We agree that transaction costs are period costs whether recognized as expense or included in the calculation of gain or loss on asset sales. The codification of FASB standards related to accounting for real estate allows for assets held for sale to consider selling costs in determining its carrying value. Given that this might fall under the definition of an investment, there might be an inconsistency that should be resolved.

Issue 3 Definition of an Investment and Issue 4 Measurement of Investments

We agree that the definition of an investment should include its primary purpose of income or profit and its present service capacity is based on its ability to generate cash, etc. Whether certain investments should be valued at fair value when the government does not fully control the security, is a point of disagreement with this PV. Using paragraphs 13 and 19 as an example, a government issues bonds wherein a portion of the initial proceeds are placed with a trustee in a debt service reserve fund and the trustee invests in a guaranteed investment contract with the same term as the bonds. While the investment generates income, its primary purpose is to allow for the sale of bonds and protect bondholder interests. Of course there is no other option than to present these as restricted investments in the statement of financial position. Our main concern is that the PV indicates that all investments be valued at fair value, without a discussion of control. If an entity does not control a security, and therefore, it cannot be sold, should it be remeasured?

We believe that the definition of an investment is too broad. For example, a Port Authority holds a large amount of real estate properties and its primary purpose is to lease to generate income/cash. Would such real estate properties, such land and buildings fall under the definition of "investment"?

On the contrary, would the following two examples fall out of scope of fair value measurement since its primary purpose is not income or profit but to generate some cash?
A government agency may hold certain properties which was not for sale initially but requires environmental cleanup or remediation. When the government prepares a property for sale, which may not be generating profit but cash, its cleanup effort can be capitalized up to its fair value. Should the government apply fair value measurement at the point of "getting ready for sale"? The second example is that a government agency purchased a major railroad property, which then in turn sells to a number of local governmental agencies to secure public ownership for the entire region. Such asset is recorded as "asset held for sale". Should the government holding the asset for sale apply fair value measurement if the asset is sold for a profit while not applying fair value measurement if the asset is sold for a loss?

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Issue 5 Disclosures

We believe that the accounting policies regarding fair value measurement should be disclosed in the summary of significant accounting policies. We don't believe that segregation by level 1, 2 or 3 is necessary if the accounting policies are adequately disclosed. We agree that any significant nonrecurring valuation adjustment should be disclosed include the reason for the adjustment and how it was accomplished (methods, assumptions, etc.)

We are concerned how the financial statement preparer would achieve "Level 3" disclosure prescribed in paragraph 11 in Chapter 4. When "Level 3" utilized "unobservable" inputs, how would the preparer be able to complete the sensitivity analysis of the cause and effect of the "unobservable" input and fair value measurement results?

Other Comments

As previously mentioned, we believe all non-financial assets should be valued at historical cost without any remeasurement unless the asset is held for sale and is being actively marketed or for impairment issues already addressed in existing GAAP.

Thank you for the opportunity to respond. If you have any questions or need additional information regarding this response, please contact Steve Miller at (206) 281-0281.

Sincerely,

SENT VIA E-MAIL to director@gasb.org

Lisa Lam, CPA
Chair, Government Accounting and Auditing Committee
Washington Society of Certified Public Accountants