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September 27, 2013

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

*Re: Preliminary Views of the GASB on Major Issues Related to Fair Value
Measurement and Application*

Dear Mr. Bean,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to the GASB's preliminary views document on major issues related to Fair Value Measurement and Application. Our organization represents over 300 audit organizations, totaling more than 2,000 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 observed that many aspects of GASB's preliminary views are consistent with fair value guidance that has been issued by the Financial Accounting Standards Board (FASB), which suggests that the GASB may have used the FASB fair value guidance as a starting point. While this would certainly be a reasonable approach to facilitate improvements in governmental financial accounting and reporting, it would be critical to ensure that the FASB guidance is modified where appropriate to better fit the financial reporting objectives of governments and to better meet the needs of governmental financial statement users.

The GASB has identified five sets of questions for respondents to address, which we have addressed below.

Issue 1 – Definition of Fair Value

We agree with the 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.

Issue 2 – Transactions Costs

We agree that transaction costs to sell an investment should be treated as period costs.

Issue 3 – Definition of an Investment

We agree 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.

Issue 4 – Measurement of Investments

We agree with the view that investments generally should be measured at fair value on a recurring basis. However, for those investments proposed to be continually excluded from fair value measurement, we believe it would be helpful to explain the reasons for continued exclusion from fair value measurement.

Issue 5 – Disclosures

We generally agree that the fair value disclosures in Chapter 4 should be required. We also believe that both disclosure formats, narrative and tabular, can provide an effective means to communicate the information that must be disclosed. However, we believe the tabular format used in the illustrative disclosure in Appendix B of the preliminary views to be inappropriate. The multi-columnar format, with a separate total for investments measured using significant unobservable inputs, excessively emphasizes that some investments were measured using significant unobservable inputs. This could lead some financial statement users to draw inappropriate conclusions about investment quality. While this type of disclosure may be appropriate for entities that follow FASB guidance, governments may be more susceptible to external pressure to reduce their exposure to investments that can only be measured using significant unobservable inputs.

Investments that can only be measured using significant unobservable inputs are generally longer-term investments. While fair value measurements for investments based on significant unobservable inputs may not be as accurate as fair value measurements based on quoted prices in active markets or significant other observable inputs, such investments are generally subject to less risk and lower volatility. In many cases, a number of factors, such as risk tolerance and when the invested funds will eventually be used, warrant that governments invest specific financial resources over the long term. Fair value disclosures that could ultimately result in governments being dissuaded from engaging in long term investment are not consistent with governmental financial reporting objectives and will not best serve governments or the citizenry.

While we understand that the preliminary views does not mandate disclosure in a tabular format, we believe that many financial reporting entities will emulate the illustrated disclosure in Appendix B in an attempt to facilitate compliance with the standards. We recommend that the GASB replace the illustrative disclosure in the preliminary views with a simpler disclosure in a tabular format that includes one column for the fair value measurements and one column for the level of the inputs.

We have reviewed the preliminary views in their entirety and believe they appear reasonable. The comments we have offered regarding fair value disclosures represents the only change to the preliminary views that we believe should be contemplated. The challenge going forward will be to

Comments on Preliminary Views Document: Major Issues Related to Fair Value Measurement and Application

ensure that future accounting standards are based on the preliminary views that have been developed.

Thank you for the opportunity to comment on the preliminary views. The accounting standards are important to our members, and we hope that our comments are helpful to you.

Respectfully submitted,



Harriet Richardson
Chair, Professional Issues Committee

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