



September 30, 2013

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

RE: Preliminary Views Document – *Fair Value Measurement and Application* (Project No. 26-5P)

Dear David:

On behalf of the New York State Government Finance Officers' Association, Inc. (NYS GFOA), the Accounting, Auditing and Financial Reporting Committee, comprised of members with governmental accounting and auditing backgrounds in state and local governments as well as members in academia and public accounting, have reviewed the Preliminary Views document on *Fair Value Measurement and Application* (PV document).

General Comments

We agree that the Governmental Accounting Standards Board (GASB) should address the overall issue of fair value measurements in governmental financial statements, particularly given the significant activity of the Financial Accounting Standards Board (FASB) in this area. However, particularly in the area of disclosure requirements, we believe that the GASB should reconsider adopting what is essentially the FASB disclosure model and reconsider the usefulness of the FASB disclosure model for organizations other than financial institutions. In addition, the distinction between governmental organizations and those organizations subject to FASB promulgated accounting principles must be considered, particularly in the area of the types of investments that governmental entities are likely to own. We believe that broad disclosure requirements will unnecessarily add to the reporting burden of all governments, with limited usefulness. As discussed below, we believe a more targeted approach to investment disclosures would be more useful and cost-effective.

The following provides our comments to the Questions for Respondents contained in the PV document, as well as one additional comment area.

Issue 1- Definition of Fair Value

We agree with this definition and believe it is useful to use a definition consistent with FASB standards, as there is no theoretical argument to adopt a different definition.

Issue 2 – Transaction Costs

We agree that transaction costs to sell an investment should be treated as period costs. These costs are the result of a specific transaction, and should be recognized in the period resources are received or the liability is transferred. We believe that for routine investment transactions adjusting periodically determined fair value for estimated transaction costs is a time consuming and quite useless exercise.

Issue 3 – Definition of an Investment

We generally agree with the definition of an investment provided in the PV document. We suggest an additional example be added that addresses instances where holding a property for income purposes may be temporary. A government may acquire real property as part of a long-range development plan, for which there may not be a high level of assurance that the plan will ultimately be realized. For the foreseeable future, the government only obtains rental income from the property. We believe this scenario should not result in this real property being treated as an investment or being revalued to estimated fair value each period, unless its status changes.

Issue 4 – Measurement of Investments

We agree with the general measurement of investments at fair value and believe the exceptions to fair value measurement reporting for investments are appropriate. However, we question if fair value should be applied in all cases, such as when a government plans to hold bonds to maturity.

Issue 5 – Disclosures

We strongly disagree with the adoption of the FASB fair value hierarchy levels for governments and related disclosures. While these disclosures may be important for some entities, particularly financial institutions, we believe they bring another level of complexity to governmental financial statements that are not useful and are confusing to readers. We suggest the GASB research the implementation of the FASB requirements by not-for-profit organizations and employee benefit plans (and others) which will confirm our anecdotal evidence and observations that not only do readers not find these disclosures useful, but they also misinterpret what the levels mean. For example, we have observed instances where the levels are interpreted to represent the “quality” of the investment, rather than the objectivity of the information used to determine the fair value amounts, resulting in organizations adjusting their investment decisions to only own Level 1 investments, which is an unintended outcome.

Specifically, we do not believe that financial statement readers find useful the distinction between obtaining a stock price on an exchange (Level 1) and obtaining a bond price in a market for a virtually identical bond (Level 2). The difference in the objectivity of the fair value information is not significant and we do not support any additional disclosures with regard to fair value information for these types of investments, including level reporting. In addition, reporting investments in common trust funds that consist entirely of investments that would otherwise be reported as Level 1 (generally pension funds) as Level 2 is not helpful to the financial statement reader and creates additional unneeded complexity.

We could support, however, a requirement to include a discussion of how fair values were obtained for assets reported at fair values which are based upon unobservable inputs (what would be Level 3.)

In addition, we disagree with the extensive disclosure requirements for alternative investments that use reported net asset value as a practical expedient for fair value. We would expect that in most cases these investments would be held only by pension plans, which have a long term investment horizon. Requiring disclosures of redemption restrictions, unfunded commitments, investment strategies for these types of assets held by pension plans is of limited value, as we believe has been the case with private sector plans. We encourage the GASB to review the usefulness of this information with users of pension plan financial statements and reconsider these requirements. While there might be limited instances where these disclosures might be useful (e.g. there is a reasonable possibility that the government that is not a pension plan will sell an alternative investment reported at net asset value in the following year to meet cash flow needs), wholesale adoption of the FASB disclosure framework does not seem warranted. We urge the GASB to review the disclosure requirements in

this area and focus on a much narrower requirement that would adequately meet the needs of governmental financial statement users.

Additional Issue – Use of Acquisition Value

The PV document provides that certain assets be reported at acquisition value rather than fair value (paragraph 23). While we understand the theoretical distinction between an exit price and an entry price in determining fair value, we do not believe the PV document provides a convincing argument to make this distinction for these assets. First, in many cases fair value as an exit price or entry price will be the same or similar at the time of the transaction and would therefore usually be immaterial. Second, specifically for donated assets (including works of art and similar assets), it is unclear where a divergent methodology from that of the FASB guidance for not-for-profit entities for these items is warranted. We recommend that the GASB reconsider this distinction for these types of assets.

Conclusion

This response to the Preliminary Views document, *Fair Value Measurement and Application* has been presented to the NYS GFOA Board of Governors and approved for submission to GASB. Please direct any questions to Fred Shellard, Director of Professional Services at 518-465-1512, who can answer or direct questions to the appropriate NYS GFOA representative for follow up.

Sincerely,

John A. Savash II, CPA

Michele C. Yen, CPA

Co-Chairs, NYS GFOA Accounting, Auditing and Financial Reporting Committee

cc: Christine Gillmet-Brown, Director of Finance, City of Saratoga Springs
President, NYS GFOA

Maura K. Ryan, Executive Director
NYS GFOA

Approved by the NYS GFOA Accounting, Auditing and Financial Reporting Committee 09/25/2013
Approved by the NYS GFOA Board of Governors 09/30/2013