



August 8, 2014

Mr. David 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 National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED), *Fair Value Measurement and Application*.

We generally agree with the requirements of the ED and agree that there is a need to clarify the definition of fair value for financial reporting purposes and establish general principles for measuring fair value. The additional instructions in the guidance about how to determine fair value will improve comparability and the examples of adjustments or exceptions will improve the reliability of financial reports. We also believe the statement brings the fair value measurement into harmony with other standard setters and helps clarify some of the more ambiguous language and definitions, resulting in more understandable and useful information for the financial statement users. However, we have the following specific comments that we believe the board should consider as it finalizes this statement.

Paragraph 3

The amendment to GASB 40, paragraph 5, is not included in the list of superseded statements; however, the Codification Instructions for Section I60 show that the ED's paragraph 77 does intend to revise part of GASB 40. Please clarify the level of amendments to GASB 40, because the discrepancies in the ED make it unclear.

Paragraph 5

"Measurement date" is not defined in the ED. In the Basis for Conclusions (BFC), paragraph B6 acknowledges that there has been some confusion between the term *measurement date* in the definition of fair value and the financial reporting date. We suggest incorporating the explanation contained in paragraph B6 into the statement, possibly in paragraph 5 or paragraph 83 (Glossary).

Paragraph 8

- The second sentence states: "The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for recognition purposes as provided by the accounting standards." Because this is written as "the accounting standards," it comes across to the reader that the Board is referencing a specific standard. We suggest clarifying which accounting standards are being referred to in the paragraph.
- The fourth sentence states: "The measurement attributes are historical cost, fair value, replacement cost, and settlement value." Concepts Statement No. 6, paragraph 34, lists the four measurement attributes for elements of traditional financial statements as



“historical cost, fair value, replacement cost, and settlement amount.” We suggest revising paragraph 8, sentence 4 to end with “settlement amount” to be consistent with Concepts Statement No. 6. The Board may also consider adding a footnote that states these four measurement attributes are defined in Concepts Statement No. 6.

Paragraphs 42-43 and paragraph B24

The ED establishes a hierarchy of inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable, and Level 3 inputs are unobservable inputs. While requiring a government’s investments be classified into Level 1, 2, or 3 inputs in a note disclosure promotes comparability and consistency of investment valuations among larger government entities, we would like the GASB to include more specific examples and illustrations of the types of investments that could be classified as Level 3.

Paragraph 50a

The sentence excerpt that reads: “...a government should place little, if any, weight...” is too narrowly focused. We believe this implies that all “not orderly” transactions are irrelevant in determining the fair market value of the item. While this may be true in some or even most circumstances, it is by no means true for all “not orderly” transactions. We suggest the sentence be revised as follows: “If the evidence indicates the transaction is not orderly, a government should use caution and professional judgment when using that transaction price.”

Paragraph 69f(1)(c)

This paragraph precludes the use of the equity method of accounting for common stock held by Internal Revenue Code Section 457 deferred compensation plans. Since governments also offer other deferred compensation plans such as 401k plans, should the standard specifically mention those plans as well? Please clarify.

Paragraph 78

We suggest adding the definitions of recurring fair value measurements and nonrecurring fair value measurements to the glossary in paragraph 83.

Paragraph 83

In addition to the suggested additions to the glossary noted above, we also suggest adding definitions for terms that are more technical in nature such as “blockage factor” and “control premium.”

Paragraph B39 (heading)

The heading prior to paragraph B39 states: “Procure Services versus Provide Services.” We believe the word “verus” should be “versus.”

Illustration 1

The fourth sentence says: “Those standards prescribe measurement attributes such as historical cost, fair value, acquisition value, and settlement value.” Should this sentence be revised to the measurement attributes contained in Concepts Statement No. 6: “historical cost, fair value, replacement cost, and settlement amount?”

National Association of State
**Auditors, Comptrollers
and Treasurers**



We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O’Ryan of NASACT at (859) 276-1147 or me at (505) 955-1120.

Sincerely,

A handwritten signature in black ink that reads "James B. Lewis". The signature is written in a cursive style with a large initial 'J'.

James B. Lewis
NASACT President