



August 31, 2015

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), *Accounting and Financial Reporting for Certain External Investment Pools*.

We generally agree with the provisions of the ED and believe that it will provide an appropriate framework for governments' continued use of amortized cost for certain of its state and local government investment pools. However, we have the following specific comments that we believe the Board should consider as it finalizes this statement.

Paragraphs 9 and B6

The ED only allows a change in accounting policy to amortized cost at the inception of the Statement. We urge the Board to reconsider this provision. We see no reason for this unique and permanent restriction on the ability of a pool to change its accounting policies for four main reasons:

1. We believe current GASB accounting (GASBS 62, paragraphs 73-75) and AICPA audit standards (AU-C 708, paragraph 7.d) are sufficient to ensure any changes in accounting principles are justified, including a subsequent change in election to report an external investment pool at amortized cost.
2. 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 cannot anticipate now 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.
3. The requirements of the proposed statement are sufficient to ensure that 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.
4. 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.



Accordingly, we would request that the Board reconsider and remove this restriction on pools' ability to make justifiable changes between acceptable accounting principles in the future.

Paragraph 16

The paragraph states "if a security or other investment has a floating interest rate." Please provide clarification, such as if this is just for daily reset floating rate securities.

Paragraph 23

We are uncertain if the term "guarantee" in the first sentence is the same as "**non-exchange financial** guarantee." Please provide clarification.

Paragraph 26

The paragraph only allows collateralized deposits with the highest rated banks, although a pool's analysis will allow a deposit from a bank with a lower rating if shown to be of comparable quality. We believe the Board should consider allowing second tier rated banks if they are collateralized.

Paragraph 27

This paragraph states: "The credit quality of a repurchase agreement should be evaluated in terms of the credit quality of the counterparty or its parent and the underlying collateral. A counterparty or its parent should have a credit rating within the highest category of ratings provided by an NRSRO, be a primary dealer as defined by the Federal Reserve Bank of New York, or be determined by the qualifying external investment pool's analysis to be of comparable quality." This may be understood as: (1) highly rated **and** a primary dealer, (2) or determined by the pool to be of comparable quality to include the rating requirements. Conversely, it literally reads as an "or" condition. Please provide clarification in the final standard as to the appropriate wording. Furthermore, it is unclear whether corporates can be used as collateral, as paragraph 27 implies such, but paragraph (c) refers only to U.S. governments and its agencies. Please provide clarification in the final standard.

Paragraphs 28 and 31

We believe these paragraphs could be combined into paragraph 28 so it is clear from the beginning of this section that U.S. government securities are exempt.

Paragraph 29

Please clarify that the portfolio diversification measure does not apply to repurchase agreements.

Paragraph 33

For ease in readability, we believe the paragraph could include a table that outlines the various requirements of portfolio percentages of liquidity timeframes such as the following:

Percentage liquidity requirements	Liquidity	Paragraphs describing liquidities
No more than 5 percent	Illiquid investments	Paragraph 34
No less than 10 percent	Daily liquid assets	Paragraphs 35 and 36
No less than 30 percent	Weekly liquid assets	Paragraphs 37 and 38



The paragraph could be preceded by a sentence that says the portfolio liquidity percentage requirements are listed below and described in paragraphs 34 through 38.

Paragraph 34

The 5 percent requirement for illiquid investments is more restrictive than industry standards (S&P allows for 10 percent). We request that the Board please consider changing the paragraph to “no more than 10 percent.”

Paragraph 38c

Please clarify if “agency” includes implicitly backed government sponsored enterprises.

General Comments

In the Summary section under Effective Date and Transition, we believe the sentence “Earlier application would be encouraged” should be changed to “Earlier application is encouraged.”

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 (515) 281-4877.

Sincerely,

Calvin McKelogue
President, NASACT
Chief Operating Officer, Iowa