



**Public Pension Financial Forum
c/o Ohio Public Employees Retirement System**

277 E. Town Street

Columbus, OH 43215

August 15, 2014

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Subject: Project No. 26-5E

Dear Board and Staff:

The Public Pension Financial Forum (P2F2) is pleased to have the opportunity to respond to the Governmental Accounting Standards Board (GASB) Project No. 26-5E, Exposure Draft (ED) document on "Fair Value Measurement and Application."

P2F2 was formed in 2004. The purpose of this organization is to promote excellence in public pension plan financial operations, provide educational programs of current interest to the membership, promote the exchange of ideas concerning financial operations and reporting between public pension plans, and to foster sound principles, procedures and practices in the field of public pensions related to the financial operations of such plans. Membership is open to any finance employee of a public pension who supports the purposes of P2F2. The organization currently has 220 members representing 110 employee benefit plans, offering defined benefit, defined contribution and hybrid plans.

We would like to thank GASB for considering changes to the Fair Value Measurement and Application ED. We are in general agreement with the ED as we believe users of financial statements deserve to know what portion of plan investments are valued using valuation techniques with observable inputs (more reliable) and which portion of plan investments are valued using valuation techniques with unobservable inputs (less reliable).

In regards to the ED's discussion of general principals and valuation techniques and approaches, we are happy to see the Board chose to remain consistent with guidance provided by FAS157/ACS 820. We agree with the ED's: definition of fair value, concept of a unit of account, concept that blockage factors do not impact fair value, concept of the government's principal versus the most advantageous market, treatment of transaction costs versus transportation costs, discussion of accepted valuation

approaches and rules permitting the use of a practical expedient for investments that calculate a net asset value (NAV). We are also happy to see the Board chose to adopt the same criteria as FAS157/ACS 820 surrounding the fair value hierarchy of inputs and that whether the input was observable would determine the Level classification. This consistency allows government-sponsored employee benefit plans to follow similar methods that corporate-sponsored plans are using to categorize their investments as Level 1, 2, or 3. This also allows for auditors of these plans to use the same leveling criteria to determine the accuracy of this disclosure.

We are also happy that the proposed standard no longer contains a number of additional disclosure requirements that were present in the preliminary views including the Quantitative Information about Level 3 Fair Value Measurements and a narrative description of the sensitivity of fair value measurements to changes in unobservable inputs. Our assessment of these disclosures is consistent with the Board's basis for conclusions.

We disagree with the Board's decision to require disclosure of the valuation techniques used to measure fair value (see paragraph 78 (a) (3)) and disclosure of a change in valuation technique that had a significant impact on income (see paragraph 78 (a) (4)) for a number of reasons:

- Government-sponsored employee benefit plans typically rely on a third-party pricing vendor to determine fair value of its investments. These plans typically own thousands of investments which make valuing these investments without use of a pricing vendor impossible. In our review, we learned that pricing vendors make pricing fact sheets available to the custodian they have contracted with for each specific asset class. These facts sheets do not contain enough information to comply with these aspects of the proposed standard. For example, there are pricing vendors that will not divulge any specifics (even to the custodian who has contracted with that vendor) about the valuation techniques used to determine the fair value of specific security types. In addition, in some cases, we could not determine the valuation approach that was used as the fact sheets stated that either a market or income approach was used for a particular type of investment. The pricing fact sheets could only be used to determine whether the inputs to the valuation technique were observable or unobservable and whether an accepted valuation approach was used which allows government-sponsored employee benefit plans to comply with the leveling aspect of the proposed standard. We suggest the Board consider a paper published by the AICPA titled "Considerations for Employee Benefit Plan Compliance with FASB Accounting Standards Codification (ASC 820), Fair Value Measurement." In this paper, the AICPA concluded that "because many plans outsource investment management activities to service organizations, information regarding the pricing and valuation of the plan's investments may not be fully transparent to those responsible for plan financial reporting."
- Even in the instances where a government-sponsored employee benefit plan could make a determination on the valuation techniques used, we don't see how this could be useful to the user to assess the fair value measurement. To make this assessment, users would need to have more information concerning the investment at an extremely disaggregated level which is not practical

due to the number of investments typically owned by a government-sponsored employee benefit plan and the proprietary nature of some investments.

- It is our understanding that some valuation techniques can be extremely complex due to the unique nature of an investment and are only known to valuation experts who create these models and the entity which has a contractual agreement with the valuation firm. Typically, these valuation techniques are just derivatives of commonly known valuation techniques (i.e. the expected cash flow technique). As such, accepted names or descriptions are not readily available in the industry and an attempt to disclose this information could be misleading to users.
- Typically, the government-sponsored employee benefit plan has little control over the valuation techniques used to value its investments in entities which calculate a NAV per share as they are often removed from this process. The government-sponsored employee benefit plan doesn't have the ability to assess audit work done (if any) in the financial statements issued by the investment fund company, and as such, we believe it highly inappropriate to repeat the company's disclosures in the government-sponsored employee benefit plan's financial statements.
- In summary, we believe that current information available only permits preparers to disclose the fair value measurement at the end of the reporting period and by the level of the fair value hierarchy. We agree that the government's specific circumstances should determine the level of disaggregation. Information currently available doesn't permit preparers to accurately make disclosures regarding the valuation techniques used, disclosing a change in valuation technique and the reasons for changing a valuation technique. Assuming, on a hypothetical basis, that it was possible to accurately prepare these disclosures, we urge the Board to consider how much information this would present to users of the financial statements for a government-sponsored employee benefit plan that can have thousands of investments. Many government-sponsored employee benefit plans are already making summary disclosures about fair value of their investments. These disclosures alert readers to the fact that fair values for some investments are based on assumptions and/or estimates and that the fair value of these investments could be different should a ready market exist. We believe these summary disclosures, along with the ED's requirement to disclose the fair value measurement by the level of the fair value hierarchy, are adequate. We also urge the Board to consider the Financial Accounting Foundations post-implementation review of FASB Statement No. 157 which states:
 - "some financial statement users think that most of the fair value information resulting from application of Statement 157 is not relevant or meaningful for employee benefit plans. The feedback we received indicates that the users of those entities' financial statements may have different information needs than other financial statement users."
 - "certain requirements are difficult for specific types of entities to apply (particularly employee benefit plans)"
 - "there are indications from respondents in each of the stakeholder groups included in our research that the volume and extent of disclosures may be beyond what is necessary for investors and other users of financial statements." While the post-implementation review

also suggests that some investors find this information meaningful, we believe the former sentiment would apply to government-sponsored employee benefit plans.

We disagree with the Board's decision to require disclosure of the effect of Level 3 investments, other than those which calculate a NAV per share, on investment income (see paragraph 78 (a) (5)). This disclosure will require preparers to track all activity associated with Level 3 investments, including transfers-in and transfers-out, which would essentially be a reconciliation of Level 3 investments. We agree with the Board's basis for conclusion not to require the reconciliation of Level 3 investments in paragraph B76 of the ED which states "The Board also did not require a disclosure reconciling Level 3 fair value measurements. Financial statement readers nonetheless will be presented with the ending balance of Level 3 measurements, providing information that will indicate the relative significance of those measurements." We wonder why the ED contains a requirement to disclose the effect of Level 3 investments on investment income for this subset of Level 3 investments when the Board has determined that showing an ending balance of Level 3 measurements will indicate the significance of those measurements.

We agree with most aspects of the illustrative disclosure for fair value measurements on page 60. However, we believe some small changes could be made to this disclosure which would more accurately portray a typical government-sponsored employee benefit plan.

- We believe it is misleading to present real estate and private equity funds under a category of hedge fund investments and that the disclosure example needs modification.
- We believe it is misleading to present all commercial mortgage-backed securities and collateralized debt obligations as Level 3. Multiple government-sponsored employee benefit plans have received information from their custodian indicating that Level 2 is the correct classification for all their investments in these categories, based on the underlying inputs used by the third-party pricing vendors to value these securities. We ask the Board to consider changing the disclosure to present the majority of these securities in the Level 2 category.
- We believe it is misleading to present the majority of residential mortgage-backed securities in the Level 3 category. Multiple government-sponsored employee benefit plans have received information from their custodian indicating that Level 2 is the correct classification for all their investments in this type of security, based on the underlying inputs used by the third-party pricing vendors to value these securities. We ask the Board to consider changing the disclosure to present the majority of these securities in the Level 2 category.
- We believe the Derivative Instrument section should be modified to include a few negative amounts to represent short positions and other types of instruments which represent a liability.
- We believe a mutual fund or money market fund should be added to the disclosure with the fair value measurement amount classified as Level 1. Prices are often observable (published on the NASDAQ) for these types of funds and government-sponsored employee benefit plans typically hold these types of investments in addition to the funds currently included in the disclosure.

- In regards to the footnote 6 on page 62, it would be unreasonable for most government-sponsored employee benefit plans to “test” the market for secondary pricing for an entire private equity portfolio, and therefore, this example is not practical and should be removed. Some private equity funds are bought and sold more frequently. Some are rarely bought and sold, if ever. Pricing in a secondary transaction is opaque and only known to the buyer and seller, and pricing might be for a portfolio of private equity investments versus individual investments (i.e. a different unit of account) which doesn’t allow preparers to utilize this information to determine fair value of the private equity investments. We are concerned about the costs associated with an attempt to put an entire portfolio in the market for pricing. There would also be a reputational impact for a government-sponsored employee benefit plan if investments were priced but never sold. This may negatively impact the sale process when the entity does decide to transact.

We agree with the Board’s decision to exclude the investments listed in paragraph 69 (f) from the equity method of accounting. However, we strongly believe that Defined Contribution Funds should also be included in this list. We believe item (b) should be changed to read “Pension and other postemployment benefit plans.”

We agree with the Board’s decision that governments should be permitted to measure investments that don’t have a determinable fair value using a practical expedient and measure these investments according to the NAV per share. We also appreciate that the Board chose to remain consistent with current FASB guidance. However, we wonder why the Board chose to make an open-ended reference to the FASB’s measurement principles for investment companies instead of stating the guidance in the ED (see paragraph 73). There are many other aspects of the ED which follow FASB Statement No. 157 (sometimes word-for-word) and this guidance stands on its own without making a reference to non-governmental accounting standards. We wonder why the same approach wasn’t used in paragraph 73. We believe the Board should consider using a consistent approach and have language which clearly defines the manner in which the NAV per share of an investment can be calculated. This language should also consider the standard industry practice of calculating a NAV by using a roll-forward methodology.

We strongly believe that it is not practical to comply with the disclosure requirements outlined in paragraph 79 for investments in entities that calculate a NAV per share. The practical expedient permitted by FASB and referenced in paragraph 73 of the ED exists because other methods of measuring and assessing fair value are impractical. It is possible for government-sponsored employee benefit plans to own hundreds of these types of investments and we don’t see how these disclosure requirements supplement or add any value to the user. Complying with this aspect of the ED would result in disclosure overload for users, preparers and auditors.

- The requirement to disclose plans to sell a portion of these investments is problematic for a couple of reasons. Disclosing an entity’s plans to sell a number of investments could impact the sales price the entity receives and would be a breach of fiduciary responsibility. Secondary sales of real estate and private equity funds are very complex and difficult to complete. The general partner often needs

to approve the sale and at the time of this disclosure there is no certainty that the sale will materialize, thus making this disclosure incorrect after-the-fact.

- The requirement to disclose a government's estimate of the period of time over which the underlying assets are expected to be liquidated could provide useful information to users when a government only owns a few investments. However, the usefulness of this information diminishes rapidly when more investments are owned. It is possible for a government-sponsored employee benefit plan to own hundreds of these types of investments and the period of time would likely be wide (i.e. 1 to 20 years) and thus meaningless to users of the financial statements.
- The requirement to disclose a general description of terms and conditions a government may redeem investments and disclosure of any significant restrictions would be a lengthy disclosure even if the information was aggregated by investment type. Given the unique nature of investment in entities which calculate a NAV and the number investments owned by government-sponsored employee benefit plans, these disclosures would need to be very general, and as such, the information would not be decision-useful.

In regards to paragraphs 75 and 76, we agree that there are certain instances where the practical expedient should not be used to determine an investment's fair value. We disagree with the criteria listed to determine that the requirements in paragraph 73 should not be applied. We are unsure what constitutes a bonafide plan to sell an investment and given the uncertainty and difficulty to complete these sales, we expect that a signed agreement would need to be executed and the sales-proceeds need to be received. As such, we believe the only criteria to justify deviation from using the NAV as described in paragraph 73 is evidence that a sale occurred. Any attempt to assess the probability that a sale will materialize is problematic, especially in cases where the sales proceeds are higher than the NAV of the investment.

In summary, there are a number of disclosure requirements in the ED which would be very costly and time-consuming to implement and produce on an ongoing basis. We believe strongly that it's not possible to accurately complete many of these disclosures. Even in a situation where they were completed accurately, it would not offer much value to users of the financial statements issued by a government-sponsored employee benefit plan. We also believe these disclosures do not offer any benefit for our membership and incurring costs in an attempt to complete these disclosures could be construed as a violation of our fiduciary duty to act in the sole interest of our membership. Again, we urge the Board to consider the Financial Accounting Foundation's post-implementation review of FASB Statement No. 157.

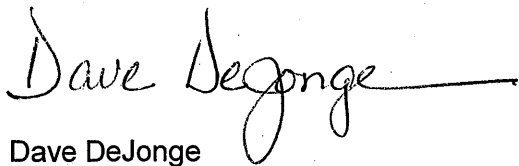
In regards to the effective date, we are very concerned about the recent volume of standards impacting government-sponsored employee benefit plans. For a government-sponsored employee benefit plan with a 12/31 year-end GASB Statement No. 67 will become effective in 2014, GASB Statement No. 68 will become effective in 2015, the fair value reporting standard is to become effective in 2016 (anticipated), the Other Post Employment Benefit (OPEB) standard for government sponsored funds will become effective in 2016 (anticipated) and OPEB for employer reporting will become effective in 2017 (anticipated). Costs to comply with each individual standard are expected to be substantial when

taken on an individual basis. Overall, expected costs to comply with all these standards together are staggering and in reality, government-sponsored employee benefit plans do not have an endless supply of funds to comply with all the new standards. As a result, we believe that the quality of the disclosures will suffer. We ask the Board to consider staggering the effective date and transition to this new standard so that government-sponsored employee benefit plans are only required to implement the leveling requirements in 2016 and could delay some of the more onerous parts of this fair value measurement standard.

Again, we appreciate the opportunity to comment on this project. Should you have any additional questions regarding these comments, please feel free to contact our organization by emailing Karl Greve at kgreve@copera.org.

This response was prepared by a collective effort of the P2F2 membership. By our e-mail submission, the P2F2 Board of Directors substantially agrees with the views in the form presented in this response. However, there are some areas where one or more P2F2 directors may have a slightly different perspective which will be shared with GASB in their systems' separate responses to the ED.

Sincerely,

A handwritten signature in cursive script that reads "Dave DeJonge". The signature is written in black ink and includes a horizontal line extending to the right from the end of the name.

Dave DeJonge

P2F2 President