



September 7, 2010

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1830-100

Dear Technical Director:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the proposed Accounting Standards Update, "Fair Value Measurements and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" (the ASU). NACUBO's comments on the proposal were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 2,100 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

#### ***Overall Observations of the ASU***

We appreciate the Board's efforts to further clarify certain guidance currently existing under U.S. GAAP and, in general, agree with that clarification. We are, however, concerned about the proposed additional disclosures as noted in our responses to the questions below. While these disclosures may be helpful to readers of financial statements related to specific industries (i.e. banking and investing companies) they would be of little value or benefit to the users of not-for-profit entities' (NFP's) financial statements, regardless of whether that NFP is classified as public or non-public for financial reporting purposes.

We have noticed that statements prepared by financial institutions have pushed many financial instruments into Level 2 that might easily have been included in Level 3. In fact, a 2009 study by the U.S. Securities and Exchange Commission on the use of mark-to-market accounting notes that twenty five percent of a public company sample had no level 3 assets, and overall financial institutions had the lowest percentage of level 3

assets, reporting a modest seven percent. That being the case, they would not be subject to the measurement uncertainty analysis required by the ASU. Because for-profit organizations have greater incentive to prevent amounts from being classified as level 3, the disclosure requirements will more often be included in not-for-profit organizations' financial statements where they serve no useful purpose to the users.

Although the ASU does not specifically say, we assume that the guidance regarding investments classified as level 3 does not apply to those where the practical expedient as discussed in ASC 820-10-35-59 has been used to determine fair value. Based on this assumption, we have not responded to questions 5 and 6 which would not seem relevant when the practical expedient is applied in valuing level 3 investments. These questions appear to be intended for financial institutions and investment firms rather than for an individual investor. We would like the Board to clarify how the amendments would be applied in cases where the practical expedient is used for valuation purposes.

***Question 1: This Exposure Draft represents the Board's commitment toward developing common fair value measurement guidance with the IASB. Do you think the proposed amendments:***

- a. Would improve the understandability of the fair value measurement guidance in U.S. GAAP? If not, why not?***
- b. Would result in any unintended consequences on the application of the proposed amendments? If so, please describe those consequences.***

We appreciate the Board's attempt to clarify certain currently existing guidance under U.S. GAAP. We would like to point out that, while convergence with the IASB's guidance may be important to public companies, NFPs have been scoped out of the convergence process. That said, NFPs have not been scoped out of most of the recently issued and proposed standards. Moreover, NFPs that are conduit debt obligors have been included as public entities and, therefore, are required to provide the same information in their financial statements as publicly-traded entities.

Given the well established need for convergence with IASB guidance for publicly-traded entities, we respectfully request that the Board redefine "public" in a way that excludes all NFPs. Because the Board and staff are not considering NFPs during the research phase of convergence driven projects, we are gravely concerned that there is little analysis or consideration of the impact that convergence related accounting changes have on the not-for-profit sector. We further discuss our rationale for this request in our response to question 11.

We are concerned that many of the provisions of the ASU will result in inconsistent application and add little value for financial statement users. We find this to be particularly true in the case of the measurement uncertainty analysis as expressed in our responses to other questions.

***Question 2: The Board has decided to specify that the concepts of highest and best use and valuation premise are only to be applied when measuring the fair value of nonfinancial assets. Are there situations in which those concepts could be applied to financial assets or to liabilities? If so, please describe those situations.***

We agree with the Board's decision on this matter.

***Question 7: The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?***

Including a measurement uncertainty analysis in the financial statements is fraught with problems which include:

- Such an analysis unnecessarily amplifies the level of imprecision that is inherent in valuing level 3 investments.
- Displaying alternative valuations as the result of changing unobservable inputs will only result in the perception of inaccuracy of the original measurement.
- The exercise has a high degree of subjectivity and variability. An entity's choice regarding the degree of change in a particular unobservable input is influenced by its perception of the input's variability or risk. The concept of "risk tolerance" is very subjective.
- Different entities will likely come to different conclusions over the potential variability of the same input factors. Consequently, we would never know if we could trust the integrity of the uncertainty analysis itself. The analysis would only measure the preparer's confidence in his/her original value.
- Not all entities use modeling software to value their level 3 investments. It seems likely that those entities would need to develop such software in order to produce the required information for the measurement uncertainty analysis. The cost of additional programming and audit testing would far outweigh the benefit of the information produced.

All of these issues highlight the fact that the analysis would result in arbitrary information that would be of little use to users of the financial statements. It serves only to highlight the inexactness and risk associated with level 3 valuations.

In addition, it is unclear if investments valued using the practical expedient would be excluded from the measurement uncertainty analysis. If these assets are to be included, the Board will need to provide guidance on how the information should be presented. As the values are not calculated by the investor, information regarding the inputs is not readily available and, therefore, any uncertainty analysis would be impossible to perform.

***Question 8: Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.***

Financial statement users are looking for a level of comfort with regard to the accuracy of fair value measurements categorized as Level 3 that does not exist. By their very nature, these values are imprecise as the degree of uncertainty in their measurement is already indicated by the fact that the asset or liability is within the level 3 hierarchy. To then provide information about what the value might have been using different inputs adds little value and spurs controversy about the recorded amounts. Readers of the financial statements will be in a position to question management's judgment in valuing these items that could lead to a raft of litigation when values change from one period to another.

Rather than a quantitative analysis, a qualitative discussion about the risks involved in measuring the fair value of these assets is more appropriate. We believe that the currently required disclosures are adequate to address the risks involved in valuing these financial instruments.

***Question 11: The amendments in this proposed Update would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.***

We would like to point out that not all NFPs are nonpublic entities. The Board recently clarified that NFPs which are conduit debt obligors are considered public entities. This distinction is particularly relevant to colleges and universities, many of which issue tax-exempt debt. Despite the fact that these institutions have publicly traded debt, they have not only a different focus than for-profit and publicly-traded companies; they also have a different set of users of their financial statements. While the ASU's proposed disclosure requirements may make sense for business and other public-interest entities that are moving toward the use of IFRS, requiring the same disclosures for all entities results in NFPs providing significant amounts of information, at a great cost to the organizations, that their financial statement users have not requested and may not find particularly valuable. This is particularly true of higher education institutions which have complex investment portfolios, unique endowment assets, contributions receivable from donors, faculty mortgage and student loan receivables, etc. The effort to these institutions of implementing accounting standards that were not drafted with them in mind creates a significant resource and financial burden, which can ultimately translate into an increased

cost of education. We respectfully request that these factors, along with the inclusion of conduit debt obligors as public entities, be taken into consideration by the Board when determining the scope of proposed standards and that the Board scope the not-for-profit sector, including conduit debt obligors, out of the measurement uncertainty analysis requirements of this proposal.

***Question 12: How much time do you think constituents would need to prepare for and implement the amendments in this proposed Update?***

If the Board retains the measurement uncertainty analysis as proposed, significant time would be needed to develop models to accommodate the requirement. We anticipate that most colleges and universities would require a minimum of 18 months to be able to prepare for and implement the changes as described in the ASU.

In closing, we wish to express our appreciation for the opportunity to comment. We hope that the Board will address our concerns. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to Sue Menditto at 202-861-2542 or [sue.menditto@nacubo.org](mailto:sue.menditto@nacubo.org).

Sincerely,

Susan M. Menditto  
Director, Accounting Policy