

October 29, 2009

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: June 30, 2009 Exposure Draft (ED) of a Proposed Statement of the Governmental Accounting Standards Board, *Financial Instruments Omnibus* [Project No. 26-3]

Dear Mr. Bean:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciated the opportunity to discuss this issue with the GASB Chair and staff during the TIC/GASB Liaison Meeting on October 9, 2009.

The ED is well-written and proposes a number of useful technical corrections to the standards. TIC believes most of the proposed revisions will not change practice. However, one of the proposed amendments implies that the measurement attribute for unallocated insurance contracts would change from contract value to fair value. As written, this implies a change in practice which TIC would oppose, if such were the Board's intent. Additional comments on this proposed amendment are below.

SPECIFIC COMMENTS

The summary of the ED states that the effect of the proposed amendments to existing standards would be that "unallocated insurance contracts would be measured at fair value instead of contract value." Paragraphs 3 and 15 of the ED echo the Board's view that fair value is the appropriate measure for such contracts. Based on this statement, TIC expected that the ED would include proposed amendments to existing standards that would effectively require a fair

value measure for these contracts.

However, TIC subsequently realized that the proposed amendments to existing pronouncements (Exhibit C of the ED) are not consistent with the implied fair value requirement stated in the summary and paragraphs 3 and 15 of the ED. The proposed amendments do not have the effect of requiring fair value measures for unallocated insurance contracts. The ED removes unallocated insurance contracts from the scope of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, for the purpose of classifying them as investments within the scope of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The proposed amendments to GASB Statement No. 31 do not include an explicit requirement to report unallocated insurance contracts at fair value. Under Statement No. 31, unallocated insurance contracts would seem to be classified as “nonparticipating contracts” under paragraph 8 and therefore exempt from fair value measurement. Therefore, an internal inconsistency exists between the proposed amendments in the Appendix and the statements in the summary and paragraphs 3 and 15.

TIC recommends that the Board’s intent be clarified in the final standard to avoid confusion. Fair value would not be a meaningful measure for unallocated insurance contracts since they can only be settled at contract value. Changes in fair value would never be realized by the government investor. Therefore, the added costs incurred to obtain fair values would have no benefit to users in analyzing the financial position of a governmental entity. The standards should be clear that contract value is the only relevant measure for investments in unallocated insurance contracts.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Stephen Bodine, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committee