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GASB Issues Proposals on Concepts for Measurement of Assets and Liabilities and on the Measurement and Application of Fair Value.

The Governmental Accounting Standards Board (GASB) today issued for public comment a proposed Concepts Statement that would guide the GASB when establishing standards regarding the measurement of assets and liabilities for U.S. state and local governments. The GASB also issued its Preliminary Views regarding the measurement of fair value and the application of fair value, including note disclosures. Finally, the GASB issued a Plain-Language Supplement that addresses both proposals and is intended to solicit feedback on the proposals from non-accountant financial statement users.

“The proposed Concepts Statement would establish concepts for both measurement approaches and measurement attributes,” said GASB Chairman Robert H. Attmore. “Measurement is a necessary component of a complete GASB conceptual framework, which will enhance consistency in future standards setting for state and local governments.”

Regarding the Preliminary Views on fair value, Mr. Attmore said, “In conjunction with the proposed Concepts Statement, the proposed changes to GASB’s fair value standards are intended to increase consistency and comparability in governments’ fair value measurements and related disclosures. The goal is to enhance financial statement users’ ability to assess a government’s financial health and accountability.”

Measurement Concepts

The Exposure Draft, Measurement of Elements of Financial Statements, proposes concepts that will inform the GASB’s decisions when establishing future standards for how state and local governments would determine the dollar amount at which to report assets and liabilities.

The GASB is proposing two approaches to measuring assets and liabilities—initial amounts and remeasured amounts. Initial amounts are determined at the time an asset is acquired or a liability is incurred. Remeasured amounts are determined anew as of the date of each year’s financial statements.

The GASB also is proposing four measurement attributes (the characteristic of an asset or liability that is being measured):

Historical cost is the price paid to acquire to acquire an asset or the amount received when a liability is incurred in an actual transaction.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Replacement cost is the price that would be paid to acquire an asset with equivalent service

potential in an orderly market transaction at the measurement date.

Settlement amount is the amount at which an asset could be realized or a liability could be liquidated with the counterparty, other than in an active market.

Fair Value Measurement and Application

The Preliminary Views, Fair Value Measurement and Application, describes how fair value should be defined and measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements.

It is the GASB's preliminary view that investments generally should be measured at fair value. An investment would be defined as a security or other asset that a government holds primarily for the purpose of income or profit and the present service capacity of which is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry.

Certain investments would be excluded from measurement at fair value and should continue to be measured according to existing GASB standards, such as investments in money market instruments with remaining maturity at time of purchase of one year or less.

Under current accounting standards, state and local governments are required to disclose how they arrived at their measures of fair value if they are not based on quoted market prices. In the Preliminary Views document, the GASB proposes expanding those disclosures to include the levels of inputs a government uses to measure fair value and the judgments made to arrive at those inputs.

Providing Feedback

Both proposals and the Plain-Language Supplement are available on the GASB website, www.gasb.org. Stakeholders are encouraged to review the proposals and provide comment by September 30, 2013. The GASB also is planning to host a public hearing on both proposals in Flushing, New York, on November 1, 2013, at 8:30 a.m. EST.

For the Preliminary Views on Fair Value Measurement and Application, the GASB will be conducting a field test (in which governments go through the hypothetical process of applying the proposed standards) and is seeking state and local governments to participate. Governments interested in participating should contact GASB Project Manager Randy Finden at rjfinden@gasb.org.

The Exposure Draft is available at:

<http://www.gasb.org/cs/BlobServer?blobkey=id&blobwhere=1175827186082&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs>

Preliminary Views are available at:

<http://www.gasb.org/cs/BlobServer?blobkey=id&blobwhere=1175827186112&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs>

Plain Language Supplement available at:

<http://www.gasb.org/cs/BlobServer?blobkey=id&blobwhere=1175827186097&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs>

