

Bond Case Briefs

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GASB: On the Horizon.

Fair Value Measurement and Application

The idea of fair value - which involves the measurement of certain assets and liabilities, primarily investments - has a long history in governmental accounting. The Board approved a Preliminary Views, *Fair Value Measurement and Application*, laying out its initial thinking on this topic, in June 2013. In it, the Board proposed new standards regarding how fair value should be measured, to which assets and liabilities those fair value measurements should be applied, and what information about fair values should be disclosed in the notes to the financial statements. A new Exposure Draft of proposed standards that incorporates feedback on the Preliminary Views from stakeholders will be released this week.

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Under the Board's forthcoming proposed guidance, fair value would be defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the Board's view, fair value is a market-based measurement and represents an *exit* price (what a government would get to sell an asset), as opposed to an *entry* price (what a government would pay to purchase an asset), which is often different.

The proposal would further expand the requirement that most investments are reported at their fair value by applying this measurement attribute to various types of alternative investments. It defines an investment as "a security or other asset that a government holds primarily for the purpose of income or profit, and its present service capacity is based solely on its ability to generate cash or to be sold to generate cash."

If guidance ultimately results from the project, it would improve comparability and consistency of governments' measures of fair value. Financial statement users would be better informed about how governments ascertained fair value. It would also bring clarity to certain issues important to pinpointing fair value that may be uncertain at present.

[More information on the Fair Value Measurement and Application project](#)

Fiduciary Responsibilities

One of the reasons a government may have to include a separate legal entity or a particular activity in its financial statements is that the government has a *fiduciary responsibility* for the entity or activity. In other words, the government acts in a trustee or agent capacity for the resources associated with the entity or activity.

The Board added a project on Fiduciary Responsibilities to the current technical agenda in August 2013 after pre-agenda research activities were conducted following the Governmental Accounting Standards Advisory Council identifying the issues as a key priority. The Board is currently deliberating the issues in this project and first will expose its preliminary views for public comment in late 2014.

The project's central objective is to consider whether to develop additional guidance on how to decide if a government should report fiduciary activities

Currently, the concept of what constitutes fiduciary responsibility is not well defined in governmental accounting standards. GASB research and technical inquiries from constituents have indicated inconsistency in the current reporting of various types of fiduciary activities. Research also has indicated a general inconsistency in the reporting of fiduciary activities between governments that perform only business-type activities (such as colleges, utilities, and hospitals) and general purpose governments (such as states and cities).

The project's central objective is to consider whether to develop additional guidance on how to decide if a government should report fiduciary activities in its general purpose external financial reports. It also will address such issues as confusion about the proper uses of private-purpose trust funds and agency funds, and whether a stand-alone business-type activity engaging in fiduciary activities should present fiduciary fund financial statements.

[More information on the Fiduciary Responsibilities project](#)