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September 24, 2002

Mr. David R. Bean
Director of Research
Project No. 26E
Governmental Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the GASB exposure draft, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This proposed Exposure Draft addresses disclosure requirements for governmental entities' deposit and investment risks.

The FMSB, comprised of 21 members with accounting and auditing backgrounds in federal, state, and local government, academia, and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB would like to offer the following response to the four issues specifically identified in the exposure draft. In addition, the Board believes the proposed guidance could be improved and further strengthened by considering the suggestions under the heading "Other Comments":

Issue 1

The FMSB agrees with the proposal to permit governments to select one of five methods for the disclosure of interest rate risk. The FMSB believes it would be extremely difficult to require all governments to use the same method.

Issue 2

The FMSB does not believe that the guidance is sufficiently clear as to which investments would be considered highly sensitive to interest



rate change. We believe the guidance would be enhanced if the information from Paragraph 41, in the Basis for Conclusions, was relocated to Paragraph 16 of the Standard.

Issue 3

The FMSB agrees, for the reasons stated in the Basis for Conclusions, with the elimination of the requirement to disclose Categories 1 and 2. The FMSB also agrees with the decision to limit required disclosures to Category 3 in the existing Statement 3 requirements.

Issue 4

The FMSB disagrees with the decision to eliminate disclosure of credit risk that was greater during the year than at the end of the reporting period and to eliminate the types of investments made during the year but not at the end of the reporting period. We are concerned that some governments may assume significantly greater risks during the year, but intentionally eliminate those risks prior to disclosure at the end of the reporting period. We disagree with the statement in Paragraph 52 of the Basis for Conclusions that "...the value of risk information is its predictive value for potential loss of resources. In the Board's view, risks not present at the end of the reporting period do not offer that predictive value." We believe that disclosure of an entity's engagement in riskier investment activity during the year than at year end provides important information about an entity's investment policies and practices and may well be indicative of a future problem. In today's environment with the increased emphasis on ethical practices, the FMSB does not believe that elimination of these two disclosures is in the best interest of the accounting profession or the general public.

Other Comments

1. The FMSB believes additional disclosures regarding the matching of maturity dates of fixed income securities to the timing of their liquidation in order to meet potential obligations would be useful. There is a potential for loss from interest rate risk, as defined by the GASB, related to the need to liquidate securities in order to meet obligations. Investing in fixed-income securities creates the risk that increased interest rates will cause an entity to lose principal *if it is required to liquidate the securities in order to meet obligations.*

We believe information about whether the government has matched the maturity dates of its fixed income securities to the timing of its obligations is very useful information. For this reason, the FMSB encourages GASB to require additional disclosures regarding the matching of maturities with the obligations that need to be met from the investments.

2. Paragraph 5, on Page 2 of the ED, states “The disclosures required by this Statement should separately focus on the governmental activities, business-type activities, major funds, nonmajor funds in the aggregate, internal service funds in the aggregate, and fiduciary fund types, of the primary government. Disclosures may be aggregated when deposits or investments are pooled. For example, if all of a government’s funds participate in the government’s internal investment pool, no major fund or fiduciary fund-type disclosures would be required.” We are concerned that the example in the third sentence of Paragraph 5 may not be parallel with the guidance in the first sentence of the paragraph. If all funds participate in the government’s internal investment pool, we believe that no nonmajor fund disclosures would be required, either. Therefore, for clarity, we suggest that the Board revise the third sentence to simply read “For example, if all of a government’s funds participate in the government’s internal investment pool, no fund level disclosures would be required.”
3. The first sentence in Paragraph 6, also on Page 2 of the ED, states “Governments should describe their deposit or investment policies that are related to the risks required to be disclosed by this Statement.” Because we agree with the Board’s concern regarding the potential length of investment policy disclosures, as expressed in its Basis for Conclusions, we suggest that the Board revise the first sentence slightly to begin “Governments should briefly describe...”
4. Because this ED uses many technical investment terms, the Glossary, on Pages 9 through 11 of the ED, is an important reference source to the reader. To further improve the clarity of the final Statement, we suggest that the Board expand the Glossary to also include definitions of the terms *interest rate sensitivity* (Paragraph 14) and *tranches* (Paragraph 16).
5. In the illustrations in Appendix C, the disclosure of concentration of credit risk is consistently presented in paragraph format.

Although we realize that the disclosure of the government's policy must be in sentence format, we suggest that the Board consider including at least one illustration in which the percentages of concentration are presented in a columnar format on the schedule of investments.

6. We have two concerns regarding the proposed codification instructions in Appendix E. First, although the proposed guidance in Paragraph .104 in Section C20 and Paragraph .121 in Section I50 is nearly verbatim from Paragraph 5, on Page 2 of the ED, the phrase "internal service funds in the aggregate" is omitted in both paragraphs. Second, although the guidance in Paragraph .121 in Section I50 is nearly verbatim from Paragraph 5, Appendix E indicates that Paragraph 5 will also be codified verbatim in Paragraph .125, just four paragraphs later. We suggest that the Board review the proposed instructions in Appendix E to ensure accuracy and to eliminate redundancy in the Codification.

Again, the FMSB appreciates the opportunity to provide comments on this ED. Should you have any questions, or desire further details on FMSB's position, please contact me at Sharon.Russell@Examiners.state.al.us or call me at (334) 242-9224.

Sincerely,

Sharon R. Russell, CPA, CGFM, Chair
AGA Financial Management Standards
Board

Cc: William J. Anderson, Jr., CGFM
AGA National President