



**National Association of College and  
University Business Officers**

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July 8, 2009

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference Proposed FSP FAS 157-g**

Dear Technical Director:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the proposed FASB Staff Position (FSP) FAS 157-g, "Estimating the Fair Value of Investments in Investment Companies that have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, *Investment Companies*" (the FSP). 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 1,500 higher education professionals annually on accounting and reporting issues and practices.

Background

In January 2009 NACUBO's APC met with FASB staff and discussed the impact of complying with SFAS 157 *Fair Value Measurements* with regard to alternative investments in which no active market exists. Several of the APC members commented that their institution's investment pools contained many hundreds of these types of investments and that the preliminary draft guidance from the FASB and the AICPA would lead to an untenable situation and significant comparability issues. Specifically we were concerned about identifying hypothetical markets for these investments, or determining the appropriate adjustment to Net Asset Value (NAV), either up or down, when the investments' terms include restrictive redemption provisions. Since that

meeting, FASB has issued additional guidance which has clarified certain areas of concern that were raised. We appreciate FASB's efforts to provide this additional clarification in such a timely manner. In addition, we appreciate the guidance and "practical expedient" contained in the FSP and have the following comments in response to questions in the exposure draft.

Question 1— Do you believe there are other investments that should be within the scope of this proposed FSP? If so, what principle should be used to determine which investments are within the scope of the proposed FSP?

While a majority of alternative investments are audited under the AICPA Investment Audit Guide, there are still many that are not. A significant number of those not audited under the Guide are audited under IFRS Standards which are similar to US GAAP. Given the similarities, we feel that investments audited under IFRS Standards should be included within the scope of this FSP.

Question 5 – Are the disclosure requirements of the proposed FSP operational?

In general, the disclosure requirements seem to be designed for organizations that have very few individual investments that fall within the scope of the proposed FSP. For organizations with hundreds, or even thousands, of these types of investments, the required disclosures would not be practical at less than an aggregate level by type of investment.

In addition, considering the complex portfolios and number of investments held by many higher education institutions, we request that the proposed FSP clarify what "disclosing by the nature and risks of the investment" means. For example, an organization can hold real estate investments in a variety of ways:

- A share of a real estate investment trust
- A direct ownership of real estate
- An interest in a real estate limited partnership

Current financial statement investment disclosures would categorize all of the above investment holdings as real estate. However, if only the third bullet (above) falls within the scope of the proposed FSP does the nature and risk of the investment by category mean the structure of investment (hedge funds, private equity funds, etc...) within the real estate category? Conversely, could the categories be grouped by type of alternative investment (hedge funds, private equity funds, venture capital funds, and so on)? Alternatively, perhaps either is acceptable.

Regarding the disclosure of descriptions of the significant investment strategies of the investee(s) as mentioned in 16a – in many cases, an organization's investment strategy and measure of performance is different than the way that the investments are categorized in the current investment disclosure. As a result, a description of investment strategies at anything but a very high level would require significant explanation for it to be meaningful to the reader of the statements. In addition, portfolio managers are reluctant

to reveal proprietary information. Any meaningful strategic information may reveal the competitive edge. As an alternative, we suggest the FSP require disclosures addressing the general investment strategy and how the use of alternative investments fits into the overall investment policy of the organization.

Disclosure requirement (d) may be unwieldy if the level of information required is at the individual investment level. Again, many of our member institutions have many hundreds of investments which would fall within the scope of the FSP. If, however, the disclosure requirement was such that information could be provided at a high level, it would be manageable. Exhibit A to this letter offers sample disclosures that we request be included in the FSP. Our disclosure example is for alternative investments that are within the scope of the proposed FSP.

### Other Comments

The practical expedient permits reliance on the NAV calculated as of the reporting entity's measurement date. We assume the measurement date means the reporting date, regardless of whether the date corresponds with the investment company's annual audit. A clarification that supports our assumption may be helpful to both financial statement preparers and auditors.

We assume the final FSP will be effective immediately. Use of the "practical expedient" is appreciated for the many higher education institutions with fiscal years ending June 30 through August 31, 2009. However, if the final FSP requires disclosures that are other than at the aggregate level, illustrated in Exhibit A of this comment letter, we respectfully request that disclosure requirements be optional for fiscal years ending before September 15, 2009.

Paragraph 15 seems to describe the key essence of the FSP. However, the leading phrase in the first sentence is somewhat confusing. We suggest this paragraph start with the second phrase in the first sentence, "A reporting entity is permitted ..." This will remove the circular reasoning contained in the beginning phrase.

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 [susan.menditto@nacubo.org](mailto:susan.menditto@nacubo.org).

Sincerely,

Susan M. Menditto  
Director, Accounting Policy

Exhibit A

*Example Disclosures for FSP 157g*

Effective July XX, 2009, the University adopted the provisions of FASB Staff Position No. 157-g, *Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, Investment Companies*. The FSP amends FASB Statement No. 157, *Fair Value Measurements*, and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share in accordance with the AICPA Audit and Accounting Guide, *Investment Companies* (AICPA Guide). In situations when investments do not have readily determinable fair values (investments referred to as alternative investments), the Net Asset Value per Share (NAV), or its equivalent, may be used as a practical expedient for fair value where investment companies follow the AICPA Guide in arriving at their reported NAV.

Of the University's total alternative investments at June 30, 2009, \$X are valued using the practical expedient, as shown in the following table.

	<b>June 30, 2009</b>
Private Equity	Amount1
Distressed debt	Amount2
Hedge funds	Amount3
Total investments valued using the practical expedient.	Total

These investments are part of the University's diversified investment portfolio. The Alternative Investment class is composed of approximately XX managers with various investment strategies. These strategies are used to protect the organization from the downside risk associated with market declines in the more conventional equity and fixed income investments.

The University has committed to invest in numerous investment partnerships that diversify in the types of alternative investments referenced in the above table over a period of years pursuant to provisions of the individual partnership agreements. As of June 30, 2009, the organization's best estimates of the maturities of these investments and the related unfunded commitments were as follows:

<b><u>Investments maturing in:</u></b>	<b><u>Fair Value</u></b>	<b><u>Unfunded Commitments</u></b>
1-5 years	\$MM	\$MM
5-10 years	\$MM	\$MM
10 years or more	\$MM	\$MM

The University has certain investments which contain restrictions on redemption. These restrictions include such limitations as quarterly redemptions with a prescribed notice period, typically 30 to 60 days. The University has \$XX of investments with redemption restrictions imposed as of the balance sheet date. This represents approximately Y% of the University's investments subject to such restrictions and Z% of total investments. These redemption restrictions are expected to be released in the next three to six months.