



October 13, 2009

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1710-100

Dear Technical Director:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the proposed Accounting Standards Update, "Fair Value Measurements and Disclosures (Topic 820)" (the ASU). 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 2,000 higher education professionals annually on accounting and reporting issues and practices.

Overall Observations of the ASU

As noted in the Background Information for the ASU, the requests and developments affecting the Board's perception that users need additional disclosures related to fair value measurements come primarily from the Securities and Exchange Commission (SEC), the International Monetary Fund (IMF) and the International Accounting Standards Board (IASB). While the ASU applies to all entities that are required to make disclosures about recurring and nonrecurring fair value measurements, it seems that the additional disclosures target financial institutions and globally-focused public companies.

The ASU also notes that the proposed additional disclosures would improve the comparability of financial reporting internationally because the proposed disclosures are currently required by International Financial Reporting Standards (IFRS). The IFRS convergence project, however, has specifically scoped out not-for-profit organizations (NFPs). Consequently we are concerned that NFPs, including higher education institutions, are being swept along with public and other for-profit companies when updates to newly codified accounting topics are proposed. NFPs have not only a different

focus than for-profit and publicly-traded companies; they also have a different set of users of their financial statements. While the ASU's proposed disclosure requirements may make sense for business and other public-interest entities that are moving toward the use of IFRS, requiring the same disclosures for all entities results in NFPs providing significant amounts of information, at a great cost to the organizations, that their financial statement users have not requested and may not find particularly valuable. This is particularly true of higher education institutions which have complex investment portfolios, unique endowment assets, contributions receivable from donors, faculty mortgage and student loan receivables, etc. The effort to these institutions of implementing accounting standards that were not drafted with them in mind creates a significant resource and financial burden, which can ultimately translate into an increased cost of education. We respectfully request that these factors be taken into consideration by the Board when determining the scope of proposed standards and that the Board scope the not-for-profit sector out of the requirements of this proposal.

Further, although we cannot speak for other types of entities such as private companies, we wonder whether this proposal would be better if scoped only to the financial institutions and public companies that the SEC, IMF, and IASB likely considered when specifying the need for additional information. Finally, requiring potentially onerous sensitivity disclosures for interim periods ending after March 15, 2010 does not seem feasible or appropriate, especially for organizations currently not required to provide interim financial reporting.

Issue 1: Disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sensitivity disclosures).

As noted above, colleges and universities have many assets and liabilities that would be subject to the additional disclosures under the ASU. Although a large number of an institution's Level 3 assets may be excluded from the sensitivity disclosures since they are valued using NAV as a practical expedient for fair value, there are still many assets that are valued using an income approach.

For example, real estate investments are often valued based on the present value of the expected cash flows. For these investments, an institution determines the appropriate discount rate to use, taking into account many factors that may increase or decrease that rate (i.e. location of the property, local inflation rates, etc.). In addition, an estimate of the expected term of the payments is made based on the lease agreement. Each property is valued separately and an institution may have tens, if not hundreds, of these types of assets. When asking whether there are "reasonably possible alternative inputs" to the assumptions used, the answer would almost always be "yes." As a result, there would be four combinations of reasonably possible alternative inputs for each property. The same issues would apply to liabilities under split interest agreements.

The cost and effort to assess each of these possible scenarios would be, for some institutions, prohibitive. In addition, providing meaningful disclosure on the results of this analysis would be potentially voluminous. In an effort to avoid such detail,

disclosures would likely be condensed and would, therefore, be of little use to the user of the financial statements. Additionally, we are concerned that when these types of disclosures are provided, a certain level of precision is implied that does not exist.

There will also be greater motivation for preparers to “push” the “hierarchy classification envelope,” trying to force more instruments into Level 2 in order to avoid having to include the sensitivity disclosures. In fact, a recent study by the SEC on the use of mark-to-market accounting noted that 25 percent of public companies sampled had no Level 3 assets and, overall, financial institutions had the lowest percentage of Level 3 assets, reporting a modest seven percent.

While some entities may be able to argue that additional reasonably possible alternative inputs for Level 3 instruments do not result in a material difference. Certain entities may, in fact, be able to convince their auditors that this is the case. Other entities, however, may not be able to easily persuade their auditors that the differences are immaterial and will be required to go through the costly calculations to prove that they are.

Issue 2: Is the proposed requirement with respect to the reconciliation of fair values using significant unobservable inputs (Level 3) to provide separate disclosure of purchases, sales, issuances and settlements during the reporting period operational?

For higher education institutions, providing the information on a gross basis by transaction type in the Level 3 reconciliation can compromise proprietary investment strategies and allow users of the financial statements and potential donors to second guess decisions with regard to changes in certain asset classes. This type of proposed disclosure crosses the line between external financial reporting and internal managerial analysis and reporting.

Significant Transfers between Level 1 and Level 2

We question the value of this additional information to the reader and are concerned that it will be boiler plate; included only to satisfy the reporting requirement. Likewise, a discussion of the valuation techniques and the rationale for hierarchy level changes may be constrained by the desire to keep the disclosure to a minimum.

Disclosure Regarding Gains or Losses During the Period

The ASU requires disclosure of gains and losses included in earnings that are attributable to the change in unrealized gains and losses relating to those assets and liabilities still held by the entity at the reporting date. Depending on the sophistication of an organization’s financial systems, this information may be difficult to determine. For example, higher education institutions typically monitor gains and losses at a pool level rather than an individual investment level, tracking and system modifications would be needed to meet this requirement. Alternatively, some higher education institutions may have to pay external money managers to prepare such information.

Effective Date

Not all entities subject to Topic 820 (formerly FAS 157) have issued financial statements with the additional disclosures required under that pronouncement. In particular, few, if

any, entities have issued statements with the new disclosures required under ASU 2009-12 (FAS 157-4). As a result, we think it is difficult to determine whether the additional disclosures proposed in the ASU are needed. Higher education institutions are still working on procedures to produce the disclosures required by ASU 2009-12, as well as other standards issued as part of the credit crisis projects. Consequently, the proposed effective date is burdensome.

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 sue.menditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy