April 10, 2006

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

Re: File Reference No. 1250-001

Dear Sir/Madam:

The National Association of College and University Business Officers (NACUBO) appreciates the opportunity to provide input to the Board's Exposure Draft The Fair Value Option for Financial Assets and Financial Liabilities. We value the considerable effort that the Board and the staff have invested in this project.

NACUBO's comments on the proposal were developed by members of our Accounting Principles Council (APC). The council consists of experienced volunteers from member institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

Our reaction to the Exposure Draft is generally supportive of a standard making it optional, not mandatory, to show financial assets at fair value. However we have concerns about the potential abuse of the optional nature of the application of the proposed statement. We believe the inclusion of criteria to guide management's discretion would be beneficial and that this information should be disclosed. We do not, however, believe that the fair value option will be widely exercised in the college and university industry since for many of our institutions financial instruments shown at cost are not significant.

We would be opposed to a requirement that fair value be used for all financial instruments, because of the cost of obtaining this information, and because we do not believe the requirement would increase usefulness of our financial statements. For many of our financial instruments not already shown at fair value (such as student loans), markets either do not exist, or are limited, making it difficult and costly to obtain fair value information, and making the fair value information less reliable, and therefore less meaningful to the financial statement user.

We are concerned that granting the option to measure at fair value may both a) impair comparability between those entities that choose to exercise the option for certain types of assets or liabilities and those that do not, and b) impair consistency where a single entity applies different measurement attributes (e.g. some at fair value and some at cost) to similar financial assets or liabilities on its balance sheet. We are also concerned about potential abuse of the optional nature of the application of the proposed statement. Allowing optional fair value measurement on a contract-by-contract basis may tempt an entity to exercise the option granted by the proposed statement when it is favorable to do so, and using another measurement attribute, such as cost, when it is not. While we understand that making the option irrevocable, once chosen, reduces this risk, we feel there is still an issue.
We noted the requirement in IAS 39, described in paragraph A22.d. of the ED, that the fair value option only be applied

"when doing so results in more relevant information either because it eliminates or significantly reduces a measurement or recognition inconsistency (that is, an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases, or because a group of financial assets, financial liabilities, or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel."

We believe that this kind of eligibility criteria would reduce the risk of the application of the "optional" fair value measurement only when it is advantageous to management to do so, and would encourage the FASB to include this eligibility criteria in the standard. This would achieve the additional benefit of convergence with the IASB standards.

In closing, we again wish to express our appreciation for the opportunity to comment. 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,

Sue Menditto
Director, Accounting Policy