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February 29, 2016

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

Re: File Reference No. 2015-350

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 Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*” (the Proposed ASU). NACUBO’s comments on the Proposed ASU 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 industry guidance for higher education and educates over 2,000 professionals annually on accounting and reporting issues and practices.

### **Overall Comments on the ED**

We appreciate the Board’s efforts to improve financial statement disclosures to make them more effective and decision-useful for readers. The current “disclosure overload” is an issue that NACUBO has raised on a number of occasions. At the heart of many of those discussions has been the general lack of consideration given to not-for-profit organizations (NFPs) and the relative value of certain disclosures to their financial statement users. Although we understand that over the past decade NFPs have been excluded (by definition) from projects with roots in international convergence, it has been challenging for higher education to comply with accounting requirements imposed by standards for which our industry was not considered. Such compliance has been expensive and has added little value for our financial statement users. Therefore, it is especially disappointing that a proposed ASU aimed at improving disclosures seems to

have overlooked any uniqueness of NFPs and, instead, focuses only on the differences between private companies and public business entities.

When reviewing the basis for conclusions, it appears that the Board intended that certain disclosures should apply only to public entities; presumably not requiring private companies or nonpublic entities to provide those disclosures. Specifically, paragraph BC47 states, “The amendments in this proposed Update would require public entities to disclose the range, weighted average, and time period used to develop significant unobservable inputs for fair value measurements categorized within Level 3 of the fair value hierarchy” (as required by paragraph 820-10-50-2(bbb)). The proposal, however, exempts only private companies from providing this disclosure (see paragraph 820-10-50-2G).

***Question 1: Would the proposed amendments result in more effective, decision-useful information about fair value measurements? If not, please explain why. Would the proposed amendments result in the elimination of decision-useful information about fair value measurements? If yes, please explain why.***

In many cases, the proposed amendments would result in more effective information being disclosed—especially the elimination and modification of certain disclosures. For some entities, all of the proposed amendments may be an improvement. For NFPs, however, this is not the case—especially those that do not meet the definition of a public entity (i.e. they are not conduit bond obligors or do not have other publicly traded debt). As we interpret the guidance, the proposed additional disclosures related to categorizing unrealized gains and losses by fair value hierarchy level and providing the range, weighted average, and time period used to develop significant unobservable inputs would be required by all NFPs. This information is of questionable value to the users of NFP financial statements whose focus is on availability of resources and total investment return and who rely on the auditor’s opinion to attain comfort about the reported value of the investments.

Similar to private companies, NFPs are not restricted in their communication with external parties. As such, rating agencies, creditors, lenders, bondholders, and so forth are free to contact management for information that they feel is important for their specific needs, and management is free to provide that information. Therefore, if any of the information included in the new disclosures was felt to be important, a stakeholder could obtain it through a request to the NFP’s management.

***Question 2: Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?***

As noted in our answer to question 3, many higher education institutions would need to modify accounting systems to capture information about unrealized gains and losses by fair value hierarchy level. It is unclear whether, or the extent to which, those system modifications would result in additional audit fees.

***Question 3: Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.***

For many higher education institutions—particularly those with diverse investment portfolios that are managed in-house—unrealized gains and losses are not disaggregated by level in their general ledgers. Therefore, in order to provide information about changes in unrealized gains and losses by fair value hierarchy level, changes to accounting systems would be necessary in order to capture this information at such a granular level.

For institutions that outsource the management of their investments, there is bound to be diversity in what is currently captured and reported. If a requirement to disaggregate unrealized gains and losses were effective today, several colleges and universities have indicated that disaggregation would be a manual process, outside of existing financial systems, with reliance on details in custodian statements. Those institutions would need to develop procedures for determining that the information provided is accurate and appropriately aligns with the rest of the investment information included in the financial statements.

***Question 4B: Should entities other than public business entities (for example, employee benefit plans and not-for-profit organizations) also be exempt from the proposed amendments mentioned in Question 4A? If yes, please describe why and which disclosures they should be exempt from.***

The exemptions made for private companies should be extended to all entities that are not public business entities as defined in the ASC Master Glossary. As stated in paragraph BC48, “users of private company financial statements do not seek the same level of detailed information as users of public company financial statements. Many of those private company users have indicated that the accompanying public accountant’s report is sufficient confirmation that the inputs and assumptions underlying the information recognized in financial statements—such as fair value measurements—are reasonable and that they can obtain details, if necessary, from management.” As noted in our response to question 1, this holds true for NFPs as well as private companies and, therefore, the exemption should apply to both.

The following discussion addresses each of the exemptions individually.

- ***820-10-50-2 (bbb) 2*** *For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. In complying with this disclosure requirement, a reporting entity shall provide the range, weighted average, and time period used to develop significant unobservable inputs. See paragraph 820-10-55-103 for further guidance.*

For most colleges and universities, Level 3 financial instruments are investments and the vast majority of those investments are measured a fair value using net asset value (NAV) as a practical expedient. For those that do not use NAV, information about the range, weighted average, and time period used to develop significant unobservable inputs is not of particular interest to financial statement users. This lack of interest likely stems from the overall immateriality of the investments measured at other than NAV and reliance on the auditor’s opinion for the reasonableness of the values reported.

- **820-10-50-2 (c)** *For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, reconciliation from the opening balances to the closing balances, disclosing separately changes during the period.*

Higher education institutions have long questioned the relevance and usefulness to financial statement users of the Level 3 roll forward schedule. In fact, during 2014 field testing of the disclosure framework proposed by the Board, participating colleges and universities identified the level 3 roll forward as a disclosure that should be eliminated. In addition, the issuance of ASU 2015-07 which removed from the fair value hierarchy investments that are measured at NAV using the practical expedient has further diminished the usefulness of this schedule.

- **820-10-50-2 (d)** *For recurring fair value measurements categorized within Level 1, Level 2, and Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period included in other comprehensive income and earnings (or changes in net assets) that is attributable to the change in unrealized gains or losses relating to those assets and liabilities held at the end of the reporting period disaggregated by level of the fair value hierarchy, and the line item(s) in the statement(s) of comprehensive income (or activities) in which those unrealized gains or losses are recognized.*

As noted in our response to question 1, users of an NFP's financial statements are interested in total return on investments and not the components of those returns. For this reason, most NFPs do not currently distinguish between realized and unrealized gains in their financial statements, and certainly not by fair value hierarchy level. And, as noted above, with the issuance of ASU 2015-07, the information would not reflect gains and losses for all assets and liabilities held by the organization. Consequently, the information provided would not be complete enough to add meaningful value to users. Given the expected effort involved in providing this information (see our response to question 3) and the lack of comprehensive information, we do not believe that this disclosure would be cost-beneficial for NFPs to include.

***Question 8: Are there any other disclosure requirements retained following the review of Topic 820 that should be removed? Please explain why.***

As noted in our response to question 4B, we do not believe that the Level 3 reconciliation schedule provides relevant or useful information. This is amplified by the issuance of ASU 2015-07 which eliminates, for many colleges and universities, a significant portion of their assets and liabilities from the fair value hierarchy.

***Question 9: How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by nonpublic business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? If yes to either question, please explain why.***

If NFPs are not exempted from the additional disclosures, a period of at least two years will be needed to make the necessary changes to their systems or to develop procedures to ensure the accuracy of information provided by their investment managers. Once those processes are complete, an additional year should be provided to facilitate the presentation of comparative statements.

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We 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](mailto:sue.menditto@nacubo.org).

Sincerely,

Susan M. Menditto  
Director, Accounting Policy