

FEBRUARY 2025

POST-IMPLEMENTATION REVIEW REPORT

*GASB Statement No. 72, Fair Value
Measurement and Application*

*(Codified in Codification of Governmental
Accounting and Financial Reporting Standards,
Sections 3100 and I50)*



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SUMMARY

Overview of PIR Objectives and History

The post-implementation review (PIR) process was established by the Financial Accounting Foundation (FAF) Board of Trustees (the Trustees) through its Standard-Setting Process Oversight Committee in 2010. In carrying out their oversight responsibilities for the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), the Trustees established the following PIR objectives:

1. To determine whether a standard is accomplishing its stated purpose
2. To evaluate the standard's implementation and continuing application costs and related benefits
3. To provide feedback to improve the standard-setting process (as opposed to recommending specific standard-setting actions).

To achieve the first objective, the PIR process evaluates whether:

- a. The standard resolved the issues underlying its need (PIR Objective 1a)
- b. Decision-useful information is being reported to, and being used by, financial statement users (PIR Objective 1b)
- c. The standard is operational; that is, stakeholders can apply the standard as intended, the standard is understandable, and preparers are able to report the information reliably (PIR Objective 1c)
- d. Any significant unexpected changes to financial reporting or operating practices resulted from applying the standard (PIR Objective 1d)
- e. Any significant unanticipated consequences resulted from applying the standard (PIR Objective 1e).

To achieve the second objective, the PIR process evaluates whether:

- a. Implementation and continuing application costs are consistent with the costs that the Board considered and stakeholders expected
- b. Benefits are consistent with the benefits the Board intended and stakeholders expected.

To achieve the third objective, the PIR process evaluates whether the results from the review suggest that improvements are needed to the standard-setting process.

Determining whether any issues should be subsequently evaluated through a potential new standard-setting process is not part of the PIR process. Instead, that discussion is entirely at the discretion of the Board and will only be considered through a separate deliberative due process.

Beginning in May 2019, the GASB began the PIR process to examine the effectiveness of Statement No. 72, *Fair Value Measurement and Application* (codified in *Codification of Governmental Accounting and Financial Reporting Standards* [Codification], Sections 3100 and I50). In summary, the three stages of the PIR process are as follows:

- Stage 1. Post-issuance-date implementation monitoring
- Stage 2. Post-effective-date evaluation of costs and benefits
- Stage 3. Summary of research and reporting.

Stage 1 began after the issuance of Statement 72 and continued after its effective date—for reporting periods beginning after June 15, 2015—through 2019. Stage 2 started in 2019 and concluded in the fourth quarter of 2024. Stage 3 is complete with the submission of this report.

As discussed in greater detail later in this report, multiple research methods were employed in the PIR process to collect information regarding Statement 72 from a wide variety of stakeholders.

Overall Conclusions Reached

We reached the following overall conclusions using our judgment, considering all the evidence, and striving to be objective and balanced:

- **Objective 1a:** Overall, Statement 72 resolved the primary issues underlying the need to improve the reporting of complex fair value measurements. That reporting affected application, measurement, disclosure, and presentation of assets and liabilities being measured at fair value for state and local governmental entities, most notably retirement plans and endowments. We believe that the Statement is an improvement over the prior fair value standards, achieving its objective of improving financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring assets and liabilities at fair value, providing additional application guidance for fair value measurements, and enhancing disclosures about fair value measurements.
- **Objective 1b:** The application of Statement 72 provides users of financial statements with decision-useful information. In particular, stakeholders generally noted that fair value measurements are more relevant to the analysis of governmental financial information for assets that are not being used to provide services and that fair value disclosures provide useful information.
- **Objective 1c:** Overall, Statement 72 is operational. However, some stakeholders identified challenges in the use of unobservable inputs to measure the fair value of assets and liabilities and in the understanding of which level of input is used in measuring the fair value of U.S. Treasury bills, notes, and bonds.
- **Objective 1d:** Our review does not suggest any significant unexpected changes to financial reporting or operating practices as a result of applying Statement 72.

- **Objective 1e:** Our review does not suggest any significant unanticipated consequences as a result of the implementation or continuing application of Statement 72.
- **Objective 2:** Consistent with other GASB Statements, implementation costs were contemplated by the Board and documented in a field test in the Preliminary Views stage of the project. In addition, the costs of continued application of the Statement reflect an expected peak in the year of implementation with a decrease in the following year. Furthermore, the expected benefits of Statement 72—improved guidance on how to measure fair value and what to apply it to, greater consistency on the definition of fair value, increased comparability and transparency, and enhanced disclosure information—have been achieved.
- **Objective 3:** Finally, no standard-setting process recommendations were identified from our review. As noted in the final section of this report, the newly developed GASB disclosure framework has not been applied to disclosures required by Statement 72.

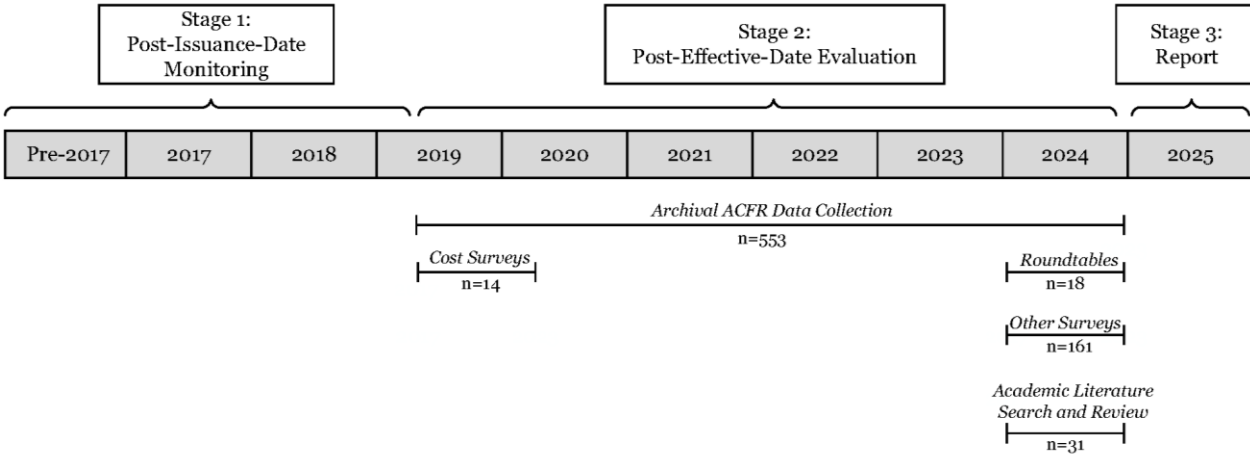
POST-IMPLEMENTATION REVIEW

PIR Procedures

Our process for reviewing Statement 72 followed the guidelines described on the GASB website ([PIR Process Description](#)). Because the purpose of Stage 1 activities was to assist in the understanding and preparation of the implementation of Statement 72, staff members who were part of the fair value measurement and application team were primarily responsible for conducting the outreach to educate, assist, and monitor the activities associated with Statement 72. Stage 2 activities were directed and conducted by staff members who were not involved in the development of the Statement. However, the PIR team (the team, we, or our) occasionally consulted with staff members who were part of the fair value project team on technical aspects of the Statement. The research methodologies used in the PIR process are discussed below.

The team utilized multiple methods that collectively provided a sufficient basis for comprehensively addressing the PIR objectives. Figure 1 presents our PIR process stages and related activities with the number of stakeholders who participated in surveys and roundtables, and the annual comprehensive financial reports (ACFRs) and academic articles reviewed.

Figure 1: Timeline of Statement 72 PIR Activities



Statement 72 was issued in February 2015 with an effective date for reporting periods beginning after June 15, 2015. Since the PIR was embedded in the standard-setting process, there has been some overlap of activities throughout the PIR process.

In Stage 1, post-issuance-date monitoring, the GASB monitored implementation activities and provided education and support for those preparing and auditing financial statements in accordance

with Statement 72 and for those using the resulting information in their decision making and assessments of government accountability and interperiod equity. The GASB supported implementation in the following specific ways:

1. Responded to 251 technical inquiries on fair value measurement and application by year as follows:
 - a. 14 in 2015
 - b. 182 in 2016 (year of implementation)
 - c. 40 in 2017
 - d. 11 in 2018
 - e. 4 through April 30, 2019
2. Issued questions and answers (Q&As) to further clarify, elaborate on, or explain the requirements of Statement 72 as follows:
 - a. Eight new Q&As in Implementation Guide No. 2016-1, *Implementation Guidance Update—2016*
 - b. One new Q&A in Implementation Guide No. 2017-1, *Implementation Guidance Update—2017*
3. Solicited input on the implementation experience and related costs during Governmental Accounting Standards Advisory Council (GASAC) meetings and liaison meetings with stakeholder associations
4. Presented Statement 72 during speaking engagements at stakeholder association conferences and meetings.

During Stage 2, post-effective-date evaluation of costs and benefits, the GASB responded to 25 technical inquiries addressing fair value measurement and application between May 1, 2019, and November 30, 2024. In addition, the team conducted a range of activities, as described above.

To perform archival analysis of Statement 72, data were collected from the audited annual financial reports of 239 governments for the year of implementation (2016) and 314 governments for the fifth year of applying the requirements of Statement 72 (2020), including data from 25 pension plans. A large set of data was collected, mostly relating to the types of investments governments reported at fair value and the levels of the fair value hierarchy that were disclosed as being used to measure those investments. In addition, the note disclosures for the year of implementation and for the fifth year of applying the requirements of Statement 72 were compared for 18 of those governments, allowing for a more detailed review of how disclosure requirements were addressed by this subset of preparers. Archival data are limited in what they can contribute to the fundamental question of the effectiveness of the Statement for two primary reasons. First, we cannot necessarily discern from archival data whether a government accurately recognized or measured assets or liabilities required to be measured at fair value, nor can we determine whether governments correctly disclosed fair value information. Although some presentation of fair value information may reveal inaccuracies or incorrect interpretations of the requirements of Statement 72, an absence of notable discrepancies does not allow us to conclude compliance with those requirements. Second, while inaccurate application of the requirements of Statement 72 may be indicative of ineffective standard setting, it may suggest other

constraints or factors not related to the effectiveness of the Statement. For those reasons, our use of archival data is primarily designed to determine whether it is possible to correctly apply the requirements of Statement 72 for an average government and to provide some indication of the prevalence of the use of fair value in financial reporting.

Initial cost surveys were sent to governments that were selected for archival analysis to obtain information on the efforts and challenges governments had in implementing Statement 72. Ten governments with greater than \$100 million in annual revenue responded to the survey along with four governments with greater than \$10 million in annual revenue but less than \$100 million in annual revenue. Survey respondents provided information related to the time and cost of measuring assets and liabilities at fair value and providing disclosures related to those elements both in the year prior to and in the year of implementation of Statement 72.

In the roundtable discussions, the team posed questions to stakeholders, seeking their feedback on both the positive and negative aspects of the requirements of Statement 72. Participants in the roundtables were provided with advance materials to prepare for the sessions. While roundtable discussions have significant merits, we note that there is always the risk that stakeholders may find it difficult to express negative views about certain requirements to the team. However, roundtable participants were all recognized leaders in their respective areas and were likely comfortable sharing their views. Three roundtables with 9 auditors, 5 preparers, and 4 users—a total of 18 participants—were held.

Drawing upon experience from the roundtables, the team developed survey instruments for each of the three stakeholder groups—auditors, preparers, and users of financial reports—that allowed for feedback from a broader range of stakeholders on the requirements of Statement 72. Surveys complement roundtable discussions in that the opportunity for anonymity may make respondents more comfortable in expressing negative views regarding the requirements of Statement 72. Moreover, surveys are available to a wider range of individuals than roundtables. We received survey feedback from 15 users, 86 preparers, and 60 auditors for a total of 161 respondents.

Lastly, we conducted a comprehensive review of academic literature relevant to the effectiveness of Statement 72. It is important to note that there is an absence of academic research directly addressing Statement 72. As a result, the academic literature review generally focused on research related to fair value measurement in corporate financial reporting; such research typically is conducted in the context of financial institutions and equity market participants. Consequently, the findings of the studies reviewed may not generalize to state and local governments, given the potentially different information needs of governmental financial statement users. That research nevertheless provides evidence related to the decision usefulness of fair value information, as well as the challenges faced by preparers and auditors. In total, we examined 31 academic research articles, including 2 that addressed governments reporting information at fair value prior to the issuance of Statement 72 and 2 that addressed governments reporting derivative instruments at fair value.

Throughout the course of this PIR project, stakeholders were provided with opportunities to raise any issues they felt were relevant to the fair value measurement and application requirements, and their input was considered for inclusion in this report. This report, however, does not include a discussion of all requirements in Statement 72 because the evidence gathered focused on key requirements and did not necessarily cover every individual requirement of the Statement. Additionally, some feedback and discussion of certain requirements could fit within the analysis of more than one section or subsection of the PIR objectives. To reduce redundancy, this report incorporates the discussions in the PIR objective sections that the team determined to be the most relevant based on the underlying theme of the information collected and feedback received. Our conclusions were reached after considering the analysis performed for all PIR objectives.

Background on Statement 72

Statement 72 was issued in February 2015. The objective of Statement 72 was to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. Those requirements were based in part on the conceptual definition of fair value as a measurement attribute established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, which was issued by the GASB in March 2014.

The issuance of Statement 72 resulted from a research project following both (1) economic events that placed renewed focus on fair value measurements in financial statements and (2) developments in the accounting standards on fair value measurements issued by the FASB and the International Accounting Standards Board (IASB). The research project included assessments of which assets and liabilities are measured at fair value, the methods used in fair value measurements, and stakeholder perceptions of the usefulness and reliability of fair value measurements and disclosures.

Pre-agenda research was initiated by the Board in April 2008. Based on the research findings identified as well as feedback received from the GASAC, a standard-setting project on fair value measurement and application was added to the GASB's technical agenda in August 2011. That project ultimately led to the issuance of Statement 72 in 2015 following extensive due process, including weighing the costs of applying the particular requirements with the benefits users of the financial statements would obtain.

The general provisions of Statement 72 are as follows:

- Provide a definition of fair value for assets or liabilities that is an exit price that (1) assumes that a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market; (2) assumes that general market participants would act in their economic best interest; and (3) is unadjusted for transaction costs.
- Require a government to use valuation techniques that are consistent with approaches (the market approach, the cost approach, or the income approach) that are appropriate under the circumstances and for which sufficient data are available to measure fair value.

- Categorize the inputs to the valuation techniques into a hierarchy that gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs, as follows:
 - Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
 - Level 2 inputs are inputs—other than inputs included within Level 1—that are observable for an asset or liability, either directly or indirectly.
 - Level 3 inputs are unobservable inputs.
- Provide application guidance that generally requires investments to be measured using the valuation techniques and approaches provided in Statement 72, except for certain short-term investments for which investment measurement requirements are provided in other standards.
- Require disclosures to be made about fair value measurements, the level of the fair value hierarchy used in the measurement, and valuation techniques and approaches used. Those disclosures are required to be organized by type of asset or liability reported at fair value.

PIR Objective 1: Did Statement 72 Accomplish Its Stated Purpose?

Based on the evaluation results for all five subobjectives under PIR Objective 1, we conclude that overall, Statement 72 accomplished its stated purpose of improving financial reporting by state and local governments by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

PIR Objective 1a: Did Statement 72 Resolve the Issues Underlying the Need for the Standard?

As stated in the Summary, based on our review, we conclude that Statement 72 resolved the primary issues underlying the stated need for the standard. Stakeholders participating in our outreach efforts generally noted that many general purpose governments are constrained in the assets they may own that are required to be measured at fair value.¹ However, for those governmental entities that are allowed to hold investments that are measured at fair value using unobservable inputs, such as retirement plans and endowments, stakeholders participating in outreach efforts generally responded that Statement 72 resulted in improvements in accounting and financial reporting by requiring governments to follow the fair value hierarchy in determining which inputs to use to measure fair value and by requiring disclosure of information related to how those inputs were determined.

Stakeholders generally noted that the similarity of the requirements of Statement 72 to private-sector reporting requirements issued by the FASB facilitated the implementation of Statement 72. For

¹ See also Hunt, G. 2009. “GASB Statement No. 31: Why No Controversy?” *Journal of Business & Economics Research*, 7 (7): 27–32.

example, stakeholders who participated in the outreach efforts generally noted that the requirement for using valuation techniques that maximize observable inputs and minimize unobservable inputs as well as the requirement to follow a fair value hierarchy to categorize the inputs made the requirements more understandable and allowed for the requirements to be implemented by governments in a more consistent manner. Some stakeholders noted that there was still subjectivity involved in fair value measurements that relied on unobservable inputs; however, most of those stakeholders acknowledged that subjectivity is inherent in measurements that involve unobservable inputs. In addition, we identified only 13 nonstate general purpose governments among those in the archival research that utilized Level 3 inputs to measure assets at fair value in both years examined.

PIR Objective 1b: Does Statement 72 Provide Decision-Useful Information?

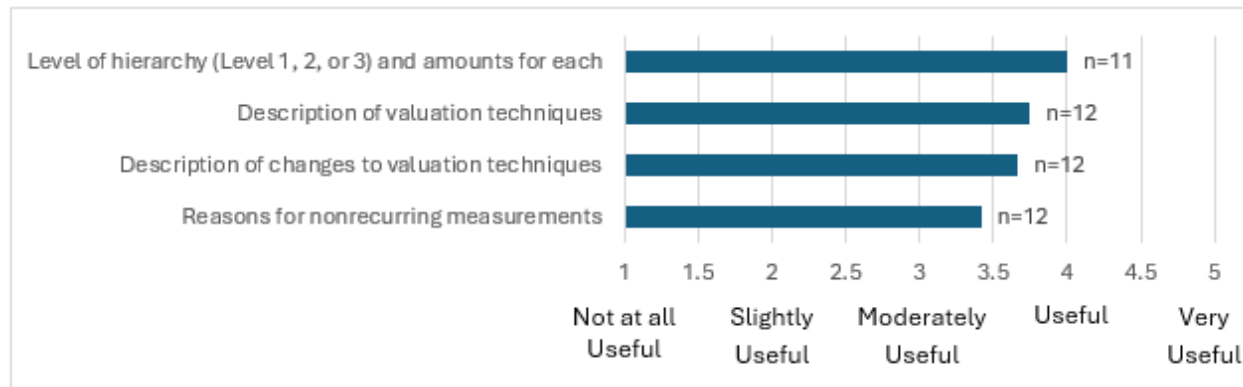
As stated in the Summary, based on our review, we conclude that the application of Statement 72 provides users of financial statements with decision-useful information.

Users who participated in our outreach efforts noted that fair value measurements generally are relevant in the analyses that they perform related to assets not used to provide services, which is consistent with the survey findings documented by Hunt et al. (2014).² Of the 15 users who participated in the surveys as part of the PIR research, 11 responded that fair value measurements of assets are either very useful (n=8) or useful (n=3) to their analyses.

Stakeholders who participated in our outreach efforts reported that, generally, the disclosures required by Statement 72 provided decision-useful information that improved transparency, accountability, and clarity. For example, some users who responded to our survey noted that Statement 72 requires disclosures that facilitate their understanding of the extent to which unobservable inputs were used in the fair value measurements. Figure 2 shows that the four general fair value disclosures required by Statement 72 provide information that is at least moderately useful to those user survey respondents who indicated an interest in fair value disclosures.

² Hunt, G., R. Freeman, and T. Marsh. 2014. "User Perceptions of Fair Value Reporting of Investments in Fund Financial Statements of Governments." *Journal of Accounting and Finance*, 14 (5): 147–158.

Figure 2: Average Usefulness of Fair Value Disclosures (maximum n=15)



Some stakeholders who participated in our outreach efforts expressed concerns that the amount of information disclosed in accordance with the requirements of Statement 72 was voluminous and contained boilerplate information.

PIR Objective 1c: Is Statement 72 Operational?

As stated in the Summary, based on our review, we conclude that overall, Statement 72 is operational.

Stakeholders generally noted that requiring the use of a fair value hierarchy similar to the hierarchy promulgated by the FASB for use by private-sector entities facilitated the timely implementation of Statement 72, as discussed above.

Although the feedback on the operationalization of Statement 72 was generally positive, some stakeholders expressed concerns related to the reliance that many governments place on their agents or custodians to provide information necessary to comply with the reporting requirements of that Statement. Other stakeholders also noted challenges some governments or governmental custodians have in understanding whether the inputs used to measure U.S. Treasury bills, notes, and bonds should be classified as Level 1 inputs or Level 2 inputs. Also, some preparers and auditors who participated in the roundtables suggested that the GASB consider limiting the disclosure of the hierarchy used in fair value measurements to those assets or liabilities that are measured using Level 3 inputs, which would decrease the volume of disclosures related to the use of fair value measurements.

In addition, some stakeholders reported that additional time and effort were needed to perform fair value measurements when observable inputs were not available. Those stakeholders also noted that the timeliness of financial reporting was sometimes affected. Similarly, the academic research highlights challenges with fair value measurements in general, as evidenced by comment letters firms received from the Securities and Exchange Commission related to fair value, fair value-related audit deficiencies reported by the Public Company Accounting Oversight Board, and the role of auditor

expertise in fair value measurements (Ahn et al. 2020).³ In addition, Griffith (2020) finds that auditors frequently rely on valuation specialists to audit fair value amounts.⁴ Figure 3 shows the average difficulty in obtaining inputs in which the number of responses is dependent upon the number of preparers that had experience with each input level.

Figure 3: Average Difficulty of Preparers in Obtaining Inputs for Fair Value Measurements (maximum n=86)

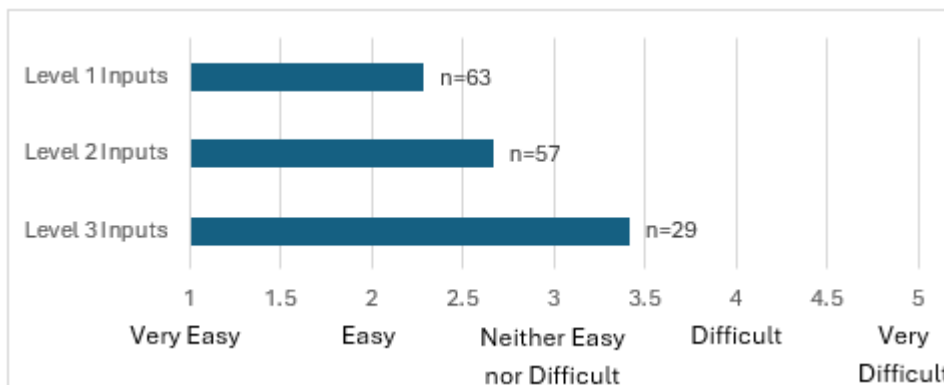
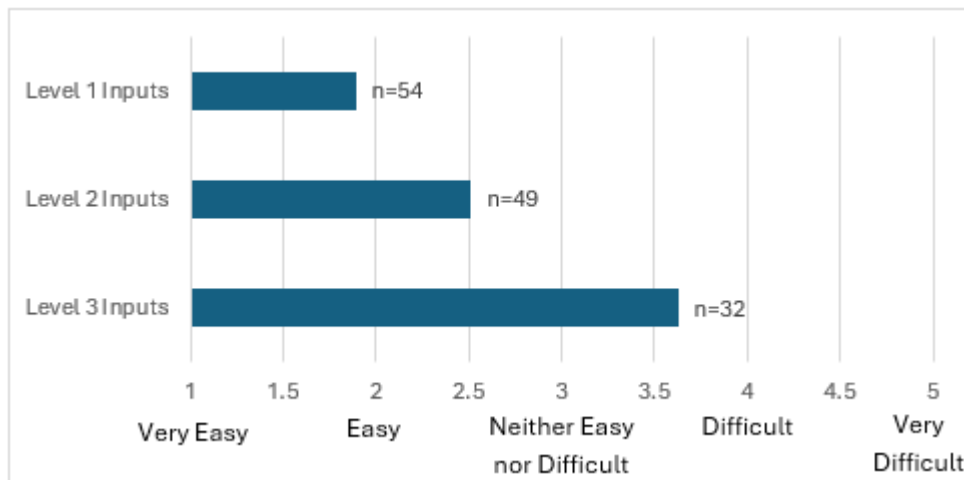


Figure 4 shows the average difficulty that auditors had in obtaining inputs for fair value measurements. Note that because auditors were asked only to provide the information if they had clients reporting assets that required inputs from a particular level in the fair value hierarchy, the number of responses for each level varies and is less than the 58 complete responses received.

³ Ahn, J., R. Hoitash, and U. Hoitash. 2020. “Auditor Task-Specific Expertise: The Case of Fair Value Accounting.” *The Accounting Review*, 95 (3): 1–32.

⁴ Griffith, E. E. 2020. “Auditors, Specialists, and Professional Jurisdiction in Audits of Fair Values.” *Contemporary Accounting Research*, 37 (1): 245–276.

Figure 4: Average Difficulty of Auditors in Obtaining Inputs for Fair Value Measurements (maximum n=58)



The team notes that the relative difficulty stated by both preparers and auditors in obtaining inputs is consistent with the feedback from participants in the roundtables as well as with the input the Board received from the field test conducted in connection with the Preliminary Views.

Operationality is primarily concerned with preparers' and auditors' views on whether the requirements of Statement 72 (1) are understandable, (2) can be applied as intended, and (3) enable information about fair value to be reported reliably. As one way of assessing whether governments were able to operationalize the requirements of Statement 72, the team examined the disclosures related to fair value in financial statements in the year of implementation and in the fifth year of applying the requirements of Statement 72 for 18 of the governments for which archival data were collected. The disclosures for those 18 governments appeared to be consistent between the two periods, providing some evidence that preparers were able to prepare disclosures in the year of implementation and continue meeting disclosure requirements.

PIR Objective 1d: Did Statement 72 Result in Significant Unexpected Changes to Financial Reporting or Operating Practices?

As stated in the Summary, based on our review, we conclude that there are no significant unexpected changes to financial reporting or operating practices that resulted from applying the requirements of Statement 72. Our consideration of operating practices was focused on whether there were unexpected changes to the financial reporting aspects of the operations of a government. As noted by some stakeholders who participated in our outreach efforts, the general principles and the valuation techniques and approaches described in Statement 72 provided additional guidance to assist in the measurement of assets and liabilities that generally were already being measured at fair value.

PIR Objective 1e: Did Statement 72 Result in Significant Unanticipated Consequences?

As stated in the Summary, we conclude that no significant unanticipated consequences resulted from applying Statement 72. The Statement generally provided additional guidance on how to measure assets and liabilities at fair value rather than changing which assets and liabilities are required to be measured at fair value. As a result, the team believes that Statement 72 may have been less likely to result in significant unanticipated consequences than other standards that change recognition or measurement requirements of certain transactions. However, some participants in the outreach noted what they perceived as favorable results from the efforts governments made to implement Statement 72. For example, multiple participants in the roundtables noted that Statement 72 requires governments to analyze the assets they hold as investments—specifically, whether those assets meet the definition of an investment in Statement 72—and that this may have yielded potential benefits beyond financial reporting.

PIR Objective 2: Costs and Benefits of Statement 72

Given the inherent complexities of the fair value measurement and application standards introduced by Statement 72, we expected some costs associated with the implementation and ongoing application of the Statement. Our research findings suggest that implementation costs generally were one-time costs. We also found, as noted above, that users value having financial information related to assets and liabilities measured using fair value, as well as disclosures related to those measurements (as discussed in the PIR Objective 1b section of this report). Our analysis below considers the costs contemplated by the Board, including implementation costs, ongoing costs, and the additional time it took for governments to complete financial statements that reflected the requirements contained in Statement 72. The team believes that the implementation and continuing application costs are consistent with the costs that the Board considered and stakeholders expected and that the benefits are consistent with the benefits the Board intended and stakeholders expected.

Examples of Cost Considerations in the Board’s Deliberations

The Board considered the anticipated costs during its deliberations in two categories: general costs of applying the requirements of Statement 72 and costs of applying particular requirements. The Board anticipated that some of the costs of adopting Statement 72 would be incurred by a majority of governments with most of those costs being nonrecurring. The Board concluded that those costs would likely include staff training, system changes, and custodial reporting. The Board also concluded that implementation would require education for all parties (auditors, preparers, and users). However, the Board noted that the required time likely would be tempered by some stakeholders’ familiarity with similar existing FASB and IASB requirements.

Regarding the costs of applying particular requirements, the participants in the field test listed several costs associated with applying the Preliminary Views to their financial statements in the initial and subsequent years. Those costs relate to applying fair value measurement to investments, classifying and disclosing fair value input levels, and preparing the disclosures for Level 3 inputs. However, participants also expected those costs to decrease in subsequent years. The Board acknowledged that those governmental entities incurring the most costs would be retirement plans and endowments, expecting those costs to relate to accounting and financial reporting software, custodial fees, and audit fees. However, the Board again concluded that those costs would be mostly initial costs that would likely decline in subsequent years.

In redeliberations on the Preliminary Views, the Board chose not to propose certain disclosures related to Level 3 inputs in the Exposure Draft based in part on the cost-benefit feedback. Those rejected disclosures were (1) a description of the significant unobservable inputs, the numerical range, and the weighted average of the unobservable inputs used in Level 3 fair value measurements and (2) a narrative description of the sensitivity of fair value measurements to changes in unobservable inputs used for recurring fair value measurements categorized in Level 3 of the fair value hierarchy. Additionally, in redeliberations on the Exposure Draft, the Board decided not to propose some other disclosures in the final Statement because of cost-benefit concerns. The Board removed the proposed disclosure of the effect of fair value measurements categorized in Level 3, other than those that calculate the net asset value (NAV) per share (or its equivalent), on investment income for the reporting period. That disclosure would have applied to each class or type of asset or liability measured at fair value and to recurring and nonrecurring fair value measurements. The Board also decided not to require that investments that calculate the NAV per share (or its equivalent) be classified within the fair value hierarchy.

Analysis of Effort and Reporting Lag Associated with Implementation of Statement 72

Cost surveys were distributed to governments in the random sample used in the archival analysis of the year of implementation of Statement 72. Fourteen governments participated in our cost surveys, representing a response rate of 5.6 percent. Governments reported (1) hours and costs related to preparing information to comply with the requirements of Statement 72 and (2) challenges in implementing the Statement. Those surveys reflected that costs peaked in the year of implementation and decreased significantly in the following year. That result was consistent with feedback received from participants in the roundtable portion of the PIR outreach activities.

In addition to cost survey data, we collected audit report dates for the 10 governments that responded to the surveys for which we were able to retroactively retrieve financial statements for the year prior to implementation and the year following implementation. That allowed us to examine whether Statement 72 could be implemented without a significant increase in the time necessary to complete the audit while acknowledging that other factors aside from the implementation of the Statement also

may affect the time necessary to complete the audit. Timeliness of governmental financial reports is important to information usefulness, and any additional delays could represent added costs of implementation. In Figures 5 and 6, we graphed cost information alongside the number of days from fiscal year-end to audit report date (reporting lag) to examine trends from the year prior to implementation to the year following implementation.

Figure 5: Average Staff Hours and Reporting Lag (n=10)

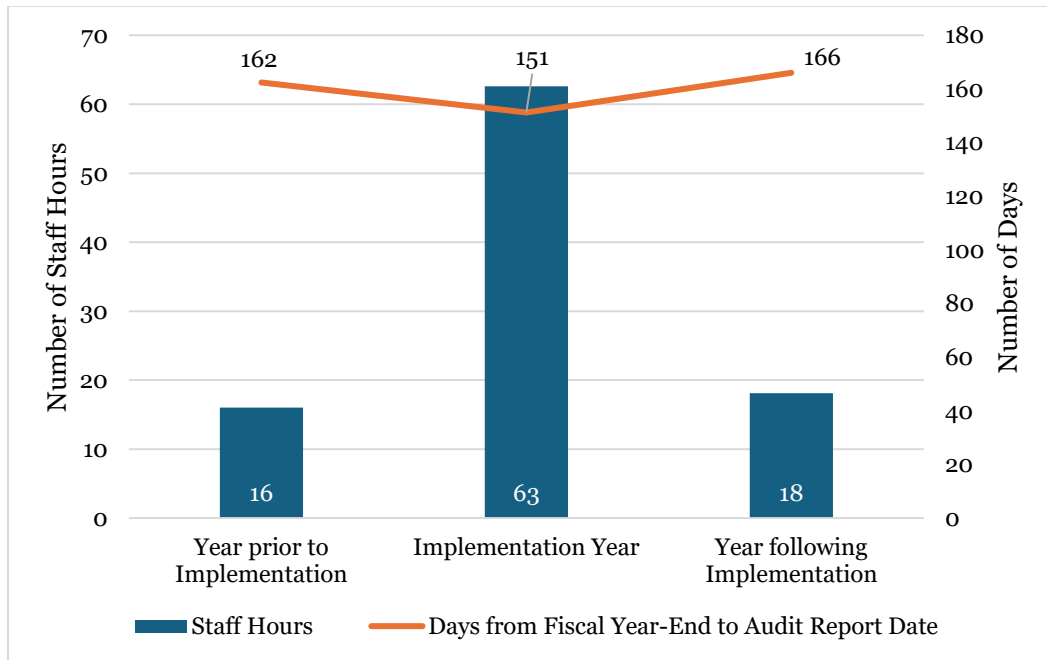
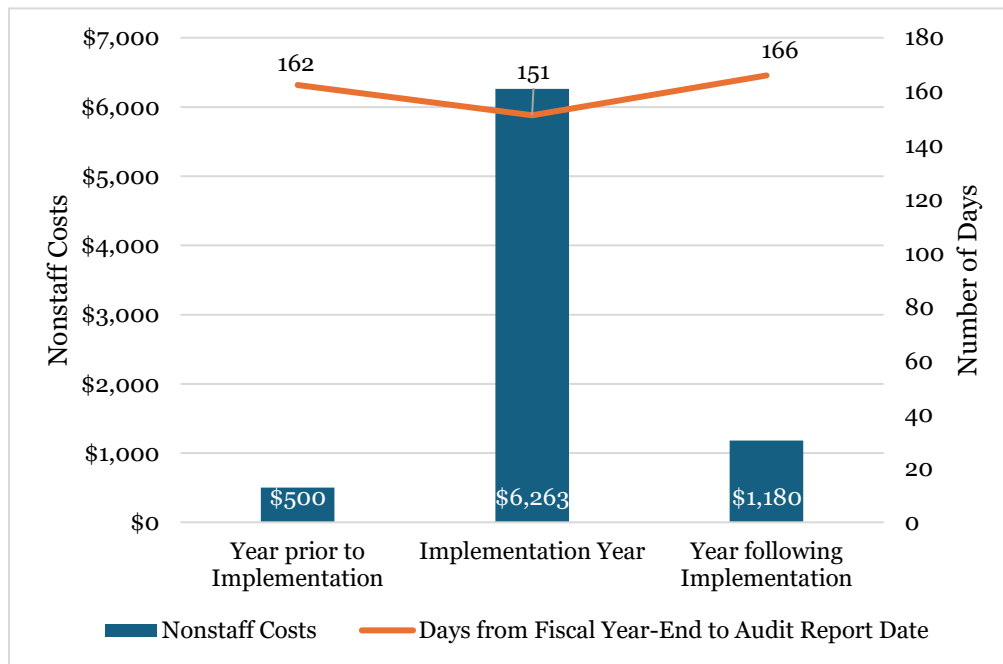


Figure 6: Average Nonstaff Costs and Reporting Lag (n=10)



The team notes three considerations in interpreting the graphs. First, information regarding the costs of complying with fair value standards in years before Statement 72 was issued was not collected. As a result, the graphs reflect only the costs of implementation and not a comparison of the costs of complying with the previous fair value standards with the costs of complying with the new fair value Statement. Second, we only collected this cost-related information for three years—specifically, for the year prior to implementation, the implementation year, and the year following implementation. With only three years’ worth of information, it is difficult to identify trends, particularly in the number of days from fiscal year-end to audit report date when there may be other factors contributing to the reporting lag, such as the implementation of Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the year prior to implementation. Third, the information may not necessarily be representative of the implementation efforts of all governments, such as small governments.

Figures 5 and 6 also indicate that the average number of days from fiscal year-end to audit report date decreased from the year prior to implementation to the implementation year. That decrease occurred in 7 of the 10 governments analyzed. However, the average number of days from fiscal year-end to audit report date increased in the year following implementation. That increase occurred in 6 of the 10 governments analyzed. We interpret the decrease from the year prior to implementation to the implementation year to suggest that Statement 72 could be implemented without significant delay. The increase in reporting lag from the implementation year to the year following implementation may be influenced by other factors, as we would not expect a decrease in staff hours and nonstaff costs to result in an increase in the number of days necessary to complete the audit of the financial statements.

PIR Objective 3: Standard-Setting Process Improvements

Are There Any Recommendations for Improvements to the Standard-Setting Process?

As stated in the Summary, based on our review, we have identified no standard-setting process recommendations. While the results of our analysis do not cause us to make recommendations for changes to the standard-setting process, we highlight two process-related items: the extent of the due process associated with Statement 72 and consideration of the newly developed disclosure framework in Concepts Statement No. 7, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*.

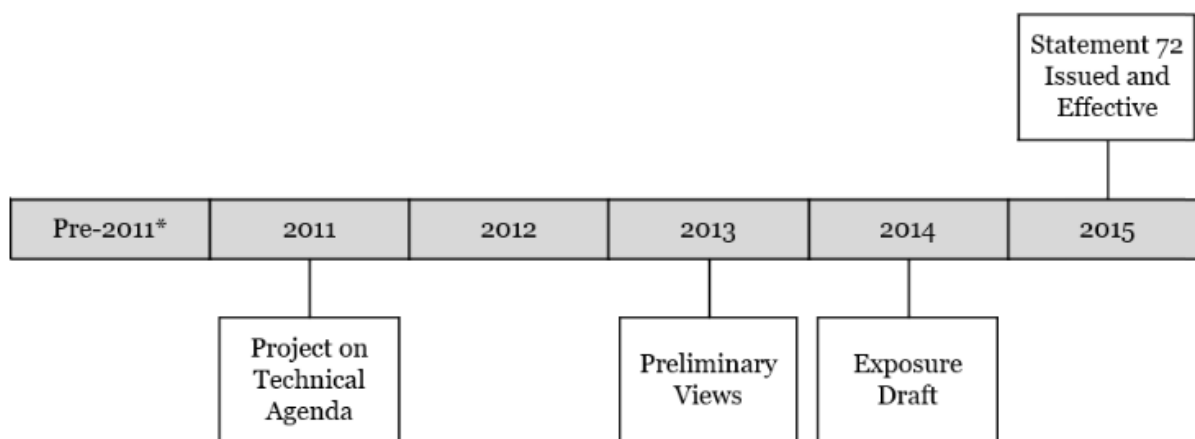
Due Process Associated with Statement 72

Our review included gaining an understanding of the due process steps that were followed in the project leading up to the issuance of Statement 72. The comprehensive nature of the project necessitated the issuance of a Preliminary Views and an Exposure Draft as due process documents and included other extensive outreach activities. Feedback was obtained in response to formal documents and other outreach activities as follows, in approximate chronological order:

- Discussions with members of a *project task force* consisting of five preparers, three users, and two auditors. The task force also provided feedback on papers prepared for Board deliberations and drafts of documents prepared for public comment throughout the project, as well as drafts of the Statement.
- Discussions with the members of the *GASAC* at their meetings throughout the project for the purpose of seeking their input and feedback.
- Thirty-seven written responses to a *Preliminary Views* issued in 2013 and verbal comments from 11 individuals or groups during a public hearing on the Preliminary Views.
- Twelve volunteer governments' feedback regarding expected costs of implementation obtained through a *field test* of the proposed requirements during the comment period for the Preliminary Views.
- Thirty-eight written responses to an *Exposure Draft* issued in 2014 of the proposed Statement, *Fair Value Measurement and Application*.

Figure 7 illustrates the timeline of the extensive due process that led to the issuance of Statement 72.

Figure 7: Timeline of the Fair Value Project



*Prior to Statement 72, Statements 25, 31, 32, 42, 52, 53, and 67 had been in place. A research project was added in 2008 that focused on monitoring developments in standards issued by the FASB and the IASB, as well as the implementation issues associated with Statement 53 (issued in 2008).

In addition, Concepts Statement 6, which established a conceptual definition of fair value as a measurement attribute and appropriate circumstances in which to use fair value as a measurement attribute, was deliberated and issued by the GASB during the time in which the project that led to Statement 72 was deliberated.

As a result of the due process activities above, most notably the field test of the proposed requirements contained in the Preliminary Views, the requirements contained in Statement 72 were developed with expectations of providing decision-useful information to users of financial statements. The Board expected certain one-time costs that would be incurred to perform and disclose measurements at fair value. However, the Board expected those costs to decrease in subsequent years. In addition, certain disclosures that were proposed in the Preliminary Views were not included in Statement 72 to mitigate the costs of disclosing information related to fair value measurements.

New Disclosure Framework

The disclosure requirements of Statement 72 considered in this PIR report were in place prior to the issuance of Concepts Statement 7 in June 2022. That Concepts Statement provides a new disclosure framework for the Board to consider in setting standards. Concepts Statement 7 addresses disclosure and specifically defines criteria for determining the *essentiality* of information to be disclosed. Given that this guidance represents a change from the previous conceptual framework—to the extent that the Board determines that fair value-related disclosures should be evaluated through the lens of Concepts Statement 7—additional research would be necessary, as our PIR activities were designed to evaluate the decision usefulness of information rather than the essentiality, as defined by Concepts

Statement 7, of fair value-related disclosures required by Statement 72. As noted in the PIR Objective 1b section of this report, the majority of the disclosures related to fair value measurements required by Statement 72 were considered decision useful to users of financial statements. An assessment of essentiality would require a separate effort that also evaluated whether a breadth or depth of users utilize or are expected to utilize the information provided in the disclosures in their analyses for making decisions or assessing accountability.

Although some information related to the essentiality of the disclosures required by Statement 72 was obtained from user surveys, the Board has a preliminary plan to consider currently required disclosures in GASB literature through the lens of essentiality as defined in Concepts Statement 7.