GASB Update

National Association of State Comptrollers Annual Meeting

GASB Update—Beyond the Big Three
Topics to Be Covered

- Big three
- Major and practice issue projects
The Big Three
Financial Reporting Model
Public Hearings and User Forums
Next Steps
Disclosure Framework
Topics Being Considered

- Purpose of note disclosures, including user needs related to note disclosures
- Limitations of note disclosures
- Characteristics of essentiality
- Presentation and format of note disclosures, including consideration of the location of the information within the note disclosure section
- Consideration of note disclosures individually and as a whole
## Project Timeline

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Agenda Research Started</td>
<td>April 2016</td>
</tr>
<tr>
<td>Added to Current Technical Agenda</td>
<td>August 2018</td>
</tr>
<tr>
<td>Deliberations Began</td>
<td>October 2018</td>
</tr>
</tbody>
</table>
Revenue and Expense Recognition
Revenue and Expense Recognition Models

The are three components of a revenue and expense recognition model

Classification is the process of identifying the type of transaction (for example, is the transaction exchange or nonexchange?)

Recognition is the process of determining what element should be reported and when (for example, recognize revenue when earned)

Measurement is the process of determining the amount to report for the element (not addressed in the Invitation to Comment)
# Project Timeline

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Agenda Research Started</td>
<td>September 2015</td>
</tr>
<tr>
<td>Added to Current Technical Agenda</td>
<td>April 2016</td>
</tr>
<tr>
<td>Invitation to Comment Cleared</td>
<td>January 23, 2018</td>
</tr>
<tr>
<td>Redeliberations Began</td>
<td>June 2018</td>
</tr>
<tr>
<td>Preliminary Views Expected</td>
<td>May 2020</td>
</tr>
</tbody>
</table>
# Other Projects

<table>
<thead>
<tr>
<th>Timetable</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduit Debt</td>
<td>Final Statement—May 2019</td>
</tr>
<tr>
<td>Subscription-Based IT Arrangements</td>
<td>Exposure Draft—May 2019</td>
</tr>
<tr>
<td>Public-Private Partnerships</td>
<td>Exposure Draft—June 2019</td>
</tr>
<tr>
<td>Deferred Compensation Plans</td>
<td>Exposure Draft—June 2019</td>
</tr>
<tr>
<td>Omnibus</td>
<td>Exposure Draft—June 2019</td>
</tr>
<tr>
<td>Secured Overnight Financing Rate</td>
<td>Exposure Draft—August 2019</td>
</tr>
<tr>
<td>Implementation Guide Update</td>
<td>Final—April 2019</td>
</tr>
<tr>
<td>Implementation Guide—Fiduciary</td>
<td>Final—June 2019</td>
</tr>
<tr>
<td>Implementation Guide—Leases</td>
<td>Exposure Draft—February 2019</td>
</tr>
</tbody>
</table>
Conduit Debt
Conduit Debt

What:
In July 2018, the Board proposed improvements to the existing standards related to conduit debt obligations that would provide a single reporting method for government issuers.

Why:
Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, the Board believes improvements are needed to eliminate diversity in practice.

When:
Final Statement expected to be considered for issuance in May 2019.
Definition of Conduit Debt

1. There are at least three parties involved: the government-issuer, the third-party obligor (borrower), and the debt holder or debt trustee. There may be more than one borrower or debt holder.
2. The issuer and the third-party obligor are not within the same financial reporting entity.
3. The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
4. The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
5. The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.
6. The issuer’s commitment related to the debt service payments is limited.
Limited and Additional Commitments Extended by Issuers

Generally, issuers’ commitments are *limited* to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an *additional commitment* of its own resources and agree to support debt service in the event of the third-party obligor’s default.

For example:
- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a guarantee
- Pledging its own property, revenue, or other assets as security
- Requesting appropriations without a moral obligation pledge or appropriation pledge
Recognition by the Issuer

- Do not recognize a conduit debt obligation as a liability
- May have a related liability arising out of an additional commitment
- Report a liability only when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation
- At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding
• Payments from the third-party obligor are for debt service payments and are made to the debt holder or debt trustee.

• Payment schedule for the arrangement coincides with the debt service repayment schedule and sometimes is characterized as lease payments.

• Ownership (title) of the capital asset may pass to the third-party obligor at the end of the arrangement or remain with issuer.
Arrangements and Capital Assets (continued)

Accounting by the issuer:

- Do not report those arrangements as leases
- Do not recognize a liability for the related conduit debt obligations
- Do not recognize a receivable for the payments related to those arrangements
## Arrangements and Capital Assets

<table>
<thead>
<tr>
<th>Does title pass to third-party obligor at end of arrangement?</th>
<th>Does the issuer recognize a capital asset?</th>
<th>Does the issuer recognize a deferred inflow of resources?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>No, and third party has exclusive use of <em>entire</em> capital asset</td>
<td>Yes, when the arrangement ends</td>
<td>No</td>
</tr>
<tr>
<td>No, and third party has exclusive use of only <em>portions</em> of the capital asset</td>
<td>Yes, at the inception of the arrangement</td>
<td>Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement</td>
</tr>
</tbody>
</table>
Subscription-Based IT Arrangements
Subscription-Based IT Arrangements

What: The Board is considering establishing standards related to reporting subscription-based information technology arrangements (SBITAs), such as cloud computing contracts.

Why: Stakeholders are concerned that these transactions may not be covered by the guidance in Statements 51 or 87; diversity exists in practice.

When: Deliberations began in August 2018.
SBITA—Definition

- A contract that conveys control of the right to use another party’s underlying hardware or software
  - Hardware, software, or a combination of both, including IT infrastructure
- Specified in the contract for a period of time
- Exchange or exchange-like transaction

Sound familiar?

Similar to the definition of a lease
SBITA—Recognition

- Liability for present value of subscription payments related to hardware and software
- Right to use asset
SBITA—Term

- Starts with the noncancelable period, plus periods covered by government’s and vendor’s options to:
  - Extend the SBITA, if the option is *reasonably certain* of being exercised
  - Terminate the SBITA, if the option is *reasonably certain* of NOT being exercised

- Excludes “cancelable” periods
  - Periods for which government and vendor each have the option to terminate or both parties have to agree to extend
    - Rolling month-to-month SBITA

- Fiscal funding/cancellation clauses ignored unless *reasonably certain* of being exercised

Sound Familiar?
A short-term SBITA is one that, at the beginning of the arrangement, has a “maximum possible term” under the contract, including any options to extend, of 12 months or less.

Practicality exception for short-term SBITA
- For a SBITA that is cancelable either by the government or vendor, such as a month-to-month or a year-to-year SBITA, the maximum possible term is the noncancelable period including any notice period.

Sound Familiar?
Initial measurement of a subscription liability includes:
- Fixed payments (less any lease incentives receivable from the vendor)
- Variable payments based on an index or rate (such as CPI), using the rate as of the beginning of the subscription term
- Variable payments that are fixed in substance
- Termination penalties, if subscription term reflects the government exercising termination options/fiscal funding clauses
- Any other reasonably certain payments
SBITA Asset—Measurement

- The amount of the initial measurement of the subscription liability
- Subscription payments made to the SBITA vendor at or before the commencement of the subscription term, less any vendor incentives received from the SBITA vendor at or before the commencement of the subscription term
- Capitalizable implementation costs
SBITA—Implementation Costs

- **Preliminary Project Stage.** Includes the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the SBITA.

- **Initial Implementation Stage.** Includes designing the chosen path, such as configuration, coding, testing, and installation associated with the government’s access to the underlying hardware or software. Ancillary charges necessary to place the subscription asset into service also should be included in this stage.

- **Post-Implementation/Operation Stage.** Includes maintenance, trouble-shooting, and other activities associated with the government’s ongoing access to the underlying hardware or software.
Training costs should be expensed as incurred.
- Regardless of which stage they are incurred
SBITA—Other Issues

- Incentives
- Multiple component contracts
- Contract modifications
- Contract terminations

Similar to Leases
SBITA—Proposed Effective Date

- Fiscal years beginning after June 15, 2021
- Earlier application encouraged
Public-Private Partnerships
### Public-Private Partnerships and Availability Payment Arrangements

<table>
<thead>
<tr>
<th>What:</th>
<th>Why:</th>
<th>When:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Board is considering (1) establishing standards for public-</td>
<td>GASB research found that some P3 transactions are outside the scope</td>
<td>Deliberations began in May 2018</td>
</tr>
<tr>
<td>private and public-public partnerships (P3s) and that are not</td>
<td>of Statement 60, identified opportunities to improve Statement 60’s</td>
<td></td>
</tr>
<tr>
<td>subject to Statements 60 or 87, (2) superseding Statement 60, (3)</td>
<td>guidance for service concession arrangements (SCAs), and identified</td>
<td></td>
</tr>
<tr>
<td>establishing standards for availability payment arrangements (APAs)</td>
<td>APAs</td>
<td></td>
</tr>
</tbody>
</table>
A PPP is an arrangement in which a government (the transferor) contracts with an operator to provide public services. Conveys control of the right to operate or use infrastructure or other nonfinancial assets, for a period of time, and an exchange or exchange-like transaction.
Proposed Definition—SCA

- No substantive changes from Statement 60
Proposed Definition—APA

- An APA is an arrangement in which payment made by a government are tied to the availability of an underlying asset and may include design, finance, construction, or service components.

- In an APA a government contracts with another entity to operate or maintain the government’s infrastructure or other nonfinancial asset, and that entity receives payments from the government based on the asset’s availability for use.

- The asset’s availability may be based on the physical condition of the asset or the achievement of certain performance measures.
PPP—Leases

- A government that has a PPP that meets definition of a lease in Statement 87
- Does not the definition of an SCA
- Apply the accounting and financial reporting guidance in Statement 87
Transferor Recognition—Existing Asset

- If the underlying PPP asset is an existing asset of the transferor, at the commencement of the PPP term, the transferor should continue to report the underlying PPP asset as a capital asset. In addition, the transferor should recognize:
  - Receivable for installment payments to be received in relation to the PPP, if any
  - Deferred inflow of resources.
Transferor Recognition—SCA New or Improved Asset

- If the PPP meets the criteria of an SCA and the underlying PPP asset is a new asset purchased or constructed by the operator, or an existing asset that has been improved by the operator, the transferor should recognize:
  - Underlying PPP asset
  - Receivable for installment payments to be received in relation to the PPP, if any
  - Deferred inflow of resources
Transferor Recognition—Non SCA New or Improved Asset

- If the PPP does not meet the criteria of an SCA and the underlying PPP asset is a new asset purchased or constructed by the operator, or an existing asset that has been improved by the operator, the transferor should recognize:
  - Receivable for the underlying PPP asset measured at acquisition value as of the future date of the transfer in ownership of the underlying PPP asset from the operator
  - Receivable for installment payments to be received in relation to the PPP, if any
  - Deferred inflow of resources
Transferor—Installment Receivable

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the PPP term
- Variable payments that are fixed in substance
- Residual value guarantee payments that are fixed in substance

Sound Familiar?
Term of Partnership

- Starts with the noncancelable period, plus periods covered by transferor’s and operator’s option to:
  - Extend the PPP, if the option is *reasonably certain* of being exercised
  - Terminate the PPP, if the option is *reasonably certain* of NOT being exercised

- Excludes “cancelable” periods
  - Periods for which transferor and operator each have the option to terminate or both parties have to agree to extend
    * Rolling month-to-month agreements

- Fiscal funding/cancellation clauses ignored unless *reasonably certain* of being exercised

**Sound Familiar?**
Short-term Exception

- No provision in proposal
Operator—Existing Asset

- A liability for installment payments, if any
- An intangible right-to-use asset (a capital asset)
Operator—SCA—New Asset Purchased or Constructed or Existing Asset Improved

- Liability for the underlying PPP asset measured at acquisition value
- Liability for additional installment payments, if any
- Right-to-use asset (capital asset)
Operator—Not SCA—New Asset Purchased or Constructed or Existing Asset Improved

- Liability for the underlying PPP asset measured at acquisition value
- Liability for additional installment payments, if any
- If ownership of the underlying PPP asset is to be transferred to the transferor after the underlying PPP asset is placed in operation
  - Recognize a liability and deferred outflow of resources equal to acquisition value as of the future date of the transfer of ownership.
  - Subsequently should recognize the deferred outflow of resources as outflows of resources (for example, expenses) in a systematic and rational manner over the remaining term of the PPP.
PPP—Other Issues

- Incentives
- Multiple component contracts
- Contract modifications
- Contract terminations

Similar to Leases
APA—Accounting and Financial Reporting

- APA may contain multiple components.
  - If an APA contains multiple components, recognize each component as a separate arrangement, if applicable.

- APA related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract
  - Reported as a financed purchase of the underlying infrastructure or other nonfinancial asset.

- APA related to operations should be accounted for as a flow of resources (for example, expense) in the period to which the payments relate.
PPP/APA—Proposed Effective Date

- Fiscal years beginning after June 15, 2021
- Earlier application is encouraged
# Project Timeline

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Agenda Research Approved</td>
<td>April 2017</td>
</tr>
<tr>
<td>Added to Current Technical Agenda</td>
<td>April 2018</td>
</tr>
<tr>
<td>Exposure Draft Expected</td>
<td>June 2019</td>
</tr>
</tbody>
</table>
Omnibus
Omnibus Project

What: The Board added an Omnibus project in December 2018

Why: Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project

When: An Exposure Draft is expected to be considered in June 2019
Topics to Be Considered Include

Effective Date of Statement 87: Should the effective date of Statement 87 be changed from *reporting periods* beginning after December 15, 2019, to *fiscal years* beginning after that date?

Definition of Collections: Should the definition in Statement 34 of “collections” be amended to reflect the updates introduced by the American Alliance of Museums?

Intra-Entity Transfers of Assets: Should the guidance in Statement 48 be clarified to address how the transfer of assets reported by the primary government at historical cost be reflected in the financial statements?
## Project Timeline

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Added to Current Technical Agenda</td>
<td>December 2018</td>
</tr>
<tr>
<td>Deliberations Began</td>
<td>January 2019</td>
</tr>
<tr>
<td>Exposure Draft Expected</td>
<td>June 2019</td>
</tr>
</tbody>
</table>
Deferred Compensation
Deferred Compensation Plans

What:
The GASB has added a project to consider improvements to Statement 32 on IRC Section 457 plans

Why:
Statement 32 became effective in 1999 and the relevant portions of the IRC have changed significantly since then

When:
Deliberations are scheduled to begin in April 2019
Key Issue to Be Considered

What standards should be applied to Section 457 plans that meet the definition of a pension plan – Statement 32, as amended, or the pension standards (Statements 67, 68, and 73, as amended)?
## Project Timeline

<table>
<thead>
<tr>
<th>Added to Current Technical Agenda</th>
<th>December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposure Draft Expected</td>
<td>June 2019</td>
</tr>
</tbody>
</table>
Secured Overnight Financing Rate
## SOFR – LIBOR Replacement

<table>
<thead>
<tr>
<th>What:</th>
<th>Why:</th>
<th>When:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Board added a project to consider amending existing standards that reference LIBOR</td>
<td>LIBOR – which is included as a reference rate in billions of dollars of financial instruments, including derivatives – effectively sunsets in 2021</td>
<td>Deliberations will begin in April 2019</td>
</tr>
</tbody>
</table>
## Project Timeline

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Added to Current Technical Agenda</td>
<td>December 2018</td>
</tr>
<tr>
<td>Exposure Draft Expected</td>
<td>August 2019</td>
</tr>
</tbody>
</table>
Questions

Website information: www.gasb.org