*THE* ***GASB*** *REPORT*

***No. 331 / October 2012***

*(The GASB Report No. 293)*

**GASB Calendar**

The GASB has scheduled the following public meeting dates:

November 28–30

January 8–10

The GASB also is scheduled to meet via **teleconference** on **December 17** and **January 28.** The precise time, as well as the agenda, will be announced approximately two weeks before each meeting. Unless otherwise indicated, all meetings are held at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut.

Also, the FAF Board of Trustees will meet on November 13 in Norwalk.

Finally, the GASB will be meeting with the Governmental Accounting Standards Advisory Council on November 27 and 28 in East Elmhurst, New York (LaGuardia Marriott near LaGuardia Airport).

Please check the GASB website at www.gasb.org three working days prior to meetings to verify the final agenda.

If you plan to attend *any* meetings, please notify Ragan Vincent at (203) 956-5372 or via email at rpvincent@gasb.org. In addition, due to the FAF’s security procedures, visitors to *all* meetings are required to go to www.gasb.org to register at least 24 hours before each meeting they are planning to attend.

***Jeffrey J. Diermeier Elected Chairman of the Financial Accounting Foundation***

The Financial Accounting Foundation (FAF) has announced the election of Jeffrey J. Diermeier as chairman of the Board of Trustees. The FAF is the independent private-sector organization responsible for the oversight of the Governmental Accounting Standards Board and the Financial Accounting Standards Board.

Mr. Diermeier, who has served on the FAF Board of Trustees since 2009, succeeds outgoing FAF Chairman John J. “Jack” Brennan, chairman emeritus of The Vanguard Group. Mr. Brennan was elected chairman of the FAF Board of Trustees in February 2009. He will conclude his term as a Trustee on December 31, 2013.

“Jeff Diermeier is a highly regarded investor who has successfully overseen the management of hundreds of billions of dollars in assets over many years and is especially well qualified to lead the FAF Board of Trustees,” said Mr. Brennan.

Mr. Diermeier, who will serve a three-year term as FAF chairman, headed the Chartered Financial Analyst Institute until his retirement in 2008. Previously, he was global chief investment officer at UBS Global Asset Management, overseeing the management of more than $400 billion in assets. Mr. Diermeier worked with UBS and its predecessors for nearly 30 years in a variety of positions, including head of asset allocation, head of the U.S. equity division, and deputy chief investment officer. He was also a founding managing partner of the former Brinson Partners, Inc. Mr. Diermeier holds a bachelor’s degree in business administration and a master’s degree in business administration from the University of Wisconsin at Madison.

Mr. Diermeier said he is honored to have been elected chairman of the FAF Board of Trustees. “I’m firmly committed to maintaining the integrity and independence of our standards-setting Boards while working to ensure that the standards-setting process remains fair, open, and transparent to all of our stakeholders,” he added.

FAF President and Chief Executive Officer Teresa S. Polley thanked Mr. Brennan for his dedicated service as chairman. “Under Jack’s leadership, the Trustees significantly expanded their outreach to our stakeholders and implemented major changes as part of their broadened oversight responsibilities,” Ms. Polley added.

With respect to the incoming FAF chairman, Ms. Polley said “We have had the privilege of working closely with Jeff Diermeier during the past four years, and we’re very excited about continuing and expanding that relationship as Jeff assumes his new role as chairman.”

**Ann Marie Petach Appointed to FAF Board of Trustees**

The FAF also announced the appointment of Ann Marie Petach, chief financial officer and senior managing director of Blackrock, Inc., to the Board of Trustees. Ms. Petach’s appointment fills a vacancy on the Board with a term that extends to December 2014, at which time she will be eligible for reappointment for an additional three years.

In welcoming her to the FAF Board of Trustees, Mr. Brennan noted that Ms. Petach is CFO of one of the world’s largest investment management companies and that as treasurer of Ford Motor Company, she was responsible for overseeing Ford’s global pension assets.

Ms. Polley said that Ms. Petach’s long experience as both a preparer of financial statements and as an investor will bring “important expertise to the Board of Trustees.” Before joining Blackrock as managing director and head of business finance in 2007, Ms. Petach worked at Ford Motor Company for more than 20 years in positions of increasing responsibility. Her final position there was treasurer and corporate vice president.

***Board Meeting Summary***

The Board held a public meeting on October 2–4 in Norwalk, Connecticut, to discuss issues associated with a number of projects, including those on recognition and measurement approaches under the conceptual framework, financial projections as they relate to economic condition reporting, measurement and application of fair value, government combinations, the hierarchy of generally accepted accounting principles, and other postemployment benefits (OPEB).

The Board also met with its OPEB Task Force on October 5 in New York City to gather input on project issues. (Please see the related article on page 2.)

Finally, the Board met via teleconference on October 19 to discuss issues related to its project on other postemployment benefits. Due to publication deadlines, details of those deliberations are not discussed in this issue of *The GASB Report* but will be reported on in the November issue.

***Conceptual Framework—Recognition and Measurement Approaches***

The Board’s discussion of concepts for recognition of elements of financial statements and measurement approaches focused on measurement concepts associated with liabilities, specifically concepts related to liabilities for which the amount and timing of future payments are known.

The Board tentatively agreed that the proposed Concepts Statement should include the concept that initial amounts are more appropriate when there are significant external barriers to realization of a remeasured amount, citing noncallable long-term debt as a clear example of a liability for which there is a significant barrier to realization of a remeasured amount. In addition, the Board instructed the staff to explore the potential application of the existence of significant external barriers to realization of a remeasured amount concept to the measurement of an asset.

***Economic Condition Reporting—Financial Projections***

In its project on addressing financial projections as they relate to economic condition reporting, the Board discussed the summary of comments received, staff analysis of those comments, and staff recommendations relating to portions of the Preliminary Views, *Economic Condition Reporting: Financial Projections.* The discussion focused on proposals related to (1) the qualitative characteristics applicable to financial projections and related narrative discussions; (2) which governments would report financial projections and related narrative discussions; (3) whether to include governmental and business-type activities in the reporting of financial projections and related narrative discussions; (4) whether to exclude discretely presented component units in the reporting of financial projections and related narrative discussions; (5) the methodology for determining what is considered a “major” cash inflow, cash outflow, financial obligation, and intergovernmental service interdependency; and (6) whether to include a cautionary notice preceding the reported financial projections and related narrative discussions and what this notice would include.

The Board tentatively agreed that financial projections and related narrative discussions generally possess the six qualitative characteristics of financial information identified and described in Concepts Statement No. 1, *Objectives of Financial Reporting,* although not in equal proportion. The Board also tentatively agreed that the scope of any proposed guidance would include all governmental entities with the exception of governments that are fiduciary in nature.

The Board tentatively reaffirmed its preliminary views that (1) financial projections and related narrative discussions would be reported for the primary government, including both governmental activities and business-type activities with net subtotals (inflows less outflows) for the general fund, other governmental activities, total governmental activities, total business-type activities, and a net total for the entire primary government; (2) a narrative discussion would be necessary in instances in which one or more activities are determined to significantly affect (positively or negatively) the fiscal sustainability of the primary government; and (3) individual cash inflows, cash outflows, and financial obligations would be considered major if (a) individual governmental and business-type activities cash inflows, cash outflows, and financial obligations represent at least 10 percent of total cash inflows, total cash outflows, or total financial obligations, respectively, for all activities of that type in any of the projection periods reported; (b) the cash outflows are for capital outlays; (c) the cash inflows are capital-related from bond proceeds, capital grants, or other sources that are restricted or committed to capital outlays; (d) the cash outflows are related to debt service; and (e) the cash inflows, cash outflows, or financial obligations are determined by the government to be particularly important to users when making an assessment of the government’s fiscal sustainability.

The Board then directed the project staff to conduct an additional round of constituent outreach in order to obtain feedback on the tentative conclusions reached to date. The results of this outreach effort will be presented to the Board in early 2013.

***Fair Value—Measurement and Application***

In its project on the measurement and application of fair value, the Board considered application issues and their incorporation into the existing body of GASB literature. The first topic considered was split-interest agreements. The GASB currently addresses the topic of split-interest agreements through its *Comprehensive Implementation Guide* (CIG). The Board tentatively decided that a question in the guide addressing split-interest agreements should be revised to clarify that it only addresses those split-interest agreements in which a government acts as the trustee. The Board has yet to determine whether to leave the question in the CIG or incorporate it into a fair value Exposure Draft pending future decisions in the GAAP hierarchy project.

Addressing the topic of life insurance policies and life settlement contracts, the Board deliberated the appropriate method of reporting life insurance policies that are entered into as investments, how such policies should be defined within the GASB literature, and the appropriate basis of measurement. The Board tentatively agreed to propose that the measurement of life insurance policies depend on whether a policy is entered into on the basis of indemnification of loss (traditional life insurance) or on the basis of an investment (life settlement).

In addition, the Board tentatively agreed to propose that the definition of a life settlement contract be a contract in which (1) an investor does not have an insurable interest, (2) an investor provides consideration to the policy owner of an amount in excess of a current cash surrender value of the life insurance policy, and (3) a contract pays the face value of the life insurance policy to the investor when an insured dies.

The Board tentatively agreed to propose that a life settlement contract be measured based on its fair value, be accounted for at an individual level, and be recognized based on the net amount of the fair value of expected payments less the fair value of future premiums.

The Board noted that its tentative decisions apply to contracts initially acquired as investments and do not address hybrid instruments that initially are entered into as insurance but later become investments. The Board directed the staff to conduct further research on the basis of measurement of hybrid contracts.

***Government Combinations***

In its project on government combinations, the Board discussed several matters raised by respondents to the Exposure Draft, *Government Combinations and Disposals of Government Operations,* that relate to the proposed Statement’s provisions for government acquisitions.

The Board considered whether the final standard should carry forward the provision of the Exposure Draft to measure acquired assets and liabilities using acquisition value; it tentatively decided to carry forward that provision.

Next, the Board discussed respondents’ comments relating to the proposed Statement’s measurement exception for post-employment benefits. Certain respondents sought further guidance beyond existing applicable accounting and financial reporting guidance for employee postemployment benefits. The Board reaffirmed that liabilities (or assets) for employee benefits, including postemployment benefits, should be measured using existing authoritative guidance for state and local governments rather than acquisition value.

Some respondents sought clarification on the measurement of deferred outflows of resources and deferred inflows of resources in a government acquisition. The Board tentatively agreed to carry forward provisions for measurement of deferred outflows of resources and deferred inflows of resources without modification.

In discussing respondents’ comments relating to the description of “consideration,” the Board tentatively agreed to proposed edits to the Standards and Basis for Conclusions sections intended to further clarify the proposed Statement’s description of consideration.

In addition, the Board deliberated whether the proposed Statement should continue to regard the assumption of liabilities as an exception to the meaning of “consideration” for purposes of distinguishing a merger from a government acquisition. The Board reaffirmed its belief that a combination should not be treated as a government acquisition for situations in which a government combines with another organization and simply assumes the negative net position of the acquired entity.

Next, the Board discussed respondents’ comments regarding the provisions for reporting excess net position acquired. The Board tentatively agreed to proposed changes to the Standards and Basis for Conclusions sections intended to clarify the type of assets to be reduced in a bargain purchase acquisition.

Finally, the Board considered respondents’ comments regarding provisions for acquisition costs in the Exposure Draft. The Board tentatively reaffirmed its position that governments should expense acquisition-related costs in the period the costs are incurred and the services are received.

***GAAP Hierarchy***

The Board discussed the various GASB communication methods (that is, types of documents), specifically Statements, Interpretations, Technical Bulletins, and the *Comprehensive Implementation Guide* (CIG), and considered whether each is necessary in a proposed two-level GAAP hierarchy.

The Board discussed the merits of GASB Statements being a communication method of the GASB and tentatively decided to retain GASB Statements as a communication method.

The Board continued its discussion by considering the merits of GASB Interpretations being a communication method of the GASB, as well as the potential ramifications of discontinuing the use of GASB Interpretations. The Board tentatively decided to propose ceasing the use of Interpretations as a communication method. The Board also tentatively decided to propose that the current purpose of GASB Interpretations can and will be accomplished and communicated most appropriately through GASB Statements.

The Board also discussed the merits of GASB Technical Bulletins being a communication method, as well as the potential ramifications of discontinuing the use of GASB Technical Bulletins. The Board tentatively decided to propose ceasing the use of Technical Bulletins as a communication method. The Board also tentatively decided to propose that the current purpose of GASB Technical Bulletins can and will be accomplished and communicated most appropriately through GASB Statements.

The Board furthered its discussion by considering the appropriate method of incorporating existing GASB Interpretations and GASB Technical Bulletins into authoritative literature. The Board tentatively decided to propose incorporating the existing GASB Interpretations by reference, in a manner similar to that used to incorporate National Council on Governmental Accounting Statements and Interpretations into authoritative literature. The incorporation of existing GASB Technical Bulletins into authoritative literature will be further discussed at a future date.

The Board also discussed the merits of the GASB CIG being a communication method, as well as the potential ramifications of discontinuing the use of the CIG. The Board tentatively decided to retain the use of the CIG as a method of communication.

The Board concluded its discussion by considering the process of exposing the CIG for public comment, including the determination of the authoritative status of the question and answer (Q&A) portions. The Board tentatively decided that Board analysis of the CIG should be done on an individual Q&A basis, prior to public exposure, and that the entire CIG should be exposed for public comment. The Board also tentatively decided that each Q&A should be subjected to a formal set of criteria and that the Q&As may need to be modified prior to exposure for public comment.

Finally, the Board tentatively decided that the Q&As should be segregated by chapter, as currently presented, and then by level of authority (authoritative content first, followed by nonauthoritative illustrative content).

***Other Postemployment Benefits***

The Board discussed the inclusion of OPEB provided outside of a formal, written document in the projection of benefits for the measurement of an employer’s OPEB liability. The Board tentatively decided to propose that benefits provided outside of a formal, written document be included in the projection of benefits for the measurement of an employer’s OPEB liability when the benefits are understood by both the employer and employees to be part of the employment exchange transaction.

The Board also discussed the consideration of “cost-sharing” provisions between the employer and benefit recipients in the projection of benefits for the measurement of an employer’s OPEB liability. The Board tentatively decided to propose that employers consider the pattern of practice with regard to the sharing of benefit costs between an employer and benefit recipients and include the employer’s cost from that pattern in the projection of benefits for the measurement of an employer’s OPEB liability.

The Board also discussed an employer’s ability to modify benefits in the future and the impact of that ability on the projection of benefits in the measurement of an employer’s OPEB liability. The Board tentatively decided to propose that only those benefit changes that have been formally approved and communicated to employees be considered in the projection of benefits for the measurement of an employer’s OPEB liability.

***Other Postemployment Benefits Task Force Meets***

The GASB met with its Other Postemployment Benefits (OPEB) Accounting and Financial Reporting Task Force on October 5 in New York City to receive input on a variety of project issues.

Specifically, the Board asked the task force to address issues involving OPEB arrangements provided through single- and agent-employer defined benefit arrangements considering the current accounting and financial reporting requirements in Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and related requirements for accounting and financial reporting for pensions in Statement No. 68, *Accounting and Financial Reporting for Pensions.*

The ultimate aim of the OPEB project is to consider the possibility of improvements to the existing standards of accounting and financial reporting for postemployment benefits—including OPEB—by state and local governmental employers and by the trustees, administrators, or sponsors of OPEB plans. Primary project objectives are to improve the *accountability* and transparency of financial reporting in regard to the financial effects of employers’ commitments and actions related to OPEB and to improve the *usefulness* of information for decisions or judgments of relevance to the various users of the general purpose external financial reports of governmental employers and OPEB plans.

The Board asked the task force to consider whether an OPEB arrangement meets the definition of a liability, as well as issues relating to the measurement of the total OPEB liability, including the projection of OPEB payments, the basis for determining the appropriate discount rate, and the attribution of the actuarial present value of projected benefit payments to periods. Other topics discussed include OPEB expense recognition, issues relating to the timing of OPEB measurements in relation to an employer’s year-end, and the frequency of actuarial valuations necessary for OPEB measurements.

The GASB will use the input it received at the task force meeting to aid it in identifying issues to be addressed in project deliberations intended to lead to the mid-2014 publication of a due process document for public comment.

**Task Force Members**

Members of the OPEB Task Force are as follows:

* John E. Bartel, president, Bartel-Associates, LLC
* Gerry Boaz, technical manager, Division of State Audit, Tennessee Comptroller of the Treasury
* Bruce Eastes, compliance and reporting specialist, CERBT Program (OPEB), CalPERS
* Nicole Fleming, deputy director of accounting services, Office of Budget Review/Accounting Services, NYC Office of Management & Budget
* David J. Hasso, executive director, New York State Office of the Comptroller, Bureau of Financial Reporting & Oil Spill Remediation
* Kil Huh, research director, The Pew Center on the States
* James J. Jaskot, director, Finance Department, Town of Cheshire, CT
* Amy Laskey, managing director, Public Finance Division, Fitch Ratings
* Steve McElhaney, principal consulting actuary, Cheiron
* Lori Moore-Merrell, assistant to the general president, Technical Assistance/Information Resources, International Association of Fire Fighters
* Catherine Plante, associate professor of accounting, Accounting Department, University of New Hampshire
* Heather Ricard, chief financial officer, Risk Management Services, Municipal Association of South Carolina
* James J. Rizzo, senior consultant and actuary, Gabriel, Roeder, Smith & Company
* George A. Scott, partner, Public Sector Services, Deloitte & Touche LLP
* Robert B. Scott, assistant city manager/chief financial officer, Finance Department, City of Carrollton, TX
* Thomas Weyl, senior municipal credit analyst, Barclays Capital
* Alex Zhang, partner, Audit Group, UHY Advisors, LLP.

The GASB assembles task forces for most major current and research projects. Task forces serve as a sounding board, providing suggestions and feedback to the GASB as a project progresses. Task force members review the papers the GASB staff prepares for Board meetings and monitor the Board’s deliberations, commenting as appropriate.

***Whom to Contact***

Questions or comments regarding the OPEB project should be addressed to Scott Reeser, GASB project manager, via email at sareeser@gasb.org, or by telephone at (203) 956-5448.

***Who’s Who at the GASB***

*In October, the GASB marked the departure of a practice fellow who completed his term and assumed a new position with his firm.*

**Jeffery Bridgens,** who joined the GASB as a practice fellow in October 2010, returned to Moss Adams LLP, where he is a senior manager in their Phoenix, Arizona office in the Assurance Services Department. During his tenure at the GASB, Jeff was the lead staff member on the project that led to the issuance of the Exposure Draft, *Government Combinations and Disposals of Government Operations,* and worked extensively on the Comprehensive Implementation Guide. In addition, he worked on the pension accounting and financial reporting project leading up to the issuance of the 2011 Exposure Drafts, *Accounting and Financial Reporting for Pensions,* and *Financial Reporting for Pension Plans,* and on the fiduciary responsibility research project.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*  
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