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

***No. 343 / October 2013***

*(The GASB Report No. 305)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***December 10–12***

***January 21–23***

The GASB also is scheduled to meet via **teleconference** on **November 18** and **December 20.** The precise time, as well as the agenda, will be announced approximately two weeks before each meeting. All meetings are held at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut.

In addition, the FAF Board of Trustees will meet on November 19 in Norwalk, Connecticut.

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.

GASB’s public meetings in December and January will be available by video webcast. To access the webcast, visit the Meetings section of the GASB website, www.gasb.org, and click on the picture of the Board room on the Live Meeting Webcasts page.

***Fiduciary Responsibilities Task Force Formed***

GASB Chairman David A. Vaudt recently announced the appointment of a task force to assist with the Board’s Fiduciary Responsibilities project. Members of the task force are:

• Johnathan Ball, director, Office of the Legislative Fiscal Analyst, State of Utah

• Kathleen Clarke Buch, finance director, Darien, Connecticut

• Julie Egan, senior vice president and portfolio manager, Community Capital Management

• Kevin Gore, partner, BKD, LLP

• Bill Grenfell, school board member, Medina City School District, Medina, Ohio

• Karl Greve, chief financial officer, Colorado Public Employees’ Retirement Association

• Michael Hudson, financial reporting director, Office of the State Comptroller, State of Alabama

• Michael Kasperzak, city councilor, Mountain View, California

• Heather Knust, director of accounting, Division of Financial Management, School District of Palm Beach County, Florida

• Sue Menditto, director of accounting policy, National Association of College and University Business Officers

• Michael Pipe, commissioner, Centre County, Pennsylvania

• Reem Samra, audit director, Deloitte LLP

• Stephen Stuart, research analyst, Bureau of Governmental Research

• Ron Tolstad, technical specialist, Office of the State Auditor, State of North Dakota

• Pattie Weed, partner, Thomas & Thomas LLP

• Mindy Willis, director, Accounting Services Department, Orlando Utilities Commission.

***What Do Task Forces Do?***

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

***How Are Participants Selected?***

Task forces are officially appointed by the GASB chairman after consultation with the other GASB members, the Governmental Accounting Standards Advisory Council (GASAC) chairman, and GASB staff.

Task force members typically have a particular expertise or experience with the issue being addressed in the project or research and also are capable of articulating the views of other, similar constituents. They can identify possible implementation difficulties, assess the potential cost of proposed standards, or opine on the usefulness of the information that will result from those standards.

Potential participants are primarily identified from the GASB’s constituent database, from the GASAC, and from the lists of persons submitting comment letters in response to proposed standards. The GASB attempts to maintain an appropriate balance of financial statement preparers, auditors, and users on each task force. In addition to identifying persons that possess relevant knowledge and experience and that are representative of various types of constituents, the GASB tries to select persons it believes will actively participate by providing feedback on papers and proposed standards prepared for the Board and by providing regular feedback to the project staff.

***Board Meeting Summary***

The GASB held a public meeting September 17–19 to discuss issues associated with its projects on Leases, the Hierarchy of Generally Accepted Accounting Principles (GAAP Hierarchy), Other Postemployment Benefits (OPEB), Pension Transition, and Fiduciary Responsibilities. In addition, the GASB held a teleconference meeting on October 7. Finally, the GASB held a public meeting October 29–31 to discuss its projects addressing the GAAP Hierarchy, Pension Transition, OPEB, Leases, Fiduciary Responsibilities, Measurement under the Conceptual Framework, and Fair Value Measurement and Application. Due to publication deadlines, details of the October public meeting are not discussed in this issue of *The GASB Report* but will be presented in the next issue.

***Leases***

Addressing its project on Leases, the Board discussed issues associated with lease classifications and lease terms that drive the accounting treatment of leases. After discussing characteristics of various types of leases, the Board considered alternate methods to classify leases for accounting purposes. The Board tentatively agreed that while there might be inherent differences in leases, a single accounting model could be developed in the interest of not creating unnecessary complexity, with potential exceptions for certain circumstances.

The Board then discussed elements relevant to the duration of a lease, including the definition of a lease term, how to account for fiscal funding clauses, and the reassessment of a lease term. The Board tentatively agreed that the lease term should start with the noncancellable period. The Board also tentatively agreed that the lease term should include the periods covered by renewal options (or exclude periods covered by termination options) that are probable of being exercised based on an assessment of qualitative factors. In addition, the Board tentatively agreed to include in the noncancellable period of the lease term periods covered by fiscal funding and cancellation clauses with a remote possibility of cancellation. Leases that contain a fiscal funding or cancellation clause with a more than remote possibility of cancellation should be treated as having a termination option.

The Board also tentatively agreed that the lease term should be reevaluated when there is a change in relevant factors that would result in a change in judgment as to the lessee’s likelihood to exercise or terminate the lease, or when the lessee actually exercises or terminates the lease opposite of what was previously expected. In addition, the Board tentatively agreed that the relevant factors used in the initial assessment also should be the factors that trigger a reassessment.

***GAAP Hierarchy***

The Board discussed the staff analysis of the remaining half of the questions-and-answers (Q&As) in Chapter 7 of the *Comprehensive Implementation Guide* on an individual Q&A basis. Chapter 7 addresses basic financial statements and management’s discussion and analysis. The Board tentatively agreed not to object to the staff recommendations regarding the items reviewed in Chapter 7, subject to clarifications and revisions agreed to at the meeting.

At the October teleconference, the Board discussed the staff analysis of the first half of the questions-and-answers (Q&As) in Chapter 8 of the *Comprehensive Implementation Guide* on an individual Q&A basis. Chapter 8 addresses Other Postemployment Benefits. The Board tentatively agreed not to object to the staff recommendations regarding the items reviewed in Chapter 8, subject to clarifications and revisions agreed to at the teleconference.

***Other Postemployment Benefits***

The Board discussed issues related to projecting OPEB in the measurement of an OPEB liability by an employer that provides those benefits through a community-rated plan and tentatively agreed to propose to allow such employers to use unadjusted premiums to project benefits under certain conditions.

The Board tentatively agreed to propose that a legal or contractual cap on an employer’s share of the benefits to be provided to plan members be considered in the projection of benefits in the measurement of an employer’s total OPEB liability if the cap is assumed to be effective, taking into consideration the employer’s record of enforcing the cap in the past and other relevant factors and circumstances. The Board also tentatively agreed to propose that a cap on an employer’s contributions to an OPEB plan not be considered in the projection of benefits in the measurement of an employer’s total OPEB liability.

In addition, the Board tentatively agreed to propose that benefits to be provided by allocated insurance contracts be excluded from the projection of benefits in the measurement of an employer’s total OPEB liability when all required payments to acquire the contracts have been made, the responsibility for providing the benefits irrevocably has been transferred to the insurer, and the likelihood is remote that the employer will be required to make future payments to satisfy the benefit payments covered by the contract.

The Board next discussed recognition of payables to an OPEB plan and tentatively agreed to propose that an employer recognize payables to an OPEB plan that are legally or contractually required as a liability separate from the employer’s net OPEB liability.

The Board also tentatively agreed to propose that a primary government and its component units, both blended and discretely presented, be classified as one employer for plan classification purposes and that, for stand-alone financial reports, the requirements of cost-sharing employers for recognition and measurement of a net OPEB liability be applied by both the primary government and its component units, blended and discretely presented.

In discussing information related to OPEB that employers should be required to include as disclosures in notes to basic financial statements, the Board tentatively agreed to propose that note disclosures be provided for each individual defined benefit OPEB plan in which the employer participates as of the measurement date, unless otherwise noted. In addition, the Board tentatively agreed to propose that disclosures related to more than one OPEB plan be combined in a manner that avoids unnecessary duplication. Also, the Board tentatively agreed that in circumstances in which the employees of both the primary government and its component units are provided with OPEB through the same single or agent employer plan, a reporting entity should separately identify amounts associated with the primary government and those associated with its discretely presented component units in the notes to financial statements.

The Board tentatively agreed to propose that the basic note disclosure requirements for pensions in Statement 68 be applied for OPEB. These disclosures generally expand upon the descriptive information about each OPEB plan in which the employer participates. In addition, these disclosures require that additional information be disclosed for all employers on the amounts recognized in the financial statements such as information related to deferred outflows of resources and deferred inflows of resources related to OPEB and information related to the OPEB plan’s fiduciary net position.

In addition, the Board tentatively agreed to propose the following note disclosures on issues generally unique to OPEB:

• Legal or maximum contribution rates for OPEB

• The healthcare cost trend rate used in the calculation of the total OPEB liability

• The net OPEB liability measured using a healthcare cost trend rate 1-percentage-point higher and 1-percentage-point lower than used in the measurement of the net OPEB liability (and that this disclosure be presented in conjunction with a disclosure of the impact of a 1-percentage-point higher and 1-percentage-point lower discount rate).

The Board also tentatively agreed to propose that the required supplementary information requirements for pensions in Statement 68 also be applied for OPEB.

***Pension Transition***

The Board discussed comments received from respondents to the Exposure Draft, *Pension Transition for Contributions Made Subsequent to the Measurement Date.*

After deliberating the issues raised by respondents, the Board tentatively agreed to make a clarifying edit to the Basis for Conclusions that was suggested in the comment letters.

***Fiduciary Responsibilities***

The Board reviewed and discussed the additional relevant literature related to defining *fiduciary responsibility* and related terms to supplement the research already completed and outlined in the project staff paper provided to the Board for the August 2013 teleconference.

The Board began deliberations on defining a fiduciary and fiduciary responsibility. The Board’s consideration of a definition for a fiduciary included the concept of (1) control and indirect control; (2) holding; and (3) administering (receiving, managing, disbursing, budgeting, investing, and reporting), as well as other duties of a fiduciary.

The Board tentatively agreed that the concept of “control” should be included in the definition of a fiduciary. The Board also tentatively agreed that a government should be considered to be “controlling assets in a fiduciary capacity” if (1) the present service capacity of the asset is used to provide benefits to the beneficiaries; (2) the present service capacity of one asset can be exchanged for another asset, such as cash; or (3) the assets can be employed in any other way that provides benefits to the beneficiaries.

The Board also tentatively agreed that there should be a discussion outside of the definition of a fiduciary that explains how the concepts of “holding” the assets and “administering” the activities are implied within the concept of “control.”

The Board then discussed other duties of a fiduciary that were identified in the relevant literature. The Board also tentatively agreed that there should be a discussion outside of the definition of a fiduciary that explains how these other duties are implied as part of their fiduciary responsibility.

Finally, the Board tentatively decided that a government has a fiduciary responsibility for financial reporting if it meets the definition of a fiduciary. The Board also discussed the proposed definition of fiduciary and provided suggestions for its improvement to the project staff. The project staff will provide the Board with an amended definition, incorporating these suggestions, for discussion at the next Board meeting.

***Who’s Who at the GASB***

*In October, Emily Clark joined the GASB as a project research associate.*

Prior to joining the GASB, Ms. Clark was a senior associate in Ernst & Young’s financial accounting advisory services practice in New York, NY. Previously, she was a postgraduate technical assistant at the GASB.

Ms. Clark’s primary project assignments include Other Postemployment Benefits, the Pension Accounting and Financial Reporting Implementation Guide on Employer Reporting, and the *Comprehensive Implementation Guide.*

Ms. Clark has successfully completed the Certified Public Accountant examination and related certification requirements and is awaiting final licensure approval. She attended the University of Texas at Austin and received a bachelor’s degree in business administration and a master’s degree in accounting.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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