GASB Proposes Four New Standards

By Stephen J. Gauthier

The GASB's recent exposure drafts are intended to lead to four new statements, including proposed guidance on OPEB, Chapter 9 bankruptcies, financial instruments, and SCAs.

In June 2009, the Governmental Accounting Standards Board (GASB) released exposure drafts (EDs) intended to lead to the eventual issuance of four new GASB statements:

- *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,*
- *Accounting for Chapter 9 Bankruptcies,*
- *Financial Instruments Omnibus,* and
- *Accounting and Financial Reporting for Service Concession Arrangements.*

OPEB MEASUREMENTS BY AGENT EMPLOYERS AND AGENT MULTIPLE-EMPLOYER PLANS

When the GASB deliberated the possibility of mandating the accrual of other postemployment benefits (OPEB), many questioned whether the cost of obtaining an actuarial valuation would outweigh the cost for smaller employers and smaller plans. In response, the GASB ultimately decided to offer smaller employers and plans (i.e., fewer than 100 total active employees, retirees, and other beneficiaries) the *option* of using an alternative measurement method that would eliminate the need for an actuarial valuation.

Many small employers participate in an agent multiple-employer OPEB plan (i.e., a grouping of separate plans under common administration). Participation in such a plan is functionally equivalent to sponsorship of a single-employer plan; however, current standards almost always preclude participating employers from selecting the alternative measurement option. The ED proposes to eliminate this anomaly. If the option were selected, however, measurement would be required no less frequently than once every two years (rather than just once every three years). Also, all participating employers would have to use the same measurement date.

ACCOUNTING FOR CHAPTER 9 BANKRUPTCIES

A Chapter 9 bankruptcy could require that a government adjust the reported value of assets and liabilities. The ED proposes specific guidance on how governments should proceed in that situation.

In the case of payables, notes, and other debt, the payment plan approved by the court may specify that debt service savings represent a reduction of interest, a reduction of principal, or a combination of both. If so, the ED proposes that the financial reporting reflect the terms of the payment plan: a reduction of principal (or accrued interest payable) would be treated as an extraordinary item, while a reduction in future interest payments would be treated as a change in interest rate (i.e., no effect on financial statement display). If not, the ED proposes that the carrying amount of the debt be adjusted to the present value of the new payments.

A bankruptcy payment plan could also reduce scheduled payments under a capital lease. If so, the ED proposes that the difference in present value between the originally scheduled payments and the amended payment schedule be recognized as an extraordinary item.

Postemployment benefits could also be reduced or eliminated entirely as the result of a bankruptcy. The ED proposes that such changes generally be treated like any other change in postemployment benefit levels (amortized over a period not to exceed 30 years). However, if the plan was terminated, the employer would remove any benefit-related asset or liability and report instead the liability for payments pursuant to the judgment, with the difference between the two presented as an extraordinary item.

If a government was *not* expected to emerge as a going concern, the ED proposes that its assets be "written down" to the amount expected to be received upon disposition. All costs associated with a bankruptcy would be recognized when incurred. The ED also proposes to mandate disclosure starting as of the filing for bankruptcy.

FINANCIAL INSTRUMENTS OMNIBUS

An omnibus pronouncement will typically address a number of finer technical points connected with the application of existing authoritative guidance on a particular topic. The ED proposes this sort of guidance for seven issues related to investments: unallocated insurance contracts (report at fair value); what is needed to qualify as a 2a7-like pool (must meet *all* SEC requirements *except* filing); interest-rate risk disclosure (applicable solely to *bond* mutual funds); nonperformance penalties (*not* derivatives); credit default swaps, other than those that provide insurance to the debt holder (potentially derivatives); nonexchange-traded concession contracts and similar arrangements (*not* derivatives); and the application of the leveraged yield criterion to potential hybrid instruments ("potential for at least a double yield").

ACCOUNTING AND FINANCIAL REPORTING FOR SERVICE CONCESSION ARRANGEMENTS

In a service concession arrangement (SCA), a government transfers the operation of a public asset (*facility*) to an operator, which collects fees from third parties. Frequently SCAs are described as *public-private* (or *public-public*) *partnerships* (PPP or P3). SCAs differ from privatizations in that the government retains a significant residual interest in the transferred facility.

The ED proposes that financial reporting depend on whether the transferor is able to determine or regulate *which* services are provided *to whom* and *at what price*. If the government retained control in this way over an existing facility, it would continue to report the facility as an asset. If the operator constructed a new facility under the agreement, the government would report the new facility at its fair value as of the date it was placed in operation, along with a liability to be amortized over the term of the agreement. Upfront payments from the operator would be treated the same way. On the other hand, if the government did *not* retain control over the facility, the difference between the asset's book value and its residual value would need to be removed from the financial statements, and the difference between the amount thus removed and the present value of any up-front or installment payments would be treated as a gain or special item.

If a government was the operator rather than the transferor, it would treat any payments it made as an intangible asset and amortize that amount over the term of the agreement.

Sometimes an SCA will provide for a sharing of revenues between the operator and the transferor. The ED proposes, as a general rule, that the operator report the full amount collected as revenue, and then separately report the payment to the transferor government as an expense. It is important, however, to distinguish true revenue sharing arrangements from situations where the operator is acting merely as an agent for the transferor government (e.g., the operator retains only a fixed amount per customer or a fixed percentage of charges to customers). In this latter case, the ED would have the operator treat amounts it will not retain as a liability to the transferor rather than as revenue and expense.

EFFECTIVE DATE

The GASB's proposed guidance on OPEB, if approved, would take effect for actuarial valuations first reported for periods beginning after June 15, 2010. The proposed guidance on Chapter 9 bankruptcies, financial instruments, and SCAs would become effective for the annual fiscal periods ending June 30, 2010; June 30, 2011; and June 30, 2012; respectively. In all cases, earlier implementation would be encouraged.

STEPHEN J. GAUTHIER is director of the GFOA's Technical Services Center in Chicago, Illinois.