2021 Illinois GFOA Annual Conference

GASB Update

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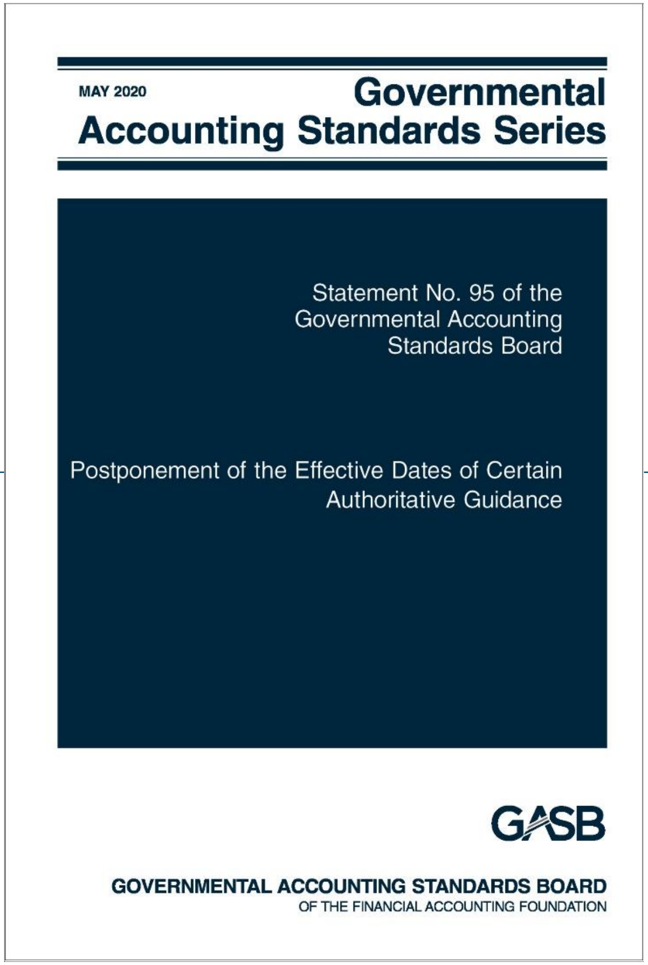
The views expressed in this presentation are those of Mr. Lantz and Dr. Caputo
Official positions of the GASB are reached only after extensive due process and deliberations.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD FAF FINANCIAL ACCOUNTING FOUNDATION

Postponement of the Effective Dates of Certain Authoritative Guidance

Statement No. 95


MAY 2020 Governmental Accounting Standards Series

Statement No. 95 of the Governmental Accounting Standards Board

Postponement of the Effective Dates of Certain Authoritative Guidance

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Effective Date Postponement

What?

The Board has postponed the effective dates of certain Statement & Implementation Guide provisions

Why?

The Board acted in response to numerous stakeholder requests prompted by the COVID-19 pandemic

When?

Effective immediately

Provisions can be implemented early to the extent allowed by each pronouncement

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Effective dates are postponed one year for these pronouncements in their entirety

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*
- Statement No. 91, *Conduit Debt Obligations*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

Effective dates are postponed one year for certain provisions of these pronouncements

- Statement No. 92, *Omnibus 2020,* paragraphs 6–10 and 12
- Statement No. 93, *Replacement of Interbank Offered Rates,* pars. 13 and 14
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting),* Questions 4.85, 4.103, 4.108, 4.109, 4.225, 4.239, 4.244, 4.245, 4.484, 4.491 and 5.1–5.4

Effective dates are postponed 18 months for these pronouncements

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

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Effective Dates after Statement 95

December 31: Fiscal Year 2021

- Statement 89 – construction-period interest
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update

December 31: Fiscal Year 2022

- Statement 87 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update

December 31: Fiscal Year 2023

- Statement 94 – public-private partnerships
- Statement 96 – SBITAs

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Effective Dates after Statement 95

June 30: Fiscal Year 2021

- Statement 84 – fiduciary activities
- Statement 90 – majority equity interests
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update
- IG 2019-2 – fiduciary activities

June 30: Fiscal Year 2022

- Statement 87 – leases
- Statement 89 – construction-period interest
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update (except 4.6–4.17 and 4.19–4.21)

June 30: Fiscal Year 2023

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)

Effective Dates after Statement 95

April 30: Fiscal Year 2021

- Statement 84 – fiduciary activities
- Statement 88 - certain debt disclosures
- Statement 90 – majority equity interests
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-2 – fiduciary activities

April 30: Fiscal Year 2022

- Statement 89 – construction-period interest
- IG 2019-1 – update

April 30: Fiscal Year 2023

- Statement 87 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update

Pronouncements Being Implemented

GASB TB 2020-1

- **Question 1:** Are resources received from the Coronavirus Relief Fund (CRF) subject to eligibility requirements or to purpose restrictions? When should those resources be accounted for as revenue?

- **Response:** CRF funds are subject to eligibility requirements as defined by the U.S. Treasury. While not “grants”, GASB S-33 would apply. Funds received should be reported as liabilities until eligibility requirements are met at which time revenue would be recognized. A receivable/revenue would be accrued when qualifying costs have been incurred if not yet reimbursed, subject to the government’s revenue recognition criteria.

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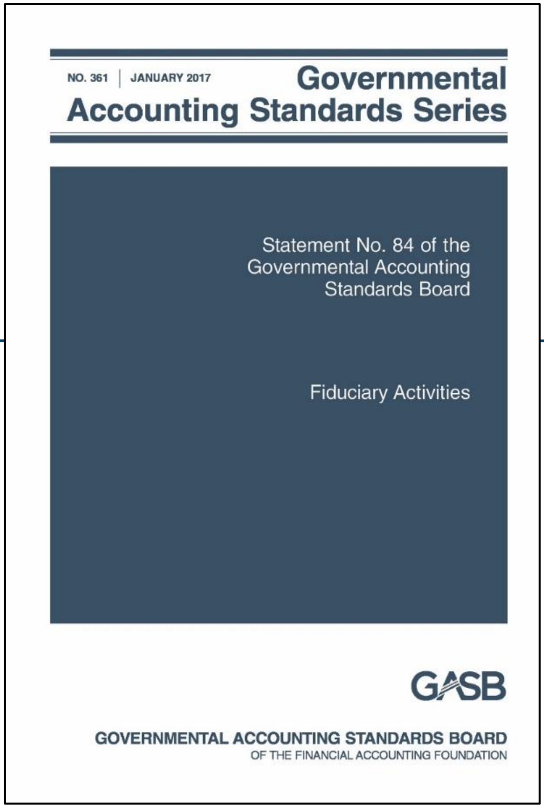
Fiduciary Activities

Statement No. 84



NO. 361 | JANUARY 2017 Governmental Accounting Standards Series

Statement No. 84 of the Governmental Accounting Standards Board

Fiduciary Activities

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Fiduciary Activities

What?

The Board issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements

Why?

Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; BTAs are uncertain about how to report fiduciary activities

When?

Effective for periods beginning after December 15, 2019

Earlier application is encouraged

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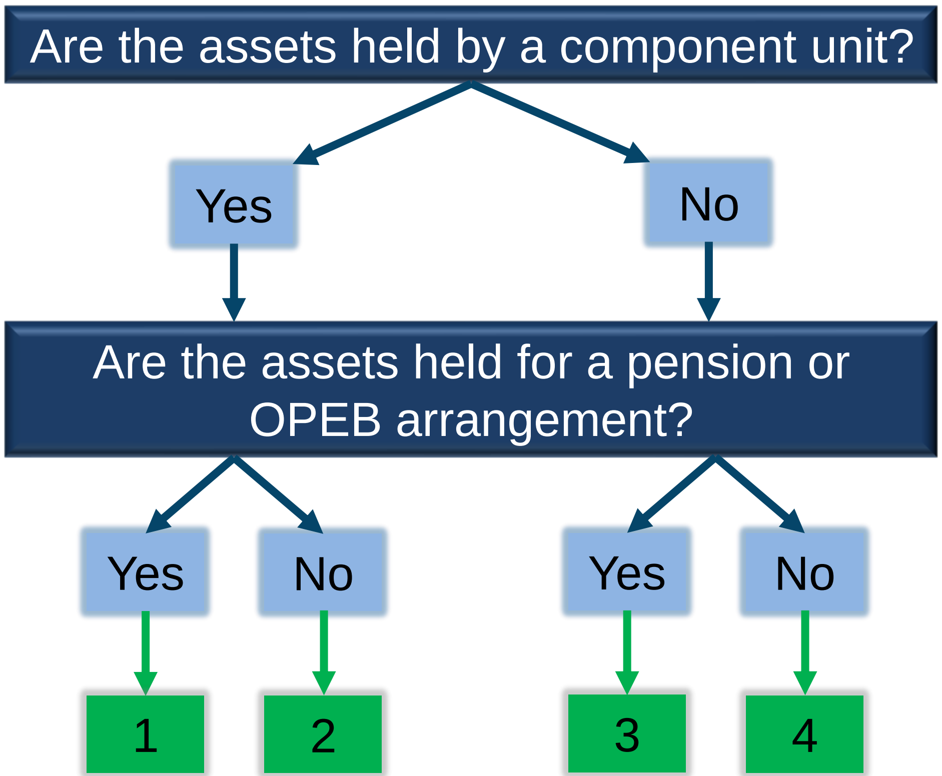
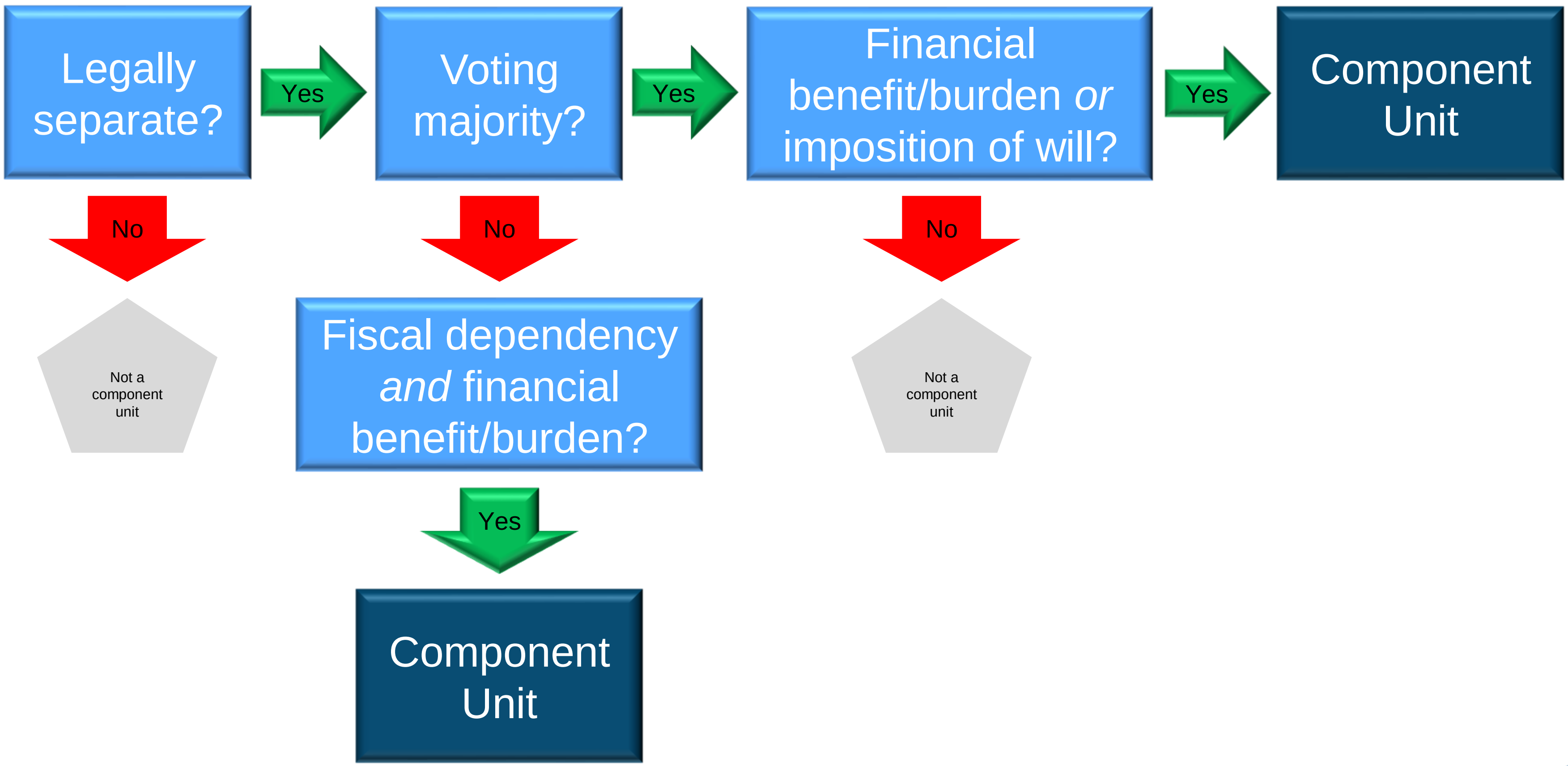
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



When Is There a Component Unit?



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Implications of Statement 97

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the **appointment of a voting majority** of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a **financial burden** applies only to defined benefit plans

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Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if…

1

They are one of the following arrangements:

- **St. 67 ¶3** Pension plan administered through a trust that meets criteria
- **St. 74 ¶3** OPEB plan administered through a trust that meets criteria
- **St. 73 ¶116** Assets from entities not part of the reporting entity accumulated for pensions
- **St. 74 ¶59** Assets from entities not part of the reporting entity accumulated for OPEB

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Other Component Units Are Fiduciary if…

They have one or more of the following characteristics:

2

Assets are:
- Administered through a trust in which government is *not* a beneficiary
- Dedicated to providing benefits, AND
- Legally protected from the creditors of government

or

- Assets are for the benefit of individuals
- Assets are *not* derived from government's provision of goods or services to the individuals AND
- Government does *not* have administrative involvement or direct financial involvement w/ the assets

or

- Assets are for the benefit of organizations/ governments *not* part of the reporting entity AND
- Assets are *not* derived from government's provision of goods or services to them

Postemployment Benefit Arrangements That Are Not Component Units Are Fiduciary if…

3

- Arrangement is one of those in 1 AND
- The government **controls** the assets of the arrangement
  - (control will be explained in two slides)

All Other Activities Are Fiduciary if… 4

Arrangement meets one or more of the criteria in 2

and

The government **controls** the assets

and

Those assets are *not* derived either:

- Solely from the government's own-source revenues, or
- From grants, with the exception of pass-through grants for which the government does not have administrative or direct financial involvement

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Control of Assets

- Control means one or both of the following is true:

  - Government *holds* the assets
  - Government has ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries

Fiduciary Fund Classes

Pension and other employee benefit trust fund	Investment trust fund	Private-purpose trust fund	Custodial fund

Trust agreement or equivalent arrangement should be present

Stand-Alone Business-Type Activities

A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.

Exception: Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

Statement of Changes in Fiduciary Net Position

All fiduciary funds should be included in the statement of changes in fiduciary net position

Additions should be disaggregated* by source and, if applicable, separately display investment earnings, investment costs, and net investment earnings

Deductions should be disaggregated* by type and, if applicable, separately display administrative costs

*Disaggregation requirement applies to all fiduciary funds *except* custodial funds held for three months or less

- For those custodial funds, governments may report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows

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GASB S-84 Fiduciary Fund Financial Reporting

- Accrual basis of accounting
- Economic resources measurement focus
- Liability recognition
  - A liability to the beneficiaries in a fiduciary fund should be recognized when an event has occurred that compels the government to disburse the fiduciary resources
  - Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.
    - County would recognize a liability when it collects taxes for other governments, even though it may not be required to distribute the taxes to those governments for a prescribed period
  - Liabilities other than those to beneficiaries should be recognized in accordance with existing accounting standards using the economic resources measurement focus.

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Implementation Guide 2019-2

52 questions and answers, including:

- Classifying fiduciary activities
- Applying the criteria for control and own-source revenues
- Applying the clarified definitions of fund classes, including determining eligibility for the custodial fund exception for BTAs
- Fiduciary fund financial statements, including the determining eligibility for the exception to disaggregating certain additions and deductions
- Reporting fiduciary component units

Revisions to 3 existing questions and answers

GASB S-84 and Illinois Downstate Police and Fire Pension Plans

- IGFOA Technical Accounting Review Committee (TARC)
  - Illinois CPA Society
  - GASB Research staff
  - White Paper
    - Most Article 3 and Article 4 police and fire pension plans meet the definition of a fiduciary component unit
      - Employer has a financial burden for funding a defined benefit plan, and
      - Plan is fiscally dependent on the employer due to the employer’s ability to choose the actuarial assumptions used to calculate the actuarially determined contributions (ADC)
    - Add note to reporting entity disclosure identifying plans as fiduciary component units
    - Separately issued plan reports are “Fiduciary Component Units” reports

Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

Statement No. 97

Fiduciary Component Units and Deferred Compensation Plans

What?

The GASB has changed the criteria for including certain employee benefit plans as component units and improvements to Statement 32 on IRC Section 457 plans

Why?

Some 457 plan characteristics have changed due, in part, to changes in the IRC; questions have been raised about whether certain employee benefit plans should be included as component units

When?

Effective dates vary by topic

Earlier application is encouraged and permitted for certain topics

Relevant Guidance on Fiduciary Component Units

Paragraph 7 of Statement 84 amended Statement 14 to indicate that a primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to a pension plan or OPEB plan

Implementation Guide 2019-2 provided guidance that in the absence of a governing board, a government performing the duties of a governing board for a defined contribution (DC) plan that is administered through a trust that meets the criteria in Statement 67 is effectively the same as appointment of a voting majority

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Relevant Guidance on Fiduciary Component Units (continued)

The implication of that existing and considered guidance is that many governments would be required to report DC plans and other employee benefit plans as component units in their fiduciary fund financial statements

The Board directed the staff to conduct additional outreach on the structure of those types of arrangements and user needs for information about them

Based on the outreach, the Board decided to expand the project and issue guidance on component units

Component Unit Criteria

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the appointment of a voting majority of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a financial burden applies only to defined benefit plans

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457 Plans

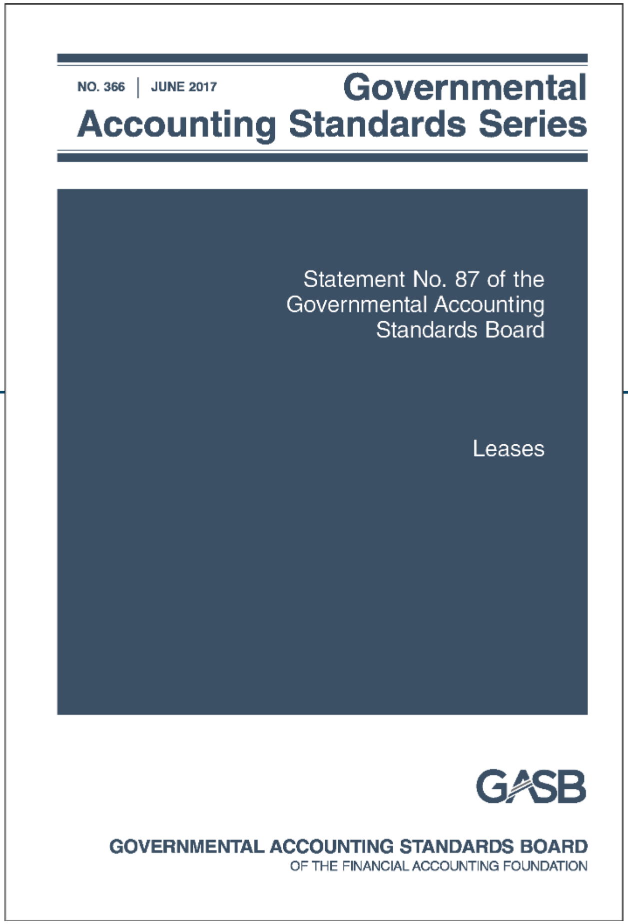
All requirements relevant to pension plan reporting should be applied to Section 457 plans that meet the definition of a pension plan

All requirements relevant to pensions should be applied by employers to benefits provided through Section 457 plans that meet the definition of a pension plan

Investments should be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator is eliminated)

Leases

Statement No. 87


NO. 366 | JUNE 2017

Governmental Accounting Standards Series

Statement No. 87 of the Governmental Accounting Standards Board

Leases

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Leases

What?

The Board issued Statement 87 to improve lease accounting and financial reporting

Why?

Existing standards in effect for decades without review in light of GASB's conceptual framework; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers

When?

Effective for fiscal years beginning after June 15, 2021, and all periods thereafter

Earlier application is encouraged

Issues to Focus on as Soon as Possible

Debt limits and bond covenants

- All leases lasting more than a year will be reported by lessees as long-term liabilities
- Review state and local laws and agreements to determine whether that could impact compliance with debt limitations and bond covenants

Lease policies and procedures

- May need to consider changing policies and procedures for tracking and reporting leases, both as lessee and lessor
- May need better communication between departments that enter into leases and central accounting staff
- Need procedures that identify when lease agreements have been initiated and when existing leases are modified (such as changes in lease term or estimated payment amounts)
- Should review capital asset policies, such as the capitalization thresholds, especially in light of the need to report intangible right-to-use assets

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Issues to Focus on as Soon as Possible (continued)

Transition provisions

- Statement 87 requires that leases be recognized and measured using the facts and circumstances as of the beginning of the period of implementation
- For example:
  - As of January 1, 2020 for FYE December 31, 2020
  - As of July 1, 2020 for FYE June 30, 2021

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Statement 87 Implementation Guide

Implementation Guide 2019-3: 77 questions and answers, including:	Scope and applicability issues
	Determining the term of the lease
	Eligibility for exception for short-term leases
	Recognition, measurement, and disclosure for lessees and lessors
	Lease incentives
	Contracts with multiple components and contract combinations
	Terminations and modifications
	Sale-leasebacks, lease-leasebacks, and intra-entity leases

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Statement 87 Scope and Approach

- Statement 87 applies to any contract that meets the definition of a lease:

> "A lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction."

- Leases are financings of the right to use an underlying asset

Single approach applied to accounting for leases with some exceptions, such as short-term leases

- Capital/operating distinction is eliminated

Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset
- Biological assets (including timber, living plants, and living animals)
- Inventory
- Service concession arrangements (Statement 60)
- Arrangements associated with conduit debt obligations (Statement 91)
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)

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Lease Term

- For financial reporting purposes, when does the lease start and end?
  - Start with the noncancelable period

2021…………………………………………………..2027……………………………………….2031

  - Plus periods covered by options to:
    - Extend lease, if reasonably certain of being exercised
    - Terminate lease, if reasonably certain of *not* being exercised
  - Excludes cancelable periods
    - Periods for which lessee and lessor both have option to extend or terminate (such as rolling month-to-month leases)
  - Fiscal funding and cancellation clauses are ignored unless reasonably certain of being exercised

Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible lease asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	• Lease receivable (generally includes same items as lessee's liability) • Continue to report the leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less amount needed to cover accrued interest)	NA	Recognize revenue over the lease term in a systematic and rational manner

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Short-Term Leases

Definition	At beginning of lease, *maximum possible term* under the contract is 12 months or less
Lessee accounting	• Recognize expenses/expenditures based on the terms of the contract • Do not recognize assets or liabilities associated with the right to use the underlying asset
Lessor accounting	• Recognize lease payments as revenue based on the payment provisions of the contract • Do not recognize receivables or deferred inflows

Contracts with Multiple Components

Statement 87	Implementation Guide 2019-3

• Generally, account for lease and non-lease components as separate contracts and multiple underlying assets as separate lease components in certain circumstances (paragraphs 64 and 65)
• Allocate contract price to different components (paragraph 66)
	• One component meets scope exclusions and one does not?
	  • Separate and account for them individually (Q4.59)
	• Separate utilities and janitorial costs of building lease?
	  • Yes, if practicable to do so (Q4.60)

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Other Topics Covered by Statement 87

- Disclosures
- Contract combinations
- Lease modifications & terminations
- Lease incentives
- Subleases
- Sale-leasebacks
- Lease-leasebacks

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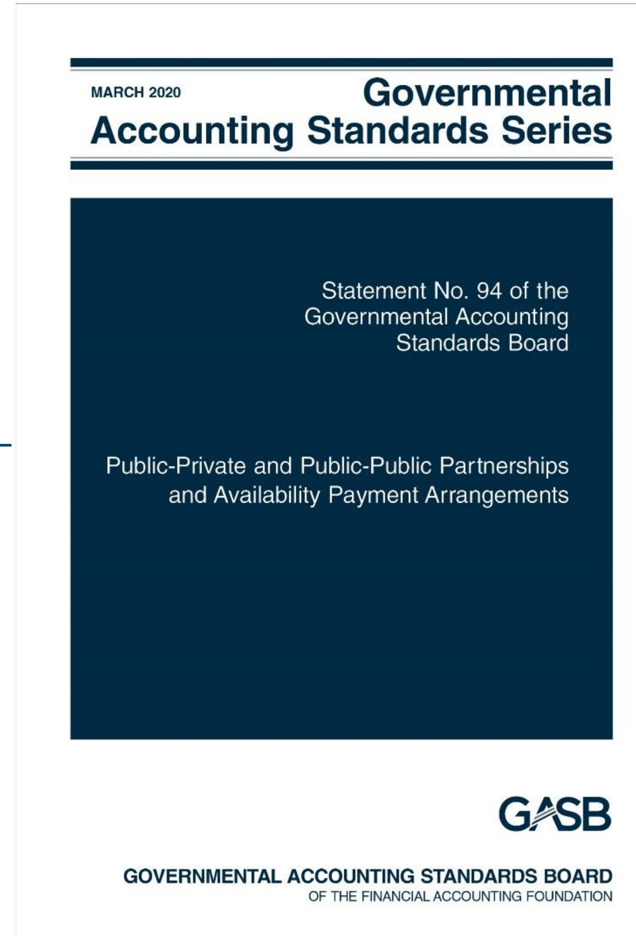
Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Statement No. 94


MARCH 2020

Governmental Accounting Standards Series

Statement No. 94 of the Governmental Accounting Standards Board

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

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P3s, APAs, and SCAs

What?

The Board issued guidance for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87, and improvements to Statement 60

Why?

GASB research found that some P3 transactions are outside the scope of Statement 60 and identified opportunities to improve Statement 60's guidance for service concession arrangements (SCAs)

When?

Effective for reporting periods beginning after June 15, 2022

Definitions: PPPs and APAs

Public-private partnerships and **public-public partnerships (P3s)** are arrangements "in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction."

Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government's nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

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Other Provisions

A P3 that meets the definition of a lease in Statement 87 – but not the definition of a service concession arrangement (SCA) – would be reported under Statement 87 unless (a) the underlying PPP assets are not existing assets of the transferor or (b) improvements are required to be made to those existing underlying P3 assets by the operator.

An APA that is 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 would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

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Transferor Reporting

For all P3s, recognize:	If underlying P3 asset is a new asset or an existing asset that has been improved…
• Receivable for installment payments to be received, if any • Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term	• …and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation • …and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

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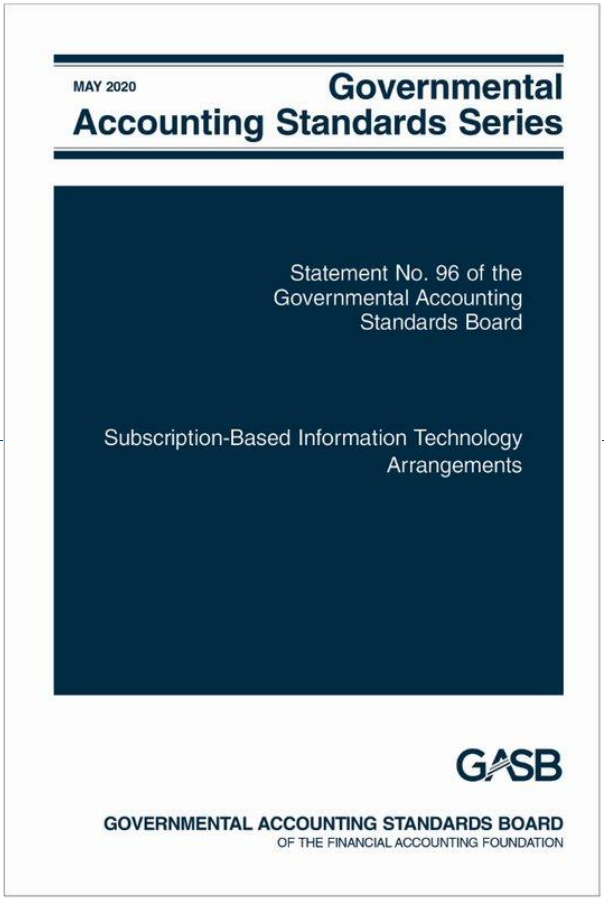
Operator Reporting

For all P3s, recognize:	If underlying P3 asset is (a) existing asset or improvement or (b) new asset and the P3 is an SCA…	If underlying P3 asset is a new asset and the P3 is not an SCA…
• Liability for installment payments to be made, if any	• …also recognize an intangible right-to-use asset	• Also recognize the underlying P3 asset until ownership is transferred • And a liability for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer

Subscription-Based Information Technology Arrangements

Statement No. 96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Statement No. 96 of the Governmental Accounting Standards Board

Subscription-Based Information Technology Arrangements

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Statement 96 on SBITAs

What?

The Board issued standards related to reporting subscription-based information technology arrangements (SBITAs), such as cloud computing contracts

Why?

Stakeholders were concerned that those transactions were not covered by the guidance in Statements 51 or 87; diversity existed in practice

When?

Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter

Earlier application is encouraged

Scope and Applicability

A subscription-based information technology arrangement (SBITA) "is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction."

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

Scope and Applicability (continued)

- Statement 96 does not apply to:
  - Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement 87, in which the software component is insignificant compared to the cost of the underlying tangible capital asset
  - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
  - Contracts that meet the definition of a P3 in Statement 94
  - Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement 51

Recognition and Measurement

An SBITA should be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability (except for short-term SBITAs)

Measurement of the subscription asset should include certain capitalizable implementation costs based on stages similar to those for internally developed software in Statement 51:

- Preliminary project stage
- Initial implementation stage
- Operation and additional implementation stage

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Accounting for Activities Associated with a SBITA

Preliminary project stage

- Outlays should be expensed as incurred

Initial implementation stage

- In general, outlays should be capitalized
- However, if no subscription asset is recognized (such as for a short-term SBITA), outlays should be expensed as incurred

Operation & additional implementation stage

- Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria

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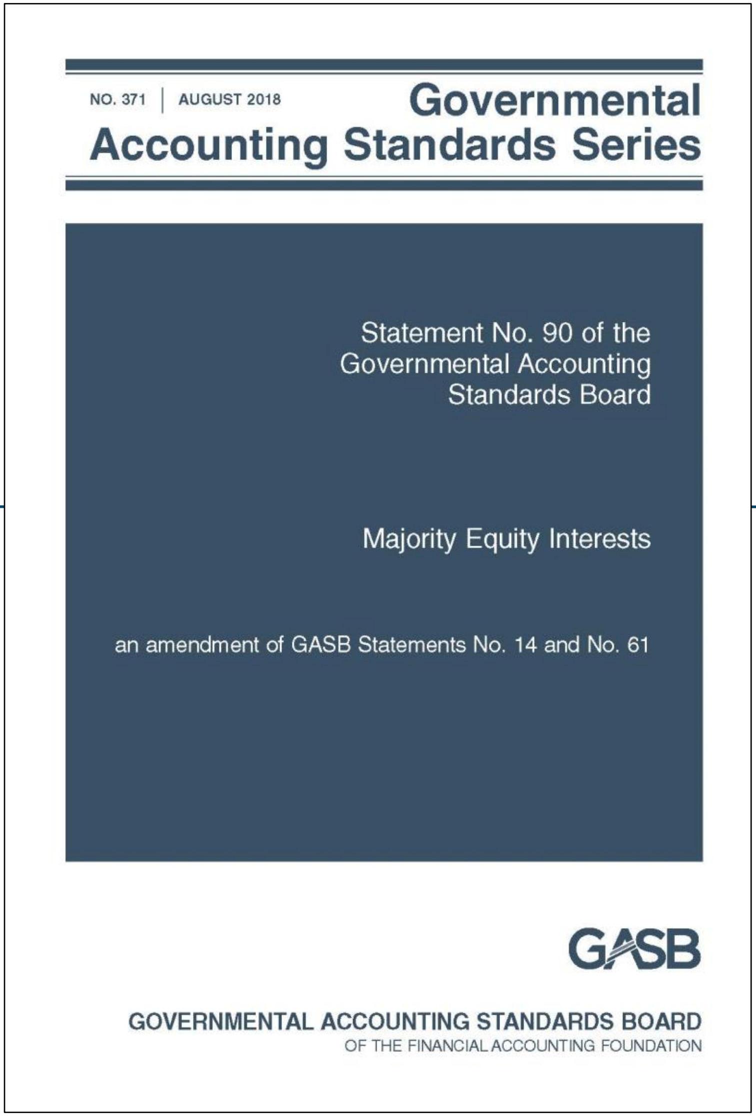
Majority Equity Interests

Statement No. 90



NO. 371 | AUGUST 2018

Governmental Accounting Standards Series

Statement No. 90 of the Governmental Accounting Standards Board

Majority Equity Interests

an amendment of GASB Statements No. 14 and No. 61

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Majority Equity Interests

What?

The Board issued Statement 90 to clarify whether a majority equity interest should be reported as an investment or as a component unit and to provide consistent measurement of elements of acquired organizations and 100% equity interests in component units

Why?

Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance

When?

Effective for periods beginning after December 15, 2019

Earlier application is encouraged

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Does the Majority Equity Interest Meet the Definition of an Investment?

YES	NO
Report as an investment	Report as a component unit
Measure the investment by applying the equity method prescribed in Statement 62, paragraphs 205–209 *Exception:* the following should apply fair value in accordance with Statement 72, paragraph 64: • Special-purpose governments engaged only in fiduciary activities • Fiduciary funds • Endowments (including permanent and term endowments) and permanent funds	Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in Statement 62, paragraphs 205–209
Applied prospectively only	

100% Equity Interest That *Does Not* Meet the Definition of an Investment

If a government acquires a 100% equity interest in a legally-separate entity that *does not* meet the definition of an investment

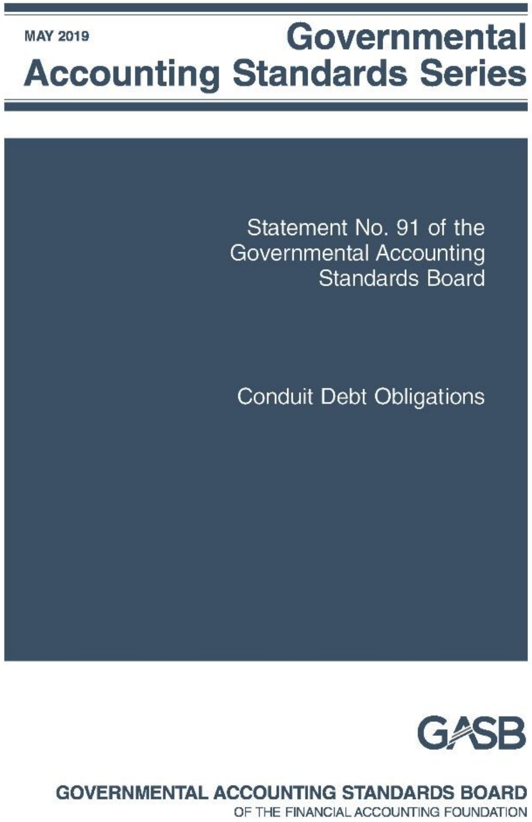
Component unit should remeasure assets, liabilities, and deferrals by applying acquisition value as described in Statement 69

Government holding the 100% equity interest would recognize an asset and measure by using acquisition value

These provisions would be applied prospectively only

Conduit Debt Obligations

Statement No. 91


MAY 2019 Governmental Accounting Standards Series

Statement No. 91 of the Governmental Accounting Standards Board

Conduit Debt Obligations

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Conduit Debt

What?

The Board improved the existing standards related to conduit debt obligations by providing 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, improvements were needed to eliminate diversity in practice

When?

Effective for periods beginning after December 15, 2021

Earlier application is encouraged

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 trustee.
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.

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Limited, Additional & Voluntary 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** 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 financial guarantee
- Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

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Recognition by the Issuer

- Do *not* recognize a conduit debt obligation as a liability
- May have a related liability arising out of an additional or voluntary commitment
- **Additional commitment**: report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation
- **Voluntary commitment**: if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments
- Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

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Arrangements and Capital Assets

Some conduit debt obligations include arrangements* that involve capital assets to be used by the third-party obligor but owned by the issuer.

- Capital asset is built or acquired with proceeds of the conduit debt obligation.
- Issuer retains title to the capital asset from the beginning of the arrangement.
- Payments from the third-party obligor are to cover debt service payments.
- Payment schedule of the arrangement coincides with the debt service repayment schedule.

*Often characterized as "leases"

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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
- If the arrangement meets the definition of a service concession arrangement, follow Statement 60

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Arrangements and Capital Assets (continued)

Does title pass to third-party obligor at end of arrangement?	Does the issuer recognize a capital asset?	Does the issuer recognize a deferred inflow of resources?
Yes	No	No
No, and third party has exclusive use of *entire* capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only *portions* of the capital asset	Yes, at the inception of the arrangement	Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement

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Disclosures by Type of Commitment

A general description of the issuer's conduit debt obligations

- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

If the issuer recognizes a related liability

- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

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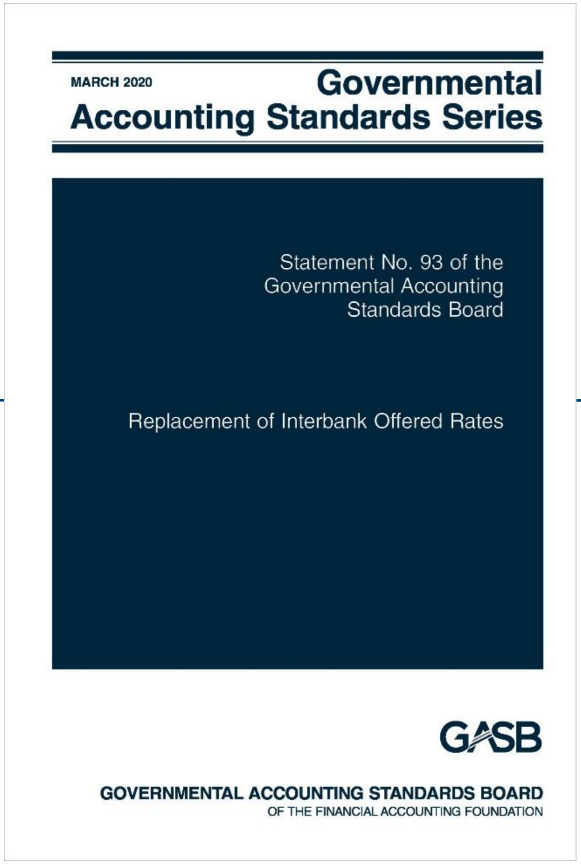
Replacement of Interbank Offered Rates

Statement No. 93


MARCH 2020 Governmental Accounting Standards Series

Statement No. 93 of the Governmental Accounting Standards Board

Replacement of Interbank Offered Rates

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Replacement of Interbank Offered Rates

What?

The Board has issued guidance to facilitate the transition from using IBORs in hedging derivative instruments and leases

Why?

LIBOR in its current form is expected to effectively sunset at the end of 2021

When?

LIBOR: periods *ending* after December 31, 2021

Leases: periods beginning after June 15, 2021

All other: periods beginning after June 15, 2020

Exception to Termination of Hedge Accounting

Continue to apply hedge accounting to an effective hedging derivative instrument with a variable payment based on an IBOR, if all criteria are met:

- Hedging derivative instrument is amended or replaced to change the reference rate of its variable payment or add/change reference rate-related fallback provisions
- The new reference rate essentially equates the old rate by :
  - Adjusting the new rate by a coefficient or constant, limited to what is necessary to essentially equate the rates, and/or
  - An up-front payment, limited to what is necessary to essentially equate the rates
- The original hedging derivative instrument is ended and the replacement hedging derivative instrument is entered into on the same date
- Critical terms are identical, except for term changes that are necessary for reference rate replacement (see next slide)

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Other Term Changes

Term changes that may be necessary for the replacement of the reference rate are limited to:

- The frequency with which the rate of the variable payment resets
- The dates on which the rate resets
- The methodology for resetting the rate
- The dates on which periodic payments are made

Two-Step Transition to a SOFR

A hedging derivative instrument may be amended or replaced in two steps: a transition from an IBOR to another rate (such as the effective federal funds rate) prior to transitioning to a secured overnight financing rate (SOFR)

Hedge accounting continues when all of the following criteria are met:

- The first step replaces an IBOR with another rate
- That interim rate is replaced by a SOFR in the second step
- All four of the criteria for a one-step transition are met

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Other Provisions

Effective Federal Funds Rate and SOFR are appropriate benchmark interest rates for taxable debt when applying the consistent critical terms method

LIBOR is no longer an appropriate benchmark interest rate for taxable debt when applying the consistent critical terms method

Replacing an IBOR as the reference rate of a hedged item does not terminate hedge accounting

Uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable

The lease modifications guidance in Statement 87 should not be applied to when a lease contract is amended solely to replace an IBOR

Effective Dates and Transition

The provision removing LIBOR as an appropriate benchmark rate is effective for reporting periods *ending* after December 31, 2021

All other provisions are effective for reporting periods beginning after June 15, 2020

Earlier application is encouraged

Should be applied retroactively, if practicable (hedge accounting should be reestablished for terminations prior to the effective date of this Statement)

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Questions?