[Bond Case Briefs]

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[GASB Board Meeting Highlights.]

The GASB held public meetings August 20–22 and September 8 (by teleconference), 2014, to discuss issues associated with its projects on Leases, Fiduciary Responsibilities, Tax Abatement Disclosures, and Irrevocable Charitable Trusts. The Board also reviewed and approved the Technical Plan for the final third of 2014. (See the accompanying article on the Technical Plan.) This article addresses key tentative decisions made by the Board during its deliberations on these topics. (For complete minutes of the Board meeting, visit the [project pages] devoted to each project on the GASB website.)

Leases

The Board's deliberations in August on potential revisions to the standards on lease accounting included recognition and disclosure issues related to lease terminations, lease modifications, and multiple lease components. The September deliberations considered sale-leaseback transactions and included a review of draft chapters of a Preliminary Views.

Lease Terminations

The Board began deliberations by discussing additional potential disclosures. The Board tentatively decided to propose that a lessor government should disclose the existence, and terms and conditions, of options by the lessee to terminate a lease if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments. The Board tentatively decided to propose that for the termination of a lease (other than a transaction associated with the lessee's purchase of the underlying asset), the lessee would remove the lease asset and obligation from its financial statements, and recognize the difference as a gain or loss. The Board also tentatively decided to propose that for a lease termination that is associated with the lessee's purchase of the underlying asset, the lessee would record the difference between the purchase price and carrying amount of the lease liability as an adjustment to the carrying amount of the underlying asset. The Board tentatively decided to propose that for a lease termination, the lessor would remove the lease receivable and related deferred inflow of resources, and recognize any difference as a gain or loss.

Lease Modifications

The Board considered how to account for and report modifications to leases relating to several potential changes in a lease's terms and conditions. The initial measurement of the assets, liabilities, and deferred inflows of resources related to a lease is based on the specific features of the lease. If those features change during the period of the lease, the measurements need to be adjusted accordingly.

The Board tentatively decided to propose a general approach to be used for lease modifications: A change in the lease contract would be considered a modification of the original lease if the lessee keeps the same right of use. On the other hand, a change would be considered a new lease (and the original lease terminated) if the lessee loses part of its right of use.

Changes in Consideration. The Board tentatively decided to propose that for a lease modification resulting from a change in consideration, the lessee would remeasure the lease liability on the effective date of modification and assess the need for an updated discount rate. The lessee also would adjust the right-of-use asset (the intangible asset it would recognize, related to its right to use the asset being leased) by the difference between the modified liability and the liability immediately before the modification, recognizing neither a gain nor loss. For the lessor, the Board tentatively decided to propose that it remeasure the lease receivable on the effective date of modification and assess the need for an updated discount rate. The lessor also would adjust the deferred inflow of resources by the difference between the modified receivable and the receivable immediately before the modification, recognizing neither a gain nor loss. (Under the Board's tentative decisions, a lessor would recognize a deferred inflow of resources equal to the present value of payments under the lease, and then recognize lease revenue rationally and systematically over the period of the lease.)

Changes in Scope. The Board tentatively decided to propose that for a lease modification resulting from an increase in scope, the lessee would remeasure the lease liability on the effective date of modification and assess the need for an updated discount rate. The lessee also would adjust the right-of-use asset by the difference between the modified liability and the liability immediately before the modification, recognizing neither a gain nor loss. On the lessor side, the Board also tentatively decided to propose that the lessor remeasure the lease receivable on the effective date of modification and assess the need for an updated discount rate. The lessor also would adjust the deferred inflow of resources by the difference between the modified receivable and the receivable immediately before the modification, recognizing neither a gain nor loss.

The Board then discussed lease modifications related to a decrease in scope. The Board tentatively decided to propose that the lessee would remeasure the lease liability on the effective date of modification and assess the need for an updated discount rate. The lessee also would adjust the right-of-use asset for the portion of the lease that is terminated and recognize a gain or loss for the difference. The lessor would remeasure the lease receivable on the effective date of modification and assess the need for an updated discount rate. The lessor also would adjust the deferred inflow of resources proportionally with the receivable adjustment and recognize a gain or loss on the difference.

Multiple Lease Components and Contract Combinations

The Board tentatively decided to propose that, in addition to separation of multiple lease components that have different lease terms, lessee governments would be required to separate multiple lease components in a contract if the underlying assets belong to different major classes. However, lessor governments would not be required to do so. A lessor already would have underlying assets recognized separately. The separation of components in a contract for lessors only would affect the lease receivable and deferred inflow of resources and neither of those items would require disclosure of separate information based on major class of underlying asset. Otherwise, lessors would separate lease and nonlease components or multiple lease components on the same basis as lessees.

The Board tentatively decided to propose that governments presume that contracts entered into at or near the same time with the same counterparty are not part of one arrangement, unless there is evidence to the contrary. The Board also tentatively decided to propose that contract combinations be required if one or both of the following criteria are met: (a) the contracts are negotiated as a package with a single objective or (b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract.

Sale-Leasebacks

The Board began the September 8 teleconference meeting by discussing the general approach for the accounting and reporting of sale-leaseback transactions. The Board tentatively decided to propose that, as a general principle, a transaction should include a qualifying sale (as provided by Codification Section R30, "Real Estate," if applicable) in order to be accounted for using sale-leaseback guidance. The presence of an obligation or option for the lessee to repurchase the asset, however, would preclude the use of sale-leaseback accounting.

Gains and Losses. The Board tentatively decided to propose that any gain or loss in a sale-leaseback transaction would be deferred, regardless of how much use of the asset is retained by the seller-lessee. The entire gain in a sale-leaseback transaction would be treated as a deferred inflow of resources, rather than a reduction of the lease asset. If the leaseback is a short-term lease, any gain or loss would be recognized at the date of the sale, rather than deferred. The Board also tentatively decided to propose that the existing exception that recognizes a loss immediately for the difference between the fair value and undepreciated cost of the asset would not be retained.

Off-Market Terms. The Board tentatively decided to propose that an adjustment would be made for the off-market terms in sale-leaseback transactions. A government would be allowed to determine whether any off-market terms exist in a sale-leaseback transaction on the basis of the difference between either of the following, whichever is more readily determinable: (1) the sale price and the fair value of the underlying asset or (2) the present value of the contractual lease payments and the present value of the market rate lease payments. The Board also tentatively decided to propose that governments account for the off-market terms in the following manner: (a) treat any deficiency in the same manner as a prepayment of the lease, and (b) treat any excess as additional financing provided by the buyer-lessor to the seller-lessee.

Accounting for Sale-Leasebacks. The Board tentatively decided to propose that the seller-lessee account for the leaseback under the same guidance to be proposed for lessees of leases that are not part of a sale-leaseback. If the transaction does not qualify for sale-leaseback accounting, the Board tentatively decided to propose that the seller-lessee (transferor) and the buyer-lessor (transferee) would both account for the transaction as a financing. The Board also tentatively decided to propose that the buyer-lessor would follow the applicable guidance for a capital asset purchase and the same guidance provided for lessors of leases that are not part of a sale-leaseback, as if the transactions were separate.

Note Disclosures. The Board tentatively decided to propose that seller-lessees would disclose the terms and conditions of the sale-leaseback transaction, but would not be required to disclose any gain or loss on the sale portion of the transaction separately from gains or losses on other capital asset disposals. Regarding failed sale-leaseback transactions, the Board tentatively decided to propose eliminating the guidance in paragraph 256 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, in which transferors disclose the minimum sublease rentals to be received in the future under noncancelable subleases.

Lease-Leaseback Transactions. The Board tentatively decided to propose special guidance for lease-leasebacks such that each party would recognize a net receivable and deferred inflow of resources or a net payable and lease asset. The Board also tentatively decided to propose that governments disclose the gross components of a net lease receivable or payable when there is a lease-leaseback transaction.

Fiduciary Responsibilities

The Board's deliberations on the Fiduciary Responsibilities project included a review of initial draft chapters of a Preliminary Views and a discussion of the organization of the description of a fiduciary that will be proposed in that due process document.

Deliberation of new issues focused on the reporting of fiduciary component units that have fiduciary component units of their own. At present, there is confusion as to the circumstances under which a component unit's own component units that are fiduciary in nature should be included in the financial statements of the primary government.

The Board tentatively decided to propose that when a primary government reports a fiduciary component unit in the fiduciary fund financial statements, the fiduciary component unit would be combined with its own fiduciary component unit and reported as a single fiduciary fund.

Tax Abatement Disclosures

The Board's discussion focused primarily on a first draft of the standards section of an Exposure Draft, Tax Abatement Disclosures. The discussion addressed transition provisions and effective date, as well as cost-benefit considerations.

Transition Provisions and Effective Date

The Board tentatively decided to propose that note disclosures would be required for the current and all prior periods presented. There would be an exception, however, if disclosure of the required information for those periods is not practical. In such circumstances, a government would explain why it was not practical to apply the Statement to those periods. The Board tentatively decided that the proposed standards would be effective for periods beginning after December 15, 2015, and would encourage earlier implementation.

Cost-Benefit Considerations

In addition to considering the costs and benefits associated with the individual decisions made during deliberations on proposed standards, the Board also reviews the expected costs and benefits of the proposed standards as a whole when a draft of a due process document or final pronouncement is first reviewed. The Board tentatively agreed that the benefits of the disclosures about tax abatements that will be proposed in the Exposure Draft would outweigh their perceived costs.

Irrevocable Charitable Trusts

The Board's deliberations on the Irrevocable Charitable Trusts project focused on recognition issues related to three scenarios: (1) direct donations to a government, (2) donations to a component unit of a government, and (3) donations to a third party that is outside the reporting entity for the benefit of a government. The Board also discussed issues specifically related to component units.

Direct Donations to a Government or a Component Unit

The Board discussed split-interest agreements in which a government or a component unit of the government holds and administers the resources—scenarios (1) and (2), respectively. The Board tentatively decided that these resources meet the definition of an asset in Concepts Statement No. 4, Elements of Financial Statements—resources with present service capacity that the government presently controls.

Donations to a Third Party outside the Reporting Entity

Next, the Board discussed split-interest agreements in which a third party outside the reporting entity holds and administers the resources and whether a government's beneficial interests in these split-interest agreements meet the asset definition. The Board discussed the elements of control and present service capacity that are required for those donated resources to be accounted for as assets of the government.

The Board tentatively decided to propose that donated resources held and administered by a third party (intermediary) outside the reporting entity are placed beyond the control of the donor, granting the government control over beneficial interests, when all the following criteria are met:

- The government (or a component unit of the government) is specified by name as beneficiary in the legal document underlying the donation.
- The government has a vested beneficial interest.
- The donation agreement is irrevocable.
- The donor has not granted variance power to the intermediary.
- The intermediary is not under the control of the donor (in the case of agency relationships).

The Board discussed a government's ability to monetize beneficial interests via assignment as a means to establish the present service capacity of such beneficial interests. The Board tentatively decided to propose that a government controls the present service capacity of beneficial interests if both of the following are true:

- The ability to assign beneficial interests is not subject to approval of the trustee or prohibited by law.
- An actual attempt to assign beneficial interests does not invalidate the government's beneficial interests and therefore terminate the trust.

Revenue Recognition

The Board discussed whether to recognize revenue for beneficial interests. Even if the resources meet the definition of an asset of the government, the inflow of those resources is related to a future period, not to the period in which the donation agreement is finalized. Therefore, the Board tentatively decided to propose that the beneficial interests would be recognized as a deferred inflow of resources rather than revenue.

Component Unit Issues

The Board tentatively decided to propose that, in the case in which the component unit is the specified beneficiary of a split-interest agreement, the component unit would recognize an asset and a deferred inflow of resources, consistent with scenarios in which a government is the specified beneficiary. In the case in which a component unit holds and administers the resources of a split-interest agreement for the primary government, the component unit would recognize the donated resources and liabilities to both the nongovernmental beneficiary and the primary government. Consistent with prior tentative Board decisions, the Board tentatively decided to propose that the primary government would recognize an asset and a deferred inflow for its beneficial interests in the split-interest agreement in which the component unit holds and administers the resources.