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# GASB Issues Implementation Guide for Leases

In August 2019, the GASB issued Implementation Guide No. 2019-3, *Leases,* to clarify, explain, and elaborate on the requirements of GASBS No. 87, *Leases*.

## Background

GASBS No. 87 was issued in June 2017 and became effective for reporting periods beginning after December 15, 2019. Not long after issuance, GASB began developing implementation questions which culminated in an exposure draft being issued in February 2019. There are some significant differences between the exposure draft and the final Implementation Guide.

GASB implementation guides fall into category B on the governmental GAAP hierarchy.

## Questions and Answers in the Implementation Guide

The questions begin in section 4. There are 77 questions and answers on a variety of issues. A quick look at the contents page gives an outline of the question and answer topics.

## A Sampling of the Questions

Let's take a high-level look at some of the questions covered in the Implementation Guide.

*Scope and Applicability of GASBS No. 87:*

- Question 4.1 addresses leases that are not considered exchange or exchange-like transactions, such as a lease with a rate that is significantly below fair market value. In this case, the guidance in GASBS No. 87 would not apply.
- Question 4.2 addresses the issues of control and the period of the lease in a case where a government has the right to use a facility for only part of a week during its lease. In this case GASBS No. 87 would apply.
- Question 4.3 addresses a hunting rights agreement and clarifies that the definition of a lease does not require uninterrupted control of an asset.

Other topics in this group of questions include grazing land, easements, power generation equipment, solar farms, cell phone towers, right of substitution of

## In this Issue:

assets by a lessor, land engaged in oil and gas exploration and production, and leasing croplands.

*Lease Term:*

- Question 4.13 addresses leases that include a month-to-month holdover period after the initial lease term expires and specifies that, under the facts given, the holdover period should not be included in the initial assessment of the lease term because the lessee has not contracted for a noncancelable right to use the asset.
- Question 4.14 addresses bargain renewal options and whether they affect the lessee's initial assessment of the lease term.
- Questions 4.15 and 4.16 address leases that include cancellation penalties.

## Other Topics Covered

The question and answer section addresses a variety of other leasing topics, from lease incentives to terminations.

## Effective Date

The effective date for the Implementation Guide is for reporting periods beginning after December 15, 2019, which coincides with the effective date of GASBS No. 87.

### Practical Consideration:

The full text of the Implementation Guide is available on Checkpoint at **checkpoint.riag.com** for users that subscribe to GASB content, and at **www.gasb.org**.

# Omnibus 20XX ED: What's Changing?

In June, the GASB issued an exposure draft, *Omnibus 20XX,* which establishes and amends financial reporting and accounting requirements related to various topics. Let's check out a synopsis of the proposed amendments.

## Proposed Amendments

*Effective Date of GASBS No. 87, Leases*—GASBS No. 87 is currently effective for *reporting periods* beginning after December 15, 2019. The proposed amendment makes GASBS No. 87, *Leases*, effective for *fiscal years* beginning after December 15, 2019, and *all reporting periods thereafter*, with earlier application encouraged. *The proposed amendment would be effective upon issuance.*

*Intra-entity Transfer of Assets*—The Board aims to align the guidance in GASBS No. 48 with the accounting guidance in GASBS Nos. 68 and 75 and the reporting guidance in GASBS Nos. 67 and 74 related to intra-entity transfers. The proposed amendment changes intra-entity transfers that are currently reported as transfers or subsidies in paragraph 15 of GASBS No. 48 to *employer* or *nonemployer contributing entity contributions*, which is consistent with the methodology used in GASBS Nos. 67, 68, 74, and 75. *The proposed amendments would be effective for fiscal years beginning after June 15, 2020.*

*Certain Effects of GASBS No. 84*—As is the case with many relatively new standards, some of the guidance in GASBS No. 84 and the standards its issuance affected needed to be clarified.

1. The use of the term *control* in GASBS No. 84 left room for interpretation in regards to whether or not GASBS Nos. 73 and 74 applied when the government did not have control of the assets. To clarify the guidance, the Board amends the guidance focus from governments that *control* assets to governments that *accumulate* assets. *The proposed amendments would be effective for fiscal years beginning after June 15, 2020.*
2. Paragraphs 22 and 25 of GASBS No. 84 require all pension and OPEB plans to report the statement of fiduciary net position and the statement of changes in fiduciary net position statement in accordance with GASBS Nos. 67 and 74. There's one slight issue: GASBS Nos. 67 and 74 only require note disclosure for defined contribution plans. The proposed amendment updates GASBS No. 84 to limit the requirements to defined benefit plans. *The proposed amendments would be effective for periods beginning after June 15, 2020.*

*Exception to Acquisition Value in a Government Acquisition*—According to GASBS No. 69, acquired municipal solid waste landfill closure and postclosure care costs and obligations for pollution remediation do not have to use acquisition value in certain circumstances. The Board concluded that the basic measurement requirements and principles that allowed these exceptions were similar to the measurement of some government acquisitions of asset retirement obligations (ARO). With GASBS No. 83 being silent on this exception, the proposed amendment expands GASBS No. 69's reach to include ARO as an exception. *The proposed amendments would be effective for periods beginning after June 15, 2020.*

*Reinsurance Recoveries*—Paragraph 10 of GASBS No. 37 has conflicting guidance on reporting recoveries from reinsurers or excess insurers. The amendment would update the guidance to reflect that reporting recoveries as a reduction of expenses is an option, not a requirement, allowing practitioners to use netting as an option as well. *The proposed amendment would be effective upon issuance.*

*Nonrecurring Fair Value Measurements*—Paragraph 81 of GASBS No. 72 incorrectly refers to a recurring fair value measurement of an asset example in paragraph 453 of GASBS No. 62. The proposed amendment updates the reference to correctly refer to nonrecurring fair value measurements of an asset example in paragraph 455 of GASBS No. 62. *The proposed amendments would be effective for periods beginning after June 15, 2020.*

*Terminology Used to Refer to Derivative Instruments*—Both *derivative(s)* and *derivative instrument(s)* are currently used throughout the Codification to refer to derivative instruments. For consistency, the proposed amendment changes all instances of *derivative(s)* to *derivative instrument(s)*. *The proposed amendment would be effective upon issuance.*

*Other Codification Amendments*—Paragraph .133b in Section N50, which discusses on-behalf payments for fringe benefits or salaries *other than pensions or OPEB,* incorrectly includes an on-behalf payments for *pension* example. The proposed amendment moves the example to paragraph .132. *The proposed amendment would be effective upon issuance.*

## Comments and Effective Date

The comment period was open from June to October, with the Board receiving 22 letters from stakeholders. While a final issuance date has not been approved, the proposed effective dates have been noted above, with earlier application encouraged.

### Practical Consideration:

The full text of the proposed Statement is available on Checkpoint at **checkpoint.riag.com** for users that subscribe to GASB content, and at **www.gasb.org**.

# GASB Issues Exposure Draft on Interbank Offered Rates

In September, the GASB issued an exposure draft inviting comments on the *Replacement of Interbank Offered Rates* (the proposed Statement).

## Background

Governments rely on interbank offered rates (IBOR); the most commonly used is the London Interbank Offered Rate (LIBOR). LIBOR currently supports over $200 trillion of loans and derivatives globally and is used as a benchmark for nearly all financial products. However, during the financial crisis in 2012, IBORs were linked to significant fraud and collusion by several banks that were manipulating their IBOR submissions. Since then, the transaction volume used to set LIBOR rates has declined, and IBOR is no longer regarded as a desirable benchmark and reference rate. It is expected that financial institutions reporting submittal information to set LIBOR will stop doing so after 2021.

## Key Provisions

Due to the uncertainty of the existence of the LIBOR rate, the GASB has proposed this Statement to address accounting and reporting implications, which would serve the following purposes:

- Permit a government to use hedge accounting for some hedging derivatives amended due to an IBOR reference-rate replacement.
- Clarify the hedge accounting termination provisions when an IBOR is replaced as the reference rate of a hedged item.
- Clarify that the uncertainty associated with the continued availability of IBORs does affect the assessment of whether an expected hedged transaction is probable.
- Eliminate LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Add the Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates to qualitatively evaluate the effectiveness of an interest rate swap.
- Clarify the definition of the reference rate.
- Provide an exception to the GASBS No. 87 lease modifications guidance for certain lease contracts amended to replace an IBOR as the rate upon which variable payments depend.

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Carrollton, Texas 75011-5008
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## Derivative Instruments

Currently, under GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments*, if a government renegotiates or amends an important term of a hedging derivative instrument (for example, the reference rate of a hedging derivative instrument's variable payment), that government would be required to terminate hedge accounting. The proposed Statement would provide an exception to the termination provision when the reference rate of the original hedging derivative instrument's variable payment is an IBOR, if all the following criteria are met:

- The reference rate of the hedging derivative instrument is amended or replaced, or a fallback provision related to the reference rate is added or changed.
- If the reference rate of the amended or replacement hedging derivative instrument's variable payment is multiplied by a coefficient or adjusted by the addition or subtraction of a constant, the coefficient or constant is limited to what is necessary to equal the replacement and original rates.
- If the reference-rate change resulted in the termination of the original hedging derivative instrument, the entry into a new hedging derivative instrument occurs on the same date.
- The terms that affect changes in fair values and cash flows in the original and replacement hedging derivative instruments are identical, except for the term changes that may be necessary for the replacement of the reference rate.

The proposed Statement also lists the term changes that may be necessary for the replacement of the reference rate, limited to the following:

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

## Lease Modification

Currently, under GASBS No. 87, *Leases*, if a government replaces the rate upon which variable payments depend in a lease contract, it would be required to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable. The proposed Statement provides the following exception: if the lease contract payment dependent on an IBOR rate is amended solely to replace the IBOR with another rate that equals the replacement rate, this act does not trigger a lease modification.

## Effective Date and Transition

The removal of LIBOR as an appropriate benchmark interest rate as proposed would be effective for reporting periods beginning after December 15, 2020. All other requirements would be effective for periods beginning after June 15, 2020, with earlier application encouraged.

### Practical Consideration:

The full text of the proposed Statement is available on Checkpoint at **checkpoint.riag.com** for users that subscribe to GASB content, and at **www.gasb.org**.