January 31, 2017

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 24-16 ED
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

We are writing to you on behalf of the Government Finance Officers Association of the United States and Canada (GFOA) in response to the Governmental Accounting Standards Board’s (GASB) Exposure Draft (ED) of Implementation Guide No. 201X-Y, Implementation Guidance Update-201X. This response was prepared by both GFOA’s standing Committee on Accounting, Auditing, and Financial Reporting (CAAFR) and GFOA’s standing Committee on Retirement and Benefits Administration, all of whose members are active government finance officers.

The GFOA wishes to communicate its dissatisfaction with the practical effect of following the guidance proposed in Questions 4.4 and 4.7. Pursuant to that proposed guidance, employers would be precluded from including resources held in an Internal Revenue Code (IRC) Section 115 trust from the calculation of their net pension liability, even though the resources held in such a trust must be used exclusively to fund the employers’ total pension liability. We consider such an outcome to be representationally unfaithful and potentially confusing to financial statement users. To be clear, we do not disagree that the guidance proposed in the ED is consistent with the definition of a pension “trust or equivalent arrangement” found in paragraph 3 of GASB Statement 67, Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25) and paragraph 4 of GASB Statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27); rather, it is our position that the definition itself needs to be amended to avoid creating such an unacceptable result. In our view, the legal requirement to ultimately transfer the resources of an IRC Section 115 trust to a separate pension trust that actually provides the benefits themselves should be sufficient, as long as the IRC Section 115 trust meets the other provisions of GASB Statement No. 67, paragraph 3 and GASB Statement No. 68, paragraph 4.

Question 4.17 raises a similar issue for a hypothetical postemployment benefit trust that is used for both pensions and OPEB if all of the resources of the trust are equally available to pay either type of benefit. In our view, the resources of such a trust should be allocated in a systematic and rational manner between pensions and OPEB for purposes of calculating the net pension liability and the net OPEB liability.
In Question 4.11, the GASB indicates in its answer that the assets in Trust B should be reported as restricted in the government-wide or proprietary fund statement of net position or governmental fund balance sheet. In this latter case, we suggest the GASB clarify the appropriate fund type to be used to report the resources of Trust B.

If you have any questions regarding our position, please contact the GFOA's Interim Director of Technical Services, Todd Buikema (312/578-4407; FAX 312/977-4806; e-mail: tbuikema@gfoa.org).

Sincerely yours,

Melinda Gildart, Chair  
Committee on Accounting, Auditing, and Financial Reporting

Debby Cherney, Chair  
Committee on Retirement and Benefits Administration

Melanie Seale, Vice-chair  
Committee on Accounting, Auditing, and Financial Reporting

Barry Faison  
Committee on Retirement and Benefits Administration