December 19, 2016

Project No. 34-1E
Director of Research and Technical Activities
Governmental Accounting Standards Board
Director@gasb.org


Dear Board Members:

The Governmental Accounting and Auditing Committee (GAA Committee) of the California Society of Certified Public Accountants (CalCPA) is pleased to provide our comments. The GAA Committee is a senior technical committee of CalCPA comprised of over forty members from international to local public accounting firms and state and local government.

The Proposed Implementation Guide question 4.42 concludes that if there are two Trusts (Trust A and Trust B) that both meet the criteria in paragraph 3 of Statement 74, only Trust A would be included in the balances and activities of a single-employer or multiple-employer OPEB Plan. The GAA Committee disagrees with this conclusion for the following reasons:

1. The conclusion appears to contradict question 4.7 of the guide that says “a variety of plan structures may arise in practice to fit specific circumstances” and provides an example where “the trustees of the trust through which assets are accumulated for OPEB may be principally responsible for holding and investing plan assets, but their responsibility with regarding to paying benefits may be limited to disbursing assets at a time, to parties, in amounts designated by another entity”. Question 4.7 acknowledges that the definition of a Plan includes “arrangements through which OPEB is determined, assets dedicated for OPEB (if any) are accumulated and managed, and benefits are paid as they come due” but concludes that all plan functions do not have to be performed by a single entity. As it applies to the circumstances in question 4.42, both Trust A and Trust B hold assets dedicated for OPEB. Thus both Trust A and Trust B should be included in the definition of the Plan.

2. The conclusion in question 4.42 states that Trust B cannot be included in the balances and activities of the plan because “Trust A cannot directly access the assets of Trust B”. Paragraph 3 of GASB 74 does not include any reference to “access” to assets. Instead, it specifies that the assets must be “dedicated to providing OPEB to plan members”. As Trust B assets are irrevocably restricted to providing OPEB to plan members, Trust B assets are dedicated to providing OPEB to plan members. GASB should not use the Implementation Guide to change or amend the original pronouncement.

3. The conclusion in question 4.42 states that the assets in Trust B “will benefit the employer through reduced future cash flow demands”. Trust B assets are not for the benefit of the employer as those assets can never be used for any other purpose other than providing OPEB to plan members.

4. GASB 74 makes no mention of only allowing one Trust to be part of the Plan. If GASB’s intention was to specify that there can only be one Trust in a Plan, GASB should amend GASB 74. The Implementation Guide should not be used as a mechanism to change or amend the original pronouncement.
5. At the September 13, 2016 GASB Board Meeting, the conclusions on this issue appeared to be influenced by the difficulty in combining Trust A and Trust B information from an actuarial standpoint and that since Trust A would not have the information from Trust B, it would not be possible to calculate those actuarial implications. It does not seem prudent to exclude Trust B from the definition of the Plan simply because it may cause some difficulties for actuaries to include it. In reality, it is not difficult for an employer to hire an actuary to use the actuarial information from Trust A and combine it with Trust B.

Sincerely,

Dennis Kauffman

Dennis Kauffman, Chair
Governmental Accounting and Auditing Committee
California Society of Certified Public Accountants