

## **2015 REQUEST FOR RESEARCH Gil Crain Memorial Research Grant**

Since its formation in 1984, the Governmental Accounting Standards Board (GASB) has encouraged academics and other researchers to conduct studies that would be relevant to the GASB's standards-setting activities. Over the past 30 years, such research efforts have resulted in publishing their research in research briefs, journal articles, and occasionally in GASB research reports.

The GASB hopes to encourage more collaborative research efforts with academics by offering one or more \$5,000 research grants, to be awarded by the end of June 2015.

### **How Research Benefits the GASB**

The setting of governmental accounting standards is a research-based activity. The technical staff of the GASB conducts extensive literature reviews (including reviewing the work of other standards setters) and studies the preparation and use of state and local government financial reports. The decision to establish standards is based on a determination, through research and due process activities, that a strong need for information exists among the users of financial statements and that the information can be provided at what is believed to be a reasonable cost.

The GASB technical staff is relatively small. Therefore, the GASB seeks to leverage research efforts by encouraging the academic community to conduct applied research that is relevant to the GASB's standards-setting activities. Two broad areas of research are particularly important to the GASB: research on existing standards and studies of issues that have not been addressed.

### **Research on Existing Standards**

The GASB attempts to monitor the implementation of its new standards in an effort to identify any opportunity for improvement. The GASB's implementation monitoring would be aided by research that answers questions such as: What issues arise as governments attempt to implement a new pronouncement? How are financial report users incorporating the new information into their analyses and decision making?

The GASB also is committed to reviewing standards after they have been fully in effect for a period of at least five years. Such efforts assess the continuing effectiveness of the

standards and would be supported by research that answers questions such as: Have the standards accomplished what they were intended to? In other words, were the standards an effective solution to the underlying issue they were meant to address? Do they provide the information that municipal bond analysts, legislative staff, citizen groups, and others need to perform analyses and make decisions? Do they result in information that can be used to assess accountability?

In the past, Crain Grants have been awarded for research examining the GASB's standards on going concern, conduit debt, compensated absences, landfill closure and postclosure care costs, nonexchange transactions, and certain features of the financial reporting model.

### **Studies of Accounting and Financial Reporting Issues That May Require Standards Setting**

The second broad area of research examines issues that are not yet addressed by standards or that have previously been identified as being insufficiently addressed. This research seeks to answer the following kinds of questions: Do issues exist that may need to be solved through standards setting? What is the nature of the issue and how extensive is it? How important is it for users to have relevant information about the underlying issue? Are there important information needs that are unmet that could be addressed through standards setting?

The GASB has awarded Crain Grants on topics such as tax abatement disclosures and popular reporting.

### **How Conducting Research with the GASB Can Benefit You**

The GASB hopes that the Crain Grants will encourage researchers to conduct research that is beneficial to standards setting for governmental accounting and financial reporting. Researchers will benefit by working with GASB staff members and by learning more about the internal workings of the standards-setting process. The GASB staff also may be able to help by introducing you to knowledgeable professionals and by encouraging them to participate in your research. Upon completion of your research, the GASB intends to mail a letter of appreciation to your university for allowing you to participate in an important GASB research project.

We encourage researchers who receive a grant to submit the results of their research for publication in a journal after the research results have been submitted to the GASB. Because the research that is most useful to the GASB is applied research, we realize that you may wish to consider the work that you do for the GASB as part of a larger research effort. Therefore, we generally support your gathering additional data that would be needed for publication.

Although intangible, a final reason for conducting research with the GASB is the personal satisfaction that you will receive in knowing that you have played an important role in improving governmental accounting and financial reporting standards. We encourage you to be a part of the GASB team by researching some of the questions raised in this call for proposals or other relevant topics.

## **Research Methods**

Generally, we do not wish to prescribe the research methods that you should use to answer the research questions. We encourage you to propose the research methods that you believe are best to answer the research questions that you wish to study. We would ask, however, that any correspondence or surveys that you plan to send to outside parties be reviewed by GASB personnel prior to mailing. Because this research is GASB-sponsored, we must consider how questions asked of others would be perceived.

## **Content of the Research Memorandum**

The final product from your research efforts for the GASB should be a research memorandum of publishable quality discussing your research, prepared under the guidance of the GASB. The content of the research memorandum, at a minimum, should include:

- A discussion of the background, purpose, and scope of the research
- A thorough literature review of relevant related research and the work of other standards setters, if appropriate
- A thorough discussion of the research design and the appropriateness of the research method used
- A thorough discussion of the data-collection process
- A detailed analysis of research results
- A discussion of the limitations of the research
- A summary and conclusion, including a discussion of what has been learned by conducting the research and identification of potential future topics for study.

The research memorandum should be long enough to sufficiently cover each of the aforementioned bullet points and should include tables summarizing your research results. The GASB anticipates that the text portion of the memorandum would be approximately 35 pages or longer (double-spaced), excluding additional pages for tables, the bibliography, and the cover page. The researcher should be available to formally present the memorandum to the Board, if requested. (An agreeable date for such a presentation can be arranged.)

The researcher is expected to provide the GASB with the raw data that was collected and used to support the results presented in the research memorandum. Although the GASB likely will not attempt to do so, it should be possible to replicate the results presented in the research memorandum with the data that you provide the GASB.

## **Submitting a Request for Crain Grant Funding**

If you are interested in requesting Crain Grant funding to research any of the questions raised for the topics in the Research Questions section of this request for proposals—or another important and relevant topic—send a request for research funding to David Bean, GASB Director of Research and Technical Activities, by **May 29, 2015**. The

request for research funding should be attached as a Microsoft Word document in an e-mail to [drbean@gasb.org](mailto:drbean@gasb.org).

The request should include:

- The research question(s) that you propose to research
- A description of how you believe your research will help answer the question(s) and benefit the GASB
- A thorough description of the research design that you plan to use; this discussion should be as specific as possible and, at a minimum, include a description of the research method (for example, archival, survey, experimental or quasi-experimental research, case study, and so on), why you believe the method is appropriate, and a description of how you expect to collect data for the research
- A description of any limitations that you foresee regarding the validity of your research results
- A timeline for completing the research and preparing a final report for the GASB; this timeline should meet the parameters for reporting back to the GASB, which are described in the next section.

If you have any questions regarding the content of the request for research funding, please contact Dean Mead, GASB Research Manager, at (203) 956-5294 or [dmmead@gasb.org](mailto:dmmead@gasb.org).

The GASB will make a determination of the recipient(s) of the research grant(s) by the end of June 2015, and the recipient(s) will be notified and will receive an initial \$2,500 soon after they sign a contract with the GASB. The contract will explain the duties and responsibilities of the GASB and researcher and will describe the deliverables that the GASB expects from the researcher. Upon completion of the research and the GASB's acceptance of the research memorandum, the remainder of the grant will be sent to the researcher. The maximum amount to be paid to a grant recipient is \$5,000. The grant recipient may share the grant with others who help conduct the research.

### **The Scope of Request for Funding**

The issues raised in the Research Questions section of this document address both narrow and broad topics of governmental accounting and financial reporting. Some may be suitable to a single research effort under a GASB Crain Grant, whereas others may encompass multiple possible research efforts. The GASB encourages you to consider the breadth of your proposed research in light of the size of the monetary award available and the time frame for completing the research.

## **Timetable for Proposing and Conducting Research**

The following table shows the critical dates for requesting research funding, conducting the research, and submitting the final research memorandum.

<b><u>Date</u></b>	<b><u>Activity</u></b>
May 29, 2015	Request for Funding Due
June 30, 2015	Crain Grant Recipients Determined
August 31, 2015	Methodology Finalized in Consultation with GASB Staff
September 30, 2015	Initial Report to GASB Staff on Status of Project and Data Collection
December 31, 2015	Update Report to GASB Staff on Status of Research
April 29, 2016	Summary of Preliminary Findings of Research to GASB Staff
August 31, 2016	Final Research Memorandum Due

---

## **Research Questions**

The purpose of a Crain Grant is to help the GASB answer the following research questions related to potential standards-setting topics. For purposes of applying for a Crain Grant, you should plan to answer as many of the questions related to one of the topics in this section as you can within the grant's timeframe. You also may suggest research topics not specifically addressed in this document.

### **Accounting and Financial Reporting Issues That May Require Standards Setting**

#### **Financial Performance Measurements**

The initial objective of this topic would be to consider various financial performance measures, including the presentation of changes in fair values in state and local government financial statements. This topic would consider presentations in the government-wide statement of activities; governmental funds statement of revenues, expenditures, and changes in fund balances; proprietary funds statement of revenues, expenses, and changes in fund net position; and statement of changes in fiduciary net position.

Research in this area could address the following issues:

- Which changes in fair value should be reported separately from other transactions?
- Should changes in fair value resulting from sale or other disposal of an asset be reported differently than changes in fair value resulting from the passage of time?
  - How should fair value changes associated solely with the passage of time, such as related to accrued interest, be reported?
  - What is the effect when a change in fair value is realized through sale or settlement?
- Should changes in fair value associated with a program expense or revenue be reported differently than changes associated with a general revenue?
- How should changes in fair value be presented?
- Should the presentation of fair value changes differ depending on the type of asset (for instance, a financial asset versus a capital asset)?

### **Impairments of Assets Other Than Capital Assets**

The initial objectives of this topic would be (1) to research the types of assets other than capital assets that could be subject to impairment and (2) to determine whether existing guidance is adequate or if additional guidance on impairments for these assets is warranted. If additional guidance is determined to be needed, another objective would be to consider providing specific accounting and financial reporting guidance for impairments of assets other than capital assets.

Research in this area could address the following issues:

- What factors or events indicate that impairment of a noncapital asset has occurred?
- What criteria should be used in determining when impairment of a noncapital asset should be recognized?
- What measurement method(s) should be applied to determine the amount of a noncapital asset's impairment?
- Should the measurement method(s) be based on incurred losses or expected losses?

### **In-Kind Contributions**

The initial objectives of this topic would be (1) to identify the various types of in-kind contributions currently received by state and local governments and (2) to determine whether existing standards are sufficient or if additional guidance needs to be developed for in-kind contributions. If it were determined that additional guidance is needed, the topic would consider specific accounting and financial reporting standards that would provide consistent reporting for these types of contributions.

Research on in-kind contributions could consider the following issues:

- What types of donations should be considered in-kind contributions?
- Should in-kind contributions be recognized in the financial statements or disclosed in the notes to the financial statements?

- Should the recognition or disclosure guidance be applied to all in-kind contributions?
- How should in-kind contributions be measured?

### **Interim Financial Reporting**

The initial objectives of this topic would be (1) to evaluate the importance of quarterly or semiannual financial reporting, for instance, to users of financial statements and (2) to assess the need for specific guidance related to interim financial reports. If guidance is determined to be needed, another objective would be to consider whether specific guidance should be issued regarding interim financial reporting.

Research on interim financial reporting could consider the following questions:

- Do interim financial reports of general purpose governments provide users with information that is valuable for making decisions and assessing accountability?
- Should specific recognition and measurement standards be developed for interim reporting?
- Should separate reporting entity standards be developed for interim reporting?
- Should guidance or guidelines be established regarding the timing of interim financial reporting?

### **Present Value**

The initial objectives of this topic would be (1) to explore the applicability of present value measurement approaches to state and local government and (2) to consider the need to develop specific accounting and financial reporting standards describing how present value should be used in the measurement of assets and liabilities in a government's financial statements. If additional guidance is determined to be needed, another objective would be to develop specific accounting and reporting standards for these events.

Research on present value could consider the following questions:

- What are the objectives of present value measurements in financial reporting?
- What guidance should be provided for appropriate methods and inputs for the development of present values?
- For the development of present value estimates, should there be a hierarchy of inputs, such as between market-observed prices and model-based information?
- What present value disclosures are appropriate?
- What differences exist or should exist between present value and fair value?

### **Reporting Unit Presentations**

The initial objective of this topic would be (1) to update research on separately-issued financial statements for reporting units that comprise less than a separate legal entity and (2) to consider whether guidance for these financial statements is warranted. If guidance is determined to be needed, another objective would be to consider

establishing generally accepted accounting principles (GAAP) for separately-issued financial statements for reporting units that comprise less than a separate legal entity.

Research on reporting unit presentations could consider the following questions:

- Should an agency or department report focus on demonstrating operational accountability?
- Should guidance be developed for determining the boundaries of departments for reporting purposes? If so, what should that guidance be?
- Should guidance be provided regarding the number and categories of funds that could be included in a fund financial report versus a departmental report? If so, what is that guidance?
- Should guidance be developed for developed for part-of-a-fund financial reports?
- Should there be agency- or department-wide financial statements to accompany the financial statements that present the funds which comprise the agency or department?
- How should specific assets, liabilities, revenues, and expenditures/expenses (including noncurrent assets and liabilities and government-wide obligations) be assigned, attributed, or allocated to a department or agency?
- By what criteria should those assignments and allocations be evaluated to ascertain whether they “fairly present?”
- Should major fund reporting requirements, internal activity eliminations, and other requirements applicable to GAAP presentations apply to fund and departmental reports?
- Should MD&A be considered required supplementary information?
- Should component units be included in the “reporting entity” of the reporting unit (for example, should college enterprise fund statements include foundation component units)?
- How should intra-entity transactions (that is, appropriations, transfers from other funds within the primary government) be classified?
- Which notes to the financial statements and required supplement information that are normally presented for the primary government as a whole should be presented by a reporting unit?

### **Research on Existing Standards**

#### **Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, and Interpretation 3, *Financial Reporting for Reverse Repurchase Agreements***

Prior to the issuance of Statement 28, there were no governmental accounting standards addressing securities lending transactions; governments reported the underlying securities on the balance sheet but not the assets and liabilities arising from the lending transactions. During the deliberations on Statement 28, the Board observed no substantive economic difference between a government selling securities under reverse repurchase agreements and lending securities under securities lending arrangements for cash collateral. Under Statement 28, governments generally should report collateral (cash received and investments made with that cash) as assets along

with the resulting liability on the balance sheet, in addition to recognizing the underlying assets. Transaction costs should be reported gross as expenses and expenditures. The GASB issued Interpretation 3 to reconcile several reporting differences between reverse repurchase agreements and securities lending transactions. The Board particularly believed in disclosing information about the maturity matching on reverse repurchase agreements to provide users with liquidity risk information.

The follow issues could be the subject of this research:

- How decision-useful has information about securities lending been subsequent to the implementation of these pronouncements?
- Should the corresponding liability be the same amount as the collateral?
- In a securities lending transaction, if a trust buys and holds the securities purchased with the collateral, but the securities are in the government's name, is there custodial credit risk?
- How does Statement No. 40, *Deposit and Investment Risk Disclosures*, affect securities lending? Should investments purchased with securities lending cash collateral be subject to Statement 40 risk disclosures? If so, should the value disclosed be the fair value of the new investment or of the collateral?
- Does the risk of loss referred to in paragraph 9 of Statement 28 relate to the collateral or the lent security?
- Should liabilities resulting from securities lending transactions (paragraph 6) be the same amount as collateral investments, or the amount of collateral that was taken under the agreement?
- Should reverse repurchase agreement reported in an internal investment pool continue to be allocated to the participating funds based on the funds' equity in the pool?
- Should the allocation of investment revenue from reverse repurchase agreements be based on the funds' equity in pool or on legal and contractual provisions, if applicable?
- Are the disclosures regarding reverse repurchase agreement required by this Interpretation still decision useful?

***Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans***

Statement 32 was developed in response to a change in the Internal Revenue Code requiring that deferred compensation plan assets be “held in trust for the exclusive benefit of participants and their beneficiaries.” Statement 32 requires that a government report a plan if it has fiduciary responsibility for it. The Statement refers readers to existing guidance that establishes the fiduciary responsibility notion. However, the Basis for Conclusions suggests that fiduciary responsibility could include holding or investing the plan assets. Statement 32 was developed with general purpose governments in mind. There is some question as to whether business-type activities that report using a single column should report deferred compensation plans, and other employee benefits plans, within the column.

The follow issues could be the subject of this research:

- Are the requirements of Statement 32 sufficiently meeting the needs of financial statement users?
- Do the requirements produce comparable results among governments? Are governments consistent in assessing whether they have fiduciary responsibility for Section 457 plans and whether they hold the assets in a trustee capacity?
- Should the scope of Statement 32 be reexamined?
- Is further clarification needed (as some respondents to the Exposure Draft stated) for when a government is required to report its Section 457 plan (or when *any* activity meets the fiduciary criteria)?

**Statement No. 38, *Certain Financial Statement Note Disclosures***

Statement 38 established or amended requirements for notes to the financial statements relating to interfund balances and transfers, accounts receivable and payable, descriptions of activities accounted for in major funds and internal service and fiduciary fund types, and other issues.

Related to this topic is the FASB's project on Disclosure Framework, which issued an Invitation to Comment with comments received on November 30, 2012; the FASB began discussion of the feedback in January 2013. The FASB's objective is to provide a framework that promotes consistent decisions about disclosures with the hope that a sharper focus on important information will usually result in less voluminous disclosures.

Research in this area could consider the following topics:

- Do the required disclosures meet their intended objectives and continue to be relevant, useful, and comprehensive?
- Do governments meet the disclosure requirements consistently over time? How has the ability to meet disclosure requirements been affected by subsequent requirements for notes to the financial statements contained in standards on asset impairment, intangible assets, derivatives, and fund balance reporting and fund type definitions?
- What information do governments include in their notes, if any, that is not specifically required under GAAP? What proportion of the volume of notes do nonrequired disclosures represent?
- Would it be preferable to continue setting disclosure requirements on a Statement-by-Statement basis or, as the FASB has proposed, create framework criteria for all disclosures? Would the latter approach help to reduce repetition within disclosures and overall CAFR length?
- What unmet user needs exist that might require new note disclosures?

**Statement No. 44, *Economic Condition Reporting: The Statistical Section*  
(an amendment of NCGA Statement 1)**

The statistical section is one of three required parts of a comprehensive annual financial report (CAFR) and is presented as unaudited supplementary information (SI) following the financial section. Statement 44 was intended to improve the information provided in the statistical section in order to better equip users to evaluate a government's economic condition. It incorporated information that was then newly reported due to Statement 34, most notably accrual-basis government-wide information. Statement 44 also reflected significant changes in government finance that had taken place over the prior 25 years since the then-existing standards were issued, such as the diversification of revenue streams and debt instruments. The Board decided not to in Statement 44, however, the question of the appropriate communication method for statistical section schedules—financial statements, notes, RSI, or SI.

Research on the statistical section could consider the following questions:

- Was Statement 44 successful in leading to information that places the basic financial statements, notes to the basic financial statements, and RSI in historical, economic, or operational context?
- How do users employ statistical section information to evaluate a government's economic condition?
- Are the overarching objectives listed in Statement 44 still appropriate for the governmental environment? Are they meeting the needs of users?
- Do the five types of information identified by Statement 44 comprehensively address the various aspects of economic condition? Is there other information that should be reported among those five types? Are there other types of information that should be included in the statistical section?
- In light of the guidance included in Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, what communication method is most appropriate for the statistical section? If not the entire statistical section, are particular required schedules suitable to communication via different methods?

**Statement No. 47, *Accounting for Termination Benefits***

Statement 47 requires that, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for *voluntary* termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for *involuntary* termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. An evaluation of Statement 47 would consider (a) how termination benefits accounting fits into the overall area of compensation accounting and (b) if the measurement methods are conceptually sound and comparable to other areas of postemployment benefits.

Research on termination benefits could address the following questions:

- Is Statement 47 successful in providing users with information that can be used for making decisions and assessing accountability?
- Do the allowable measurement methods result in a faithful representation of the termination benefits transaction? Are the recognition criteria still appropriate?
- Are “expected future benefit payments” an appropriate measurement? Would “most likely payments” or “the minimum in a range of payments” be more appropriate?
- Is the estimated yield, over the period of time the benefits are to be provided, on the investments that are expected to be used to finance the payments of the benefits an appropriate choice of rate with which to discount the payments? Should it be consistent and comparable to the new pensions standards or current OPEB standards?
- Are there other areas of compensation for which there is no guidance that the GASB should seek to address in order to provide comprehensive guidance for compensation?

***Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues***

Statement 48 describes the criteria for distinguishing between the two types of transactions, one of which (sale of receivables) results in the recognition of revenue and the derecognition of the transferred receivables and the other of which (pledging of future revenues) results in the recognition of a liability to repay the proceeds received but no revenue at the time the transaction is initiated. The default presumption of Statement 48 is that such transactions constitute borrowings collateralized by the pledge of a future revenue stream, unless the transaction meets specific criteria based on “an assessment of a government’s continuing involvement with the receivables or future revenues transferred. A significant aspect of that assessment is the degree to which the selling/pledging government (the transferor) retains or relinquishes (to the transferee) control over the receivables or future revenues transferred Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amended Statement 48 by requiring the proceeds of a sale of future revenue to be recognized as a deferred inflow of resources.

Research on sales and pledges could consider the following questions:

- Was Statement 48 successful in reducing the diversity in reporting sales of pledges of receivables and future revenues?
- Did Statement 48 result in faithful representation of economic substance of transactions by distinguishing between a sale and a collateralized borrowing?
- What impact, if any, might result from the forthcoming FASB Revenue Recognition standards, which shift from a risk-and-reward perspective to a control perspective? Did Statement 48 adequately improve disclosures about pledged revenues? Did it lead to information that is useful for assessing accountability and making decisions?

### **Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations***

Statement 49 identifies five specified obligating events that, if occurring, would lead a government to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The liability should be determined using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts—the estimated mean or average.

Research on pollution remediation obligations could consider the following questions:

- Do the “obligating events” established by the GASB faithfully represent when a liability for a government exists? If not, should a government recognize an obligation sooner or later?
- Does the measurement technique of expected cash flow provide relevant and useful information to users of financial statements? If not, would a different measurement technique (lowest/highest figure in a range, discounted cash flows, and so on) be more appropriate?
- Is further guidance on pollution prevention obligations and other asset retirement obligations warranted? How analogous are these other related areas to pollution remediation?

### **Statement 62 guidance on prior-period adjustments, accounting changes, and error corrections (formerly APB Opinion 20 and FASB Statement 20)**

Adjustments to the financial statements of prior periods are required when there is a change in accounting principle (for instance, a shift from the consumption method to the purchases method of inventory accounting, or the implementation of a new GASB Statement) or a change in a government’s financial reporting entity would require. The former requires a government to adjust beginning net position or fund balance, as appropriate. The latter requires a restatement of the prior period’s financial statements as if they new structure of the financial reporting entity had been in place in that period. Statement 62 also requires that corrections of errors in previously issued financial statements should be reported as prior-period adjustments.

Research in this area could consider the following questions:

- How prevalent are prior-period adjustments, accounting changes, and error corrections in state and local government financial statements?
- What is the nature of the prior-period adjustments, accounting changes, and error corrections that are being reported? How large are the amounts involved?
- Are the resulting effects on the change in net assets of prior periods disclosed? What information is disclosed?
- Are users aware of the reporting of prior-period adjustments, accounting changes, and error corrections? Do users understand what they mean?

- Is information about prior-period adjustments, accounting changes, and error corrections valuable to users for making decisions and assessing accountability? How is it used?
- Statement 62 requires governments to present financial statements of prior periods as previously reported even though an accounting change has occurred. How frequently do governments include prior-period financial statements after an accounting change? Are the financial statements presented as previously reported or are they adjusted for the accounting change?

### **Statements 62 and 65 guidance on regulated operations (formerly FASB Statements 71, 90, and 101)**

The most notable difference from general accounting guidance is that regulated-operations accounting requires a regulated entity to recognize a regulatory asset (soon to be a deferred inflow of resources under Statement 65) for what would normally be expenses if it is probable that future revenue will result from that cost and that the future revenue will be provided to recover previously incurred costs. Likewise, regulated entities recognize a regulatory liability (soon to be a deferred outflow of resources) if ordered by a regulator to make refunds to customers, or to give back to customers amounts related to gains or reduction in costs the regulator previously allowed the entity to capitalize and report as a regulatory asset.

Research on regulated operations could consider the following questions:

- Does the practice of recording regulatory assets and liabilities (and, soon, a deferred outflow of resources) accurately portray economic reality? Do they meet the definitions of assets and liabilities in the GASB's conceptual framework? Can the regulatory environment assure the realization of future revenues and require future payments to customers to the extent to justify the recognition of an asset or liability, respectively?
- Do the differences between accounting for regulated operations and for other types of governmental entities lead to the provision of information that is useful for making decisions and assessing accountability? How is it used?
- Are the types regulatory environments researched in 1977, when the project that resulted in FASB Statement 71 was initiated, comparable to regulatory environments today?
- To what extent to governments with regulated operations elect to apply these standards? What factors influence their decision?
- Does the *probable* threshold for this application continue to be appropriate? Is it applied consistently between governments *and* private entities?
- In what amounts do governments report regulatory assets and liabilities, and in what proportion to total assets and liabilities?
- Should allowable costs include a "fair" return on capital or merely allow an entity to break even?
- Are the requirements for reporting impairments of regulatory assets, and the related requirements of Statement 42, understood and applied consistently?
- How have governments reported instances in which accounting for regulated operations has been discontinued?

- What information about regulated operations is disclosed in the notes?

**Statement 62 guidance on revenue recognition for exchange transactions (formerly FASB Statement 48, ARB 43, and APB Opinion 10)**

The essential requirement of paragraph 23 of Statement 62 is that revenues from exchange transactions should be recorded when the exchange takes place. Paragraphs 24–28 specifically address exchange transactions of business-type activities and proprietary funds in which a purchased product may be returned to the government for a refund, credit, or another product. The ongoing FASB and IASB project on Revenue Recognition is considering a switch from recognizing revenue when it is “realized and earned” to when an entity transfers promised goods or services to the customer. The criteria for these events may or may not substantively affect the point(s) of time in which revenue is recognized. This new guidance accounts for the right of return differently as well, recognizing an asset for the rights to recover products settling the return liability.

Research in this area could consider the following questions:

- Does the guidance in FASB Statement 48, which was incorporated in Statement 62, successfully reduce diversity in accounting for revenue when the right for return exists?
- Considering that the scope of the guidance incorporated by Statement 62 applies only business-type activities and proprietary funds, should guidance be developed for governmental activities? How might that guidance differ, if at all?
- Should the guidance be amended to reflect the changes in development by the FASB and IASB?
- Do the criteria for recognizing revenue when the right of return exists remain appropriate?