National Association of State Auditors, Comptrollers and Treasurers

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September 28, 2012

Mr. David Bean
Director of Research
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED) document, *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions.*

We believe a standard regarding nonexchange financial guarantee transactions is necessary, appropriate and timely. However, we do have specific concerns regarding the "more likely than not" recognition criteria and the treatment of blended component units as discussed below.

Paragraph 9 of the ED uses the criteria "more likely than not" which is subject to a wide range of interpretation by guarantor governments when assessing the likelihood of payment. Use of this term is not consistent with the existing literature of GASB 62 (paragraph 100) that uses "probable" to measure the likelihood of loss contingencies. We realize there is a need to report a liability and expense; therefore, we agree with the alternative view in paragraphs 53 and 54 that it would be more appropriate to recognize a liability and expense when it is "probable" that a payment will be made. A financial guarantee liability should be recognized the same as any other contingent liability. If the current guidance is not appropriate, then the guidance for contingencies as a whole should be reexamined, not just financial guarantees. Of our members that specifically commented on paragraphs 9, 53 and 54, all disagreed with the "more likely than not criterion" and support recognition when it is probable that an obligation has been incurred.

It is our understanding from the scope of the ED and the Basis for Conclusions that if a state provides a nonexchange financial guarantee to one of its blended or discrete component units that both the state and the component unit would be required to disclose the guarantee in the footnotes to the financial statements and, if applicable, record a liability for the guarantee in the state's financial statements. We do not understand the logic behind applying this to blended component units. We believe that paragraph 25 is in conflict with GASB 61 (paragraph 43) which states that blended component units "are so intertwined with the primary government that they function much like a fund or department of the primary government." Requiring a primary government and a component unit to recognize and report the same liability would result in overstatement of liabilities on the primary government's financial statements, especially in the case of a blended component unit. Our members consistently interpreted the proposal to require duplicate reporting of the same liability within the primary government in the instance of a blended component unit. If that interpretation is not correct any resulting standard should make it clear how the Board intends to prevent duplication of liabilities.

We have the following specific comments that we believe the board should consider as it finalizes this statement.

Paragraph 4
We believe the definition of a nonexchange financial guarantee should be expanded upon and additional examples of the guarantees be included. It is not clear if nonexchange financial guarantees may apply to anything other than debt obligations.

Paragraph 7
We believe the guarantee of an insurance obligation should be included in the list. This would ensure that these types of obligations and related guarantees are consistently reported.

Paragraphs 43 and 44
With regard to intra-entity recognition and measurement, we disagree that it is appropriate to record duplicate liabilities and question why one reporting entity would need to report the same liability twice within the basic financial statements. We believe there could be instances where one of the government entities would not have the resources to repay the obligation and would therefore successfully avoid the obligation; however, under no circumstance would the liability be satisfied by both governments.

Illustration 1
In this illustration for "Any County's Financial Statements, June 30, 20X9," please include in the example how the $170,000 increase noted in the following table was calculated (page 16 of the ED):

Beginning of Year	Increases	Decreases	End of Year
$4,020,000	$170,000	$1,175,000	$3,015,000

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O'Ryan of NASACT at (859) 276-1147 or me at (617) 973-2315.

Sincerely,

Martin J. Benison
NASACT President