



September 13, 2017

Mr. David Bean  
Director of Research and Technical Activities  
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), *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

We generally agree with the provisions of the ED and believe the requirements will improve consistency in financial reporting. However, we have the following specific comments that we believe the Board should consider as it finalizes this statement.

*Paragraph 4*

We see confusion and inconsistency in the "Definition of Debt" regarding the second characteristic of debt, "to pay cash in one or more payments." Paragraph B6 indicates that payment "should be required either on demand or on fixed or determinable dates." The statement in the Basis for Conclusions is significant in interpreting the characteristics of debt in that it further clarifies that the payments required by the second characteristic should be either on demand or on a fixed or determinable date; and therefore, we believe this description should be carried forward to the body of the standard.

*Paragraph 5.a.*

The ED is unclear whether governments should disclose all unused lines of credit or only those directly linked to debt provisions, and it does not explain the additional disclosure's purpose. The paragraph specifies only that governments should disclose the amount of (any) unused lines of credit, but in Appendix C, it illustrates a situation where outstanding debt amounts become immediately due if the line of credit is terminated. In that situation, the unused line of credit appears similar to collateral pledged as security for the debt indicating that the proposed standard may require governments to disclose only unused lines of credit directly related to outstanding debt provisions. The Basis for Conclusions, paragraph B10, discusses that disclosing unused lines of credit and collateral pledged as debt security would provide users with information about potential sources for principal and interest repayments that could be accessed if a government's cash resources are insufficient. If the Board's intent was for the government to report what resources it has available to ensure it makes debt payments, it does not seem that it would always be relevant for a government to disclose an existing general line of credit, if that line of credit can't legally be used for (or is otherwise restricted from) making debt repayments. Likewise, a government may have other options if its cash resources are insufficient to pay debt, yet there is no disclosure requirement for that. Accordingly, we request that the Board provide clarification around the requirements of this paragraph, by either stating that disclosures are required for the amount of unused lines of credit related to, or available for, outstanding debt provisions, or revise and further explain the purpose of additional debt disclosures.



*Paragraph 5.c.*

There seems to be confusion around the requirements of the three criteria listed under c. Some are concerned that these disclosures seem to correlate with a government having a potential going concern issue. Others are concerned that the disclosures blur what is expected for contingent liability reporting. Still others wonder if these provisions only need to be disclosed when direct financing exceeds a predetermined level of total liabilities. Finally, some see these disclosures as disclosure of significant provisions associated with consequences for failing to meet debt payments. To avoid this confusion and provide for a proper and consistent implementation of these disclosures, we ask the Board to consider how to better state the requirements expected for paragraph 5.c. and explain the nature and level of disclosure expected here.

*Paragraph 6*

The ED indicates that in notes to financial statements, a government should separate information in debt disclosures regarding direct borrowings and direct placements of debt from other debt. From the borrower's perspective, after the initial lending transaction, there is little difference between direct and indirect lending, and it appears that the disclosure requirements in paragraph 5 sufficiently address the disclosure of debt-related information. Therefore, it is unclear how the benefits of the disclosure requirement in paragraph 6 outweighs its costs to the preparer and auditor. Although paragraph B13 of Appendix B states that the Board thought it essential to separate the disclosure requirements for the two types of debt because of the process by which the government incurs direct borrowings and direct placements of debt, the Board did not elaborate as to why that information matters to the users of the financial statements. We ask the Board to explain why this requirement for separate disclosure is relevant from the perspective of the users of the borrower's financial statements or reconsider the requirement and eliminate paragraph 6.

*Effective Date*

We note that some states have calendar year component units that will not be required to add the disclosures until calendar year 2019. However, disclosures will be required in a state's CAFR for the fiscal year ended June 30, 2019. This means that in the first year of implementation, states will not have the disclosures in the component unit audited financial statements that are used to prepare the state CAFR. We ask the Board to consider adding implementation guidance to address these circumstances.

*General Comments*

- To improve clarity and consistency in the application of a final standard, we request that the Board include definitions and examples for: collateral, direct borrowing, direct placements, finance-related consequences, finance-related events, subjective acceleration clauses, and trade payables.
- Appendix D—Codification §2300.124 is applicable to short-term debt; however, it appears the draft's codification instructions for §2300.124(a) and (b) include the disclosure requirements of GASB Statement No. 38, paragraphs 10(a) and (b), which are applicable to long-term debt. We believe the draft's codification instructions for this section should continue to include GASB Statement No. 38, paragraph 12, subparagraphs (a) and (b). We do not believe that the proposed draft amended §2300.124(a) and (b).



Editorial Comment

Paragraph B13 (last sentence): We believe that “presented” should be removed from the last phrase (i.e., “...from information presented related to other types of debt.” Thus, the last part of the sentence would read: “presented separately from information related to other types of debt.”

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 (602) 553-0333.

Sincerely,

A handwritten signature in black ink that reads "Debbie Davenport". The signature is fluid and cursive, with a large initial 'D' and a long, sweeping tail.

Debbie Davenport  
President, NASACT  
Auditor General, Arizona