



November 2, 2018

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), *Conduit Debt Obligations*.

We generally agree with the provisions of the ED and believe the requirements will eliminate diversity in practice and enhance comparability in financial statements. However, we have the following specific comments that we believe the Board should consider as it finalizes this statement.

Paragraph 5e

In situations where the third-party's agent or other individual or entity (not within the reporting entity) makes debt service payments on the obligor's behalf, then we believe item e should be parallel with d and include "or its agent."

Paragraph 5f

We suggest replacing the phrase "is limited to" with "is in accordance with the guidelines" in paragraph 5f when discussing the issuer's commitment to support debt service payments. Paragraph 5f limits these commitments to those referenced within paragraph 6; however, paragraph 6 states the examples are "not limited to" the additional types of commitments listed within the paragraph. We believe this could cause confusion when interpreting if the limits in paragraph 5f pertain to only those items explicitly stated, or if other issuer commitments would also meet this conduit debt obligation characteristic.

Paragraph 6

In the second sentence of the paragraph, it is unclear what the issuer is committing to related to resources provided by the third-party obligor. Specifically, whether the issuer is committing to obtain resources from the third-party obligor with which the issuer will pay the debt holder or trustee, or if limited commitments would include situations where the debt instrument provides that the third-party obligor will pay the debt holder or trustee directly and the issuer has not committed to any action beyond issuing the debt. We request that the Board revise the sentence to state what actions the issuer is committing to take under a limited commitment. Examples would be helpful in this paragraph and in the related background information provided in paragraph B8.

Paragraphs 13 and 14

We believe the intention was to state that these types of conduit debt are similar to leases; and therefore, they were reported in the past as leases and no longer should be. Nonetheless, the language sounds contradictory. We request that clarification be given for these paragraphs.



Paragraph 15

While the paragraph details items that should not be reported by the issuer, it does not make clear what should be reported by the issuer. It is assumed the issuer would not recognize any transactions related to conduit debt under this type of arrangement (given they don't meet the liability recognition criteria in paragraphs 8-12); however, it would be helpful to state this explicitly.

Paragraph 16

It is not clear whether the acquisition date would be the original date of the title to the asset, or the date that the issuer receives economic benefit from the asset. We request clarification on this point.

Paragraph 20b

We request the paragraph include a clear indication that the government has no obligation, or that the obligation is limited to the applicable attributes in paragraph 6, rather than "A general description of the issuer's commitment(s)."

Paragraph 20c

We believe the disclosure required by this portion of the paragraph appears overly burdensome in situations where the debt instrument provides that the third-party obligor will pay the debt holder or trustee directly and the issuer has not committed to any action beyond issuing the debt. Requiring this disclosure requires the issuer to track debt instruments for which it has no further involvement once the debt is issued and no likelihood of supporting debt service payments. There does not appear to be any benefit to disclosing the aggregate outstanding principal amounts of such debt that would justify the cost of such an administrative burden. Therefore, we request that this requirement be removed from the paragraph.

General Comments

- We request guidance on whether disclosure by an issuer of a liability for an additional commitment made on a conduit debt obligation would relieve the obligor from reporting that portion of the conduit debt in its financial statements. And, if this liability is similar to a reserve against a loan. If an issuer has additional commitments which would arise only in the result of financial distress or insolvency of obligors, disclosure and presentation of a liability related to these commitments in the financial statements of the issuer could be perceived as a pardon of debt toward the obligors.
- We request the Board consider what impact, if any, a primary government's role in assisting the third-party obligor in making debt service payments has in deciding whether a debt issuance constitutes conduit debt when the issuer is a discretely presented component unit. We believe the debt service provisions of paragraphs 6, 8 and 9 are limited to the issuer, and do not extend to a primary government. We request guidance on whether a primary government could issue debt through a component unit (being the issuer) and provide assistance to the third-party obligor and still have the debt be considered conduit debt.
- We request that the standard include definitions for: cross-collateralization, moral obligation pledge and appropriation pledge. These terms are not cited from an official source and are necessary to understand precisely in order to apply the proposed standard.



- We ask that the Board include additional illustrations for arrangements associated with conduit debt obligations and the reporting of capital assets.
- We request that the statement include clarity regarding the evaluation of potential conduit debt and related accounting treatment when the government retains title of the capital asset in perpetuity and the third-party has virtually no rights to exclusive use (e.g., a toll road wherein the government retains title in perpetuity and the asset is for the general use of the public).

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) 542-5405.

Sincerely,

A handwritten signature in black ink that reads "D. Clark Partridge". The signature is written in a cursive, flowing style.

D. Clark Partridge
President, NASACT
State Comptroller, Arizona