



October 31, 2018

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 26-6
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

Members of the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel have reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Conduit Debt Obligations*, and are pleased to offer our comments.

We appreciate the Board's efforts to address inconsistencies in the accounting by issuers of conduit debt. We concur that the application of Interpretation 2, *Disclosure of Conduit Debt Obligations—an interpretation of NCGA Statement 1*, has resulted in diversity in issuers' treatment of such obligations. While we support the proposed definition of conduit debt and the underlying tenet that a conduit debt obligation is a liability of the third-party obligor, we have several comments for the Board's consideration. Our comments are presented in order of occurrence within the ED.

Reporting Intra-Entity Debt Arrangements. The definition of conduit debt in paragraph 5(b) of the ED requires that the issuer and third-party obligor *not* be within the same reporting entity which is consistent with existing literature. While the existing literature and ED make it clear the debt cannot be treated as conduit debt in this circumstance, it is not always clear in practice which entity, the issuer or the entity repaying the debt, should record the debt both for purposes of the entire reporting entity and the stand-alone statements of a discretely presented component unit. Therefore, we recommend that the Board clarify this issue in the final Statement to improve practice.

Eliminate Annual Evaluation as Requirement is Redundant. We disagree with the last sentence of paragraph 7 requiring annual evaluation. When preparing financial statements in accordance with generally accepted accounting principles, there is an inherent requirement that transactions and balances are both originally and continuously reported in accordance with those standards, unless stated otherwise in the applicable accounting standard. Thus, including an explicit requirement for annual reassessment is redundant. We recommend the Board revise paragraph 7 as follows:

7. An issuer should not recognize a conduit debt obligation as a liability. If at any point while the conduit debt obligation is outstanding the recognition criteria in paragraphs 8–12 are met an issuer should recognize a related liability and expense for the additional commitment.

If the Board maintains the requirement, clarification should be made whether the intention is to assess all outstanding conduit debt obligations or only those that had additional commitments (as defined in paragraph 6 of the ED). We noted differing interpretations of this provision with some believing it meant that all debt should be evaluated, while others thought only those obligations that have met the criteria in paragraphs 8-12 were required to be evaluated.

Liabilities Related to Additional Commitments May be Derecognized. Paragraphs 7-12 of the ED focus on the recognition of a liability when additional commitments extended by the issuer indicate that it is more likely than not that the issuer will support debt service payments. However, it is possible that circumstances could change such that a liability would be no longer be reported. We suggest that the final Statement address when and in what circumstances such a liability may be derecognized and the resulting accounting treatment.

Accounting by the Obligor. The ED focuses entirely on the accounting of the issuer; however, there are some considerations from the third-party obligor’s perspective that may not be intuitive in existing literature. For example, we identified a potential gap in the literature for the obligor accounting side of arrangements associated with conduit debt obligations discussed in paragraphs 13-18 of the ED. These arrangements are outside the scope of GASB Statement No. 87, *Leases*, and the recognition considerations (for example, an obligor’s recording of an asset) are not directly addressed. Another example is obligor considerations related to escrow accounts associated with conduit debt. We suggest the Board address these areas in its standards.

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The AICPA appreciates the opportunity to comment on the ED. This comment letter was prepared by members of the AICPA's State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,



Heather S. Acker
Chair
AICPA State and Local Government
Expert Panel



Mary M. Foelster
Director
AICPA Governmental Auditing and
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cc: State and Local Government Expert Panel
James Dolinar
Dan Noll