

Bond Case Briefs

Municipal Finance Law Since 1971

GASB Improves Reporting for Nonexchange Financial Guarantees.

Norwalk, CT, April 22, 2013—The Governmental Accounting Standards Board (GASB) today approved a new Statement that provides accounting and financial reporting guidance to state and local governments that offer nonexchange financial guarantees and for governments that receive guarantees on their obligations.

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. The guarantor agrees to pay an obligation holder in the event that the issuer of the obligation is not able to make its required payments to the obligation holder. Nonexchange financial guarantees can include guarantees by a state for bonds issued by local governments within that state or guarantees of mortgage loans to individuals, if equal or approximately equal value is not received in exchange.

Nonexchange financial guarantees often are not reflected in the financial statements or notes of either the government guarantor or the government issuer of the obligation because such guarantees are typically extended without any payment in return. Nonetheless, financial guarantees represent potential claims on a government's resources when it is the guarantor, and a potential reduction of a government's obligations when it is the issuer of the obligation.

"In the current economic environment, investors are increasingly seeking credit enhancements and assurances, including financial guarantees, to minimize the possibility of nonpayment," said GASB Chairman Robert H. Attmore. "Statement 70 responds to the need for consistent recognition and disclosure guidance for nonexchange financial guarantees. This Statement also will enable financial statement users to better assess the probability that governments will repay obligation holders."

Statement 70 also requires:

A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization.

An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation.

A government guarantor or issuer to disclose information about the amounts and nature of

nonexchange financial guarantees.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2013. Early application of the standard is encouraged.

Statement 70 will be available for download at no cost from the GASB website in May. Printed copies of the Statement will be available for purchase soon thereafter. A plain-language description of the new requirements also will be available on the GASB website.

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com