

Bond Case Briefs

Municipal Finance Law Since 1971

How GASB Might Change Conduit Debt Reporting.

WASHINGTON — The Governmental Accounting Standards Board is proposing to standardize the way issuers of municipal bonds report conduit debt that is repaid by a third-party borrower.

The proposal, released last week by GASB, which is seeking comments, seeks to create uniformity in the way conduit issuers report information. There has been confusion over what constitutes a conduit debt obligation and GASB hopes to improve the quality of disclosure by clarifying that definition and making clear that such obligations are the responsibility of the conduit borrower rather than the issuer.

Bonds sold by issuers for borrowers in conduit transactions often support such revenue-producing infrastructure such as higher educational facilities and hospitals. The bonds are issued to allow such projects to access capital more affordably than would otherwise be possible.

The draft would define a conduit debt instrument as one that includes an issuer, an obligor, and a trustee, where the obligor receives the proceeds of the bonds and is responsible for their repayment, among other things.

The issuer would not recognize such an issuance as a liability, but would recognize related liabilities and expenses if it appears “more likely than not” that the issuer will support debt service payments.

The draft provides a list of factors that could be involved in such an analysis, including litigation that would negatively affect the project being financed or the conduit borrower entering into bankruptcy.

GASB first dealt with conduit obligations in Interpretation 2 in 1995. Under Interpretation 2, issuers were permitted to report conduit issuances as their own liabilities if they chose to do so. The new draft would improve disclosure by ending “significant diversity in practice.” The proposal would not only provide better information, according to GASB, but also would allow for better apples-to-apples comparisons of different government financial statements.

“The clarified definition would resolve stakeholders’ uncertainty as to whether a given financing is, in fact, a conduit debt obligation,” GASB said in the draft.

The National Association of Health and Educational Facilities Finance Authorities, which represents conduit issuers, suggested it would submit comments to GASB.

“NAHEFFA will take a careful look at this draft and respond to GASB as required,” the group’s counsel and Mintz Levin member Charles Samuels told The Bond Buyer. “We will consider whether any real problem is being solved and new regulatory burdens are being imposed without justification.”

Samuels said that while his group would be reviewing the proposal, it is not clear to him that it would apply to NAHEFFA members.

GASB standards are not binding on state and local governments but they must be adhered to in

order for governments to receive clean opinions on audits of financial statements. The board periodically publishes updates to its reporting standards, and did so earlier this year with respect to reporting of bank loans and private placements of municipal debt.

Comments on the proposed statement governing reporting of conduit obligations are due by Nov. 2. If approved, it would take effect for reporting periods.

The Bond Buyer

By Kyle Glazier

August 07 2018

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com