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GASB Wants Uniformity in Reporting Conduit Debt.

WASHINGTON — Three organizations are commending the Governmental Accounting Standards Board's proposal to establish a single method for issuers to report conduit debt obligations.

GASB is accepting comments through Nov. 2 on its proposal to clarify the definition of a conduit debt obligation and eliminate the option for government issuers rather than borrowers to recognize conduit debt obligations, thereby providing a single method of reporting. It has only received comments from four organizations so far.

The proposal also will clarify accounting and financial reporting guidance for additional commitments extended by government issuers and arrangements, which are often characterized as leases associated with conduit debt obligations.

Another goal is to enhance note disclosures.

"The reason the board wanted to address this area was to bring about more consistency," said GASB spokesman Kip Betz. "Some governments that were involved in conduit debt arrangements with third parties would record the assets and the liabilities. And then other governments would just make disclosures. So different governments were doing different things and we really wanted to get everybody on the same page."

Betz said the board has concluded that in the vast majority of cases disclosure is the way to go. Under the exceptions outlined in the proposal, governments should follow GASB Statement 70 covering Accounting and Financial Reporting for Nonexchange Financial Guarantees.

The four public comments filed through Oct. 3 either complimented GASB for the proposal, discussed technical issues, or raised a question about reporting requirements.

Tim Fisher, manager of government affairs for the Council of Development Finance Agencies, said in an email Thursday that his organization is "largely supportive of regulatory actions that would improve both the clarity and uniformity of conduit issuance reporting."

"On the surface the GASB proposal seems like a step in the right direction, and we're interested to see how this process plays out," Fisher wrote.

Emily Brock, director of the federal liaison office of the Government Finance Officers Association said in an interview that her organization is "pleased that the proposed standards attempt to provide direction to preparers in order to organize and convey a complex transaction."

"And we will be commenting once we have more fully vetted all of the aspects of the exposure draft," Brock said.

GASB announced the proposed revised guidance on Aug. 2. It would take effect for reporting periods after Dec. 15, 2020.

"Third parties sometimes seek this kind of financing for projects such as not-for-profit hospitals and universities and qualifying private businesses," GASB said in its announcement.

The proposal defines a conduit debt obligation as having six characteristics:

- There are at least three parties involved who include an issuer, a third-party obligator, and a debt holder or debt trustee.
- The issuer and third-party obligator are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with debt service payments.
- The issuer's commitment related to the debt service payments is limited.

In addition, an issuer would not recognize a conduit debt obligation as a liability.

"We concur with the proposed statement and guidance," Cynthia Bergvall, chair of the GASB subcommittee of the Pennsylvania Institute of Certified Public Accountants wrote in an Oct. 2 letter.

Tamar A. Lewis, board president of the Michigan Government Finance Officers Association, wrote that her organization in general "supports the concept that conduit debt obligations should be disclosed rather than recognized in the issuer's financial statements."

"We similarly support following the basic approach introduced in GASB 70 to recognize a liability and expense when the issuer government determines it is more likely than not that it will support debt payments for a conduit debt obligation," Lewis wrote.

The Michigan GFOA suggested six improvements to the GASB proposal.

Bill Spivey, executive director of the Florida Development Finance Corporation, offered seven suggestions for changes in the wording of the GASB guidance.

"All-in-all the revisions are well done!" Spivey concluded in his letter.

Anne Pruneda, chief fiscal officer of the Kansas Development Finance Authority, asked in her letter if the current reporting practice of her agency is appropriate in GASB's opinion.

"Currently, the debt is recognized on the financial statements of the state of Kansas," Pruneda wrote. "KDFA does not recognize the debt on its own separate financial statements as a component unit. However, KDFA does disclose all its outstanding conduit debt obligations in the notes section to the financial statements."

Pruneda's letter also said that "principal and interest on the bonds are special limited obligations of KDFA payable solely and secured by a trust estate. The third-party obligor pledges a revenue stream as security for the debt service requirements. KDFA does not guarantee the debt."

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BY SOURCEMEDIA | MUNICIPAL | 10/04/18 07:07 PM EDT

