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New GASB Standard Clarifies Conduit Debt Reporting.

The Governmental Accounting Standards Board has issued new guidance that provides a single method for government issuers to report conduit debt obligations and related commitments.

GASB Statement No. 91, Conduit Debt Obligations, calls for conduit issuers to stop reporting conduit debt in their financial statements and to report all of it in their accompanying notes starting Dec. 15, 2020.

“It’s not their liability,” said Dean Mead, senior research manager for GASB. “And so this note is actually about something that does not appear in the financial statements which makes it a little unusual. But it’s fairly clear that financial statement users need information about conduit debt obligations.” The notes will help users know the total amount of debt a conduit issuer has authorized.

In addition, Mead said, “The information that bond analysts get from the disclosure should be more useful to them after the implementation of Statement 91.”

The primary benefit is that the notes on outstanding conduit debt will be organized into three types of commitments that the government may have made with respect to that debt.

The first type is a limited commitment, which is traditionally the way most conduit debt is authorized, with the issuer not making any commitment to make payments on the third party’s bonds.

The second type is where there is an additional commitment by the conduit issuer to make a debt service payment if it is necessary.

The third type is a voluntary commitment that occurs when the conduit issuer hasn’t made a promise to make a debt service payment, but could do so in the future.

The new standard also will require the disclosure of cumulative payments by the conduit issuer and how they have changed over the course of the past year, including any provisions that allow the conduit issuer to eventually recover those payments.

Most conduit issuers already do not report conduit debt on their financial statements, but according to GASB an unspecified minority do report it.

“It was something you would often see among financing authorities that don’t have much in assets and liabilities apart from the conduit debt they issue, so some of them chose to report the conduit debt in their financial statements as liabilities even though they are not obligated to repay that debt,” said Mead.

Mead said the bigger issue was ending “the diversity in practice and the confusion that existed about what conduit debt arrangements needed to be reported in their financial report.”

When the prior standards were issued, GASB had no conceptual standard for what a liability meant. Conduit debt does not meet the definition that now exists.

Michele Mark Levine of the Government Finance Officers Association Technical Services Center said in an email that the new guidance "clarifies that issuers continue to be required only to provide disclosures on their conduit debt, if they have not made any commitments to pay, or request appropriations to pay, debt service in the event the obligor is unable to do so."

"If they have made other commitments, they must report a liability when they determine there is a greater than 50% chance they will actually pay," Levine wrote. "They will, however, have to track the amount of their conduit debt that remains outstanding in order to make the required disclosures, which also include information about all of their conduit-debt associated commitments, recognized liabilities, and the amount of debt service payments they have made on conduit debt. They will also be required each year to assess the likelihood of their making payments to support debt service on an annual basis if they have made commitments to do so, or if something happens that makes them consider
voluntarily paying debt service."

The Bond Buyer

By Brian Tumulty

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