

Bond Case Briefs

Municipal Finance Law Since 1971

GASB Proposes Improvements to Reporting of Conduit Debt Obligations.

Norwalk, CT, August 6, 2018 — The Governmental Accounting Standards Board (GASB) has [proposed revised guidance](#) that would provide a single method for government issuers to report conduit debt obligations and related obligations. This proposed guidance would eliminate diversity in practice associated with these issues.

Conduit debt obligations are debt instruments issued by a state or local government to provide financing for a specific third party that is primarily liable for repaying the debt instrument. Third parties sometimes seek this kind of financing for projects such as not-for-profit hospitals and universities and qualifying private businesses.

The GASB's review of the existing standards—Interpretation No. 2, Disclosure of Conduit Debt Obligations—found variation in practice among governments that issue conduit debt obligations, which adversely affects the comparability of financial statement information. The variation arose from (1) the option in the standards that allowed government issuers to recognize conduit debt obligations as their own debt or just disclose the transactions and (2) diversity in how additional commitments associated with these transaction are reported by governments..

The GASB is proposing in the Exposure Draft, *Conduit Debt Obligations*, to address the variation in practice by:

- Clarifying what is a conduit debt obligation
- Eliminating the option for government issuers to recognize conduit debt obligations, thereby providing a single method of reporting
- Clarifying accounting and financial reporting guidance for (1) additional commitments extended by government issuers and (2) arrangements—often characterized in practice as leases—associated with conduit debt obligations
- Enhancing note disclosures.

The Exposure Draft is available on the GASB website, www.gasb.org. The GASB invites stakeholders to review the proposal and provide comments by November 2, 2018.