



October 22, 2018

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: July 30, 2018 GASB Proposed Statement (ED), *Conduit Debt Obligations* (Project No. 26-6)

Dear Mr. Bean:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the Private Company Practice Section (PCPS) Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciates the Board's efforts to address inconsistencies in practice with the accounting by issuers of conduit debt. TIC agrees that the application of Interpretation 2, *Disclosure of Conduit Debt Obligations—an interpretation of NCGA Statement 1*, has resulted in diversity in issuers' treatment of such obligations. While TIC supports the proposed definition of conduit debt and the underlying notion that a conduit debt obligation is a liability of the third-party obligor, TIC has several comments for the Board's consideration as noted below.

Eliminate Annual Requirement in Paragraph 7

TIC disagrees with the last sentence of paragraph 7 of the ED requiring annual evaluation. When preparing financial statements in accordance with generally accepted accounting principles, there is an inherent requirement that transactions and balances are both originally and continuously reported in accordance with those standards.

TIC believes including an explicit requirement for annual reassessment is redundant. Therefore, TIC recommends the Board revise paragraph 7 to read as follows:

“An issuer should not recognize a conduit debt obligation as a liability. If at any point, while the conduit debt obligation is outstanding, the recognition criteria in paragraphs 8–12 are met, an issuer should recognize a related liability and expense.”

Amount to be Recognized for the Liability and Expense

Paragraph 10 of the ED indicates the following:

“The amount recognized for the liability and expense should be measured as the discounted present value of the best estimate of future outflows (that is, payments to support debt service) expected to be incurred. If there is no best estimate of the future outflows expected to be incurred but a range of estimated future outflows can be established in which no amount within that range appears to be a better estimate than any other amount, the discounted present value of the minimum amount in that range should be recognized.”

TIC believes that, in practice, these will be very difficult estimates to perform. TIC would suggest that the Board consider adding some additional implementation guidance and examples that will assist governments in performing these estimates, including guidance on how a government might develop that range.

Accounting by the Obligor

TIC notes that this ED focuses entirely on the accounting of the issuer. However, there are some considerations from the third-party obligor’s perspective that may not be intuitive in existing literature.

For example, TIC identified a potential gap in the literature for the obligor accounting side of arrangements associated with conduit debt obligations discussed in paragraphs 13-18 of the ED. These arrangements are outside the scope of GASB Statement No. 87, *Leases*, and the recognition considerations (for example, an obligor’s recording of an asset) are not directly addressed. Another example is obligor considerations related to escrow accounts associated with conduit debt. TIC would suggest the Board address these areas either in this ED or other related sections of the standards.

Intra-Entity Debt Arrangements

The definition of conduit debt in paragraph 5(b) of the ED requires that the issuer and third-party obligor not be within the same reporting entity which is consistent with existing literature. While the existing literature and ED make clear the debt cannot be treated as conduit debt, in practice, it is not always clear which entity, the issuer or the entity repaying the debt, should record the debt both for purposes of the entire reporting entity and the stand-alone statements of a discretely presented component unit. TIC believes the Board should clarify this issue to improve practice, perhaps by adding some specific examples and fact patterns.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees