



September 15, 2017

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

Re: June 29, 2017 GASB Exposure Draft (ED), *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, an Amendment to GASB Statements No. 34 and No. 38 (Project No. 3-30)*

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 has reviewed the ED and is providing the following comments for your consideration.

TIC agrees with the proposed definition of debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

TIC agrees with the proposal to disclose additional essential information related to debt in the notes to financial statements, including unused lines of credit; collateral pledged as security for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

TIC also agrees with the requirement that existing and proposed additional information be provided for direct borrowings and direct placements of debt separately from other debt as TIC feels this will result in decision-useful information for users of the financial statements.

As to the disclosures regarding “significant” events of default, termination or subjective acceleration provisions, TIC would request that additional guidance be added as to the determination of “significant” particularly with regard to events of default. TIC feels that because of the potential for finance related consequences of any event of default, accountants may be reluctant to consider any event of default as “insignificant” which could result in far more detail being provided in the notes to the financial statements than the GASB intends, or a large diversity in practice as to the level of detail of the disclosure.

For example, bond indentures typically define a number of “events of default,” including one that defines an event of default as noncompliance with any of the terms of the bond indenture. In addition, there are two types of defaults commonly used in the Municipal Security industry. There is a standard default which is described as an act or circumstance that causes the lender to demand full repayment or seize collateral. There also is the concept of a “technical default.” A violation of a debt covenant would be a technical default. Failure to meet a bond covenant, or several, would not necessarily cause the lender to demand full repayment or to accelerate payments; however, there could be finance related consequences. For example, missing a series of covenants could result in a downgraded bond rating. This is a finance related consequence but it is indirect and unknown.

Another example is the bond coverage test common in most governmental revenue bond resolutions. Not meeting the coverage test *could* result in certain finance related consequences. Some of the consequences we have seen in practice include the following:

- The government is not able to issue parity bonds until coverage is met,
- The government must use tax dollars (moral pledge) to supplement the user fees pledged for the debt
- User fees must be increased.

With revenue bonds specifically, the list of covenants is long and the finance related consequences are a real possibility, but are not often clearly described in the document. TIC is concerned that some may conclude that every provision of the bond indenture would need to be examined under this proposed standard and a determination made as to whether those provisions could have a financial impact.

Based on our discussions with GASB staff at our TIC meetings, we believe the intent was for the provisions of this ED to apply to standard defaults, where repayment is likely demanded. TIC believes the proposed standard as it is written, may cause diversity in practice related to those items that might constitute a technical default where the finance related consequences are indirect, unclear, and not guaranteed.

TIC believes that in addition to providing additional clarity within the proposed standard, it also would seem appropriate to provide an improved illustration. The Illustration provided in Appendix C to the Exposure Draft only provides one example of an event of default (not specifically named as a default in that example) which indicates that if the County, in this case,

cannot make payment, then all outstanding amounts of the debt become due and payable. It would seem that Appendix C could be expanded to include other types of events of default that might be anticipated and specifically labeling them as such. TIC would be happy to assist the Board in developing some additional real-life client examples that we have encountered in practice if that would be helpful.

TIC agrees with the proposed effective date for reporting periods beginning after June 15, 2018, with earlier application encouraged.

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