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VERMONT

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David Bean
Director of Research and Technical Activities
Project No. 19-18
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
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Dear Mr. Bean:

Thank-you for the opportunity to comment on the Exposure Draft (ED), *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions*. The Vermont Department of Finance & Management is responsible for annually preparing the State of Vermont's Comprehensive Annual Financial Report (CAFR). We have reviewed the ED, and offer the following comments.

In general, our department supports and agrees that the proposed standard results in improved financial reporting. We concur with the liability recognition criteria for guarantee transactions with parties external to the primary government's reporting entity with one exception, discussed below. We feel that the note disclosures are informative and appropriate, and improve upon current disclosure requirements.

Regarding the recognition criteria, we do not agree that the liability should be recognized when qualitative factors or historical data indicate that it is *more likely than not* that a government will make a payment on nonexchange financial guarantees it extended. We do not believe it is necessary or appropriate to define the recognition point for recognizing financial guarantee liabilities in a different manner than other contingent liabilities. Therefore we support the alternative view expressed in paragraphs 53 and 54.

In addition, we believe the Board should provide language to clarify that the proposed standard does not apply to so-called "moral" guarantees. Many States have component units with the statutory authority to issue bonds on their own behalf, but the statutes contain language that the State is not guaranteeing those bonds. None-the-less, in most cases the State would likely feel the moral obligation to make payments on behalf of these component units. It is our understanding the standards will not apply to such situations unless or until the State assumes such a liability and that clarification should be added.

Thank you for considering our comments on Exposure Draft 19-18. Should you have any questions or need clarification on any of our comments, please do not hesitate to contact me.

Very truly yours,

James B. Reardon, CPA

Commissioner

Vermont Department of Finance and Management

