



September 28, 2012

David Bean
Director of research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: Project No. 19-18

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Exposure Draft (ED), “Accounting and Financial Reporting for Nonexchange Financial Guarantees.” NACUBO’s comments on the ED were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief business officers at more than 2,100 nonprofit and public colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

We appreciate the time and effort that the Board and staff have devoted to this project.

Overall Observations and Conclusions

We agree with the Board’s view concerning use of the “more likely than not” criteria and support qualitative guidelines for evaluation. We also find the proposed reporting requirements reasonable.

We are concerned that the measurement discussion and terminology used in paragraph 9 is inconsistent with the Board’s basis for conclusions in paragraph 32. Paragraph 9 requires use of a present value estimate of discounted future outflows expected to be incurred as a result of the guarantee. Such an estimate appears to resemble a fair value approach. However, according to paragraph 32, the Board concluded that a fair value measurement approach is not really appropriate because governments that extend

nonexchange financial guarantees generally do not attempt to sell or transfer such guarantees to external entities. Paragraph 32 concludes that a cost accumulation approach is more appropriate. A cost accumulation approach measures the liability as the amount that the entity expects to spend to settle the liability.

Since debt is measured at amortized cost, it is difficult to understand why measuring accumulated costs to the guarantor would involve a discount rate. Alternatively, if we are misunderstanding or misreading paragraphs 9 and 32, we ask that the Board consider clarifying the terminology and rationale in the final standard.

Finally, we have a concern with paragraph 11. Paragraph 11 discusses liability presentation when a government is required to repay a guarantor for payments made on the government's obligation. We believe the circumstances raised in paragraph 11 would negate the nonexchange nature of the financial guarantee. If value is received or expected to be received for the guarantee, the scope of the ED as explained in paragraphs 1, 23, and 26 would no longer apply.

In closing, we wish to express our appreciation for the opportunity to comment. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to Sue Menditto at 202-861-2542 or sue.menditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy