



September 28, 2012

Mr. David Bean
Director of Research
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Project 19-18: Exposure Draft on Proposed Statement
*“Accounting and Financial Reporting for Nonexchange
Financial Guarantee Transactions”*

Dear Mr. Bean:

On behalf of the New York State Government Finance Officers’ Association (the “NYS GFOA”) the Accounting, Auditing and Financial Reporting Committee has reviewed the Exposure Draft (the “ED”) on the Proposed Statement entitled *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions*.

General Comments

We generally agree with the position of the Board as presented in the ED that when a government extends a financial guarantee for an obligation to another government or nongovernmental entity for which equal value is not received in return for the guarantee an obligation has occurred. This position is consistent with the definition of an obligation under Concept Statement No. 4.

We also concur that not every such obligation will rise to the level of a liability and thus needs to be recognized as such. For a liability to result from a guarantee, one or more events must occur that require professional judgment to be used to evaluate if such an obligation should become a liability. Thus an assessment is required as to the probability that a payment shall be required.

We believe greater clarification is needed regarding the term “more likely than not” (the “MLTN”) rather than using “probable” when determining if a guarantor would need to recognize a liability (in this case a payment).

As indicated in note 1 on page 2 of the ED, MLTN means a likelihood of more than 50 percent. Thus a liability might be recognized where, in theory, an actual expenditure will be required slightly more than half of the time and not required in slightly less than half of the time. We recognize that professional judgments will be required in determining the 50% threshold has been met; however, we believe that the threshold for recognizing a liability has been set very low. Webster’s Dictionary defines the word “likely” as, *very probable*. The word “probable” is defined as *likely to become true or real*. We believe using the term “more likely” could mean “more than very probable to be true” which is inconsistent with the ED establishing a threshold a 50%, leading to potential confusion in determining when a guarantor would need to recognize a liability (in this case a financial guarantee) in the financial statements.

We are more comfortable with the alternative view expressed in paragraphs 53 and 54 of the ED. Consistent with that view; we believe the probable and reasonably estimable conditions stated in paragraph 102 of GASB 62 already provide a rational approach for reporting loss contingencies. Further, the loss contingency conditions of GASB 62 are more consistent with, and defensible under, the provisions of Concept Statement No. 4. GASB 62, unlike the proposal in the ED, provides room for professional judgment when determining the likelihood of a payment being made in a particular circumstance. Introducing MLTN criteria for just one type of contingent liability will only cause confusion.

We recognize both FASB and IPSAS have extensively adopted the MLTN concept. In paragraph 28 of the ED, the Board expressed concern that the current practice of using the “probable” criteria results in the recognition of liabilities at a date long after the point it is evident a liability has been incurred. If so, we believe this ED should not result in a Statement being issued for one single type of contingency and that the Board should revisit Statement 62 and, if determined necessary, address all contingent liabilities collectively and consistently.

This response to the ED document has been presented to the NYS GFOA Board of Governors and approved for submission to GASB. Please direct any questions to Fred Shellard, Director of Professional Services at 518-465-1512 who can answer or direct any questions to the appropriate person to address your issues.

Sincerely,

John A. Savash II, CPA
Co-Chairs, NYS GFOA Accounting, Auditing and Financial Reporting Committee

Michele C. Yen, CPA

CC: Greg Maxwell, Comptroller, Town of Van Buren
President, NYS GFOA

Maura K. Ryan, Executive Director
NYS GFOA

Approved by the NYS GFOA Accounting, Auditing and Financial Reporting Committee 9/26/2012
Approved by the NYS GFOA Board of Governors 9/28/2012