July 24, 2012

Director of Research and Technical Activities  
Project No. 19-18  
Governmental Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

This letter is the Colorado State Controller’s Office response to the Exposure Draft document titled Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions. Thank you for the opportunity to participate in this due process.

In general, our office supports and agrees that the proposed standard results in improved financial reporting. We feel that the note disclosures are informative and appropriate, and also improve upon current requirements for component units qualified on the sole basis of financial accountability due to the guarantee of all its debt by the primary government. We concur with the liability recognition criteria for guarantee transactions with parties external to the primary government’s reporting entity with the exception of the appropriate point at which to record the liability. We do not believe that it is necessary, and adds confusion, to define the recognition point for financial guarantee liabilities differently than other contingent liabilities. As such, we support the alternative view expressed in paragraphs 53 and 54. Additionally, for intra-entity guarantees discussed in paragraphs 43 and 44, we disagree that is as appropriate to record duplicate liabilities. When it is determined that the government extending the guarantee is more likely than not to satisfy the obligation, the government that issued the guarantee no longer meets that criteria. Under no circumstance would the liability be satisfied by both governments. For blended component units where both entities’ liabilities reside in a single column and line item, the duplication even further distorts the liabilities of the reporting entity. We would request and encourage further discussion of these concerns.

Thank you for considering our comments on Exposure Draft No. 19-18.

Sincerely,

Tammy Nelson, Reporting & Analysis Manager  
Colorado Office of the State Controller

and

David J. McDermott,  
Colorado State Controller

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