September 25, 2012

David R. Bean, Director of Research and Technical Activities
Governmental Accounting Standards Board
Project No. 19-18
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116


Dear Mr. Bean:

The following is the response of the Government Accounting and Auditing Committee of the Washington Society of Certified Public Accountants (WSCPA). The views expressed are the views of the Committee and not necessarily the views of the individual members or the WSCPA as a whole. We are pleased to have the opportunity to respond to the Governmental Accounting Standards Board’s (GASB) Exposure Draft (ED) Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions.

We support the mission of GASB, to establish and improve standards of state and local governmental accounting and financial reporting.

Overview of Our Response:

We support this ED because it requires recognition of a liability when it is more than likely that a payment will be made and the ED allows for the minimum of a range of possible losses when there is no best estimate of the ultimate loss.

Specific ED Comments:

Our comments relate to what is not included in the ED as opposed to what is included. For example, the purchase of credit enhancement procured from a commercial enterprise (bond insurance) would be an example of an “exchange transaction” not considered under this ED. If a guaranteeing government received some consideration (fee or additional collateral, see discussion below) for the guarantee, would this exclude the transactions from the definition of a nonexchange transaction? We believe that a brief description of exchange versus nonexchange transactions would improve the usefulness of this ED.
We also believe that a discussion of troubled debt restructurings, involving guarantees, is warranted. For example, a government providing the guarantee might reduce its exposure in a debt renegotiation by extending repayment terms, obtaining additional collateral, etc. If a government improved its credit position from such a trouble debt restructing, would the government then be able to recognize revenue to report its improved position or would the debt holder government then report an expense for its deteriorated position? It appears that estimate changes decreasing liability exposure is contemplated in the disclosure requirements in paragraph 13, but the recognition discussion in paragraphs 9 and 10 do not address subsequent changes in the ultimate exposure.

**Summary of Specific ED Comments:**

We agree with this ED and believe it improves accounting and financial reporting for state and local governments. We believe this ED can be improved by providing principled guidance to assist preparers, auditors and users in addressing exchange versus nonexchange transactions and by providing guidance in troubled debt restructurings.

Thank you for the opportunity to respond. If you have any questions or need additional information regarding this response, please contact Steve Miller at (206) 281-0281.

Sincerely,

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**SENT VIA E-MAIL to director@gasb.org**

Lisa Lam, CPA, Chair
Government Accounting and Auditing Committee
Washington Society of Certified Public Accountants