September 28, 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 Sir or Madam,

The Michigan Government Finance Officers Association (MGFOA) has reviewed the Exposure Draft, Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions dated June 18, 2012. We offer the following comments and observations:

In general, we believe that the exposure draft as written improves financial reporting by state and local governments that extend and receive nonexchange financial guarantees. We understand given the current economic climate the potential for these forms of guarantees to result in claims. We are looking for clarification however, regarding the proposed guidance that requires governments that guarantee the indebtedness of others to recognize a liability. Under existing guidance, a state and local government would recognize a liability if “....(a) it is probable that the government will be required to make a payment as a result of the guarantee and (b) the amount of the loss can be reasonably estimated.” The Board has proposed criteria for nonexchange financial guarantees that would require recognition of a liability when a payment is more likely than not to be made.

We are looking for further clarifying guidance from the Board of the more-likely-than-not principle in context to when a liability would be recognized for nonexchange transactions. Confusion about the meaning of "more-likely-than-not" arises in part because it would require the recognition of a liability when future sacrifices arising from these obligations are only possible, not probable. This would result in an inconsistent recognition of liabilities from Statement of Financial Accounting Standard (SFAS) No. 5, which defines "probable" to mean "likely to occur," that is, something stronger than more likely than not (FASB 1975a). If it is the intent of the GASB to issue new liability standards, further guidance will be necessary to specify which characteristics of nonexchange obligations trigger the recognition of liabilities.

We do not have any additional comments or requested modifications to the exposure draft as written.

These comments represent the consensus opinion of the Accounting Standards Committee and have been approved by our Executive Board. Thank you for your consideration and the opportunity to express our points of view.

Very truly yours,

Karen Lancaster, President
Michigan Government Finance Officers Association