October 5, 2018

David Bean
Director of Research
Project No. 26-6
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Tennessee Department of Audit, we thank the GASB for the opportunity to comment on its proposed Exposure Draft (ED), Conduit Debt Obligations. We agree with the board’s objective to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with additional commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. We also generally agree with the board’s proposed guidance. However, we do have the following comments for the board’s consideration to help improve the document:

1. For the summary in the third paragraph and second sentence (i.e., “However, an issuer would recognize a related liability and expense or expenditure if the recognition criteria are met.”), we believe clarity is needed in that recognition is only required or allowed for the additional commitment(s), which are the related liability and expense, because the recognition criteria are in ¶8-12.

2. For ¶5e related to the third-party obligor making debt service payments, are there situations when the third-party’s agent or other individual or entity (not within the reporting entity) makes those payments on their behalf? Our only point is whether should e be parallel with d in this respect. If the third-party generally makes all debt service payments, we agree with the criterion as written.

3. For ¶6c (extending a guarantee), it appears that the basis for conclusions (¶B15-17) makes it clear that the board’s intent was to be consistent with GASB 70. Thus, if this criterion was intended to refer only to non-exchange financial guarantees, we recommend referring to GASB 70 in a footnote for any additional guidance and specifying that the criterion is a non-exchange financial guarantee. However, if the guarantees are broader than just those in GASB 70, the BFC (i.e., B19) should explain this (i.e., exchange and non-exchange financial and nonfinancial guarantees).

4. In ¶B8 (next to last sentence), we believe the transfer should refer to the liability of the outstanding debt (i.e., “…transfer the liability for the outstanding debt from…”).
5. For ¶B34 in the last sentence ("The Board believes that for situations in which a related liability results from those additional commitments, that information will allow users to better understand the issuer’s ongoing financial responsibilities related to conduit debt obligations.")], we believe in addition to the ongoing financial responsibilities that users also gain an understanding of the potential risks the issuer government is accepting.

6. For ¶B35 in relation to the “accountability and transparency” discussion, we believe part of holding the government accountable is knowing what potentially material risks the government is accepting by making additional commitments and having to make future debt service payments. Thus, we suggested adding language about risks.

7. For ¶B36 (last sentence), we believe a reminder (in at least a footnote) might be necessary for the GASB 62 loss contingency disclosure requirement if board research indicates this disclosure is improperly excluded.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,

Deborah V. Loveless, CPA
Director, Division of State Audit