October 30, 2018

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

Dear Mr. Bean:

We appreciate the opportunity to respond to the Governmental Accounting Standards Board’s exposure draft (ED) entitled Conduit Debt Obligations. We support the Board’s efforts to establish additional guidance on this topic. We offer the following comments on the ED.

We are concerned that the inclusion of the word “ultimately” in paragraph 5(d) establishes an exception for an issuer to receive and hold conduit debt proceeds for an indeterminate period prior to distribution to a third party. As long as the transaction met the other necessary criteria, an issuer could assert that the proceeds constitute conduit debt and would not need to be disclosed as a liability. We suggest the word "ultimately" be stricken, or, additional guidance be inserted to prevent an issuer from receiving conduit debt proceeds.

We request the Board consider what impact, if any, a primary government’s role in assisting the third party obligor in making debt service payments has in deciding whether a debt issuance constitutes conduit debt when the issuer is a discretely presented component unit. Our interpretation of the liability recognition provisions of paragraphs 6, 8 and 9 are limited to the issuer, and do not extend to a primary government. Could a primary government issue debt through a discretely presented component unit (being the issuer) and provide assistance (such as annual appropriations) to the third party obligor and still have the debt be considered conduit debt from the perspective of the issuer and the primary government? We expected the answer to be "no" however the provisions of the ED would seem to allow this practice.

Sincerely,

Doug Ringler
Auditor General

Cc: C. Murray, CPA, CIA
Via e-mail