October 31, 2018

Via Electronic Mail

Director of Research and Technical Activities
Project No. 26-6
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Response to GASB Exposure Draft – *Conduit Debt Obligations*

Dear Mr. Bean:

On behalf of the Office of the Washington State Auditor, the Office appreciates the opportunity to comment on the proposed Exposure Draft (ED), *Conduit Debt Obligations*.

We are in support of this project and are glad to see Interpretation 2 replaced with a modern standard. We would encourage the Board to replace all old interpretations, technical bulletins and NCGA pronouncements with GASB Standards or CIG guidance and be able to retire GASB Statement 1. We also agree with the need for clear guidance and consistency for this particular topic, as articulated in paragraph A3.

We agree with the proposed reporting requirements for situations where the issuer has no obligation for the debt beyond resources provided by the third-party on whose behalf the debt was issued.

However, we noted that the Board decided to expand the definition of conduit debt beyond the original interpretation to include situations where the government has made additional commitments. We are unclear why the same logic used to exclude parity debt and cross-collateralization, as described in paragraph B5, would not similarly apply to extension of a guarantee, moral obligation pledge, appropriation pledge, or pledge of collateral, since the government is then both the issuer and an obligor.

If the Board continues with the expanded definition of conduit debt, we would suggest:

- That paragraph 5.f emphasize that additional commitments are limited to situations where the third-party obligor is unable to make debt service payments. For example: “The
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issuer’s commitment to support the debt service payments is limited to additional commitments in the event the third-party obligor is unable to do so as discussed in paragraph 6.” It appears that additional commitments are defined this way in paragraph 6, but we would appreciate greater clarity for this key attribute.

- Making requirements for guarantees under GASB 70 the same as those under the proposed standard by either revising the proposed standard to match extant requirements in GASB 70 or including parallel revisions to GASB 70. We noted differences in the discussion of qualitative factors in paragraph 9 (compared to GASB 70 paragraph 7), disclosure requirements for describing the guarantee in paragraph 20.b (compared to GASB 70 paragraph 14.a) and disclosure requirements for the government that is benefiting from the guarantee which is absent from the proposed standard (compared to GASB 70 paragraphs 16-17). The requirements should be the exactly same unless the Board intends for qualitative evaluation and disclosures to be different.

- Adding definitions for third-party obligor, third-party obligor agent, primarily obligated, parity bond, cross-collateralization, moral obligation pledge, appropriation pledge, etc. since these terms are not cited from an official source and are necessary to understand precisely in order to apply the proposed standard.

We request that the Board consider the following improvements to disclosure requirements, which we believe would greatly assist users in relating conduit debt information to other disclosures and reported liabilities:

- For paragraph 20.b, requiring a clear indication that the government has no obligation or that obligation is limited to whatever paragraph 6 attributes are applicable, rather than a “general description of the issuer’s commitment(s)”.

- Requiring disclosure that conduit debt amounts are not included on the financial statements or in other disclosures.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at (360) 902-0471.

Sincerely,

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Assistant Director of Local Audit

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