Director of Research and Technical Activities  
Government Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Re: GASB Proposed Statement  
Project 26-6  
Conduit Debt Obligations  
Exposure Draft

Dear Director Bean:

The Massachusetts Development Finance Agency ("MassDevelopment" or the "Agency") is pleased to submit the following comments regarding the Proposed Statement of the Government Accounting Standards Board as set out in the GASB Exposure Draft dated June 30, 2018 (the "Proposed Statement").

MassDevelopment is a body corporate and politic created by the General Court of the Commonwealth of Massachusetts pursuant to enabling legislation at M.G.L. c. 23G, §2, et seq. As part of its statutory mission, MassDevelopment is an issuer of conduit debt obligations as defined in the Proposed Statement.¹ We provide the following comments because, for the vast majority of debt we issue, the Proposed Statement would require disclosing in our annual financial statements information that is not available to the Agency as issuer. Consequently, it would be impossible for MassDevelopment to include the footnote disclosures required by the Proposed Statement in our annual financial statements.

MassDevelopment issues its conduit debt exclusively in the form of bonds that are typically structured as private placements with financial institutions. The Agency also issues bonds through public offerings, though less frequently. MassDevelopment has no obligations under the bonds beyond those provided by the third-party obligor. It does not receive the proceeds of the bond sales. Our bonds are not cross-collateralized with other MassDevelopment debt, nor do our debt instruments constitute parity bonds of the Agency. In accordance with GASB’s Interpretation No. 2 of National Council on Governmental Accounting Statement No. 1, the Agency does not report its conduit bonds as liabilities on its balance sheet.

Over the past four fiscal years, MassDevelopment has issued conduit bonds with a total par value of over $13 billion through 386 transactions. Of those, 301 have been private placements and only 85 were public offerings. In all cases, a third-party obligor receives the proceeds from the bond sale and is obligated to make repayment to a third-

¹ Proposed Statement at iii.
party debt holder or trustee. As a result, the Agency has no continuing rights or obligations arising from any of the conduit bond transactions it has undertaken. In addition, since nearly eighty percent of its issuances are private placements, the Agency consequently has no access to most of the information needed to make the footnote disclosures required in the Proposed Statement. The Agency can neither determine nor reasonably estimate the amount currently outstanding on any of its private placement transactions. In addition, the debt holders have no obligation to supply this information to us.

Similarly, MassDevelopment would not be able to determine:

a) If an obligor has filed or is about to file for bankruptcy.
b) If an obligor is in breach of its commitments under the debt obligation.
c) If the obligor is experiencing severe financial difficulty.
d) If the project that was to fund the debt service payments has been terminated.
e) If there is litigation that would negatively affect the project.

We recognize that the Proposed Statement is designed to provide clarity to and eliminate diversity in practice among issuers of debt obligations who undertake additional commitments or responsibilities beyond those that MassDevelopment accepts in its activities. Our concern is that in addressing this lack of clarity, the Proposed Statement creates obligations on the most common type of conduit debt transactions. Those transactions have not led to the confusion and disparity of treatment that the Proposed Statement attempts to address, but the issuers in those deals would be subject to additional disclosure obligations, which in MassDevelopment’s case would impose obligations on the Agency that cannot be met.

We would therefore urge the Board to clarify that, for transactions that include only the conduit obligations set out in the definition and no others:

- The obligations should not be recognized as a liability.
- No further quantitative analysis is required.
- There is no further reporting obligation or financial statement disclosure obligations beyond the aggregate amount of the original issue value of the obligations issued in the reporting period.

MassDevelopment appreciates the opportunity to comment on the Proposed Statements. We hope that our observations will be helpful as the Board considers how best to address the need for clarity in applying GASB’s Interpretation No. 2.

Sincerely,

Simon R. Gerlin
Chief Financial Officer

2 Proposed Statement, at p. 3.