November 2, 2018

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Project No. 26-6

Dear Mr. Bean:

RSM US LLP is pleased to provide feedback on the Exposure Draft – Conduit Debt Obligations. We understand the objectives of the proposed statement are 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 agree more clarity is needed to eliminate inconsistencies and diversity in practice and appreciate the Board’s efforts to accomplish its objectives. We are pleased to offer the following comments for the Board’s consideration.

We recognize an issuer’s commitment to support debt service payments of a conduit debt obligation can vary and agree the commitments outlined in paragraph 6, items a. through e. are examples of such commitments. Paragraph 7 requires an annual reevaluation of all conduit debt obligations to determine if it is more likely than not the issuer will support debt service payments related to the conduit debt obligation. We note paragraph 9 lists several qualitative factors the issuer should consider during this annual reevaluation. Given conduit debt has been defined as no obligation debt under Interpretation 2 and limited obligation debt in this Exposure Draft, we have concerns with the internal controls the issuer would be required to have in place to evaluate these types of factors annually. Many of these factors would not be known by the issuer without considerable research and monitoring of the obligor. We question if this level of effort is appropriate for an arrangement that is otherwise considered no obligation.

Paragraph 5 lists all of the criteria conduit debt obligations must have to be considered conduit debt, which aligns with the definition of debt in Concepts Statement No. 4, Elements of Financial Statements. We believe the Exposure Draft will address some of the diversity in practice by clarifying when a liability should be recognized, but we also believe there are additional transactions in need of clarification like transactions other than conduit debt where the issuer has no obligation to use its own resources for the debt service payments. An example of this type of transaction would be debt issued by a discretely presented component unit for the benefit of a third party where the primary government has obligated itself to appropriate the resources necessary to repay the debt. In this transaction it is unclear if the discretely presented component unit would record the debt liability for which it has no obligation or intent to use its own resources to repay, which is clearly articulated on the debt documents, or if some other accounting for the transaction is more appropriate. Conversely, would the primary government exclude the debt liability even though it has obligated itself to appropriate monies annually to pay the debt service, which is also articulated in the debt documents, or would some other accounting for the transaction be more appropriate? We believe situations such as that outlined above should be considered either through the scope and characteristics of conduit debt or through other guidance.
We appreciate this opportunity to provide feedback on the Exposure Draft and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Michelle Horaney, Partner, National Professional Standards Group, at 563.888.4038 or Brian Schebler, National Director Public Sector Services, at 612.455.9913.

Sincerely,

RSM US LLP