November 2, 2018

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

Project 26-6, Proposed Statement of the Governmental Accounting Standards Board, Conduit Debt Obligations

Dear Mr. Bean:

We appreciate the opportunity to share our views on the proposed Statement of the Governmental Accounting Standards Board, Conduit Debt Obligations (the “proposed Update”).

Moss Adams LLP is the largest accounting and consulting firm headquartered in the western United States, with a staff over 2,900, including more than 310 partners. Founded in 1913, the firm serves public and private middle-market business, not-for-profit, and governmental organizations across the nation through specialized industry and service teams.

We appreciate the GASB’s efforts in reviewing the accounting for conduit debt obligations and looking to eliminate the diversity in practice that does exist. We have seen in our practice, working with a variety of governmental entities, that the current accounting guidance does result in two very similar entities with the same overall purpose and operations reporting conduit debt obligations in two different methods. We support the GASB’s efforts to try to eliminate this diversity in practice and increase overall comparability of similar entities.

We have reviewed the proposed Update and believe the definition of conduit debt obligation provided is clear and consistent with the type of arrangements we see within practice. This definition provides a clear framework by which each obligation agreement(s) can be considered against.

We believe the proposed standard creates a method of accounting for conduit debt obligations that accurately encompasses the economic benefit and obligations for the majority of state and local government entities who may be involved in these types of arrangements on a fairly limited basis and who typically use conduit debt to support a specific purpose or particular program, or to provide support to a smaller governmental entity who may be unable to effectively utilize tax-exempt financing on its own. However, this is a singular perspective on conduit debt and does not adequately consider the perspective of a specific group of entities, the finance authorities, whose primary business purpose is to issue conduit debt, and who are typically structured as enterprise funds.
In short, not all conduit debt is created equally.

We currently work with many finance authorities who report their activities under enterprise fund accounting and who include and report liabilities and related assets for all conduit debt obligations they process as an issuer based on the current option within the accounting standards. We believe for these finance authorities the inclusion of all of the conduit debt activity within their reporting entity has to date most appropriately reflected the primary purpose and operation of the finance authority given the existing two options for reporting. The finance authority is in the business of issuing conduit debt for the benefit of the citizens of their state. The inclusion of all conduit debt activity within the finance authority financial statements has been the best way to inform their stakeholders, including bond rating agencies, bond underwriters, bond holders and potential buyers, elected officials, the Internal Revenue Service, municipal security market regulators, and the general public, of the overall activity and amount of financed obligations these finance authorities are actively managing.

The impact of the proposed Update will be the removal of millions, and in some cases billions, of dollars of conduit debt obligations, reducing the financial statements for finance authorities to potentially miniscule amounts associated with their general operations and moving the existence of the vast majority of their operations to a footnote disclosure. So although we agree with the proposed definition of conduit debt obligations and that overall this Update will remove the diversity in practice as it relates to the presentation of conduit debt obligations to the statement of net positions, we do not believe there is adequate consideration for how a finance authority can appropriately reflect in their financial statements their overall operations and activities.

The accounting standards and guidance to date and within this Update have predominantly just focused on the presentation of these obligations from the statement of net position perspective. We believe that additional consideration and guidance should be provided related to how conduit debt transactions should be reflected in the statement of revenues, expenses, and changes in net position for enterprise funds. The issuer’s role in conduit debt transactions may be analogous to the role a government entity plays related to receipt and expenditure of pass-through grant agreements. By allowing finance authorities the ability to record the gross amount of conduit debt transactions issued and then passed through to the third party obligor, the finance authority has some ability to disclose to its stakeholders the amount and level of transactions it was involved in for a given year. This coupled with the proposed note disclosures about outstanding conduit debt obligations noted in this proposed Update may help provide some of the information that existing stakeholders currently receive in cases where a finance authority reports all its conduit debt liabilities and related assets.

Finance authorities will still need to monitor and manage risk related to each bond issuance, and stakeholders will still want to see ongoing detail and information related to these conduit debt financings. Additionally, with the increasing focus by the Securities and Exchange Commission and other stakeholders within the municipal securities markets for more detailed information and a greater amount of publicly disclosed information about private placement issues, we believe finance authorities may be obligated to provide ongoing and additional disclosure related to each conduit debt financing. The accounting under this proposed Update as written will result in finance authorities
providing financial information outside of its GAAP financial reporting systems and this information may no longer be subject to audit by independent auditors.

Lastly, we also believe that the effective date of this potential standard needs to be aligned with the effective date of GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. When adopting that standard, an entity that currently reports all conduit debt obligations as liabilities and related assets would be required to provide certain disclosures required by that standard, and then upon adoption of the proposed Update the entity would remove all applicable disclosure related to conduit debt obligation liabilities previously required by GASB No. 88. This creates unnecessary burden on applicable entities for a disclosure requirement that would only be applicable for one to two years. If the effective dates cannot be aligned, we suggest GASB consider providing an exemption for the disclosure requirements applicable in GASB No. 88 for conduit debt obligations that would meet the proposed definition of conduit debt obligations.

If you require further information regarding our response, please contact Amy Sutherland, Senior Manager in our Professional Practice Group, at 206-302-6468 or by e-mail at Amy.Sutherland@mossadams.com.

Sincerely,

Moss Adams LLP