September 14, 2017

Mr. David R. Bean  
Director of Research and Technical Activities  
Project No. 3-30  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

Members of the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel have reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, and are pleased to offer our comments. While we believe the existing debt-related disclosures in GASB’s literature already incorporate direct borrowings and direct placements, we support the addition of a debt definition for disclosure purposes. We believe a definition will eliminate the confusion that has occurred in practice and lead to more consistent debt disclosure. However, we have concerns with certain aspects of the proposed definition and several other comments for the Board’s consideration which are described in the remainder of this letter.

Definition of Debt for Disclosures Purposes Needs Enhancement. As noted at the outset of this letter, we support the Board’s effort to define debt for disclosure purposes. Paragraph 4 of the ED defines debt as follows:

For purposes of disclosure in notes to financial statements, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. For disclosure purposes, debt does not include leases or trade accounts payable.

We have several concerns with this definition. First, we are concerned that it is written too broadly. We discussed transactions (not meeting the definition of a lease) such as licensing agreements, purchase of equipment directly financed by the seller, and long-term contracts with energy companies that contain fixed payments for the purchase of energy and energy-efficient equipment and had difficulty determining whether they would meet the proposed debt definition. Thus, we ask that the Board provide further clarification to promote consistent application of the definition.

We are also uncertain as to the importance of the inclusion of “trade” in the exception to the debt definition for trade accounts payable. Does the Board intend a distinction
between a trade accounts payable and an accounts payable? We recommend the Board provide clarification on this point to avoid inconsistency in practice due to differing interpretations of the Board’s intent.

**Separating Debt Disclosures Unnecessary.** We suggest the Board remove paragraph 6 of the ED as we believe requiring a distinction between direct borrowings and direct placements from other debt is not necessary. The definition of debt for disclosure purposes clarifies that direct borrowings and direct placements are subject to the disclosure requirement. We believe this is sufficient to address the concerns raised by certain users. The requirement in paragraph 6 will just add unnecessary detail. If the Board rejects our recommendation, we suggest the Board define the terms direct borrowing and direct placement and provide examples of “other” debt to promote consistent application.

**Clarification of Collateral in Paragraph 5b Needed for Consistent Application.** Paragraph 5b would require “collateral pledged as security for debt” to be disclosed. We are unsure how narrowly or broadly to define collateral for purposes of paragraph 5b since collateral can take many forms such as assets or future revenue streams. Additionally, it is unclear whether the disclosure is intended to consider the order of priority to collateral. We believe there will be confusion in practice on these points, given the limited discussion in paragraph 5b and simplified illustration in Appendix C. We suggest the Board more directly address these issues in the final Standard and enhance the related illustrative disclosure to promote consistency in practice.

**Clarification of Finance-Related Consequences in Paragraph 5c Needed for Consistent Application.** Paragraph 5c would require debt agreement terms related to significant events of default with finance-related consequences to be disclosed. We suggest the Board elaborate on what is intended by finance-related consequences to promote consistent application. One example we considered where we are unclear is a utility that does not meet certain ratios associated with their debt covenants. Although this noncompliance may not cause the debt to accelerate, in many cases it may require the government to respond in a variety of ways, including raising utility rates charged to customers or negotiating changes in the bond terms. It is unclear which of these responses, if any, would be considered finance-related consequences as contemplated in the ED. Without further clarification, we also believe many will conclude that finance-related consequences are only those with a negative outcome such as the acceleration or calling of the debt and not other potential finance-related consequences such as an action to increase water rates charged to residents.

**Clarify Disclosures in Paragraph 5c Related to Potential (not Existing) Debt Terms.** The term “events” as used in paragraphs 5c1 and 5c2 infers events that have occurred. We recommend the Board revise the term to “potential events” for clarity.

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The AICPA appreciates the opportunity to comment on the ED. This comment letter was prepared by members of the AICPA’s State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,

Heather S. Acker
Chair
AICPA State and Local Government Expert Panel

Mary M. Foelster
Director
AICPA Governmental Auditing and Accounting

cc: State and Local Government Expert Panel
James Dolinar
Dan Noll