



September 6, 2017

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

Project: 3-30

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Government Accounting Standards Board (GASB) on its June 29, 2017 exposure draft entitled *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The FMSB is comprised of 23 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

On August 23, 2017, an article in *Governing Magazine* entitled "Governments Are Turning to Banks for Easy Money" referenced a Stanford University study of loans in California to governments made directly from banks instead of issuing publicly traded bonds. The study concludes that more than half the municipalities in the State that have borrowed from banks have put themselves at "financial risk" due to stringent terms in the loan. The terms include subordination of other forms of bonded debt to the direct borrowing.<sup>1</sup>

We believe that the provisions of the Exposure Draft are timely and necessary due to the risk of direct borrowing and direct placement to bond investors. We also believe that debt disclosure in general needs to be improved. Some complex governments have debt disclosure that exceeds 10 pages. Yet, Wal-Mart has over \$38 billion in outstanding debt and only has two pages of disclosure. We encourage the GASB to reduce disclosure in this area as much as possible, especially with the proliferation of investor-focused websites at many governments.

The FMSB only has some minor concerns with the proposed provisions. Overall, the proposed definition of "Debt" is reasonable. We suggest rephrasing the last sentence as follows to separate note disclosure from the basic financial statements:

*For the purpose of note disclosure, debt does not include leases or trade accounts payable.*

We believe this change clarifies that any final pronouncement only applies to note disclosures and does not apply to debt that must be disclosed in the basic financial statements due to other GASB Statements.

Our review of the *Codification* instructions for Section 2300.120 may lead to a further clarification based on the final version of paragraph 4. Preparers are required to include a schedule of long-term liabilities due to the provisions of GASB-34, paragraph 119 but in doing so tend to misinterpret certain provisions of GASB-38. We believe that including information in such schedule related to claims and judgments, defined benefit pensions and other postemployment benefits, compensated absences, landfills, leases, environmental remediation and other seemingly spurious information included in other notes in order to

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<sup>1</sup> <http://www.governing.com/topics/finance/gov-governments-turning-banks-easy-money.html#continued>

reconcile to the face of the statement of net position is at best redundant and at worst, misleading. We suggest that the provisions of GASB-34, paragraph 119 be reviewed in this regard in order to succinctly list what is required in the schedule of long-term liabilities. The final provisions of paragraph 4, inclusive of this information should be inserted as an updated changes in long-term obligations schedule in the Illustration in Appendix C.

The FMSB had a considerable discussion on the provisions of paragraph 5. We encourage the GASB to maintain the provisions for only summarized disclosure. With regard to 5(a) (disclosure of the amount of unused lines of credit,) some of our members felt that disclosure for *unused* lines of credit is not essential. However, others pointed to GASB-38, paragraph 12, which requires disclosure of *used* lines of credit and felt there should be symmetry in disclosing all lines of credit. We understand that current disclosure is haphazard in this regard. If disclosure of *unused* lines of credit is ultimately required, we believe the cost to prepare such disclosure will be immaterial.

A similar discussion occurred with regard to paragraph 5(b). We believe this proposed disclosure is redundant due to the provisions of GASB-48, paragraph 21. We also propose that collateral be clarified and/or defined for the purposes of this standard.

We agree that the provisions of the Exposure Draft need not be applied to immaterial items. However, a level of significance is indicated in paragraph 5(c) with regard to notes to disclosure of summarized information related to specific terms in debt agreements. Utilizing 'significant' is counter to immaterial or material. The subparagraph is further discussed in the Basis for Conclusions paragraphs B11 and B12. We suggest that in paragraph 5(c), absent further clarification, the word "material" is utilized.

Specifically, in the case of disclosure of events of default and termination events with finance-related consequences, we suggest the GASB align to the provisions of any final Securities and Exchange Commission continuing disclosure rule on 17 CFR Part 240.15(c)(2)-(12) which has been proposed to be amended.<sup>2</sup> This will eliminate any change between what is required for note disclosure and what is required for the Securities and Exchange Commission. Given that events of default or termination provisions are already required for hedging derivatives in accordance with the provisions of GASB-53, as amended by GASB-64, we suggest limiting the provisions of paragraph 5(c)(1-2) to only direct borrowing or direct placement debt.

We agree with disclosure of subjective acceleration clauses. However, we suggest a Glossary entry to be included in a final standard as follows (containing amended language from the FASB literature):

**Subjective Acceleration Clause** A subjective acceleration clause is a provision in a debt agreement with a government that states that the creditor may accelerate the scheduled maturities of the obligation under conditions that are not objectively determinable (for example, if the debtor fails to maintain coverage ratios or if a material adverse change occurs).

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact me at (208)383-4756 or Lmiller@eidebailly.com.

Sincerely,



Lealan Miller, CGFM, CPA  
Chair- AGA Financial Management Standards Board

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<sup>2</sup> See <https://www.sec.gov/news/pressrelease/2017-57.html>

cc: James "Jim" R. Arnette, Jr. CGFM, CISA, AGA National President

Association of Government Accountants

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