*THE* ***GASB*** *REPORT*

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***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***June 25–27***

***August 6–8***

The GASB also is scheduled to meet via **teleconference** on **July 15** and **August 26**. The precise time, as well as the agenda, will be announced approximately two weeks before each meeting. All meetings are held at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut with the exception of the June 27 meeting, which will be held in East Elmhurst, New York (LaGuardia Marriott).

In addition, the GASB will be meeting with the Governmental Accounting Standards Advisory Council on June 27 and 28 in East Elmhurst, New York (LaGuardia Marriott).

Finally, the FAF Board of Trustees will meet on August 20 in New York City.

Please check the GASB website at www.gasb.org three working days prior to meetings to verify the final agenda.

If you plan to attend *any* meetings, please notify Ragan Vincent at (203) 956-5372 or via email at rpvincent@gasb.org. In addition, due to the FAF’s security procedures, visitors to *all* meetings are required to go to www.gasb.org to register at least 24 hours before each meeting they are planning to attend.

***GASB Issues Statement 70 on Nonexchange Financial Guarantees***

The GASB recently approved the issuance of Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* That Statement provides accounting and financial reporting guidance to state and local governments that either offer or receive nonexchange financial guarantees.

Governments provide financial guarantees, which are commitments to ensure payments on an obligation of a legally separate entity or individual. When a government is the provider of a financial guarantee, the guarantee represents a potential claim on its resources. When a government receives a guarantee, the guarantee represents potential resources.

When a government guarantees the financial obligation of another entity and the guarantor government does not receive equal or approximately equal value in return, the transaction is referred to as a *nonexchange financial guarantee.* Guarantor governments typically enter into these types of financial guarantees with the goal of assisting other entities within their jurisdiction to reduce borrowing costs. Guarantees of this nature are intended to provide an additional assurance to bondholders and serve to minimize their credit risk.

***Existing Guidance***

Prior to the issuance of Statement 70, governments accounted for financial guarantees primarily by applying the accrued loss contingency guidance contained in Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* That guidance was carried forward from Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies,* FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss,* and FASB Interpretation No. 34, *Disclosure of Indirect Guarantees of Indebtedness of Others.*

The guidance in Statement 62 was originally designed to address exchange transactions occurring in the private sector. Consequently, it addresses circumstances not typically encountered in the government environment. Statement 70, however, is expressly designed to address governments and governmental entities. Statement 70 focuses exclusively on nonexchange guarantees because, in the absence of a flow of financial resources of the entity issuing the guaranteed obligation and the guarantor, the existence of the guarantee can easily be overlooked in the financial reporting process.

***What Does the Statement Require?***

Statement 70 requires a government that extends a financial guarantee to recognize a liability when qualitative factors indicate that it is *more likely than not* that the government will actually be required to make a payment as a result of the guarantee agreement.

Qualitative factors could include such events as the issuer experiencing a significant financial hardship, like the loss of a major revenue source; breaching a debt contract, such as a failure to meet rate covenants; or initiating the process of entering into bankruptcy protection proceedings or a financial reorganization.

In circumstances in which a government extends groups of similar guarantees, the Statement requires a government to assess qualitative factors and historical data, if any, on frequency of default in relation to the group of guarantees rather than each individual guarantee.

The amount of the liability reported by the guarantor should be the discounted present value of the best estimate of the costs expected to be incurred. When there is no best estimate, but a range of estimated costs can be established, the amount of the liability should be the minimum amount within the range.

The Statement provides that a government that receives a nonexchange financial guarantee should continue to report a liability until legally released as an obligor if it is required to repay a guarantor for making a payment on a guaranteed obligation or for legally assuming the guaranteed obligation. In situations in which a government is released as an obligor, the government recognizes revenue as a result of being relieved of the obligation.

***Note Disclosures***

Statement 70 enhances the information required to be disclosed by governments that extend and receive financial guarantees as a result of nonexchange transactions. The disclosures are designed to provide information about the nature and amount of the financial guarantees entered into by governments, including the parties to the agreement, and the period covered by the guarantee. The disclosures also identify the amounts that have been paid by guarantors on guaranteed obligations.

*Governments Extending Nonexchange Financial Guarantees*

A government that extends nonexchange financial guarantees should disclose certain information, by type of guarantee, for all nonexchange financial guarantees, regardless of the likelihood of a payment being required, including a description of the nonexchange financial guarantee and the total amount of all guarantees extended outstanding at the reporting date.

A government that recognizes a nonexchange financial guarantee liability or has made payments during the reporting period on nonexchange financial guarantees extended should disclose certain information, including:

* A brief description of the timing of recognition and measurement of the liabilities and information about the changes in recognized guarantee liabilities
* Cumulative amounts of indemnification payments that have been made on guarantees extended outstanding at the reporting date
* Amounts expected to be recovered from indemnification payments made through the reporting date.

*Governments Issuing Guaranteed Obligations*

A government that has one or more outstanding obligations at the reporting date that have been guaranteed by another entity as part of a nonexchange transaction should disclose certain related information with respect to the identity of the guarantor, as well as information regarding the amounts, duration, and other details about the guarantee. In instances in which payments have been made on the obligation but the obligation is no longer outstanding at the reporting date, the government should disclose certain information regarding the payments made.

***Effective Date***

The requirements of the Statement are effective for periods beginning after June 15, 2013. Early application is encouraged.

***Board Meeting Summary***

The GASB met via teleconference on April 22 to discuss issues related to its project on Nonexchange Financial Guarantees. The Board also held a public meeting May 14–16 to discuss issues associated with its projects on Fair Value Measurement and Application, the Pension Plan Implementation Guide, Technical Correction—Pension Reporting, Recognition and Measurement under the Conceptual Framework, the GAAP Hierarchy, and Other Postemployment Benefits. Due to publication deadlines, those deliberations are not discussed in this issue of *The GASB Report* but will be highlighted in the next issue.

***Nonexchange Financial Guarantees***

In addressing its project on Nonexchange Financial Guarantees, the Board reviewed a ballot draft of Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* After making minor clarifying changes to the ballot draft, six Board members approved the issuance of a final Statement. One Board member dissented. The full text of the new Statement has been posted on the GASB website, www.gasb.org. (Please see the related article on page 1.)

***New GASB Logo Introduced; Website Revamp Planned***

A new GASB logo was introduced by the Financial Accounting Foundation (FAF) in late April. The new branding also impacts the FAF and the Financial Accounting Standards Board (FASB).

In addition, the FASB also launched its new website, www.fasb.org. Similar updates for the GASB and FAF websites are expected to take place during the second half of 2013. If you have any suggestions or feedback regarding the GASB website as we prepare for the upcoming relaunch, please contact Kip Betz by email at jcbetz@gasb.org or by telephone at (203) 956-5201.

To view a full color version of the new GASB logo, please visit the GASB website at www.gasb.org.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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