



Mr. Alan Skelton
Director of Research and Technical Activities
Project No. 3-41
Governmental Accounting Standards Board
801 Main Avenue
Norwalk, CT 06851

September 23, 2022

Via email to askelton@gasb.org

RE: Invitation to Comment – Exposure Draft relating to Certain Risk Disclosures

Dear Alan:

The National Federation of Municipal Analysts (NFMA) is pleased to respond to the Governmental Accounting Standards Board's (GASB) invitation to comment on its Exposure Draft relating to Certain Risk Disclosures (Exposure Draft).

The NFMA is a not-for-profit association with nearly 1,200 members in the United States, comprising a broad range of municipal bond analysts from the buy-side, sell-side, rating agencies and bond insurers. The mission of the NFMA is to enhance the professional development and analytical contributions of municipal market participants through best-in-class educational programs, networking opportunities and targeted advocacy that supports improved disclosure to benefit the industry. The NFMA has published an extensive library of Best Practices in Disclosure and White Papers which are available on our website, www.nfma.org.

The NFMA supports the GASB's efforts to improve the transparency and quality of financial information available to help users of financial statements more accurately evaluate the credit attributes, trends, and fiscal health of governmental entities. The comments that follow are made in recognition of the clear alignment of interests that exists between the GASB's mission of good financial disclosure to users and our professional needs as analysts of municipal credit risk.

The Exposure Draft seeks to provide users of governmental financial statements with important information regarding concentration and constraint risks that could adversely impact a government's ability to provide services or meet its financial obligations as they come due. Generally, the Exposure Draft proposes a two-part criterion to determine if a note disclosure should be provided in the financial statements: 1) an event related to a concentration or constraint has occurred or is **“more likely than not”** to occur within twelve months following the financial statement date or shortly thereafter; and 2) it is **“at least reasonably possible”** that within three years of the financial statement date that the event would have a substantial impact on the



government’s ability to provide its current level of services or pay its financial obligations as they come due.

The NFMA is generally supportive of the Exposure Draft with a few caveats.

Investors in municipal bonds typically commit capital for up to thirty years and need ongoing information regarding risks to the financial health of the borrower¹ to make decisions on pricing and whether to buy, hold, or sell a bond. Any concentration or constraint that is “at least reasonably possible” to substantially impact a borrower’s ability to provide services at the current level or meet its obligations over the next 3 years would, without question, have a **meaningful effect** on arguably **all users’** analyses for making decisions or assessing accountability, thereby meeting the criterion set in GASB Concepts Statement 7.

Likelihood of event occurrence should be less restrictive than “more likely than not.”

The first hurdle for reporting is that an event related to a concentration or constraint has occurred or is “more likely than not” to occur within twelve months following the financial statement date or shortly thereafter. This suggests a greater than 50% chance of such occurrence regardless of the likelihood of the event having a substantial impact. This could lead to the following situation:

- An event that has a 51% chance of occurring within twelve months and a 10% chance of having a substantial impact on the entity’s ability to pay its bonds in the next three years would be disclosed.
- However, an event with a 49% chance of occurring within twelve months and a 90% chance of having a substantial impact on the entity’s ability to pay its bonds in the next three years would not be disclosed.

Therefore, to ensure that disclosures are made for events with a reasonable chance of having a substantial impact on a borrower’s ability to pay its bonds over the next three years, the NFMA recommends that the likelihood of an event occurring within twelve months be modified to capture those that are “at least reasonably possible.”

Notwithstanding the recommendation, it is worth mentioning that there were a variety of viewpoints among the NFMA working group including: 1) the desire to have municipal borrowers disclose any concentration or constraint present; 2) expanding the “likelihood time frame” for the event to occur to within two years from twelve months; and 3) leaving the likelihood threshold at “more likely than not.” While we did not recommend a change to the threshold level for the likelihood of a substantial impact occurring, there was some concern that the ability to assess that the event was at least reasonably possible to have a substantial impact on service provision or ability to meet obligations over the next three years could be too broad and onerous—particularly for smaller borrowers—as it may require financial and budgetary forecasting and may lead to disclosures for events that are extremely unlikely to take place.

¹ For purposes of this letter, “borrower” refers to the entity obligated to repay the debt, including but not limited to a state, local government, state or local agency, special district, or 501(c)(3).



Current service level needs better definition.

A borrower's provision of services can be measured in a variety of ways and can vary during extraordinary times. The NFMA recommends that the GASB provide further clarification on how service levels should be measured and a framework for when and how that measurement should be adjusted so that an outlier year is not the starting point.

Other risk disclosures should be addressed.

The NFMA recognizes that the current Exposure Draft is limited to the disclosure of concentration and constraint risks when certain thresholds are achieved. However, we encourage the GASB to undertake a project to establish similar disclosure criterion for climate and other environmental risks, social risks, governance risks, and cyber risks. These issues are of heightened and growing importance to the users of financial statements. We believe disclosure of these types of risks when they are at least reasonably possible to impact an entity's ability to maintain service levels and/or meet its obligations would have a meaningful effect on the analyses of a wide array of financial statement users when making decisions or assessing accountability.

We thank you for the opportunity to provide our comments on the Exposure Draft and would be happy to discuss our feedback in follow-up communications.

Sincerely,

/s/

Lisa Washburn
NFMA Representative to GASAC

