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Governmental Accounting Standards Board
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September 28, 2021

Via email to askelton@gasb.org

RE: Invitation to Comment – Revised Exposure Draft relating to Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements

Dear Alan:

The National Federation of Municipal Analysts (NFMA) is pleased to respond to the request for comments on the Revised Exposure Draft relating to Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements.

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 Revised Exposure Draft relating to Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements (Revised Exposure Draft) seeks to provide a framework of objectives and principles to promote consistent standards for notes included in basic financial statements. Generally, the proposal establishes that the purpose of the notes to financial statements is to provide information that



explains or supplements the financial statements and is essential to users in making decisions or assessing accountability. It also sets a standard for the level of sophistication and due diligence for the user of the notes as a person that has a reasonable understanding of government and public finance activities and governmental financial reporting and conscientiously reviews and analyzes the information.

Note disclosures are very important to municipal bond analysts. The GASB has indicated that its intent is not to raise the threshold for the inclusion of notes during the standards setting process. The NFMA is nonetheless wary that the new proposed guidance on what constitutes essential could inadvertently result in the exclusion of important information in the future.

The NFMA was generally supportive of the original Exposure Draft relating to Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements (Original Exposure Draft), however the changes made to further define what constitutes essential are of significant concern to our members. The NFMA’s comment letter on the Original Exposure Draft dated June 25, 2020 expressed some concerns about determining essentiality:

“..., the NFMA would like to express some trepidation about the ability to definitively describe how important information related to a new financial standard or change in reporting would be used in future analyses. It can take time for users to determine how to specifically value and integrate new information into existing analytic frameworks, and in some cases the provided information is weighed subjectively, given the financial situation of an issuer. We hope that the GASB will err on the side of inclusion versus exclusion of new information that is intuitively important, even if its specific usage is not fully fleshed out.”

Revised Exposure Draft raises the threshold for note disclosures.

Notwithstanding the NFMA’s original concerns, the GASB’s Revised Exposure Draft proposes to increase the essentiality threshold for note disclosures **from** *an assessment that information would be utilized in users’ analyses* **to** *demonstrating that the information has or would have a “meaningful effect” on a “breadth or depth” of users’ analyses used in decision making or assessing accountability.*

The addition of the concepts “meaningful effect” and “breadth and depth” are very concerning not only because they are undefined and highly subjective but because: 1) they assume that informed views from the diverse municipal bond analytic community will be available and aligned; and 2) suggest a deep and technical familiarity with accounting standards that is not universal among our membership.

The NFMA believes that the proposed criteria in the Revised Exposure Draft will likely result in fewer note disclosures meeting the threshold level, not because they weren’t important in a holistic assessment of a borrower’s ability and willingness to repay its debts, but because too few users



were able to respond and convincingly articulate a unified view on the impact of a future disclosure on their analyses.

Note Disclosures are very important to municipal bond analysts. Municipal bond analysts assess the degree of risk associated in making an investment. This includes a holistic assessment of the borrower to determine the likelihood that it will make its required payments over the life of the debt. Understanding the borrower’s current financial position is foundational but analysts are also critically focused on identifying potential risks and/or circumstances that could alter the borrower’s ability and/or willingness to repay its debts.

The Notes to Financial Statements often provide information that can change an analyst’s opinion about the risk of a security (e.g., presence of contingent obligations, actuarial assumptions used for pensions, information on interfund borrowings, etc.).

Opinions vary among municipal bond analysts. Investment decisions made by municipal bond analysts can and do vary because of: 1) the subjectivity in assessing the degree of importance any known factor may have on the repayment of debt in the future; and 2) the investment context including, but not limited to, risk tolerance, investment strategy, type of bond (e.g., current interest v. zero-coupon), interest rate/yield, and time horizon. Note disclosures, therefore, must be sufficiently detailed and comprehensive to support informed investment decisions.

Responses to GASB proposals from municipal bond analysts may be constrained. It is important—in the context of the NFMA’s feedback—to clarify that municipal bond analysts typically are not accountants and work in a variety of firms with different roles in the municipal industry. These firms often have rules on publicly responding on market-related issues and some may not – for a variety of reasons – grant time to employees to analyze and respond to GASB requests for comment during the allotted time frame.

Note disclosures are different from other accounting changes.

Unlike changes to GASB accounting standards that change how items are presented in the financial statements or when they are recognized, note disclosures can mean the difference between knowing an important piece of information or being left in the dark. Analysts can – and do – adjust items in the financial statements for their analyses, methodologies, etc. But they cannot incorporate or adjust for what they do not know. This potentially creates a situation of asymmetrical information between the issuer and the municipal bond analyst (investor), in which the investor may be disadvantaged.

Users of note disclosures should be considered more experienced.

The NFMA remains supportive of the view that users of the notes to financial statements should be considered more experienced than the general public or casual reader and that the notes section is not the appropriate place for general or educational information that is not specific and unique



to the reporting unit. General and educational information unnecessarily clutter the notes section and can detract users' focus from other insights that enhance and/or help to explain the financial position of the reporting entity.

We thank you for the opportunity to provide our comments on the Revised Exposure Draft relating to Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements and would be happy to discuss our feedback in follow-up communications.

Sincerely,

/s/

Lisa Washburn
NFMA Representative to GASAC

