

Deloitte.



Upcoming GASB Statements

June 10, 2019

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Agenda

Introduction

GASB Statements Effective for Fiscal Year 2019

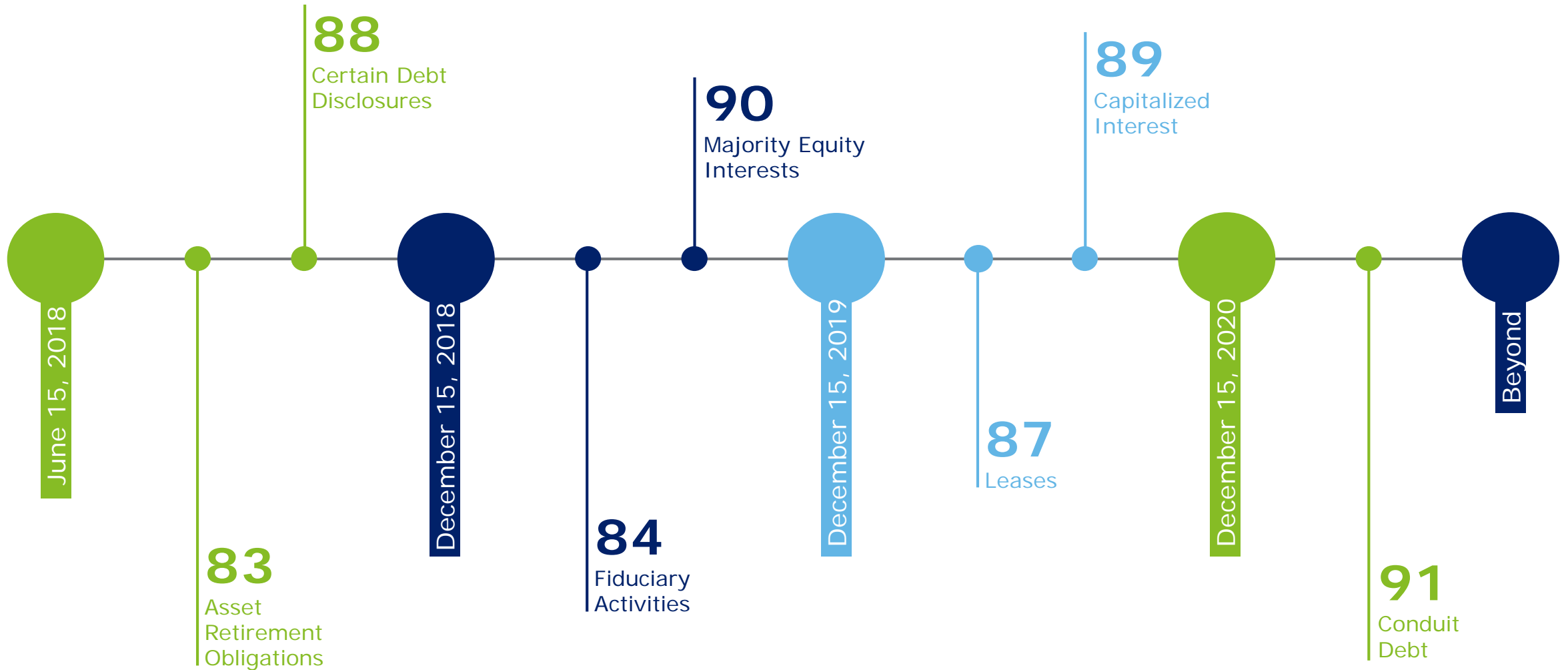
GASB Statements Effective for Fiscal Year 2020

GASB Statements Effective for Fiscal Year 2021

GASB Statement Effective for Fiscal Year 2022

GASB Statements

Effective for periods beginning after...



Statement No. 83
Certain Asset Retirement
Obligations

Definition and Scope

Asset retirement obligations (ARO)—Legally enforceable liability associated with the retirement of a tangible capital asset

Retirement of a tangible capital asset—The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)



Includes

- Nuclear power plant decommissioning
- Coal ash pond closure (those that are not landfills)
- Contractually required land restoration such as removal of wind turbines
- Other similar obligations

Excludes

- Landfills (Statement 18)
- Pollution remediation obligations from abnormal operation (Statement 49)
- Conditional obligations

Recognition

Initial recognition of an ARO liability happens when:

- The liability is incurred and is reasonably estimable
- Incurrence manifested by both an **external** obligating event **and** an **internal** obligating event

Corresponding debit at initial recognition is a deferred outflow of resources

- Deferred outflow of resources should be subsequently recognized as an outflow of resources (such as an expense) in a rational, systematic manner over estimated useful life of capital asset
- If the capital asset is abandoned prior to being placed in operation, immediately expense

External Obligating Event:

Approval of laws or regulations, creation of legally binding contract, issuance of court judgment

Internal Obligating Event:

Contamination – Occurrence
Non-contamination – Either based on use, placed into operation, or permanent abandonment

Measurement

Measurement technique—Current value

- The amount that would be paid if all equipment, facilities, and services included in the estimate were acquired at the end of the current period
- Use “best-estimate” approach
 - Incorporate all evidence that can be obtained at a reasonable cost

Subsequent measurement

- At least annually, adjust for general inflation or deflation
- At least annually, evaluate relevant factors to determine whether effects of factors are expected to significantly increase or decrease expected outlay.
 - If significant, remeasure the liability

Exception for a Minority Owner of a Jointly Owned Capital Asset

Minority share (less than 50 percent) of ownership interest in an undivided interest arrangement in one of the following:

- A nongovernmental entity is the majority owner
- No majority owner, but a nongovernmental owner has the operational responsibility

Initial and Subsequent Measurement Exception —

- The governmental minority owner should report its minority share of ARO using the measurement produced by the nongovernmental joint owner

The measurement date of such an ARO should be no more than one year and one day prior to the government's financial reporting date

Effects of Funding and Assurance

If legally required to provide funding and assurance, disclose that fact

Do not offset ARO with assets restricted for payment of the ARO

Costs to comply with funding and assurance provisions are period costs separate from the ARO expense



Disclosures

- ❑ General description of ARO and associated tangible capital assets
 - ❑ Include source of AROs (federal, state, or local laws and regulations, contracts, or court judgments)
- ❑ Methods and assumptions used to measure ARO liabilities
- ❑ Estimated remaining useful life of tangible capital assets
- ❑ How financial assurance requirements, if any, are being met
- ❑ Amount of assets restricted for payment of ARO liabilities, if not separately displayed in financial statements
- ❑ If a government has an ARO (or portions of an ARO) that is incurred but not yet recognized because it cannot be reasonably estimated, that fact and the reasons therefor

Disclosures for Minority Owners

- ❑ General description of ARO and associated tangible capital assets, including:
 - ❑ Total amount of AROs shared by the joint owners
 - ❑ The percentage of the government's minority share
 - ❑ The dollar amount of the government's minority share
- ❑ The date of the measurement of the ARO produced by the nongovernmental joint owner, if different from the government's reporting date
- ❑ How any legally required funding or assurance requirements are being met
- ❑ The amount of assets restricted for payment of ARO, if not separately displayed in financial statements

Statement No. 88

Certain Disclosures Related
to Debt, including Direct
Borrowings and Direct
Placements

Overview

Defines “debt” for purposes of financial statement disclosures:

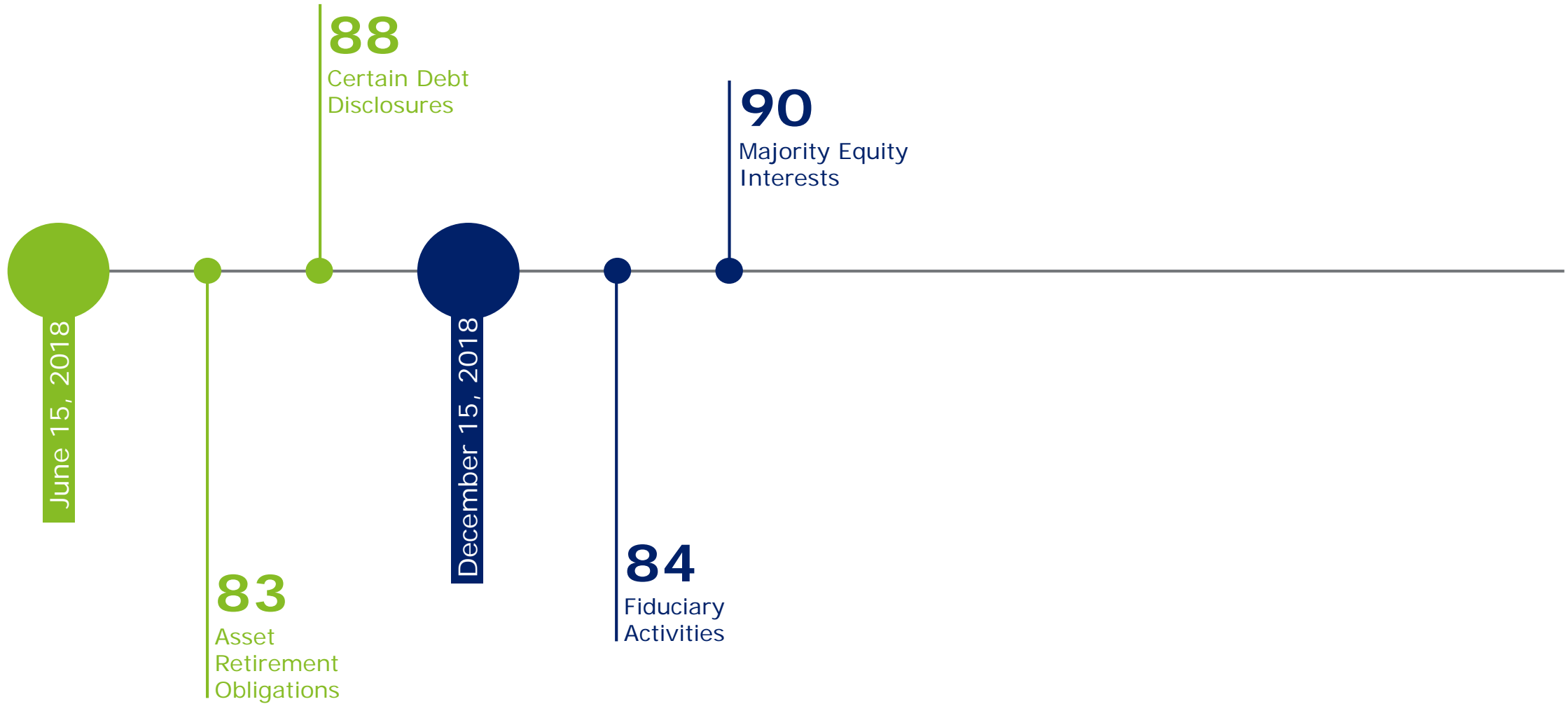
- A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established
- Does not include leases (excepted financed purchases) or accounts payable

Notes to financial statements must include the following summarized information:

- Amounts of unused lines of credit
- Assets pledged as collateral for debt
- Terms specified in debt agreements for significant events of default, termination, or subjective acceleration clauses with finance-related consequences

Separate information for direct borrowings and direct placements from other debt

Effective for periods beginning after...



Statement No. 84

Fiduciary Activities

Objectives

Clarify ambiguity in existing standards about whether a fiduciary activity should be included in the government's financial statements

Enhance comparability of fiduciary activity and improve the use of fiduciary activity information for assessing the accountability of governments as fiduciaries



What Should Be Reported in Fiduciary Funds?

Fiduciary Component Units	Postemployment Benefits	Qualifying trusts
		Assets for other entities
	Other Activities	Trusts holding assets for others
		Assets are for the benefit of others and government does not have administrative or direct financial involvement
Non-Component Unit Fiduciary Activities	Postemployment Benefits	Assets the government controls
	Other Activities	Assets are controlled by the government, not derived from own-source or nonexchange revenues, and administered either through a trust or outside a trust with no administrative or direct financial involvement (exception: pass-through grants)

Key Terms

Control – a government controls the assets if the government:

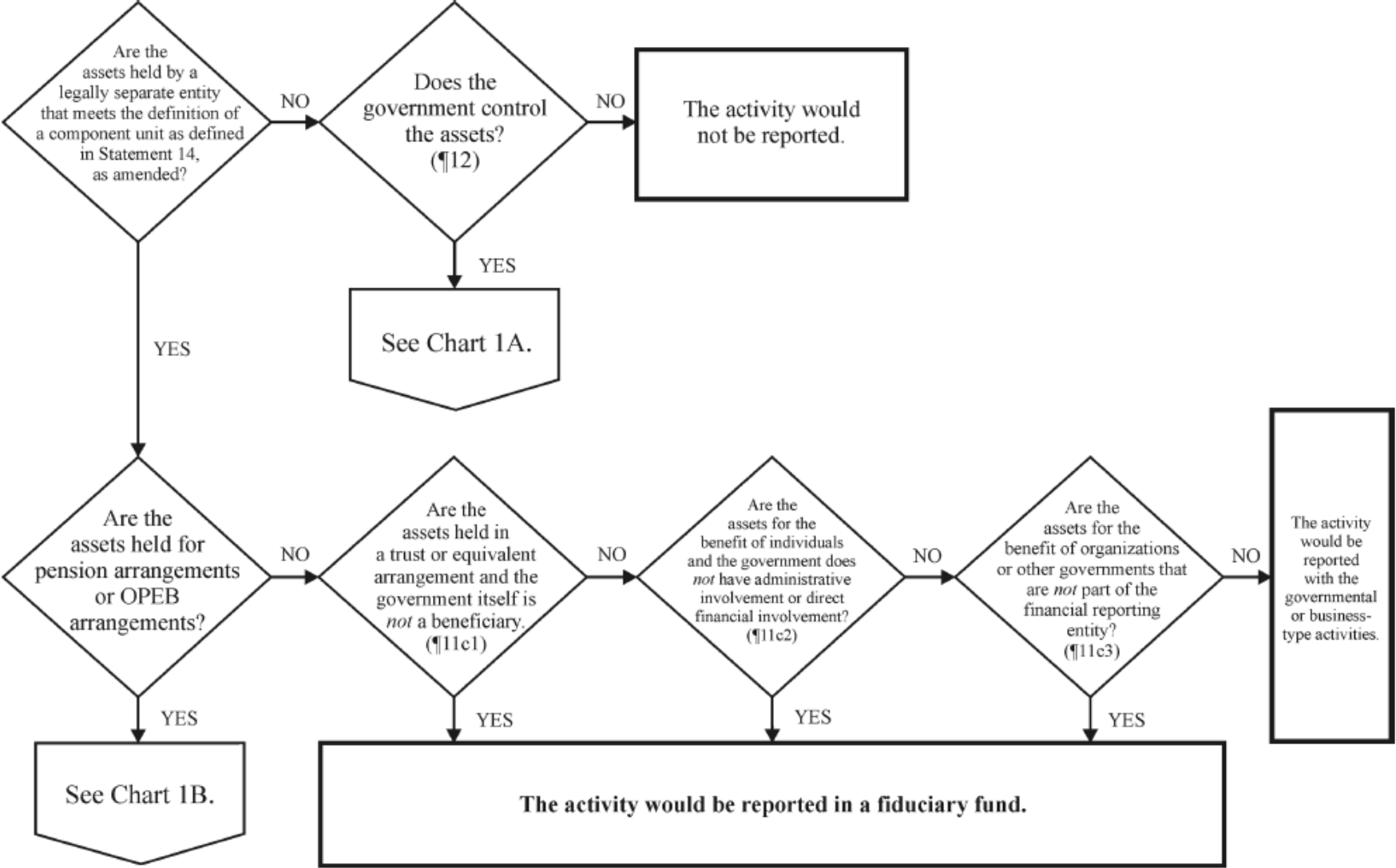
- Holds the assets, or
- Has the ability to use, exchange, or employ the assets in a manner that provides benefits to the specified or intended beneficiaries
- Restrictions on use of the assets for specific purposes do not negate government's control

Administrative involvement:

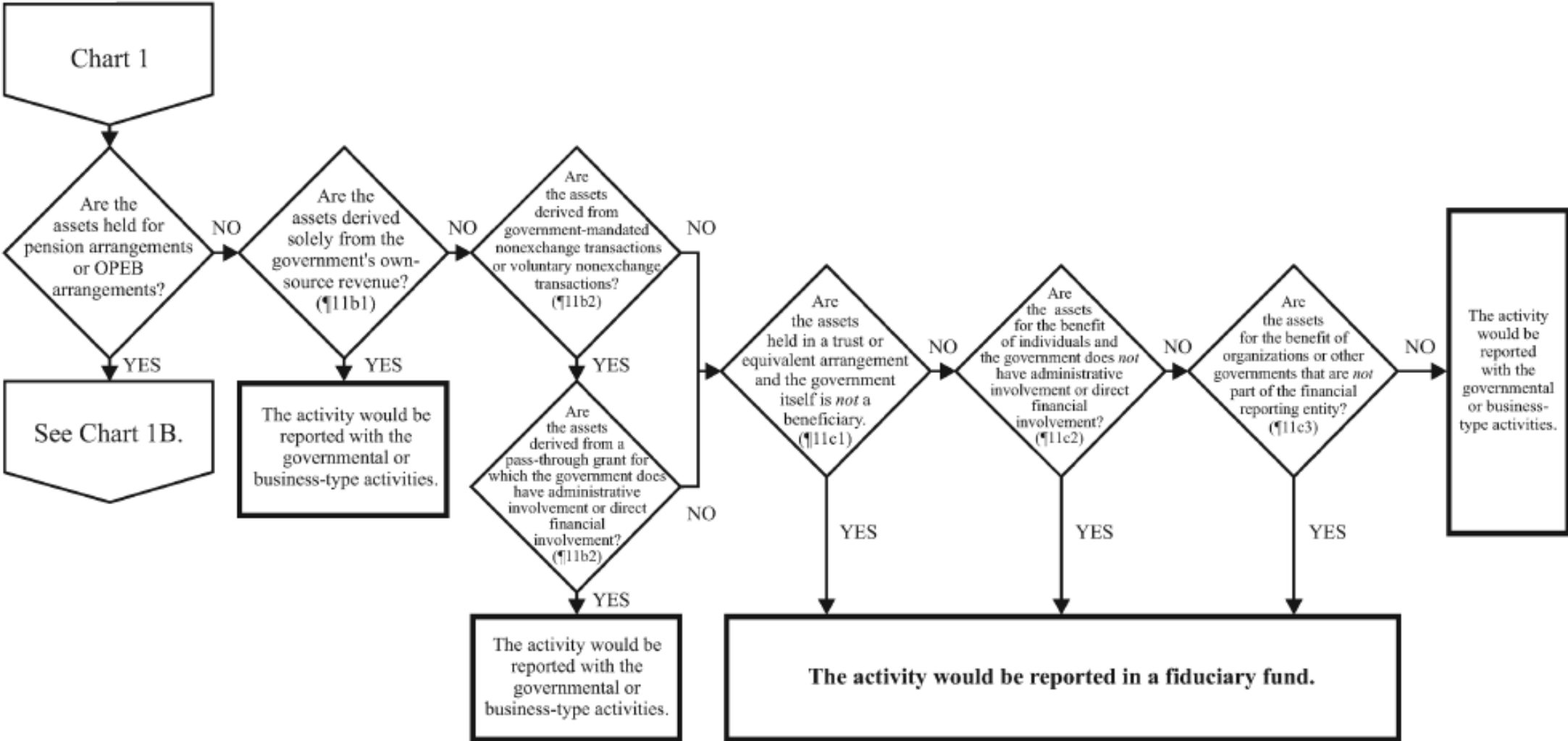
- Monitors compliance stipulations or eligible expenditures established by the government or by a non-beneficiary resource provider
- Can exercise discretion over how assets are allocated

Direct financial involvement – financing of some of the program costs (i.e. matching resources)

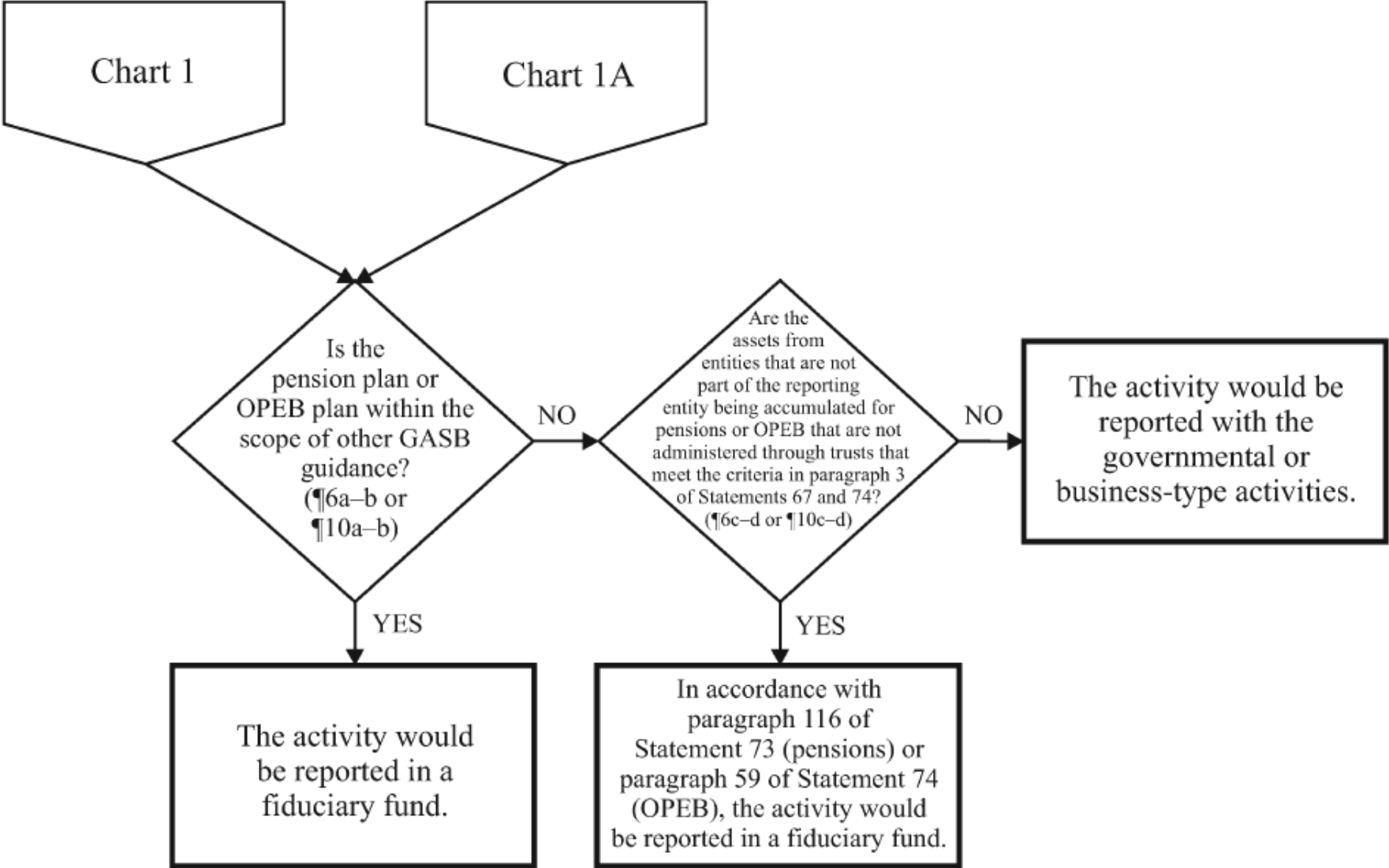
The Decision Tree – Chart 1



The Decision Tree – Chart 1A



The Decision Tree – Chart 1B



What Type of Fiduciary Fund Should Be Used?

Pension (and other employee benefit) trust funds	Investment trust funds	Private-purpose trust funds	Custodial funds
<ul style="list-style-type: none"> • Pension/OPEB plans administered through Statement 68/75 trusts • Other pension/OPEB plans in trusts that meet all criteria of Statement 68/75 trusts except protection from creditors of plan members 	<ul style="list-style-type: none"> • External portion of investment pools held in a qualifying trust • Individual investment accounts that are in trusts legally protected from government's creditors 	<p>All other activities in a trust legally protected from government's creditors</p>	<ul style="list-style-type: none"> • All fiduciary activities not required to be in other fund types • NOTE: External portion of investment pools <u>not</u> held in a qualifying trust should be a separate column within custodial funds

Presentation of Fiduciary Fund Financials



Requires both a statement of fiduciary net position and statement of changes in fiduciary net position

- Disaggregate additions by sources and deductions by type (except if held for less than three months)

Defines when a fiduciary fund should recognize a liability

- Pension (and other employee benefit) trust funds apply Statements 67 and 74 – liabilities recognized when benefits are due and payable in accordance with benefit terms
- Other fiduciary funds – when event occurs that compels disbursement of fiduciary resources (when demand is made or when no further beneficiary action, approval, or condition is required to release the assets)

Statement No. 90

Majority Equity Interests

Overview

Defines “equity interest”

- Financial interest in a legally separate organization evidenced by ownership of shares of the organization’s stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government
- Explicit and measurable – present or future claim to the net resources of the entity and a method for measuring the government’s share is determinable

Provides accounting and financial reporting guidance for instances in which a government holds a majority equity interest

Owners of a Majority Equity Interest

Governments that hold a majority equity interest:

- If it meets the definition of an investment
 - Report as investment and measure using equity method
- If it does **not** meet the definition of an investment
 - Measure using equity method in fund that holds the equity interest
 - Report as a component unit

Investments are both (a) held primarily for the purpose of income or profit **and** (b) have a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

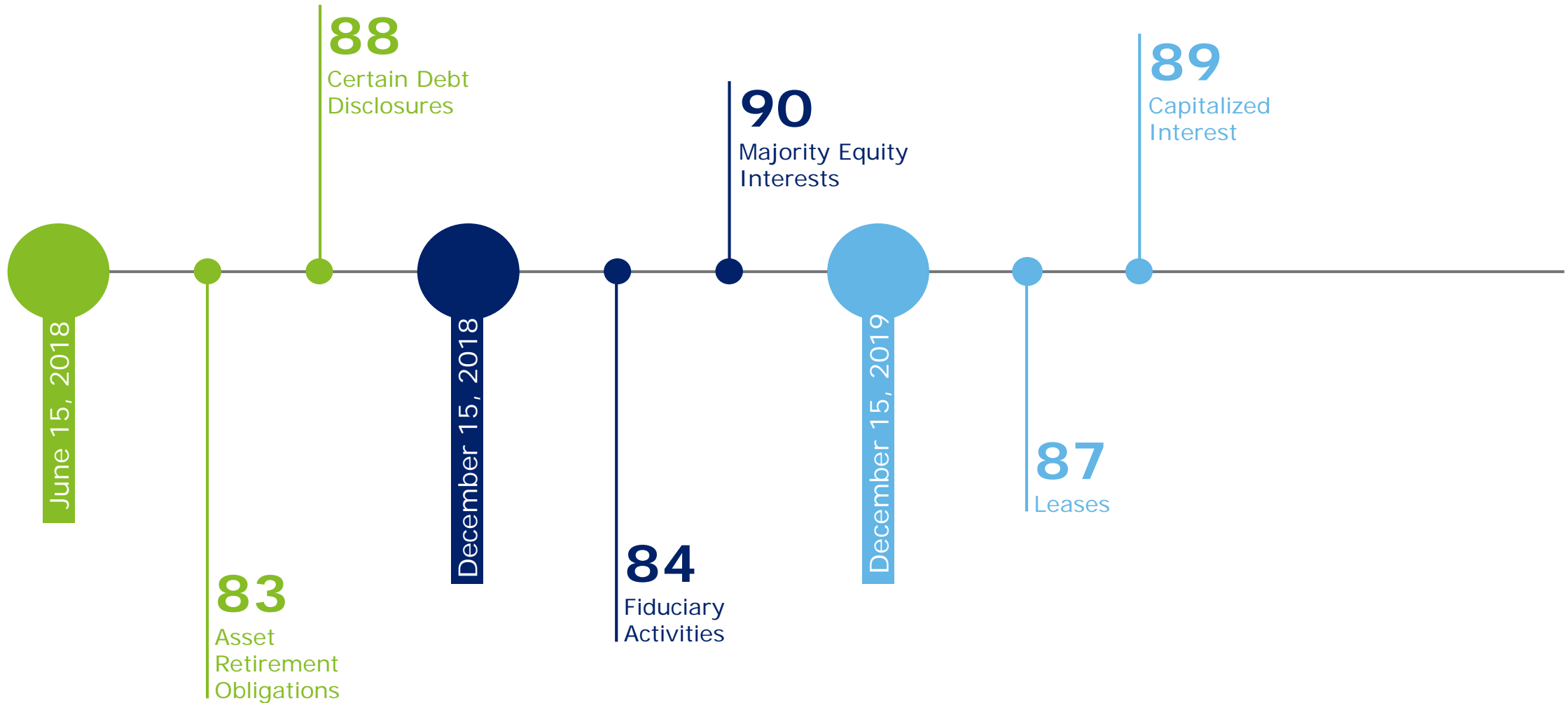
EXCEPTION: Certain special-purpose entities (fiduciary activities, endowments, permanent funds) would classify these as investments and measured in accordance with paragraph 64 of Statement 72 (generally fair value)

Owners of 100% Interest in a Component Unit

Governments that hold 100% interest in a component unit:

- Component unit measures its assets, liabilities, deferred outflows of resources and deferred inflows of resources using acquisition accounting on the date that the government acquires 100%
- Government measures investment based on net position after component unit completes acquisition value remeasurement
- Only component unit operations subsequent to the acquisition would be reported

Effective for periods beginning after...



Statement No. 87

Leases

Existing guidance on leases

Lessees

- Capital lease
- Operating Lease

Lessors

- Sales-type leases
- Direct financing leases
- Operating leases



~~Existing~~ guidance on leases

NEW

Single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Generally, all leases should be presented on the face of the balance sheet of the lessee (liability) and lessor (receivable).



Lease (n):

A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.

Definition of a Lease

Control is manifested by:

- The right to obtain the present service capacity from use of the underlying asset, **AND**
- The right to determine the nature and manner of use of the underlying asset

Control applied to the right-to-use lease asset (a capital asset) “specified in the contract”

Control criteria is NOT limited to contracts that convey substantially all of the present service capacity from the underlying asset

- Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day

Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights)
- Biological assets (including timber, living plants, and living animals)
- Service concession arrangements (see GASB Statement 60)
- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)
- Inventory



Lease Term

Starts with the noncancelable period, plus periods covered by a lessee's or a lessor's option to:

- Extend the lease, if the option is reasonably certain of being exercised
- Terminate the lease, if the option is reasonably certain of NOT being exercised

Excludes "cancelable" periods

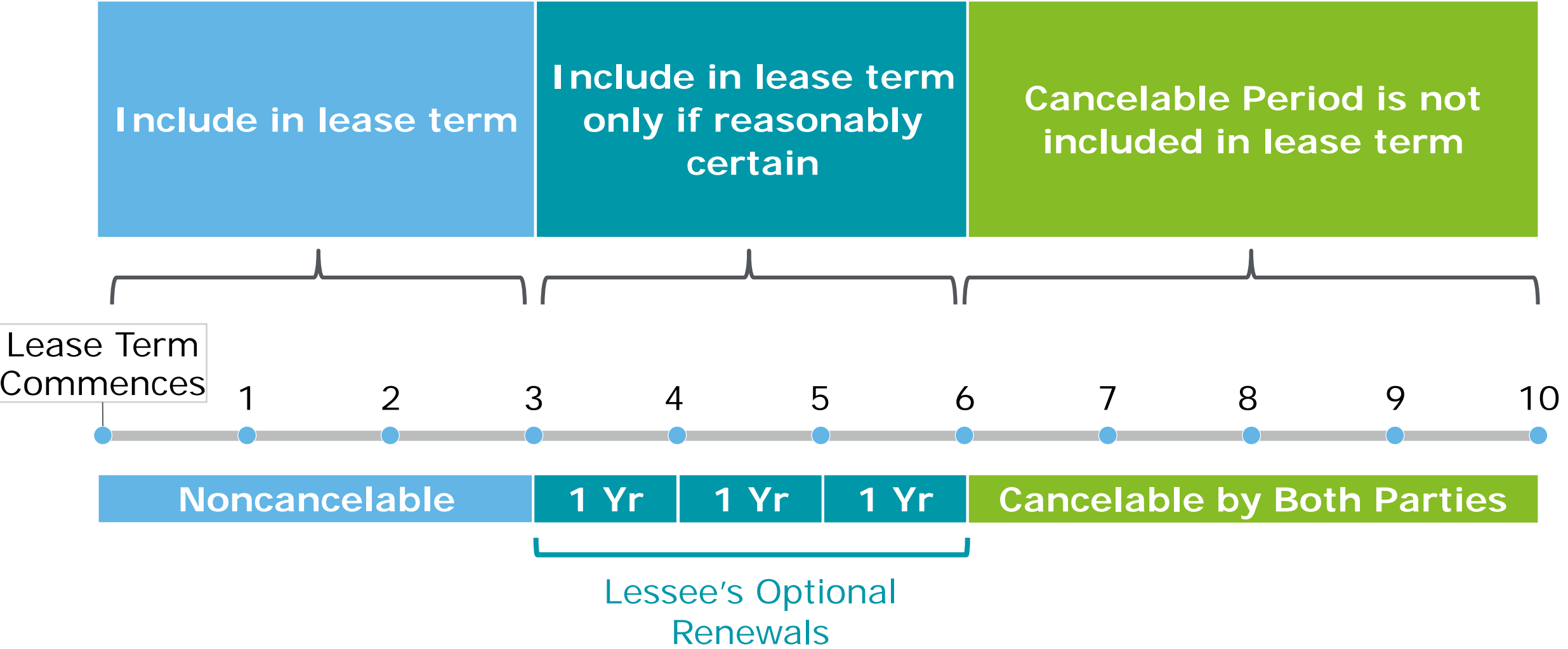
- Periods for which lessee and lessor each have the option to terminate
 - Rolling month-to-month leases, or right-to-use asset during a holdover period

Fiscal funding/cancellation clauses ignored unless reasonably certain of being exercised

Reasonably certain:

Higher threshold and less speculative than probable, more consistent with reasonably assured.

Lease Term (Continued)



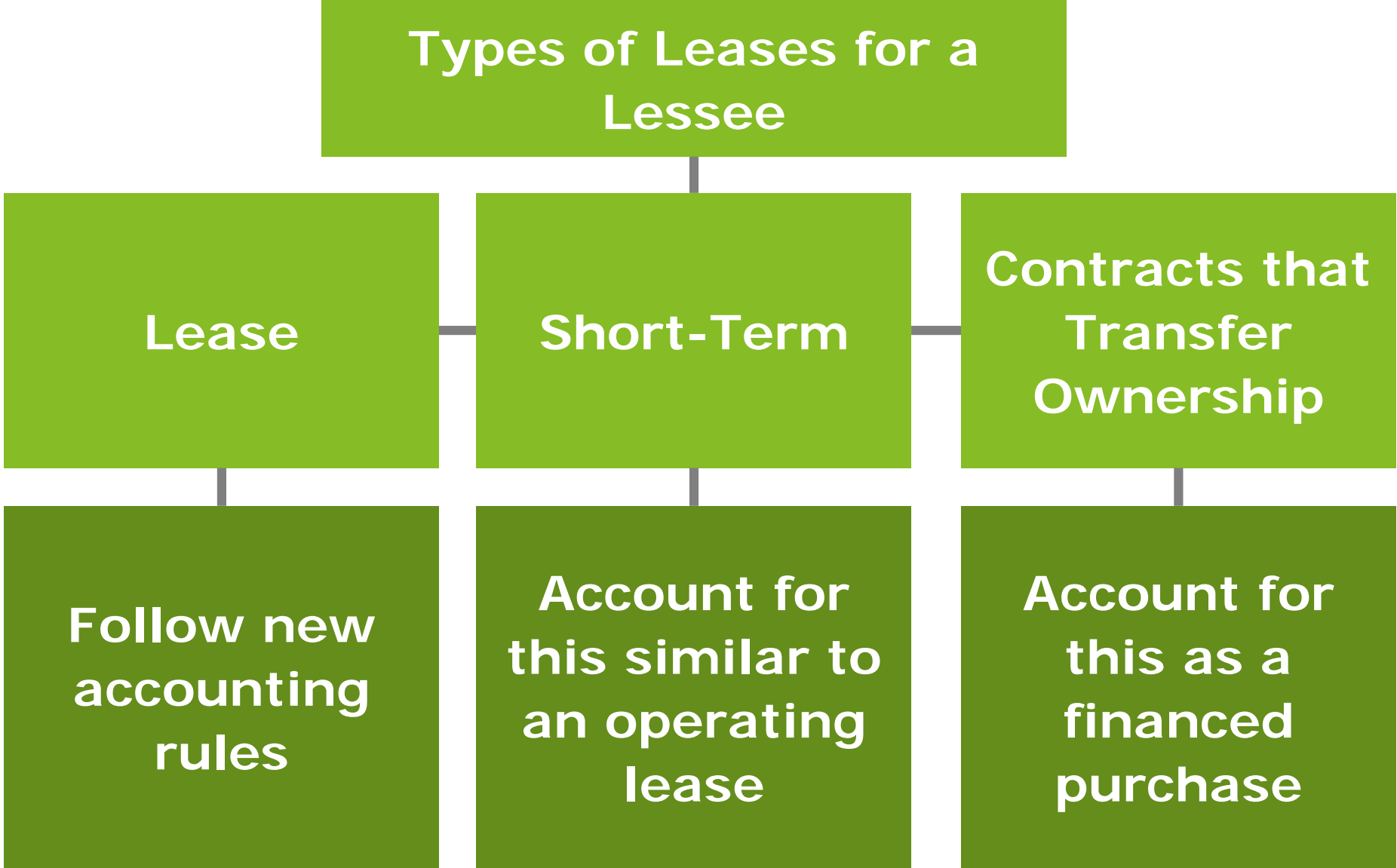
Lease Term (Continued)

Reassess the lease term only if any of the following occurs:

- Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would not exercise that option
- Lessee or lessor elects not to exercise an option even though originally determined that the lessee or lessor would exercise that option
- An event specified in the contract that obligates the lessee to extend or terminate the lease occurs, resulting in a change in the lease term

Lessees

Special Types of Leases—Lessee



Short-Term Leases & Contracts that Transfer Ownership

A **short-term lease** is one that, at the commencement of the lease term, has a “maximum possible term” under the contract of 12 months or less

Maximum possible term -

- Includes any options to extend regardless of their probability
- For a lease that is cancelable either party, the maximum possible term is the noncancelable period including any notice period
- NOTE: Leases that transfer ownership do not qualify for the short-term lease exception, even if they meet the other criteria

A **contract that transfers ownership** is a contract that:

- Transfers ownership of the underlying asset to the lessee at the end of the contract
- Has no termination options (except fiscal funding or cancellation that is not reasonably certain)

Accounting for Leases—Lessee

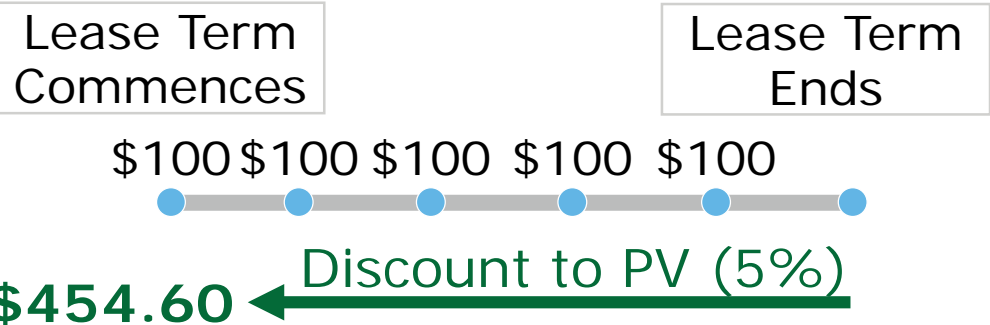
	Initial Recognition	Amortization	Remeasurement
Right-to-Use Asset	<ul style="list-style-type: none"> Lease liability Prepayments Lease incentives¹ Certain initial direct costs 	<p>Amortize in systematic and rational manner</p>	<ul style="list-style-type: none"> Impairment Remeasurement of liability
Lease Liability	<ul style="list-style-type: none"> Fixed Payments Lease incentives¹ Variable payments (indexed or fixed in substance) Reasonably certain residual value guarantees or purchase options Reasonably certain termination penalties Other reasonably certain payments <p>Discount using interest rate</p>	<p>Payments first applied to accrued interest, then to lease liability</p>	<ul style="list-style-type: none"> Change in lease term Change in likelihood of residual value guarantee or purchase option Change in estimated amounts for payments Change in interest rate charged by lessor A contingency resolves making variable payments fixed or in-substance fixed <p>Only if there is a significant effect on the lease liability</p>

¹ See paragraphs 61 and 62 for guidance on how lease incentives affect initial recognition

Accounting for Leases: Emphasis Points

Discounting lease receivables (lessor) and lease liabilities (lessee)

- Use the interest rate charged to the lessee (could be implicit and need to be imputed)
- Rent payments will be applied first to accrued interest receivable/payable and then to the lease receivable/liability, resulting in a portion being reflected as interest income



Period	Cash	Interest Income	Receivable Reduction	Receivable Balance
				\$ 454.60
0	\$ 100.00	\$ -	\$ 100.00	\$ 354.60
1	\$ 100.00	\$ 17.73	\$ 82.27	\$ 272.32
2	\$ 100.00	\$ 13.62	\$ 86.38	\$ 185.94
3	\$ 100.00	\$ 9.30	\$ 90.70	\$ 95.24
4	\$ 100.00	\$ 4.76	\$ 95.24	\$ -

Accounting for Leases: Emphasis Points (continued)

Variable payments

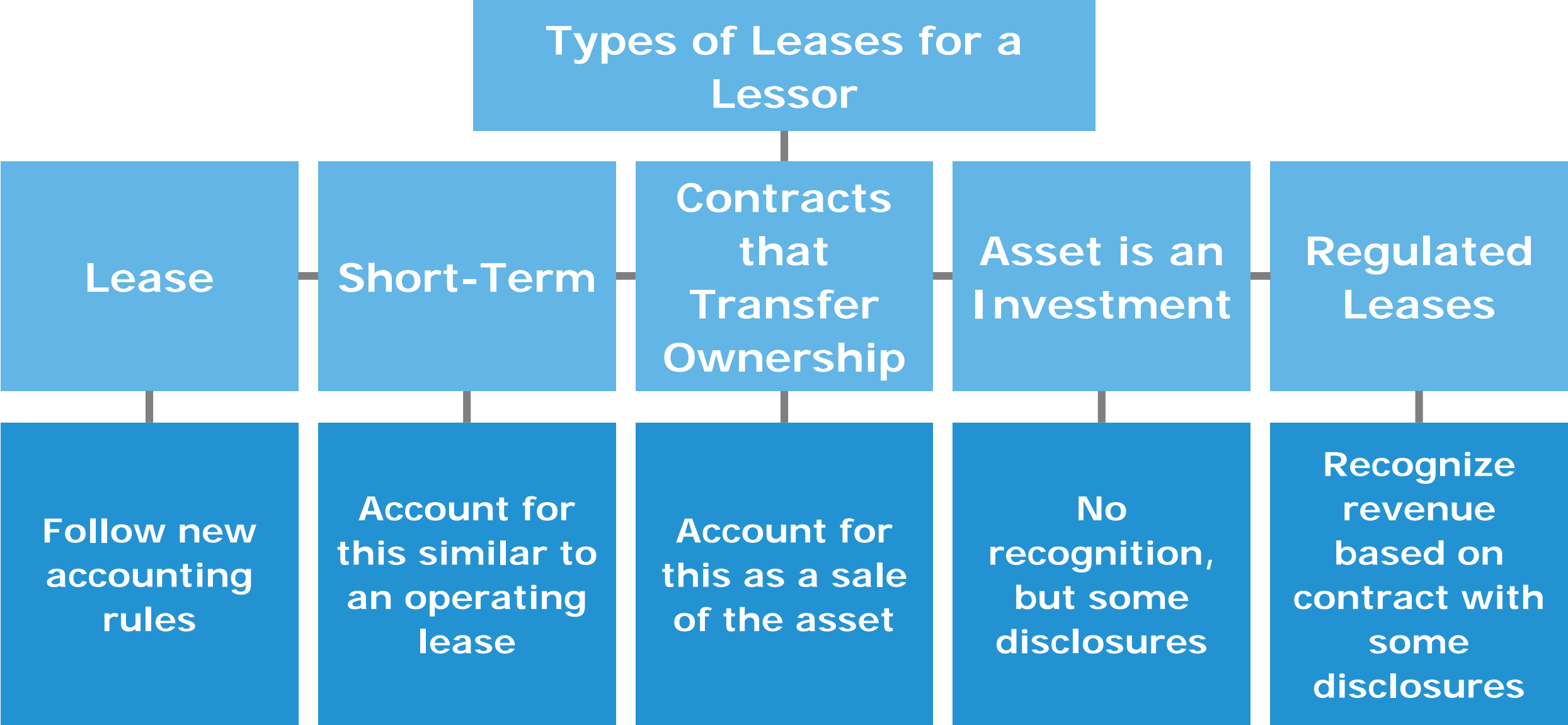
- Lease receivable (lessor) or lease liability (lessee) includes variable payments that:
 - Depend on an index or rate (like CPI or market interest rate)
 - Variable payments that are fixed in substance
- Lease receivable/liability does not include variable payments based on future performance of the lessee or usage of the underlying asset

Lessee Disclosures (Does Not Apply to Short-Term Leases)

- ❑ A general description of leasing arrangements
- ❑ Basis, terms, and conditions, for variable lease payments
- ❑ Existence, terms, and conditions, of residual value guarantees provided by the lessee
- ❑ Total amount of assets recorded under leases, and the related accumulated amortization, disclosed separately from other capital assets
- ❑ Lease assets disaggregated by major classes of underlying assets, disclosed separately from other capital assets
- ❑ Variable lease payments recognized during period but not previously included in lease liability
- ❑ Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties)
- ❑ A maturity analysis of all future lease payments – payments for each of the first 5 years, then 5-year increments thereafter, principal and interest separately
- ❑ Lease commitments for which the lease term has not begun
- ❑ Components of any impairment loss (impairment loss and related change in lease liability)
- ❑ Collateral for leases (unless it is the underlying asset itself)

Lessons

Special Types of Leases—Lessor



Regulated Leases & Leases of Assets that are Investments

A regulated lease is one in which external laws, regulations, or legal rulings establish **ALL** of the following:

- Lease rates cannot exceed a reasonable amount (reasonableness subject to determination by an external regulator)
- Lease rates should be similar for lessees that are similarly situated
- Lessor cannot deny potential lessees right to enter into leases if facilities are available (lessee's use of the facilities has to comply with generally applicable use restrictions)

NOTE: Guidance uses aviation leases as an example

A lease of an asset that is an investment is a contract that:

- Leases an asset that has been reported at fair value on GASB Statement No. 72
- Do not apply guidance on leases, but certain disclosures are required

Regulated Leases & Leases of Assets that are Investments

Required disclosures for regulated leases:

- General description of agreements
- Extent to which capital assets are subject to preferential or exclusive use by counterparties under agreements, by major class of assets and by major counterparty
- Total inflows recognized in the current period if not presented on face of the financial statements
- Schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments thereafter
- Current year inflows for variable payments not included in expected future minimum payments

Required disclosures for leases of an asset that is an investment:

- If lease payments secure lessor's debt, the existence, terms, and conditions of options by the lessee to terminate a lease or abate lease payments

Accounting for Leases—Lessor

	Initial Recognition	Amortization	Remeasurement
Lease Receivable	<ul style="list-style-type: none"> • Fixed Payments • Lease incentives payable to lessee¹ • Variable payments (indexed or fixed in substance) • Residual value guarantees fixed in substance² <p>Discount using interest rate</p>	<p>Payments first applied to accrued interest, then to lease receivable</p>	<ul style="list-style-type: none"> • Change in lease term • Change in interest rate charged to lessee • A contingency resolves making variable payments fixed or in-substance fixed <p>Only if there is a significant effect on the lease receivable</p>
Deferred Inflow	<ul style="list-style-type: none"> • Lease receivable • Prepayments • Lease incentives¹ • Certain initial direct costs 	<p>Amortize in systematic and rational manner</p>	<ul style="list-style-type: none"> • Remeasurement of lease receivable

¹ See paragraphs 61 and 62 for guidance on how lease incentives affect initial recognition

² Only recognize residual value guarantees not fixed in substance when (a) a guarantee payment is required and (b) amount can be reasonably estimated. Purchase options or penalties are only recognized when options are exercised.

Lessor Disclosures (Does Not Apply to Leases of Investments, Short-Term Leases, or Regulated Leases)

- General description of leasing arrangements
- Basis, terms, and conditions on which variable lease payments not included in the lease receivable are determined
- The total amount of inflows (for example, lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period related to leases if not displayed on the face of financials
- The lease inflows related to variable lease payments, residual value guarantees, termination penalties, and other payments not previously included in the lease receivable
- If lease payments secure lessor's debt, the existence, terms, and conditions of options by the lessee to terminate a lease or abate lease payments

If government's **principal ongoing operations** consist of leasing to other entities:

- Schedule of future lease payments included in lease receivable
- For each of subsequent five years and five-year increments thereafter
- Show both principal and interest

Modified Accrual Accounting for Leases (Governmental Funds)

Lessee—

- Recognize an expenditure and an other financing source in the period the lease is initially recognized
- Lease payments should be recognized in a manner consistent with debt service payments on long-term debt (remember principal versus interest)
- NOTE: Will add new conversion entries between fund level and government wide financial statements

Lessor—

- Account for lease in the same manner as you would in full accrual accounting

Other Lease Topics

GASB's standard also addressed the following lease topics:

- Lease modifications and terminations
- Leases with multiple components
- Contract combinations
- Subleases
- Sale-leasebacks
- Lease-leasebacks
- Related party leases
- Intra-entity leases

Effective Date and Transition

Effective for **periods beginning after December 15, 2019**

Applied retroactively

- Leases recognized and measured using facts and circumstances that exist at the beginning of the period of implementation
- Lessors would not restate the assets underlying their existing sales-type or direct financing leases
 - Any residual assets for those leases would become the carrying values of the underlying assets

Statement No. 89

Accounting for Interest Cost
Incurred before the End of a
Construction Period

Overview

Interest should no longer be capitalized on construction projects

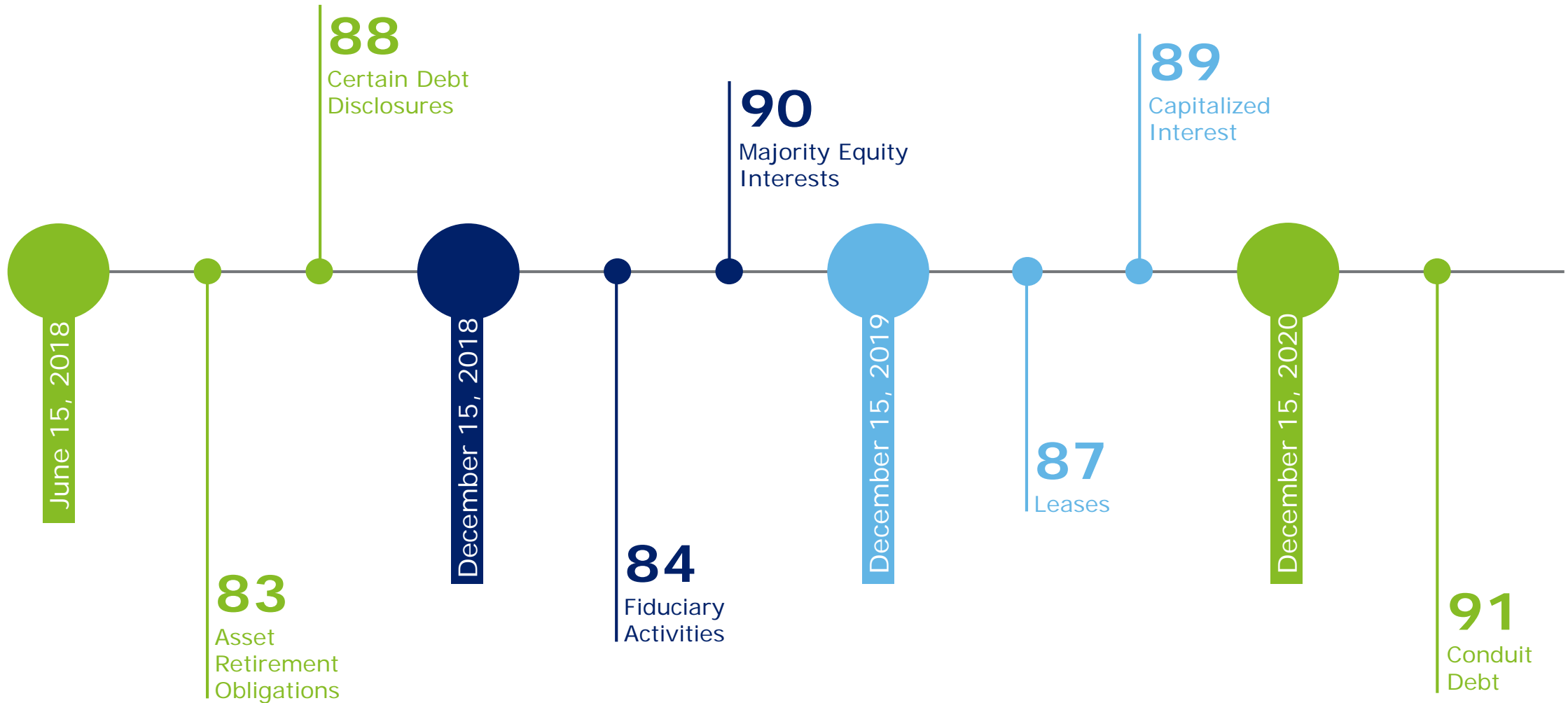
Effective Date and Transition

Effective for **periods beginning after December 15, 2019**

Applied prospectively

- Interest incurred for construction-in-progress after the beginning of the first reporting period of implementation should not be capitalized

Effective for periods beginning after...



Statement No. 91

Conduit Debt Obligations

Definition of Conduit Debt

Conduit Debt

A debt instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third party primarily liable for the repayment of the debt instrument (the third-party obligor)

Must have **ALL** of the following characteristics:

- At least three parties involved:
 1. Issuer
 2. Third-party obligor
 3. Debt holder/trustee
- The issuer and the third-party obligor are not within the same financial reporting entity
- The debt obligation is not a parity bond of the issuer, nor cross-collateralized with other debt of the issuer
- Third-party obligor (or its agent) ultimately receives the proceeds from issuance
- Third-party obligor (not issuer) is primarily obligated for payment of all amounts

Definition of Conduit Debt

Conduit Debt

A debt instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third party primarily liable for the repayment of the debt instrument (the third-party obligor)

An issuer of conduit debt should not recognize a conduit debt obligation as a liability.

Recognition of a liability is evaluated based on the government's commitment:

- Limited
- Additional
- Voluntary

Do not follow nonexchange financial guarantee guidance for conduit debt

Limited vs. Additional vs. Voluntary Commitment

Limited

- Meets all characteristics of conduit debt
- Maintain the issue's tax-exempt status
- No responsibility for debt service payments beyond resources provided by third-party obligor.
- May include facilitating payments from third-party obligor to debt holders or an agent

Additional

- Support debt service payments only in the event third-party obligor is or will be unable to pay
- Extending moral obligation pledge
- Extending an appropriation pledge
- Extending a financial guarantee
- Pledging government's own property, revenue, or other assets as security

Voluntary

- Voluntary decision to make a debt service payment if third-party obligor is or will be unable to pay

NOTE: For financial guarantees for conduit debt, do NOT follow guidance for nonexchange, exchange, or exchange-like financial guarantees in Statements 62 and 70

Additional or Voluntary Liability Recognition

Recognize a liability if it is more likely than not that the issuer will support one or more debt service payments

**More Likely Than
Not is > 50%**

Examples of qualitative factors to consider:

- Third-party obligor is entering bankruptcy or financial reorganization
- Third-party obligor is breaching a debt covenant
- Third-party obligor is experiencing significant financial difficulty (failure to make timely payments, drawing on reserve funds to make payments, significant investment or revenue source loss, entering financial supervision)
- Termination of project that was to be source of funding obligation
- Litigation that would negatively affect project
- Issuer concern that its access to capital markets could be affected by third-party obligor default
- Issuer's history of fulfilling commitments to support conduit debt service payments
- Issuer's willingness or ability to support payments

Liability Measurement

Full Accrual - Discounted present value of best estimate of the future outflows expected to be incurred

- Best estimate – If none, minimum amount of a range (in which no amount appears to be a better estimate) should be used
- Credit liability, debit expense

Modified Accrual – Recognize fund liability to the extent liability is normally expected to be liquidated with expendable available financial resources (payment to support conduit debt is due and payable)

- Credit liability, debit expenditure

Frequency of Evaluating Liability or Potential Liability for Conduit Debt

Limited

- Not required to perform an annual evaluation
- Should evaluate the likelihood of making a debt service payment due to a voluntary commitment only when event or circumstance causes issuer to consider it

Additional

- Required to evaluate at least annually whether recognition criteria are met

Voluntary

- Required to evaluate at least annually whether recognition criteria are met.

Effect of Arrangement Associated with Conduit Debt

May have a lease or similar type arrangement associated with conduit debt:

- Construction/acquisition of the capital asset is financed with proceeds from conduit debt
- Issuer retains title to the capital asset from beginning of the arrangement
- Payments from third-party obligor are to cover the debt service payments
- Payment schedule coincides with the debt service repayment schedule

These arrangements may have an affect on recognition.

Effect of Arrangement Associated with Conduit Debt (cont'd)

Question	If "Yes"	If "No"
Q1: Does this arrangement meet the definition of a service concession arrangement?	Follow Statement 60	Move to Q2
Q2: Does the issuer relinquish title to the capital asset at the end?	No recognition of liability, capital asset, or receivable	Move to Q3
Q3: Does the issuer hold on to title, but allow third-party obligor to have exclusive use of the whole asset?	At end of arrangement, recognize capital asset (acquisition value) and inflow	Move to Q4
Q4: Does the issuer hold on to title, but allow third-party obligor to have exclusive use of portions of the capital asset?	Recognize capital asset (acquisition value) at inception and deferred inflow of resources	No further guidance provided for arrangement

Note Disclosures

- ❑ General description of:
 - ❑ Conduit debt obligations
 - ❑ Limited commitments
 - ❑ Voluntary commitments
 - ❑ Additional commitments including legal authority and limits for extending commitments, length of time, and any arrangements for recovering payments from third-party obligor
- ❑ Aggregate outstanding principal amount of all conduit debt obligations that share the same type of commitment at the end of the reporting period
- ❑ If a liability has been recognized:
 - ❑ Brief description of timing, recognition, and measurement of the liability
 - ❑ Rollforward of balances (including increases and decreases)
 - ❑ Cumulative amounts of payments that have been made on recognized liability at reporting date
 - ❑ Any amounts expected to be recovered

Effective Date and Transition

- Effective for reporting **periods beginning after December 15, 2020**
- Early application permitted
- Retrospectively applied to all periods presented

SEC Amendment

Rule 17 CFR 240.15c-12

Environmental drivers

- To be responsive to market participants' concerns that issuers may not properly disclose existence or the terms of bank loans, particularly when they may adversely affect bondholders
- Six of the seven largest municipal bankruptcies have occurred since 2011
- Increasing use of direct purchases of municipal securities and direct loans (collectively "direct placements") as an alternative to public offerings

Objectives

- Facilitate investors' and other market participants' access to important information in a timely manner
- Enhance transparency in the municipal securities market
- Improve investor protection

New Requirement

In a timely manner not in excess of **ten business days** after the occurrence of the event, notice of any of the following events with respect to the securities being offered in the Offering:

- Incurrence of a **financial obligation** of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material
- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties; and

Key terms

“Financial obligation”

- A debt obligation
- Derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation
- A guarantee of either a debt obligating or a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation
- Does **not** include municipal securities as to which a final official statement has been provided to MSRB

Key terms (continued)

“Financial obligation” (continued)

- Includes leases that are entered into as a vehicle to borrow money
 - Examples: certificates of participation, lease-revenue transactions (borrowing money to finance an equipment or real property acquisition or improvement)
- Does not include other leases
 - Examples: commercial building leases, airline and concessionaire leases at airport facilities, copy machine leases

Key terms (continued)

“Material”

- Whether a financial obligation or the terms of a financial obligation, if they affect security holders, would be important to a reasonable investor when making an investment decision
- Should be based on whether the information would be important to the total mix of information made available to the reasonable investor
- Opinions may differ as to what is material, but no further guidance is being provided at this time

Effective date

Effective for continuing disclosure agreements entered into after
February 27, 2019



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