

Conduit Debt Obligations

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[Governmental Accounting Standards Board \(GASB\) Statement No. 91, *Conduit Debt Obligations*](#), provides governments a single method of reporting conduit debt obligations, including disclosures guidance. The statement provides a clarified definition of conduit debt obligations which is expected to resolve uncertainty as to whether certain financing is a conduit debt obligation. GASB Statement No. 91 will be effective for governments for the year ended June 30, 2023 (fiscal years beginning after December 15, 2021).

Conduit debt is a debt obligation issued by a government to provide financing to benefit a third-party which is responsible for repayment of the debt. Conduit debt obligations are generally tax-exempt; therefore, they provide a method for not-for-profits and other entities to secure financing at favorable tax-exempt rates.

What is a conduit debt obligation? A conduit debt obligation (CDO) is a debt instrument issued in the name of a government (the issuer) that is for the benefit of a third-party primarily responsible for the repayment of the debt instrument (the third-party obligor). A conduit debt obligation has *all* of the following characteristics:

- At least three parties involved: an issuer, a third-party obligor, and a debt holder or a debt 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 is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated to make debt service payments.

A government issuing conduit debt makes a limited commitment to maintain its tax-exempt status, but may choose to make additional commitments related to the debt service payments. A government should recognize a liability associated with an additional commitment if qualitative factors indicate it is more likely than not that the government will support one or more debt service payments. Alternatively, a government that previously recognized conduit debt obligations may need to remove the liability if the recognition criteria are not satisfied. Lastly, in certain circumstances the government may need to recognize capital assets related to the conduit debt arrangement.

Disclosure requirements for conduit debt include the following:

- General description of the conduit debt obligations
- Aggregate outstanding principal at the end of the reporting period, grouped by type of commitment
- Description of voluntary and additional commitments, including arrangements for recovering payments from third-party obligors
- Governments that recognize liabilities for conduit debt should disclose information about recognized amounts and changes in liabilities during the period

What are the next steps if your government has conduit debt obligations?

- Identify any conduit debt obligations
- Determine and assess the commitments for each obligation
- Gather information required for the note disclosures

As always, don't hesitate to [contact a HeinfeldMeech team member](#) if you have questions regarding this new GASB statement.

Related articles:

- [Déjà vu! – GASB 96](#)
- [GASB Statement 87, Leases: Common Implementation Questions](#)
- [GASB Statement No. 87, Leases – The Basics](#)