



**DEPARTMENT OF VETERANS AFFAIRS
DEPUTY ASSISTANT SECRETARY FOR FINANCE
WASHINGTON DC 20420**

DEC 6 2007

Ms. Wendy M. Combs, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Combs:

The Department of Veterans Affairs (VA) has reviewed the exposure draft, "Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates" and offers responses to the following "Questions for Respondents."

1.2 Do you believe the standard provides satisfactory guidance as to what should be displayed as gains and losses from changes in assumptions?

It would be useful to be somewhat clearer in the *Glossary* regarding what is meant by "long-term assumptions." Usually such assumptions would be demographic or economic in nature, while the definition refers to a series of events which may not be a component of long-term assumptions. Nevertheless, we believe that this could be interpreted to include all demographic and economic assumptions relating to all future benefit payments of a program such as the VA compensation program. It would not make sense to make an arbitrary cutoff for economic and demographic assumptions for a given period.

5.1 Do you believe average historical Treasury rates are appropriate discount rates for measuring long-term liabilities in the federal government, rather than current market rates?

Yes. Appropriately chosen historical Treasury rates can emphasize expected long-range future trends. "Single day" rates include short-term volatility which can distort the value of long-term liabilities. Intuitively, the liabilities develop and run-off over long periods of time so it is reasonable the discount rate should reflect a longer timeframe.

5.2 How would you interpret the word "historical" in the phrase "average historical Treasury rates," for example, a 1-year average? 5-year average? 20-year average?

VA would prefer to see more guidance regarding the time period used for averaging. Also, the averaging method could be clarified: weighted versus un-weighted and arithmetic average versus geometric average. It would be beneficial to have the discussion of these details prior to audit time.

Page 2.

Ms. Wendy M. Combs

5.3 The proposed standard incorporates prior FASAB guidance regarding selecting economic assumptions. It invokes Actuarial Standards of Practice and does not affect the explicit SFFAS 5 requirement for consistency among assumptions. See ED paragraphs 33, which contains revisions to relevant SFFAS 5 paragraphs. Some observers advocate expanding the scope of the standard to provide for selecting all economic assumptions because they are concerned about consistency between the discount rate and other economic assumptions employed. Do you believe that the guidance in the revised SFFAS 5 paragraphs (as shown in paragraph 33 of this exposure draft) is sufficiently specific regarding the necessity for the discount rate to be consistent with other economic assumptions?

Yes. The proposed standard states the need for consistency between assumptions, and particularly between economic assumptions, in several places.

7. Do you believe the approach regarding “reasonable estimate” rather than “best estimate” assumptions in paragraph 31 is appropriate?

The approach regarding “reasonable estimate” as described in paragraph 32 is appropriate. However, note that at least one of the example assumptions given, the cost of living adjustment, is at least to some extent related to interest rates. We are concerned that the guidance provided in this paragraph, which permits the use of the entity's own assumptions as long as they can be justified if they deviate from independent sources, may prove inconsistent with the historical interest rates used in setting discount rates. A discussion of this possible inconsistency might be included as guidance.

Other comments:

- In paragraph 24, we believe that it would be more appropriate to refer to “rate(s)” rather than “rate.”
- In paragraph 27, “cash flows” should be used in place of “payments” and “effect of using” should be inserted before “multiple-rate” in the last line.
- Beginning with Paragraph 29, the phrase “expected re-financing rates extrapolated” is used throughout the remainder of the Exposure Draft. We believe that this phrase should be clarified with further guidance or explanation.

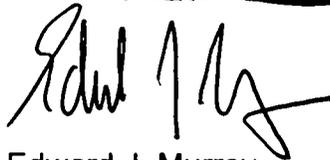
Page 3.

Ms. Wendy M. Combs

- We suggest that the definition of "Prior Service Costs" be refined. First, the current definition includes "in a plan amendment" when for many programs, such as the VA compensation program, there is no "plan." We suggest either deleting this phrase or adding retroactive benefits provided through new legislation or regulation.

If you have any questions, please have your staff call Pete Mulhern, Cost and Debt Management Service, at (202) 461-6487.

Sincerely,



Edward J. Murray