United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

TAKE PRIDE IN AMERICA

JAN 15 2008

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

RE: FASAB Exposure Draft, *Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, dated 3 August 2007

Thank you for the opportunity to review and comment on the FASAB Exposure Draft (ED), *Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, dated August 3, 2007.

As discussed in more detail within Enclosure 1, the Department believes this ED attempts to broadly address present value calculations, assumptions, and discount rates related to limited and certain federal components without considering the value of dealing specifically with items that may need specificity. A detailed reading of this ED and its Basis for Conclusions in Appendix A make it apparent that its intent focused on employee benefit obligations and not environmental and contingent liabilities. The Department would like to see these elements removed from this draft and, if the Board believes their accounting to be lacking, they should be addressed separately and distinctly. The complexities and elements within these two liabilities already require extraordinary effort and drain resources within the compressed timeframes of current reporting. In addition, the Department has concerns that the broad and non-specific elements captured within the scope will prove extremely difficult and costly to implement without adding clear value to the Statement of Net Cost. Accordingly, the Department does not recommend implementation of this ED and its requirements as currently written.

Again, thank you for the opportunity to respond to these questions. If you need any additional information, please contact me or Ernest Goebel at (202) 208-4701.

Sincerely,

Daniel L. Fletcher
Director, Office of Financial Management

Enclosure

The Department of the Interior Response to FASAB Exposure Draft: Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, dated August 3, 2007

The Department's responses to the Questions to Respondents are as follows:

Display and Disclosure

Question 1: *This statement proposes to display gains and losses from changes in assumptions, including the discount rate assumptions, as a discrete item on the statement of net cost. See paragraphs 19-26 in the standard, paragraphs A1-A10 in the basis for conclusions, and the illustration in Appendix B, "Pro Forma Statement of Net Cost Displaying Separate Line Item for Gains and Losses Due to Changes in Assumptions", for more information regarding display and disclosure.*

1.1 Do you believe that the display will be informative?

Department Response to Question 1.1: The Department does not believe the display will be informative for most departments and most bureaus/offices. For example, it is our understanding that the Department of Labor (DOL) and Office of Personnel Management (OPM) calculate pension and other post-employment benefits (OPEB) costs; not the departments or bureaus/offices. Then DOL and OPM allocate these costs between the departments, who further allocate the cost between their bureaus/offices. Any effort to separate the gains or losses based upon cost at the department and subsequently at the bureau/office level would be meaningless. We do not believe the guidance in this ED should apply to any cost data, which is calculated by one entity, and subsequently allocated between several other entities, based upon unidentified percentages or other factors.

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

Please provide your rationale in as much detail as possible.

Department Response to Question 1.2: No, the Department bases this response upon our belief that this ED applies to a very limited Federal audience. We suggest that the use of high-level generalities diminishes the usefulness of the guidance. We suggest the FASAB direct their guidance to those entities that have displayed material gains or losses as the result of changes in assumptions and that they determine who is responsible for the cost calculations before attempting to provide blanket guidance. The standard does not provide specific examples of assumption changes that a reader can consider and attempt to apply it to their situations.

Question 2: *The statement also proposes that the components of the expense associated with long-term liabilities be disclosed in notes to the financial statements. See paragraphs 22 and 26 in the standard, paragraph A.9. in the basis for conclusions,*

and the illustration in Appendix C, "Pro Forma Note Disclosure of Liabilities and Expense", for more information regarding display and disclosure.

Do you believe that disclosure of the components of expense is informative? Please provide your rationale in as much detail as possible.

Department Response to Question 2: No, the Department does not believe that disclosure of long-term liabilities by components would provide more meaningful and useful information. The limited specifics provided in this guidance are so vague that it is hard to determine whether regular long-term construction contracts or procurements would fall under this guidance. We question whether Federal entities could even implement these requirements.

Most contracting and procurement transactions are charged to one or two accounting codes and one standard general ledger (SGL) account by field and procurement personnel based upon the work being done. It is an unrealistic and an unnecessary burden to expect employees to try to break every long-term contract into the proposed components since it would mean they would have to use multiple SGL accounts for every long-term procurement. It is not realistic to expect them to analyze every change order to determine if it is the result of changes in assumptions or the result of some other factor.

Financial statements are prepared at the National level of the organization. Gains and losses would have to be accounted for and reported by; field accountants and/or budget analysts, and procurement personnel that do not have financial statement experience. Multiple SGL accounts would have to be established to try to classify the gains or losses based upon the guidance contained in this ED. Even if they were able to provide the information, we do not believe that this or the other requirements in this ED will provide added benefit to managers or other financial statement users.

Selecting the Discount Rate Assumption

Question 3: *This statement proposes that the preparer provide the 10-, 20-, and 30-year market rate for Treasury securities in the notes to the financial statements as a benchmark comparison with the discount rate used by the entity. See paragraph 24 for the noted disclosure standard and paragraph A.10. as the basis for conclusions for the rationale for the disclosure of market rates.*

Do you believe that disclosure of market rates as described above is informative? Please provide your rationale in as much detail as possible.

Department Response to Question 3: The Department already discloses the range of interest rates that we use each year. As with other responses, the interest rates we use

for various applications are dictated by Department/Bureau Law or by project specific law. Consequently, we have to comply with these laws, which supersede generally accepted accounting principle (GAAP) rate requirements.

***Question** 4: The statement addresses long-term assumptions that have a material effect on the reporting, for example, those used for measuring expense and liabilities associated with pensions, other retirement benefits, and post-employment benefits. The statement excludes short-term assumptions of which it provides specific examples (see paragraph 20.A.), and defines "long-term assumptions" as those involving projections of 5 years or more (see paragraph 15) and, accordingly, short-term assumptions as those involving projections of fewer than 5 years.*

4.1 Do you believe that the 5-year division between short- and long-term assumptions is appropriate?

Department Response to Question 4.1: No, the Department does not believe the 5-year division is appropriate to define long-term liabilities. The form and content requirements that must be followed for preparing financial statements require that information be presented in the statements and the footnotes as either current or non-current. Current liabilities are defined as liabilities that will be paid within one year and non-current liabilities are defined as liabilities that will extend beyond more than a year. Black's Law Dictionary defines, "A Current Liability is a business liability that will be paid or otherwise discharged with current assets or by creating other current liabilities within the next year."

The ED is addressing long-term assumptions and long-term liabilities as those that extend 5-years or more. This is contradictory to every definition we can find for long-term liabilities. We believe that the implementation of long-term liabilities as established in this ED is contradictory and will cause conflicts for financial statement reporting and preparation. This contradiction will require significant and lengthy explanatory paragraphs at a time when Federal reports are being criticized for being too voluminous.

If the FASAB insists upon the 5-year division for long-term liabilities, we feel it must be very clearly defined in the Glossary as to what situations the division/definition applies, i.e., that it is specific to pension plans and OPEB.

4.2 Do you believe the exclusion of short-term assumptions in the measurement of expense and liability amounts from the display requirement is appropriate?

Department Response to Question 4.2: If by default, short-term assumptions are those that extend up to but do not go 5-years, the Department finds it hard to believe that there will not be situations where large short-term liabilities could result in material gains or losses as the result of changes in assumptions.

4.3 Are "short-term assumptions" clearly delineated?

Department Response to Question 4.3: The Department believes that the term "short-term assumptions" is clearly defined in the ED.

4.4 Should other short-term assumptions be listed as examples?

Please provide your rationale in as much detail as possible.

Department Response to Question 4.4: The Department does not have any other short-term assumptions examples for this ED.

Question 5. *This statement proposes a standard for selecting the discount rates for present value measurements of expense and liability amounts. The standard provides that the discount rate should be the interest rate(s) on marketable Treasury securities of similar maturities to the cash flows of the payments for which the estimate is being made. The discount rate(s) should reflect average historical rates on marketable Treasury securities rather the current market rate(s). See paragraphs 27-28 in the standard and paragraphs A11-A35 and especially A28 in the basis for conclusions.*

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?

Department Response to Question 5.1: The Department believes that historical rates are appropriate rates to use for measuring discount rates on long-term liabilities. However, the Department/Bureaus are required to follow 18 CFR 707.39 and other project specific legislation that dictate the basis to be used for interest and discount rates with regard to planning studies and rate setting calculations. We suspect that other Federal entities have similar specific legislative requirements that will supersede the Statements of Federal Financial Accounting Standards (SFFAS) No. 5 and this ED.

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?

Department Response to Question 5.2: The Department/Bureaus have specific legislative requirements to use Treasury rates that have 15-years or more, until maturity for the Treasury rates used for many of our efforts. It is our opinion that the longer year averages will provide a more meaningful rate. The longer periods generally average out any unusually short-term peaks or valleys in rates. The Department/Bureaus deal with multi-million dollar contracts dealing with our water and power customers.

The Department of the Interior Response to FASAB Exposure Draft: Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, dated August 3, 2007

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?

Please provide your rationale in as much detail as possible.

Department Response to Question 5.3: The Department's program utilizes discount rates and the other economic assumptions but in most cases, the discount rates and other requirements are dictated by legislation. Consequently, the FASAB's desire that all Federal entities utilize a consistent discount rate is not possible. Our legislative requirements supersede GAAP.

Selecting the Valuation Date

Question 6: *This statement proposes a standard for selecting the valuation date for present valuations for long-term liabilities. See paragraphs 30-32 in the standard and paragraphs A36-A44 in the basis for conclusions.*

Do you believe the valuation date approach is appropriate? Please provide your rationale in as much detail as possible.

Department Response to Question 6: The Department believes that the valuation date should be at the beginning of the year and it should be used consistently throughout the government. Because the audit completion date and the financial statement submission due dates are so close to year-end, a valuation date based upon the end of the fiscal year (FY) can result in delays in receiving information for other Federal entities. Without further dialog with our program personnel, we are not certain but we believe that Bureau law dictates the valuation date to be used in specific situations and in some cases by specific project. Again as with many of our other responses, the requirements set by law, Bureau policy or historical procedures will supersede GAAP.

Reasonable Estimate vs. Best Estimate

Question 7: *This statement involves estimates that reflect the preparer's judgment about the outcome of events based on past experience and expectations about the*

future. Estimates are to reflect what is reasonable to assume under the circumstances rather than the preparer's "best estimate" or other phraseology. The preparer may use his or her own assumptions about future cash flows. However, the entity should explain why it is inappropriate to use assumptions generally used in the federal government, as evidenced by independent sources, if the assumption the entity used is different. See paragraph 32 in the standard and paragraphs A43-A44 in the basis for conclusions.

Do you believe the approach regarding "reasonable estimate" rather than "best estimate" assumptions in paragraph 31 is appropriate? Please provide your rationale in as much detail as possible.

Department Response to Question 7: We do not object to FASAB changing Federal generally accepted accounting principles (GAAP) to use reasonable estimates verses best estimate.

Benefits and Costs

Question 8: *The Board believes that this proposal would improve Federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal.*

Please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal in whole or in part. Please provide your rationale as much detail as possible.

Department Response Question 8: The Department can support the notion that standardized requirements for employment type obligations such as pensions and OPEB will result in more consistent and concise government-wide financial statements. However, the Department cannot agree that tracking and identifying gains and losses from changes in assumptions at a component entity will improve reporting of programs that are required and managed by others with costs allocated to each component entity. In addition, the Board must address the exposure and contradiction that may result with long-term and short-term assumptions being defined as within a five year period when the long standing definition regarding current and non-current liabilities revolves around a one year period.

Implementation of this ED will require additional SGL accounts and posting model requirements to allow these assumptions and changes to be recognized and presented over multiple accounting periods. This will require additional system implementation and maintenance costs as well as additional personnel resources to manage, interpret and report on the process and the data it provides. The benefit quoted in this question is somewhat allusive and cannot be adequately analyzed to determine any specifics for

comparison to costs. In fact, the Department feels the Board has ignored or discounted the costs as evidenced by their recognition of these as only "perceived costs." The Department may agree that certain aspects or elements contained within this ED could benefit by improved guidance but when combined and aggregated these will cause even greater confusion to other incidental elements such as construction, water supply and power generation.