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United States Government Accountability Office
Washington, DC 20548

January 18, 2008

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board

Dear Ms. Payne:

We appreciate the opportunity to comment on the Federal Accounting Standards Advisory Board's (FASAB) proposed exposure draft (ED) entitled Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates. The proposed ED would require component entities and the Consolidated financial statements (CFS) to display gains and losses from changes in long-term assumptions used to measure liabilities as a separate line item or line items on the statement of net costs. We agree with the Board that presenting this information could enhance the usefulness of information provided on the statement of net cost and provide information for users to understand the operating performance of the entity and the effect that gains and losses from changes in long-term assumptions have on program costs.

However, the guidance in the ED is not clear with respect to the application of the standard to non-actuarially prepared liability estimates, for which information required by the ED is not routinely prepared. Specifically, it is not clear how the standard would be applied to liability estimates where there is not a structured model for which changes in assumptions could be readily identified. For example, if there is an aggregate estimate that is based on management's collective judgment, it may not be feasible to identify separate components of the annual change in the liability. Also, it is not clear how routine changes in judgment would be considered. For example, if management believed that a litigation case had a probable loss of $100 at the end of the prior year and $110 probable loss at the end of the current year, how would the $10 increase in liability be classified? This would seem to be a normal operating cost. These issues arise for liabilities estimated on an individual or aggregate basis. In addition, the presentation required by paragraph 22 uses terminology that is used for reporting pension and other similar actuarial liabilities (for example, service cost). Users may be confused about how to classify annual changes in, for example, environmental cleanup liabilities or contingent liabilities using such terminology. Consequently, the Board should add disclosure guidance for non-actuarially prepared estimates to clarify the intent of the standard and to improve the consistency of application.

For liabilities composed of a substantial number of individual items, would preparers be required to identify, track and analyze changes in each individual item? Also, would the entity have to identify and segregate those individual items that are not expected to be resolved in 5 years from those that are? If so, we have concerns about whether the expected benefits would outweigh the costs that entities would incur. If such detailed analysis is intended, the Board should reconsider these requirements and clearly document the basis for its determination of whether such information can be developed at a reasonable cost in relation to its usefulness.

We appreciate the opportunity to provide our comments on the exposure draft and would be pleased to discuss our comments with you at a convenient time. If we can be of further assistance, please call me at (202) 512-2600.

Sincerely yours,

McCoy Williams

McCoy Williams
Managing Director
Financial Management and Assurance