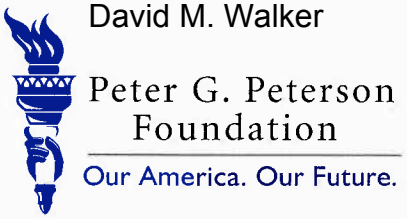

David M. Walker
PRESIDENT AND CEO

January 5, 2009

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, N.W., Suite 6814
Washington, DC 20548

Dear Ms. Payne;

The following represents my responses to the questions listed by the FASAB in its Exposure Draft on Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government dated September 2, 2008.

Response to Question One:

I commend the FASAB for recognizing the need to include selected stewardship related information in the consolidated financial statements of the United States Government. I strongly support the need for federal financial reporting to include information regarding whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. This is critically important in the case of a sovereign nation that has the ability to make huge public commitments that span generations, can mortgage the country without express limits, and thereby place undue burdens on future generations. The United States Government has the power to tax and to borrow subject only to certain procedural requirements under the Constitution. For example, total borrowing is subject only to statutory limits that, in recent years, have been raised with increasing frequency and sometimes with little meaningful discussion or debate. Therefore, the failure to generate sufficient revenues to meet current needs will, absent future policy reforms and spending constraints, likely result in imposing much greater tax burdens on future generations. This needs to be shown in any related financial reporting requirement. Furthermore, absent additional taxes or other revenues being generated, ultimately spending on government programs will have to be reduced thereby potentially creating an expectation gap within the public as to what level of benefits or services will be delivered by the government in the future. This also needs to be shown in any related financial reporting requirement.

Response to Question Two:

Yes, I believe that the proposed guidance is generally appropriate. In general, I believe it is appropriate to employ reasonable assumptions used by other official government sources (e.g., Social Security and Medicare Trustees, Congressional Budget Office) in order to promote consistency and prevent confusion.

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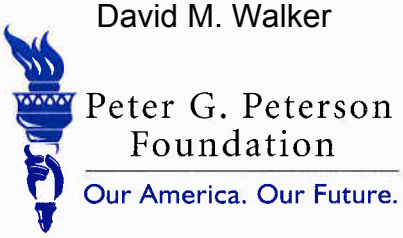


In this regard, I agree that the "best estimate" economic and demographic assumptions used by the Social Security and Medicare Trustees and for preparation of the Statement of Social Insurance would be appropriate.

Additional guidance may, however, be needed with regard to the projection of revenues. For example, while the guidance provided seems reasonable it does not provide adequate definition of the concept of "assuming the continuation of current policy without change" and as of the valuation date. For example, current law provides that a number of major tax cuts enacted during the current Bush Administration will expire. There is widespread agreement that many of the provision will be extended in whole or in part and, therefore, an assumption of current law would not be reasonable. Furthermore, some degree of consistency in revenue projection assumptions from year to year should be attained absent clear, compelling and unbiased reasons for such a change. In addition, the reasons for any such changes should be properly disclosed and adequately explained.

Response to Question Three:

Unfortunately, very few Americans currently read the consolidated financial statements of the U.S. Government. I do, however, agree with the FASAB that the financial statements and related reporting should be presented in a manner that is understandable by a vast majority of the American public.

I believe that both public debt and debt held by the "trust funds" should be shown as government liabilities and in connection with any presentations (e.g., Debt/GDP). After all, debt held by the trust fund is backed by the full-faith and credit of the United States Government. It is also guaranteed both as to principal and interest. Therefore, it represents an irrevocable commitment that should be expected to be re-paid absent an actual default by the U.S. Government.

Response to Question Four:

In my view, the illustrative graph in Appendix B is confusing and does not seem to present any meaningful information. Therefore, I would suggest that it be eliminated.

Response to Question Five:

I believe that it is appropriate to use a 75-year time horizon for reporting in the financial statements. This is the time horizon that has been used by the Trustees for Social Security and Medicare for decades. In addition, I believe that it would be appropriate to disclose the infinite time horizon numbers in the notes to the financial statements.

Response to Question Six:

I believe that, subject to the final composition of the statement, it should be referred as "Statement of Fiscal Sustainability and Intergenerational Equity". For example, if my suggestion in the below response to Question 14 was adopted, this title would clearly and accurately describe the type of information that would be presented within the basic statement.

Peter G. Peterson Foundation

Our America. Our Future.

Response to Question Seven:

With regard to receipts, I believe that individual income taxes and corporate income taxes should also be shown. These are highly material sources of federal revenue.

With regard to spending, I believe that interest and defense spending should be disclosed separately. They are material individually and represent important and ongoing areas of federal spending that are provided for in the Constitution of the United States. All other non-specified items could be aggregated assuming that no other individual item was deemed to be material to the consolidated financial statements.

Response to Question Eight:

I believe that it is appropriate to include supplemental disclosures in connection with major factors that may impact overall projected receipts and expenditures in a material manner. I agree that rising health care costs and demographic trends are both appropriate to highlight. I would also suggest that the large and rising revenue loss from the current exclusion of employer provided health care benefits from the taxable wage base for Social Security and Medicare and from individual income taxes might also be another item worthy of disclosure.

Response to Question Nine:

I believe that alternative scenarios should be provided if they have a reasonable basis and possibility of happening. Otherwise, it may just serve to confuse readers.

Response to Question Ten:

I believe that such disclosures would be useful, especially if they can be displayed in graphic form.

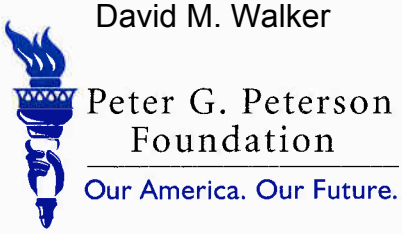
I believe that more transparency needs to be provided in connection with foregone federal revenues due to existing tax preferences that are material to the financial statements I would suggest adding a disclosure designed to achieve that objective. As noted in my response to Question 8, I believe that the tax loss associated with the current exclusion of the value of employer provided and paid health care benefits is an item of particular importance and noteworthiness.

Response to Question Eleven:

I do believe that FAQ's can be helpful.

Response to Question Twelve:

I expect that the initial implementation date may be somewhat optimistic. I would suggest delaying it a year. Otherwise, I believe that the proposed phased implementation approach is both reasonable and appropriate. Finally, I believe that the information in the Fiscal Responsibility and Intergenerational Equity Statement should be subject to audit after the transition period. I would



expect the GAO to provide some modification to its report with regard to this and other related projection information.

Response to Question Thirteen:

I strongly support requiring reporting on debt held by foreign lenders and related trends. This is a very important financial issue that can have significant economic, fiscal, foreign relations and even national security implications over time. I also agree that showing this information as a percentage of debt held by the public is appropriate. Finally, I believe the illustrated example is clear and understandable. However, I believe that more guidance should be included regarding the period(s) for which such information should be provided.

Response to Question Fourteen:

I do support including information on how much overall tax levels would have to be raised as well as how much overall spending levels would have to be reduced in order to achieve fiscal balance at different intervals over time. This would serve to show both extreme policy positions while demonstrating the benefits of acting sooner versus later and the implications of failing to act. In my view, this type on information should ideally be incorporated into the basic financial statement so that it would deal with both Fiscal Sustainability and Intergenerational Equity. I do not, however, believe that the basic financial statements should include more detailed policy options (e.g., private accounts for Social Security, imposing Social Security payroll taxes on all wages).

Response to Question Fifteen:

I believe that appropriate inter-generational equity information should be provided. It could include the information noted in my response to Question 14 and possibly additional information. I suggest that some basic information be required initially even if the FASAB decides to study this issue further.

I hope that the Board and the staff find this information useful. I would be pleased to attempt to arrange my schedule to testify before the Board in connection with this matter on February 25, 2009 should you so desire. Please let me know if you would like me to do so.

Sincerely,

David M. Walker
President and CEO