



## Greater Washington Society of CPAs and GWSCPA Educational Foundation

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January 5, 2009

Wendy Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mail Stop 6K17V  
441 G Street, NW – Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) exposure draft of a proposed statement, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*.

FISC consists of 18 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Overall, we found the document easy to read and believe that the tables are very clear and helpful.

Because this is such an important statement to the citizens, understandability is of paramount importance. The Board should take every opportunity to reduce the number of options and disclosures after determining that the informational value of the data would not be sacrificed.

Following are our responses to the questions posed in the ED, some editorial, and some final comments.

Q1. This exposure draft proposes reporting that would support FASAB Objective 3, Stewardship, and in particular, Sub-Objective 3B:

Objective 3: Federal financial reporting should assist report users in assessing the impact on the Country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.

Sub-Objective 3B: Federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.

More detailed discussion of the reporting objectives and the objectives of fiscal sustainability reporting can be found in paragraphs 1 through 8.

Do you believe that the proposed reporting adequately supports the above objectives? Are there different reporting requirements that might better support the above objectives or that you believe should be added to the proposed requirements in this exposure draft? If so, please explain.

- A1. From a user standpoint, we would have expected to see years projected out into the future instead of a present value view. We do understand that view and agree that a multiple year projection format would make the statement overly “busy.” We find it acceptable as long as the App. B, page 57, chart (Illustration 3, Projected U.S. Government Receipts and Spending), that better illustrates a trending view, continues to be required in the disclosures. This disclosure is necessary as it does an excellent job of showing the mandatory spending. We believe that this is more meaningful than the Basic Financial Statement on page 51 of the ED.

We do have one suggestion for amplification: to discuss in detail the model used for the projections to meet the proposed requirements. For example, if a projection assumes a Social Security recipient mortality rate of X and a core inflation rate of Y, the projection should discuss these assumptions. Also, if projections use very conservative or very favorable projection rates/assumptions, the projections should describe the nature and tone of its rates and assumptions for factors like inflation, investment returns, and mortality/actuarial projections. The goal here is to fully and clearly disclose to users the tone and basis for the projections.

- Q2. In this proposed Statement, projections are prepared not to predict the future, but rather to depict results that may occur under various conditions. Accordingly, projections require assumptions to be made about the future. This exposure draft proposes broad and general guidance for selecting policy, economic, and demographic assumptions for long-term projections with a primary focus on the future implications of the continuum of current policy without change for federal government public services and taxation. The guidance begins at paragraph 19. Paragraph 28 explains that although current law is a reasonable starting point in selecting policy assumptions, a simple projection of “current law” would not always reflect current policy without change. Examples are provided.

Do you believe that the guidance for assumptions is appropriate? If not, please suggest alternative guidance. Please provide the rationale for your response.

- A2. We believe the guidance for assumptions is appropriate.
- Q3. This exposure draft proposes a basic financial statement and disclosures (Description begins at paragraph 35 and an illustrative example of the basic financial statement is provided in Appendix B.) The Board has indicated that the primary audiences for the consolidated financial report of the U.S. Government (CFR) are citizens and citizen intermediaries such as journalists and public policy analysts.

Do you believe that the basic financial statement and disclosures would be understandable and meaningful for the primary audiences of the CFR? Please note any changes that you believe should be made to the proposed requirements for the basic financial statement and/or the disclosures.

- A3. The financial statement appears understandable for the primary audiences of the consolidated financial report (CFR). However, we think that some of the illustrations will not be easily understood by the average citizen. The disclosures of paragraph 42 in particular could use some revision. The words “explain and illustrate” apply to all the subparts of 42, and the example illustrations for part a and d are confusing. We believe the 42a requirement should still remain in the standard, but the Board should recommend this be a very brief narrative. The illustrations for 42b should be the main focal point for the disclosures as it does an excellent job illustrating sustainability to the citizen. Any illustrations that take away from that should either be deleted or should be ordered behind this primary graphic presentation suggested in 42b. This illustration for 42c is suitable, but again, it is not as important as 42b and should be ordered as such.
- Q4. The Board is proposing that the basic financial statement display the difference between projected revenue and projected spending, and that the fiscal gap (the change in non-interest spending and/or revenue that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP) must be reported either on the face of the basic financial statement or in a disclosure. Also, the fiscal gap may be reported for a specific debt level or over a range of debt levels (see paragraph 38). Both options for reporting fiscal gap are illustrated in Appendix B (see pages 51 (narrative on the face of the financial statement) and 62 (disclosure)). See paragraphs A60-A63 in the Basis for Conclusions for an explanation of the pros and cons of the options.
- a. Do you agree with the flexible requirements for reporting fiscal gap?
- b. Do you believe that the illustrative disclosure (Illustration 8 in Appendix B) is clear and understandable?
- A4. We do not agree with the flexible requirements for reporting fiscal gap and we do not believe that the illustrative disclosure is clear and understandable. In our opinion, the disclosure should include some of the wording about how much public debt is sustainable and what level economists believe is an appropriate level of debt (similar to what is included on page 66.) Then there should be a simple percentage calculation of where debt is now and, given the projections, what percent it might be in 25-year increments for the finite period of time chosen for the statement itself. In addition to this disclosure, we strongly believe that on the face of the Statement there should be some additional line items. Currently, reading down, the statement includes Receipts less Spending equals Spending in Excess of Receipts. Following those items, there should be a line called Current Debt that is added to the Spending in Excess of Receipts to a total line. We also believe that under that total there should be a per capita calculation. If this additional display is not acceptable, we recommend the Board goes back to some kind of “fiscal imbalance” approach rather than a “fiscal gap” approach.

- Q5. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions, paragraphs A53 through A59. This exposure draft proposes the following requirements regarding time horizons for projections: (a) the projections presented in the basic financial statement should be “sufficient to illustrate long-term sustainability” (for example, traditionally the Social Security program has used a projection period of 75 years for long-term projections); (b) projections for both a finite and an infinite time horizon should be provided, one in the basic financial statement and the other in the disclosures; and (c) either the basic financial statement or the disclosures should include projections for Social Security and Medicare based on the time horizon used for long-term projections for Social Security and Medicare in the Statement of Social Insurance (SOSI).
- a. Do you believe that the above requirements for time horizons are appropriate to meet the reporting objectives of Fiscal Sustainability Reporting? Specifically, do you believe that data for both finite and infinite horizon projection periods should be reported? If not, please explain.
- b. Do you believe that there should be a specific time horizon requirement (for example, 75 years) for the basic financial statement for Fiscal Sustainability Reporting and/or the SOSI? If so, what time horizon do you believe should be required?
- A5. a. The development of two different horizon projection periods makes the statement overly complex. The Board should select whether finite or infinite is the best period to meet the objectives of the statement. We recommend a finite horizon projection period to make the per capita calculation more feasible. Whatever the Board decides, the assumptions, rates, and tone of the projections should be fully discussed in the report (as referred to in the response to Q.1).
- b. We think an economist or expert in this area would be able to give the best estimate of what time horizon would give the most valuable information while not sacrificing too much certainty. We believe 75 to 100 years would be appropriate (since this approximates a lifespan.) We also would like to suggest that the Board consider requiring one specific time horizon, like 75 or 100 years, but not prohibiting other horizons (like 25 or 50) being used in addition to the one required if it provides meaningful information to the user.
- Q6. The Board’s mission is to issue reporting requirements for the federal government’s general purpose financial statements, and not to recommend budget policy. This exposure draft proposes a title for the basic financial statement: “Long-Term Fiscal Projections for the U.S. Government.” An alternative title, “Statement of Fiscal Sustainability,” might imply to some that the Board has established or plans to establish specific rules that define “fiscal sustainability” and/or budget rules that would result in fiscal sustainability. However, others have indicated that the “plain English” meaning of the words “fiscal” and “sustainability” should be adequate, and that the title “Statement of Fiscal Sustainability” might be more appropriate.

The Board’s working definition of “fiscal sustainability” is explained in the Basis for Conclusions, paragraph A3. The concept of “Financial Condition” is explained in the Basis for Conclusions, paragraphs A7 and A8.

Which of the following do you believe that the basic financial statement should be titled?

- a. Long-Term Fiscal Projections for the U.S. Government.
- b. Statement of Fiscal Sustainability
- c. Statement of Financial Condition
- d. A title not listed above (please specify)

Please explain the reasons for your choice.

- A6. We think that the basic financial statement should be titled, “Statement of Fiscal Sustainability” since that appropriately describes the intent of the statement.
- Q7. This exposure draft proposes a minimum level of disaggregation for the basic financial statement. For projected receipts, major programs such as Medicare and Social Security would be shown separately from the rest of government. For projected spending, major programs such as Medicare, Social Security, and Medicaid would be shown separately from the rest of government. (See paragraphs 36 and A46-A49.)
- a. Do you believe that the above general guidance provides for an appropriate level of disaggregation in the basic financial statement? Please explain the basis for your view.
  - b. Do you believe that specific line items (instead of or in addition to the “major programs” required by paragraph 36 of the ED) should be disaggregated in the basic financial statement? If so, please identify the line items and explain your reasoning.
- A7. a. Yes, the above general guidance provides for an appropriate level of disaggregation in the basic financial statement because it explains the major factors affecting the financial stability of the government.
- b. We believe the statement should allow more disaggregation, but not require it. The major programs should be sufficient.
- Q8. This exposure draft proposes that disclosures should explain and illustrate the major factors impacting projected receipts and spending (such as the rising cost of health care) (see paragraph 42(a)). Illustrative examples in Appendix B begin on page 52.
- a. Do you believe that an explanation and illustration of the major factors impacting projected receipts and spending will be helpful to readers? Please explain the basis for your view and note any recommended changes in the requirements.
  - b. Do you believe that the display of a range for major cost drivers and/or major programs, as shown in Illustrations 1a and 1b in Appendix B should be optional or mandatory? Please explain the basis for your view.
- A8. a. Yes, we believe that an explanation and illustration of the major factors impacting projected receipts and spending can be helpful to readers. This can serve as a

“bridge” to help convey a complex subject matter in a simple and understandable manner.

- b. We believe that illustrations are unnecessary. We think there should be a brief verbal description of the major factors, perhaps in conjunction with the discussion about policy alternatives. The statement and the chart on page 57 should be retained.
- Q9. This exposure draft proposes that the results of alternative scenarios be provided. Paragraph 42(d) provides that the present value of projected receipts, spending and the net of receipts and spending be presented for each alternative scenario. Optionally, projections for alternative scenarios may be displayed in a table format (see Illustration 7 in Appendix B).
- a. Do you believe that the proposed requirement for alternative scenarios is appropriate? Please explain the basis for your view.
  - b. Do you believe that the requirements for additional information regarding alternative scenarios are sufficient? If not, please explain the basis for your view and what additional information you propose.
- A9. a. No, we do not believe that the proposed requirement for alternative scenarios is appropriate – this makes the requirements overly complex. Paragraph 42d says: “Disclosures should explain and illustrate the results of alternative scenarios that are consistent with current policy without change.” It also asks for scenarios that are higher and lower. The development of these scenarios is probably meant to show a range of possible results to put the statement in context, but unless the Board requires the entity to create a best case and a worse case scenario, there is too much judgment involved, and the intent could easily be lost. The selection of the scenario involves a lot of judgment as well. Not much additional information is provided to users by offering a group of alternatives if it has no parameters and if it won’t necessarily show the full range of options.
- It appears as if this part of the standard arises from what the Trust funds already do with three separate scenarios. However, the Basis for Conclusions (A23) states that the intermediate assumptions reflect the Trustees’ best estimate of future experience. We suggest requiring only the “best” estimate instead of making the disclosures overly complex.
- b. See a. above.
- Q10. This exposure draft proposes disclosures consisting of narrative and graphic displays to effectively communicate to the reader historical and projected trends and to help the reader understand the major drivers influencing projected receipts and spending. The requirements begin at paragraph 39 and illustrations begin on page 52.
- a. Do you believe that the disclosures would help the reader understand the basic financial statement?

- b. Are there any items that you believe should be added to, or deleted from, the disclosures? If so, please explain.
  - c. Do you believe that the final accounting standard should include an appendix that displays illustrative disclosures (see appendix B)? Why or why not?
- A10.
- a. See our response to Q3.
  - b. We believe that the disclosure included in paragraph 40(c) is difficult to understand. As such, we suggest deleting this disclosure. Paragraph 41(d) says to disclose the significant reasons for the changes. Perhaps it should say to identify the major reasons for “significant” changes so it does not appear that you would have to explain all changes.
  - c. Yes, we believe that an appendix that displays illustrations can be helpful to the reader in understanding the projections and trends in spending and revenues in major programs.
- Q11. The Frequently Asked Questions (FAQs) at Appendix C provide a “plain English” explanation of terms and concepts use in long-term projections.
- a. Do you find the FAQs helpful?
  - b. Should the Treasury Department be encouraged to include any of the FAQs in the CFR to promote understandability of the terms and concepts? If so, please specify the FAQs that should be considered for inclusion (and/or exclusion).
- A11.
- a. Yes, we find the Frequently Asked Questions (FAQs) in Appendix C helpful.
  - b. The Treasury Department should be encouraged to include all of the FAQs in the CFR to promote understandability of the terms and concepts.
- Q12. Effective Date and Phased Implementation: This proposed Statement would be effective for periods beginning after September 30, 2009 with earlier implementation encouraged. This proposed Statement would require that the financial statement and the disclosures be included in Required Supplementary Information (RSI) for the first three years of implementation, and basic information (for example, basic financial statement and disclosures) for all subsequent years.
- a. Do you believe that this implementation date is reasonable and appropriate?
  - b. Do you agree with the phased implementation period (3 years)?
  - c. Do you believe that some or all of the required information should remain as RSI after the 3-year implementation period? If so, please explain the basis for your view.
- A12.
- a. Yes, we believe that this implementation date is reasonable and appropriate.

- b. Yes, we agree with the phased implementation period.
  - c. The information should be presented in the basic financial statements after the three-year window.
- Q13. A significant minority of members supported a proposal that there should be RSI regarding trends in the proportion of U.S. Treasury debt held by foreign investors. This information would remain as RSI and would not be subject to the phased-in implementation in paragraph 44. (See paragraphs A64-A68 in the Basis for Conclusions for a discussion of this proposal and Illustration 10 in Appendix B).
- a. Do you believe that including RSI regarding the foreign holdings of U.S. Treasury debt would be relevant and useful in meeting the objectives of fiscal sustainability reporting? Please explain why or why not.
  - b. Do you believe that the illustrative example provided in Appendix B is clear and understandable?
- A13. a. Our committee could not reach agreement on the need for the foreign holdings of U.S. Treasury debt disclosure. Some members believe that trends in the proportion of U.S. Treasury debt held by foreign investors is a fundamental user consideration and as such, an important analysis. Other members believe that since this information may have national security implications, management should monitor this amount, but it is not a necessary disclosure for the public to understand the nation's fiscal sustainability.
- b. Yes. The disclosure is simple and understandable.
- Q14. A minority of members supported a proposal that if the projected Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, RSI (not subject to the phased-in implementation in paragraph 44) should include the identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. (See paragraphs A68-A74 in the Basis for Conclusions for a discussion of this proposal.)
- Do you believe that if the Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant gap, the statement disclosures be accompanied by RSI that includes identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap? Please explain why or why not.
- A14. Yes, if projections show a gap, additional information on policy alternatives should be included. This is consistent with the underlying notion of issuing this ED and would best inform the public and elected officials. The Board should consider adding some wording that would require preparers to identify policy alternatives.
- Q15. This exposure draft proposes that additional information that may be helpful to readers in assessing whether financial burdens without associated benefits were passed on by current-year taxpayers to future-year taxpayers (sometimes referred to as "inter-period equity" or

“inter-generational equity”) be included as one way to meet a disclosure requirement for providing context for the data in paragraph 41(e). (See paragraphs A75-A78 in the Basis for Conclusions for a discussion of this proposal.)

- a. Do you believe that such information should be optional (as proposed in the exposure draft) or required?
- b. Do you believe that further research and analysis should be performed by FASAB to improve the disclosure of such information? Please explain the basis for your views and note any recommended changes for the presentation of inter-period or inter-generational equity.

- Q15.
- a. We believe this type of information should be required.
  - b. We believe that further research and analysis should be performed by FASAB to improve the disclosure of such information. It will be challenging to display the burdens passed on from one generation to another. Therefore, as more experience is gained, the disclosures should be improved in order to meet the needs of the users.

We have one editorial comment.

On page 23, paragraph 36 a, the number 28 after the semicolon needs to be changed to footnote type as does number 29 in paragraph 36 b.

Finally, we would also like to recognize that this was an excellent set of due process questions. The Board did a good job of clearly identifying significant minority views for consideration. It is apparent that the Board desires to make this Statement as meaningful as possible.

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This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Daniel L. Kovlak  
FISC Chair