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

Dear Ms. Payne:

Thank you for the opportunity to offer comments in response to the Federal Accounting Standards Advisory Board's Exposure Draft of the proposed Statement, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. This response was prepared by the Governmental Accounting Standards Board's (GASB) staff. A draft of this response was provided to individual GASB members for their input. Official positions of the GASB are determined only after extensive due process and deliberation.

It should be noted that the GASB has a research project on its agenda that is addressing economic condition issues, including fiscal sustainability. The research efforts are ongoing and the issues associated with fiscal sustainability have not been deliberated by the GASB members; therefore, the GASB staff views expressed in the responses to this Exposure Draft may evolve as these research efforts continue and the results of the GASB's due process efforts are known.

The GASB staff responses follow the questions provided in the Exposure Draft.

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 objective 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.

Response—We believe that the proposals set forth in this Exposure Draft move the Federal government closer to meeting Objective 3 and Sub-Objective 3B. As noted in our responses to the remaining questions, there are some issues that we believe may need to be addressed in order to more effectively communicate the display and disclosure reporting requirements.

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 continuation 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.

Response—"Current law" does provide a reasonable starting point (and ending point) for most projections. In circumstances where "current law" does not reflect current policy (as highlighted in the examples provided in the Exposure Draft) any significant modifications that deviate from "current law" should be clearly disclosed.

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.

Response—In general, we believe that knowledgeable financial statement users will find the display and disclosure that will be required when this proposal becomes effective to be very valuable. The challenge of effectively communicating to some citizens, citizen intermediaries, and Congress will remain. A few minor suggestions may enhance the effective communication of the proposed statement and disclosures. These suggestions are:

- Identify within the title of this statement that the future projections are based on discounted amounts (present value). As abbreviations like PV and GDP should be clearly spelled out in statement headings.

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 61 (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?

Response—We believe that the flexible requirements are appropriate for reporting the fiscal gap. We also realize that interest costs should not be included in the determination of the fiscal gap. However, information on the fiscal gap could be enhanced by including additional information about the effects of rapidly growing interest costs in the presentations. As shown in Appendix B, illustration 3, by 2060, projected interest spending will be greater than expenditures for any federal program and by 2070, projected interest spending will be greater than projected total revenues. If interest costs were displayed as the first (bottom) bar on the chart (versus the last—top bar), this would clearly communicate that by 2070 all revenues would be legally committed to paying interest on the government's projected outstanding debt.

b. Do you believe that the illustrative disclosure (Illustration 8 in Appendix B) is clear and understandable?

Response—Although illustrations 8a or 8b are helpful, improvements could be made (especially to 8b) to enhance their clarity and understandability. We believe that even a knowledgeable audience may have difficulty reaching a conclusion on what the graphs are trying to convey. We recognize that long-term effect of the fiscal gap is the primary driver, but the chart could be modified to more effectively communicate what the FASAB is attempting to convey. Moreover, we believe that the arrow chart at the bottom is not intuitive and needs further explanation.

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 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?**

Response 5a and b—We believe that the projection period should be 75 years. Consistency with other projections presented in the Federal financial statements was an important considered in reaching this conclusion. Also, projections beyond 75 years tend to have minor impacts on present value projections. For example, the present value of an amount, out 75 years, discounted at a rate of 4%, would amount to only 5.3% of the future value.

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.

Response—A combination of options a and b for the title of basic financial statement may be more appropriate. The suggestion would therefore be, "Long-Term Projections of the Fiscal Sustainability for the U.S. Government." This suggested title is more self-explanatory of exactly what the statement presents.

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.

Response—We agree that the general guidance provides for an appropriate level of disaggregation in the basic financial statement. While additional disaggregation is generally desirable, we believe that the focus on major programs is appropriate.

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.

Response—No, however, we believe that additional lines for other major programs, if any, could be added to the illustrations to communicate that the focus of the proposed statement is broader than Social Security, Medicare, and Medicaid.

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.

Response—We believe that an explanation and illustration of the major factors impacting projected receipts and spending will be helpful to knowledgeable readers. We recognize that most potential readers are not familiar with financial modeling, projections, present value analysis, and their affect on projected results. However, they do have the ability to read and understand explanations, which will improve their ability to understand and assess the information presented.

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.

Response—We believe that the display of a range for major cost drivers and/or major programs, as shown in illustrations 1a and 1b should be required. Displaying the range of major cost drivers and programs provides additional information in order to assess the effect of individual drivers and major programs on the overall fiscal gap calculation. We also would suggest that the range of drivers should be disclosed for major sources of revenue.

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 the alternative scenarios is appropriate? Please explain the basis for your view.**
>
> **b. Do you believe that the requirements for additional information regarding the alternative scenarios are sufficient? If not, please explain the basis for your view and what additional information you propose.**

Response—We believe that the requirement for the presentation of alternative scenarios is appropriate. Providing alternative scenarios would further reinforce that the future is uncertain; therefore, financial statement readers should consider multiple alternative scenarios in their assessment. We also believe that the requirements for additional information regarding alternative scenarios are sufficient.

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?**

Response—We believe that disclosures, consisting of narrative and graphic displays, will help to effectively communicate historical and projected trends. However, as previously noted, the narrative and graphic displays presented in Appendix B can be enhanced.

b. Are there any items that you believe should be added to, or deleted from, the disclosures? If so, please explain.

Response—Recommended additions and other enhancements have been noted in answers to previous questions, such as, the addition of the present value calculation. We do not believe that there are any disclosure items presented that should be deleted.

c. Do you believe that the final accounting standard should include an appendix that displays illustrative disclosures (see Appendix B)? Why or why not?

Response—We believe that the final standard should include an appendix with examples of illustrative disclosures. This will assist those preparing and, in some cases, analyzing the disclosures. However, it is important that alternatives be provided so that the illustrations enhance application of professional judgment and do not become a substitution for that judgment.

Q11. The Frequently Asked Questions (FAQs) at Appendix C provide a "plain English" explanation of terms and concepts used 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).

Response—We believe that the FAQs are helpful; however, we do not believe that this Appendix should be included in the final standard or the Consolidated Financial Report. As an alternative, we believe that the FAQ should be incorporated into a user's guide. As a separate document, this section could be further expanded.

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?

Response—We believe that the implementation date of periods beginning after September 30, 2009 is appropriate only if the information required by this standard is currently available.

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.

Response—We believe that a phased in implementation period of three years is appropriate. This information is based on projections and not on events that have already occurred, making this information significantly different from that currently presented in the basic financial statements. This will always be an issue with this statement; however, the transition period will allow for the opportunity of explaining significant changes in the MD&A.

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.

Response—We believe that including the foreign holdings of U.S. Treasury debt in the RSI is relevant and useful in meeting the objectives of fiscal sustainability reporting. For example, we believe it relevant because the failure of certain governments (for example, China, Japan) to actively participate in future offerings could have a substantial effect on future interest rates.

b. Do you believe that the illustrative example provided in Appendix B is clear and understandable?

Response—We believe that the illustrative example provided in Appendix B does present clearly and understandably. However, the illustration would better communicate this information if it provided a trend (5-10 years), instead of just two years.

Q14. A minority of members supported a proposal that if the proposed 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 proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, the statement and 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.

Response—We do not believe that if the projections indicate a significant fiscal gap, that RSI should include identification, explanation, and fiscal **and service impact** of one or more policy alternatives that could be used to reduce the gap. We believe that inclusion of this type of data may be used to "explain away' the results presented in the statement.

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.**

Response—While the information on inter-period equity would enhance the presentation, we recognize that the project would be delayed if this issue were redeliberated and exposed for due process. We do not believe that the project should be delayed. We support additional research and analysis by the FASAB in this area to improve the disclosure of such information in the future.

If you have any questions regarding this response, please contact me.

Sincerely,

David R. Bean