

December 23, 2008

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

Advancing  
Government  
Accountability

2208 Mount Vernon Ave  
Alexandria, VA 22301

(703) 684-6931  
(703) 548-9367 (fax)

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB or the board) on its exposure draft of the proposed statement on *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. The FMSB, comprising 23 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB would like first to applaud the FASAB for taking on this difficult project. Though some might think the perceived costs and the uncertainty of future projections call into question the appropriateness of this basic financial statement, we believe that it has the potential to be the most important financial statement there is. This is a critical time in our country, and we need to watch our financial health carefully. Politicians have to worry about votes, and while some look beyond the present and try to keep our country's financial future always in focus, today is a very difficult environment in which to make sweeping changes that affect people's pocket books. Citizens do not typically want to tax themselves, and politicians have to get the votes of these citizens. But if dire future financial circumstances exist in our country and are at least exposed, we can then hope that the people will encourage their politicians to make the hard choices necessary to sustain our government and try to ensure that our children's lives in this country are at least as good as our lives have been. So we wish to say "bravo" to the board for development of this exposure draft.

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

Some members expressed concern about whether the fiscal sustainability report should be incorporated into the consolidated financial report (CFR) of the U.S. Government at all. Their main concern was that the information would be considered both subjective and politically biased by large segments of intended users and would therefore undermine the credibility of the financial statements as a whole. More specifically, they feared that economists, or at least a substantial portion of them, would contend that from a macroeconomic perspective the projections contained in the report were conceptually flawed.

These members recommend that the sustainability report be issued as a stand-alone document separate and apart from the annual financial report. If it is to be issued as part of the CFR, then it should be clearly set apart from the other statements, notes and required supplementary information (RSI) and should contain an explicit explanation that the included statements are of a different character than those in the rest of the report.

Since comparability is not as important a criteria for our federal government accounting standards (as there is only one federal government), one way to address the concerns about subjectivity and political bias would be to stress the concept of consistency in how the information is developed from year to year. If consistent methods are applied, it will make the information much more auditable as well. Of course, there needs to be room to make improvements on the projections, but in general, the information should be prepared the same way from year to year. Changes in methods should require mandatory disclosure as discussed in our response to Q1 below. Following are our responses to the questions posed in the document and some final comments.

Q1. From a user standpoint, we would have expected to see years projected out into the future instead of this present value view. However we understand it and can get used to it, particularly since a multiple year projection format would make the statement overly “busy.” We find it acceptable as long as the Appendix 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 same disclosure is necessary as it does an excellent job of showing the mandatory spending. It is far more meaningful for the general user than the Basic Financial Statement.

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. We believe the guidance is appropriate.

Q3. The financial statements appear understandable for the primary audiences of the CFR, though see comments in Q1. As for the disclosures, it is simply too much. Many of the illustrations are just not understandable to the average citizen and serve only to make the overall disclosures convoluted and difficult. The disclosures of paragraph 40 and 41 are fine, but paragraph 42 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 and unnecessary. We believe the 42a requirement should still remain in the standard, but the board should recommend this be a very brief narrative. The example illustrations and excess words are simply not helpful. 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. The illustration for 42c is suitable, but again is not as important as 42b and should be ordered as such.

Q4. No, we do not agree with the flexible requirements for reporting fiscal gap and no, we do not believe that the illustrative disclosure is clear and understandable. In our opinion, the disclosure should discuss how much public debt is sustainable and what level economists believe is an

appropriate level of debt (similar to what is included in FAQ 3). 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. Now – 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. 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 and go with it. 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 Q1).
- 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. If the board would like a citizen’s preference though, we would think 100 years would be a nice clean cut-off. We also would like to suggest that the board may consider requiring one specific time horizon, like 75 or 100 years, but not prohibiting other horizons (like 25, 50 or 100 years) being used in addition to the one required if they provide meaningful information to the user.
- Q6. a. We prefer a title that does not include the word “statement” or the phrase “financial statement” especially with regard to projected information. Another option might be, “Projection for Long-Term Financial Sustainability.”
- Q7. a. Yes, we believe that it is a good idea to have some minimum level of disaggregation for the basic financial statement. Parsing out receipts and spending of major programs from the rest of the government can be beneficial and helpful to the readers of the financial statement.
- b. We think the statement should allow more disaggregation, but not require it. The major programs should be sufficient.
- Q8. a. Yes, we think 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 thought the illustrations were unnecessary. We think there should be a brief verbal description of the major factors, perhaps in conjunction with the discussion about policy alternatives. The charts just muddy the waters more for the citizen. Keep it simple by including the statement and the chart on page 57 and excluding extraneous information that causes a person to get overwhelmed and to quit reading the disclosures.

- Q9. a. No – this makes it overly complex. Also paragraph 42d is presented as a requirement: “[Disclosures should explain and illustrate] the results of alternative scenarios that are consistent with current policy without change.” And the statement 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 required the entity to create a best case and a worse case scenario, there is just too much judgment involved here and the intent could easily be lost. Now, granted, the selection of the scenario involves a lot of judgment as well. No way around that. You just aren’t gaining much by offering up a bunch of alternatives if it has no parameters and if it won’t necessarily show the full range of options. It sounds as if this part of the standard arises from what the Trust funds already do with three separate scenarios; however, in the basis for conclusions (A23) it states that the intermediate assumptions reflect the Trustees’ best estimate of future experience. We recommend that the board identify the most suitable estimate instead of making the disclosures overly complex.
- b. See a. above.
- Q10. a. See Q3 comments.
- b. 40(c) doesn’t seem understandable, and as such, we can’t offer alternative language. 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. a. Yes, we find the Frequently Asked Questions (FAQs) in Appendix C helpful. One member suggested wording the text of the entire document in plain language as much as possible, or to present them and the plain language document as the main document, with the technical details shown as an appendix.
- b. The Treasury Department should be encouraged to include some of the FAQs in the CFR to promote understandability of the terms and concepts. Certainly the discussion about the debt to GDP ratio, though parts of that are already included in the disclosure illustrated in part B. (See also answer to Q4 above)
- Q12. a. Yes, we think it appears to be reasonable.
- b. Yes
- c. The information should be presented in the basic financial statements after the three-year window.
- Q13. a. Absolutely. Trends in the proportion of U.S. Treasury debt held by foreign investors is a fundamental user consideration and such an important analysis.
- b. Yes. It was refreshingly simple and understandable.

- Q14. Yes, if projections show a gap, additional information on policy alternatives should be included. This is consistent with the underlying notion of issuing this document and would best inform the public and elected officials. The FMSB does caution the board, though, that it would be difficult to avoid politics in the selection of the policy alternatives. Who would prepare this information? Perhaps add some wording that would put the burden on the preparers to identify what policy alternatives the citizens might be interested to see, regardless of political agendas that might cause people to leave some scenarios off the table.
- Q15. a. This is certainly a topic of interest and perhaps ought to be required, but we would have to see the details before making that decision. It is very difficult for us to picture how this information could be presented clearly enough to make it informative. If there was a clear way to display the burdens passed on, we would support that requirement.

Finally, we would also like to recognize that this was an excellent set of due process questions. The board did a good job clearly identifying significant minority views for consideration. It is apparent that the board desires to get this statement right. We do have one final question that we respectfully ask the board to consider. It is this. Will the anticipated disclosures and reporting result in a skilled and diligent assessment of the global appetite, or capacity, to drawdown additional Treasury securities at levels anticipated now or in the future? In short, will what is being proposed help the reader of the CFR to understand when the “hard stop” will likely occur and when the Federal government will actually have to live within constraints---and, maybe, even be expected to pay back some of the principal of outstanding securities?

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. No member objected to its issuance. If you have questions concerning the letter, please contact Anna D. Gowans Miller, CPA, AGA’s director of research and staff liaison for the FMSB, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or 703.684.6931 ext. 313.

Sincerely,



Robert L. Childree, Chair,  
AGA Financial Management Standards Board

cc: Samuel T. Mok, CGFM, CIA, CICA  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2008 – June 2009**

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