



Federal Accounting Standards Advisory Board

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July 12, 2007

TO: Members of FASAB

FROM: Richard Fontenrose, Assistant Director

THROUGH: Wendy Comes, Executive Director

SUBJECT: Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates – Tab C<sup>1</sup>

At the May FASAB meeting the Board approved the staff's plan to e-mail a pre-ballot draft of the proposed standard "Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates" for final comments before the staff prepared a ballot draft for the July meeting. A pre-ballot draft of the exposure draft (ED) was sent to members June 14. I received editorial comments from one member during June, which the "track changes"-formatted ballot draft included in Tab C reflects.

In addition, I received comments from Joseph Applebaum, Chief Actuary, GAO. Mr. Applebaum comments pertain to the guidance regarding selecting the discount rate assumption. Mr. Applebaum strongly supports the display standard and the guidance regarding selecting valuation dates. Regarding the guidance for selecting the discount rate assumption, he agrees wholeheartedly the ED's rejection of the concept that the rate of return on plan assets should be used in arriving at the discount rate and, by implication, its rejection of the concept that the plan's funded ratio should be taken into account in arriving at that rate. In fact, he would like to see those positions strengthened in the basis of conclusions. He cites both theoretical and practical considerations for this. "For the [Civil Service Retirement System] and [Military Retirement System], even if one accepts that they have plan assets, they are by law invested in Treasuries and so one would have to use those rates in any event. I would go further and note that because they are invested in 'employer' securities, these plans are not really funded in any real sense." Although he would prefer to use Treasury rates close to the valuation date, rather than average historical rates, he understands that there is a case for deriving the yield curve from a longer observation period.

Regarding the guidance for selecting the discount rate assumption, Mr. Applebaum suggests broadening the proposed standard to cover all economic assumptions. He believes that in instances where there are other assumptions of equal importance to the discount rate, e.g.,

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at Board meetings. This material is for discussion purposes only; it is not intended to reflect the authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

federal retirement benefits where price inflation or medical costs are important, the standard should provide guidance for selecting all economic assumptions, including of the importance of consistency among assumptions. He notes that, for example, the timeframe for the average historical discount rate assumption should be consistent with the timeframe for the inflation assumption. He suggests more discussion of the guidance in Actuarial Standard of Practice (ASOP) 27 regarding consistency. In addition, he would change the title of the ED by replacing the phrase “selecting discount rates” with “selecting economic assumptions.”

The proposed standard does address consistency among assumptions. It incorporates prior FASAB guidance regarding selecting economic assumptions. It invokes ASOPs and does not affect the explicit SFFAS 5 requirement for consistency among assumptions. The proposed standard amends SFFAS 5 paragraphs 65-66, 83, 95, and 157, as shown in ED paragraph 33.

Staff recommends that the ED be exposed for comment as currently written, but that Question for Respondents #5 be amended to add another sub-paragraph as follows:

**5.3 The proposed standard incorporates prior FASAB guidance regarding selecting economic assumptions. It invokes Actuarial Standards of Practice and does not affect the explicit SFFAS 5 requirement for consistency among assumptions. See ED paragraphs 33. Do you believe that the guidance regarding selecting ALL economic assumptions is specific enough, especially regarding consistency among assumptions?**

A ballot is included at Tab C for your convenience. Staff requests that members provide their completed ballots at the July meeting. “Officially” the members have until August 9 to submit their ballots.