



February 6, 2009

Memorandum

To: Members of the Board

From: Eileen W. Parlow, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: ***Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government: Staff Analysis and Recommendations – TAB D***¹

MEETING OBJECTIVE

Members are asked to review comments received (see Tab B) as well as staff analysis and recommendations. At the meeting, members will identify any significant changes to be made to the proposal presented in the exposure draft. Specific issues for Board decisions include the following areas of disagreement with the Board's proposal and the response to recommendations of individual Board members that were included in the exposure draft (ED):

Major Areas of Respondents' Disagreement with Board Proposals

- Reporting as RSI (permanently) may be more appropriate than basic information for the proposed reporting
- Time Horizon for Projections (disapproval for reporting infinite horizon projections)
- Review the guidance on alternative scenarios for clarity
- Clarify that "major programs" are not limited to social insurance programs
- Illustrative disclosure for "Fiscal Gap" (Illustration 8) is unacceptably confusing
- Clarify that Treasury is encouraged to include the FAQs in the CFR

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

- GAO recommended flexibility regarding consistency of economic and demographic assumptions with Social Security and Medicare in the Statement of Social Insurance

Respondents' Reaction to Minority Proposals

- Requirements (for RSI) should address foreign holdings of U.S. Treasury Debt
- Analysis of potential policy proposals should not be included
- Majority of respondents advised against developing reporting requirements relating to inter-generational equity

BRIEFING MATERIAL

This memorandum provides the staff analysis including a list of issues identified with staff analysis and recommendations, and questions for the Board.

Attachment 1 provides a revised timeline for this project

BACKGROUND

The ED proposed standards for reporting comprehensive long-term projections for the U.S. Government in the consolidated financial report of the federal government (CFR) via a basic financial statement and disclosures. This statement would be subject to a phased implementation as Required Supplementary Information (RSI) for fiscal years 2010, 2011 and 2012, and as a basic financial statement and related disclosures beginning in fiscal year 2013.

STAFF SUMMARY AND ANALYSIS

Staff has summarized and analyzed the questions. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. When feasible, staff provides a recommendation in responses to issues identified.

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Issues Raised -- Staff Analysis and Recommendations

A Areas of Respondents' Disagreement with Board Proposals

A1 Reporting as RSI (permanently) may be more appropriate than basic information for the proposed reporting [Question 12c]

Question 12(c) asked whether some of all of the required information should remain as RSI after the 3-year implementation period.

Four respondents (AGA FMSB, GWSCPA, Peter G. Peterson Foundation and DioGuardi) agree with the Board's proposal that the information should become basic information after the 3-year transition period.

Six respondents (SSA OIG, SSA OCFO, SSA Chief Actuary, USDA, CFO Council and GAO) disagree. The SSA OIG said that all of the required information should remain RSI, as there are projections in the information, which can be considered speculative, and might not be auditable, and that presenting the statement as basic information would mean estimates and projections would be placed on the face of the financial statements. The SSA OCFO said that this information should remain RSI because it is based on projections and assumptions and should not be held to the same audit standards as conventional financial reports. The SSA Chief Actuary noted that: because of the uncertainties and assumptions involved in fiscal sustainability reporting, it is not appropriate for it to be subject to the same audit scrutiny as the other basic financial statements, and that the information proposed for the Social Insurance programs is already basic information in the agency and consolidated statements. The USDA and the CFO Council indicated that the information should remain as RSI but did not provide an explanation in their response.

GAO indicated that items 41(e), 42 (a), 42(b) and 42 (d) should remain as RSI. Those paragraph sections are:

[41] Disclosures should include:

[e] an explanation of the significance of the data presented or other information that puts the data into context. Options for context may include but are not limited to:

1. comparison of the data/trend with past U.S. trends and trends in other developed nations,

2. where to find information about outside organizations that use similar data to assess the long-term implications for an entity or sovereign government, for example, the role of rating organizations and/or European Union rules for member nations, and/or
3. information that may be helpful to readers in assessing whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers.

[42] Disclosures should explain and illustrate:

[a] the major factors that are expected to have a significant impact upon future receipts and spending. For example, two such factors may be (1) the rising cost of health care and (2) demographic trends. Information about how these factors have changed and are expected to change over time is necessary to assist the reader in understanding the factors that influence fiscal projections. (See Illustrations 1a, 1b, and 2 in Appendix B.)

[b] historical and projected trends for a progression of years beginning at least 20 years before the current year and extending to all projected future years for:

1. historical and projected receipts and spending,
2. historical and projected deficits, and
3. historical and projected Treasury debt as a share of GDP. (See illustrations 3, 4 and 5 in Appendix B.)

[d] the results of alternative scenarios that are consistent with current policy without change. Alternative scenarios are projections in which one or more significant assumptions are varied from the assumptions used in the projections presented in the basic financial statement. The choice of alternative scenarios presented should consider both those that result in larger as well as those that result in smaller net differences between the present value of projected receipts and spending. For each alternative scenario, the net present value of projected receipts, spending, and of the difference between projected spending and receipts should be presented. Projections for individual programs may be presented. (See (a) above.) Projections for alternative scenarios may be displayed in a table format. (See illustration 7 in Appendix B.) The major causes of the differences between the results of the alternative scenarios and the basic financial statement should be disclosed.

Subsequent discussion with GAO staff indicated that the reason for GAO's recommendation is that items 41(e), 42(a), 42(b) and 42(d) should have an audit status that is consistent with the corresponding requirements for the SOSI. In addition, changes in calculations for alternative scenarios for 42(d) would require extensive additional audit work in order for it to be classified as basic information.

Staff analysis and recommendation

The Board members representing the preparer (the Treasury Department) and the auditor (GAO) of the CFR indicated that the timing of the proposed implementation period is reasonable. Accordingly, staff recommends no change in the timing of the phased implementation period.

Regarding the classification as basic versus RSI, staff agrees with GAO that alignment with the classification of SOSI requirements has advantages. For example, if like items are included in RSI for both fiscal sustainability and SOSI, the preparer may be able to integrate the reporting and provide a concise package for readers. In addition, SFFAC 6 (*Distinguishing Basic Information, RSI, and OAI*) provides that RSI may include information "expressed in other than financial measures" or which "may not be subject to reliable estimation." Presentation of projections expressed on an annual basis - such as the trend information required by par. 42(b) - as RSI may be more consistent with the level of reliability available. In addition, some of the referenced paragraphs may require narrative that extends beyond financial measures (such as policy trends, analysis by other organizations, trends in other countries). Accordingly, staff believes that the items required in paragraphs 41(e), 42(a), 42(b), and 42(d) above should remain as RSI after the three-year implementation period.

In addition, staff recommends that the items required in paragraphs 42(c) - cost of delay - also remain as RSI for similar reasons. (See text below) This requirement is similar to the requirements identified by GAO and would allow the preparer to present all the analytical requirements together in an integrated manner.

[42] Disclosures should explain and illustrate
(c) if a fiscal gap is indicated by the projections, the likely impact of delaying action. For example, graphics could illustrate the progressive increase in the change that would be needed to close the fiscal gap by (1) reducing non-interest spending or alternatively (2) increasing receipts. (See Illustration 6 in appendix B.)

Questions for the Board:

- a) Does the Board agree with staff recommendation of no change in the timing of the phased implementation period (3 years as RSI, then basic)?
- b) Does the Board agree with staff recommendation that the requirements for items 41(e), 42(a), 42(b), 42(c), and 42(d) above should be classified permanently as RSI?

A2 Time Horizon for Projections [Question 5]

- disapproval for reporting infinite horizon projections and
- recommendation for a specific time horizon

The ED proposes that the projection period should be “sufficient to illustrate long-term sustainability.”² This requirement is identical to the requirement for the Statement of Social Insurance, which has been prepared for a 75-year projection period. The ED also proposes that if the projection period selected for the basic financial statement is finite, disclosures should display summary totals for an infinite projection period, and if the projection period selected is infinite, disclosures should display summary totals for a finite projection period.

The following pros and cons on time horizon alternatives expressed by Fiscal Sustainability Task Force members and the Board’s are discussed in paragraphs A53-A59 of the Basis for Conclusions section of the ED:

There was strong disagreement among the task force participants regarding the selection of a time horizon for projections, in particular a finite horizon (for example, 75-year) versus an infinite horizon. One task force participant believes that only infinite-horizon projections should be displayed but others believe that infinite-horizon projections should not be shown. Some participants suggested that information using both finite and infinite-horizon projections be included.

A majority of the communication experts believe that information for both finite and infinite-horizon projections should be provided to readers, but not necessarily both within a primary display.

Below are arguments for the finite and infinite-horizon projection periods for the basic financial statement that the Board discussed.

Arguments in favor of a finite horizon:

A finite period would be sufficient to cover essentially all of the working and retirement years for current participants.

A finite period is subject to less uncertainty than an infinite horizon.

A finite period is meaningful to readers. For example, readers can relate to a time period that will include the retirement of the youngest members of the current workforce. An infinite horizon is less meaningful to readers. Readers are less likely to relate to or be concerned about the U.S. Government’s fiscal condition in 200, 500 or 1,000 years in the future.

Infinite-horizon projections are no more informative to policymakers than 75-year projections, in part because projections beyond the 75-year horizon are subject to significant uncertainty. A more detailed version of this argument is made in an article in the National Tax Journal:

...many people already believe that the 75-year horizon is too distant to be meaningful, and that detailed projections over longer horizons suggest a false precision. A simpler projection assumption is that after 75 years (or some other interval, T), the system will

² Paragraph 34.

have settled into a steady state in which rates of growth of costs and tax revenues are thereafter constant, although not necessarily equal.³

Arguments in favor of an infinite horizon:

Unless trends are level towards the end of the period, projections may be subject to the “moving window” effect, where shortfalls (or surpluses) increase significantly from one reporting year to the next due to the change in the projection period. For example, if a projection period is 75 years, the activity in “year 76” is outside the projection period for that year, but will be included in the projection period for the following year. An infinite horizon would avoid the “moving window” effect that occurs when there are significant changes to an estimate from one year to the next that are caused by the passage of time.

Some have argued that a finite projection period essentially assumes zero for years beyond the projection period. Infinite-horizon projections would not assume zero for years beyond the cutoff point for projections.

The Board believes that the advantages of both finite and infinite horizons are sufficiently compelling that both finite and infinite-horizon information should be provided, although only one projection period should be used for the basic financial statement. Whichever type of projection period is selected for the primary display, the other type of projection period should be presented with the disclosures.

The Board also believes that one of the projection periods used (in either the basic financial statement or the narrative section) should be consistent with that used for the SOSI. This will ensure consistency between major line items in the SOSI (for example, projected earmarked receipts and spending for Social Security and Medicare) and corresponding line items in the basic financial statement or the disclosures.

A majority of respondents (10 of 13) disagreed with the Board’s proposal to require reporting projected data for both finite and infinite time horizons. (See Question 5) Respondents said that requiring projected data for an infinite time horizon would be: too much information, irrelevant, and unacceptably uncertain due to many major events that are very difficult or impossible to predict, such as depressions, natural disasters, wars, etc.

Also, a majority of respondents (10 of 11) disagreed with the Board’s proposal not to specify a time horizon for projected data. Six of the ten respondents that disagreed recommended a time horizon of 75 years.

Staff analysis and recommendation

³ *Sustainable Social Security- What Would It Cost?* National Tax Journal, Vol. LVI, No. 1, Part 1, March 2003, page 34. Available at [http://ntj.tax.org/wwwtax/ntjrec.nsf/5DC000487120304885256D8E0054C858/\\$FILE/Lee.pdf](http://ntj.tax.org/wwwtax/ntjrec.nsf/5DC000487120304885256D8E0054C858/$FILE/Lee.pdf)

The concept of reporting projected data for both finite and infinite time horizons was modeled after the Social Security and Medicare Trustees Reports, which report primarily 75-year data but also report summary information for the infinite horizon within the narrative section of the Trustees Report. Also, the projections are intended to be projections of specific assumption sets in accordance with the guidelines; they are not intended to be predictions; hence it is not necessary to predict major national or international events.

The disclosure of summary totals for the alternative (finite or infinite) projection period can be succinct. Accordingly, staff recommends no change in the proposed requirements.

Question for the Board:

Does the Board agree with staff recommendation of no change in the proposed time horizon requirements?

A3 Review guidance on alternative scenarios for clarity [Question 9]

Paragraph 42(d) of the ED proposes that the disclosures should explain and illustrate... the results of alternative scenarios that are consistent with current policy without change. Alternative scenarios are projections in which one or more significant assumptions are varied from the assumptions used in the projections presented in the basic financial statement. The choice of alternative scenarios presented should consider both those that result in larger as well as those that result in smaller net differences between the present value of projected receipts and spending. For each alternative scenario, the net present value of projected receipts, spending, and of the difference between projected spending and receipts should be presented. Projections for individual programs may be presented. (See (a) above.) Projections for alternative scenarios may be displayed in a table format. (See illustration 7 in Appendix B.) The major causes of the differences between the results of the alternative scenarios and the basic financial statement should be disclosed.

Question 9 asked if this guidance is appropriate and sufficient. Half of the respondents (5 of 10) disagreed. Among the reasons cited were:

- It would seem unnecessary to present many alternatives since they all would show the same thing.
- There should be only two alternate projections, one to show the increase in revenues needed to sustain the current level of service, and the other to show the cut in spending needed to sustain the current level of service, as the two options are fairly generic. We are concerned that providing other projections would reduce the credibility of the statement. The readers could perceive the alternative scenarios as:
 - An endorsement of the alternate policies,
 - Political in nature, and
 - Subjective, open to speculation, and not factual.

We believe that the only alternative scenarios that should be presented are to increase revenues and to decrease spending as they are generic.

- We recommend that the board identify the most suitable estimate instead of making the disclosures overly complex.
- Including alternative scenarios can cause confusion.
- 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.

Staff analysis and recommendation

One of the “disagree” comments implies that the “alternative scenario” requirements were for policy alternatives, or some other situation that was not consistent with “current policy without change.” However, other respondents indicated that the requirement was clear and appropriate.

Fiscal Sustainability Task Force technical experts indicated that alternative scenarios are the clearest way of showing uncertainty but cautioned that as the number of tables or graphs expands, it would narrow the pool of people who would pay any attention to the report at all. Task Force communication experts also emphasized the need for simplicity, especially on the face of the financial statement.

Staff reviewed paragraph 42(d) and staff believes that the requirement and the accompanying illustration in Appendix B are clear that “alternative scenarios” refers to uncertainty and not alternative policy proposals. Accordingly, staff recommends no change in the requirement or the illustrative example is Appendix B.

Question for the Board:

Does the Board agree with staff recommendation of no change in the requirements for alternative scenarios?

A4 Clarify that “major programs” are not limited to social insurance programs [Question 7]

The ED proposed that “major programs” should be disaggregated on the face of the basic financial statement. The illustrative financial statement in Appendix B displayed separate lines only for social insurance programs (Medicare, Medicaid, and Social Security).

Question 7 asked (a) if the general guidance was appropriate, and (b) if specific lines items (rather than “major programs”) should be required.

Although a majority (7 of 8) of respondents agreed that the general guidance was appropriate, the response to question 7(b) indicated that the illustrative financial statement in Appendix B may have given the impression that social insurance programs are the only major programs of the U.S. government. Five respondents⁴ mentioned

⁴ IMF, SSA OIG, Walker, SSA Chief Actuary, CFO Council

defense as an additional spending category. Three respondents⁵ mentioned disaggregating individual income taxes and corporate income taxes for receipts.

Staff analysis and recommendation

A majority of respondents believe that the requirement in the proposed standard is appropriate but may have interpreted the illustrative financial statement to be authoritative. Staff does not believe that either the standard or the illustration should require a disaggregation of general tax receipts into individual, corporate and other because (a) discussion with the technical expert members of the Fiscal Sustainability Reporting Task Force suggests the GPD share of tax revenue has historically been more stable than the split between individual and corporate tax revenue and so the total could be projected more reliably, and (b) unlike earmarked receipts, which are related to the programs they support, general receipts apply equally to all general government spending.

Staff recommends no change in the reporting requirement for disaggregating “major programs.” To prevent misunderstanding of the illustrative financial statement, staff proposes to add additional lines “major program A” and “major program B” to the illustrative financial statement in Appendix B.

Question for the Board:

Does the Board agree with staff recommendation for:

- no change to the reporting requirement and
- a clarifying change to the illustrative financial statement?

A5 Illustrative Disclosure for “Fiscal Gap” (Illustration 8 in Appendix B) is unacceptably confusing [Question 4]

During the development of the ED, several Board members also noted that the illustration may be difficult to understand. Question 4 was included in the ED to prompt an evaluation of Illustration 8.

A majority (7 of 8) of respondents believe that the illustrative disclosure (Illustration 8 in Appendix B) is not clear or understandable.

Staff analysis and recommendation

Since Illustration 8 is confusing to the majority of respondents, staff recommends that this illustration should be deleted from the final standard.

Question for the Board:

Does the Board agree with staff recommendation to delete Illustration 8 from Appendix B?

⁵ SSA OCFO, Walker, and CFO Council

**A6 Clarify that Treasury is encouraged to include the FAQs in the CFR
[Question 11]**

Question 11 asked if (a) the FAQs were helpful to the readers of the ED and (b) whether the Treasury Department should be encouraged to include any of the FAQs in the CFR.

All of the respondents addressing part (a) of this question (10 of 10) agreed that the FAQs were helpful. A majority (5 of 8) of respondents addressing part (b) of this question agreed that the Treasury Department should be encouraged to include the FAQs in the CFR. One of the three “no” respondents (SSA OIG) said that although all of the FAQs should be included, plus an FAQ for Fiscal Gap, the FAQs should be included in the GAO’s *Guide to Understanding the Annual Financial Report of the U.S. Government* rather than in the CFR itself.

Staff analysis and recommendation

Since all of the respondents agreed that the FAQs were helpful in understanding the ED, and a majority believe that the Treasury Department should be encouraged to include the FAQs in the CFR, staff believes that the FAQs should be retained in the final Standard and that the Treasury Department should be encouraged- but not required- to include FAQs in the CFR.

Staff proposes that the following language be added after paragraph 43 (“Other Supporting Data” Section of the proposed Standard:

[44] The preparer is encouraged, but not required, to include Frequently Asked Questions (FAQs) as Other Accompanying Information to help readers become familiar with terms and concepts inherent in the requirements of this Standard. Illustrative FAQs are displayed in Appendix XX.

Questions for the Board:

- a) Does the Board agree with staff recommendation that the FAQs should be retained in the final Standard and that the Treasury Department should be encouraged- but not required- to include FAQs in the CFR?
- b) If so, does the proposed new paragraph 44 (above) adequately accomplish this?

A7 GAO recommended flexibility regarding consistency of economic and demographic assumptions with Social Security and Medicare in the Statement of Social Insurance [Questions 2 & 3]

Question 2 asked if the guidance for assumptions is appropriate. Question 3 asked whether there should be any changes to the proposed requirements for the basic financial statement and/or the disclosures.

response to Question 3, regarding if any changes should be made to the reporting requirements for the basic financial statement and/or disclosures, GAO wrote:

It is our view that the guidance for the assumptions in the Exposure Draft is generally appropriate. We believe, however, that the guidance for the assumptions articulated in Paragraph 31 should be revised to provide more flexibility, where appropriate. Paragraph 31 requires that the same economic and demographic assumptions be used the basic financial statement for Fiscal Sustainability reporting and for Social Security and Medicare in the Statement of Social Insurance. However, in some cases, the assumptions, particularly the economic assumptions may need to differ. For example, an appropriate unified discount rate for all projected receipts and spending in the Statement of Fiscal Sustainability may differ from either the Social Security or Medicare discount rates. Increasing the flexibility in paragraph 31 would allow the use of the most appropriate discount rate and permit changes to other assumptions as appropriate. It is our view, however, that any such differences, between the assumptions used in the Statement of Fiscal Sustainability and those in the SOSI for Social Security and Medicare, be appropriately disclosed.

In response to Question 2, five respondents agreed with the Board's proposed guidance for assumptions:

USDA wrote: Yes, the guidance for assumptions is appropriate in that it discusses 3 types of assumptions, as noted above, with the starting point being "current policy without change." Also, in using the same economic and demographic assumptions that are used for the Statement of Social Insurance will provide for comparability of the information for users.

SSA OCFO wrote: Overall, the guidance for allowing the preparer to use judgment in selecting the assumptions is appropriate. The statement that "projections are not forecasts or predictions; they are designed to depict results that may occur under various conditions" provides a clear distinction between the goals of projections and the role of assumptions in developing these long-term projections. The definitions and examples provided for policy, economic, and demographic assumptions are clear and understandable, specifically the examples of the assumptions applied to the Social Security program.

David Walker wrote: 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.

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.

Stephen Goss, SSA Chief Actuary wrote: Overall, the guidance for allowing the preparer to use judgment in selecting the assumptions is appropriate. The statement

that “projections are not forecasts or predictions; they are designed to depict results that may occur under various conditions” provides a clear distinction between the goals of projections and the role of assumptions in developing those long-term projections. The definitions and examples provided for policy, economic, and demographic assumptions are very clear and understandable, specifically the examples of the assumptions applied to the Social Security program in paragraph 26.

The guidance in paragraph 31 regarding the selection of economic and demographic assumptions for the Social Security and Medicare programs is also appropriate. The assumptions used in the SOSI have been thoroughly vetted and audited and are therefore a practical and sound choice for the basic financial statement.

CFO Council wrote: Yes, we favor inclusion of broad and general guidance for selecting policy, economic, and demographic assumptions for long-term projections.

Galbraith disagreed with the guidance, but for a different reason. Galbraith wrote: Guidance for “policy assumptions” is otherwise generally reasonable. But there is no guidance whatever on the choice of economic assumptions. This is a serious shortcoming, particularly insofar as it has become a habit for the Social Security actuaries to violate generally accepted accounting practices when making economic projections relevant to the financial flows of the Social Security System. Specifically, past performance is characteristically ignored, and future projections are systematically pessimistic with respect to past performance. Guidance should specifically address two issues: the proper relationship of economic projections to generally-accepted accounting principles, and the appropriate ways in which to factor into projections the effect of policy changes on economic performance. As the comments under Q1 make clear, it is inappropriate merely to assume that economic policies cannot affect economic outcomes.

Staff Analysis and Recommendation

GAO’s response notes that in some cases the assumptions may need to differ and implies that in instances where the assumptions for Social Security differ from the assumptions used for Medicare in the SOSI it would not be possible for the fiscal sustainability reporting to be consistent with both. Accordingly, staff recommends a requirement more consistent with the requirements for the SOSI regarding assumptions.

Staff recommends that paragraph 31 should be revised (see below) and that a disclosure requirement be added as new sub-paragraph 41(d):

[31, **revised language in bold**] The same economic and demographic assumptions **generally** should be used for the basic financial statement for Fiscal Sustainability Reporting and for Social Security and Medicare in the Statement of Social Insurance, **although exceptions may be necessary (see paragraph 41(d)).**

Proposed new sub-paragraph 41(d):

[41] Disclosures should include:

new sub-paragraph [d] Any significant differences in economic or demographic assumptions from those used in the preparation of the Statement of Social Insurance (SOSI). In addition, a reference to the note presenting the assumptions used in the preparation of the SOSI should be included.

Question for the Board:

Does the Board agree with staff recommendation for revision of paragraph 31, and insertion of sub-paragraph 41(d), per above?

A8 GAO recommends additional disclosures [Question 3]

Question 3 asked whether there should be any changes to the Board's proposed requirements for a basic financial statement and disclosures. In response to Question 3, GAO wrote:

Overall, the Statement of Fiscal Sustainability has been structured in a straightforward manner; however, it is our view that the excess of spending over receipts attributed to Medicare Part A and Social Security should be required to be disclosed in the footnotes. This would provide policy-makers and the public with critical information on the composition of the excess between the Social Security and Medicare Part A programs, which are supported by dedicated earmarked funding, and the remaining spending, which is supported by general revenues. This should be accompanied by appropriate narrative that discusses the significance of the different funding mechanisms and the competing demands of Medicare Parts B and D and other discretionary spending (e.g., Defense, and Homeland Security) on general revenues.

In contrast, other respondents indicated that the requirements already require too much information:

AGA FMSB wrote: 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.

As a general comment, John Favret wrote: Information Overload: In all of this we should be careful not to present so much information that it confuses the reader.

SSA OIG, on the topic of disclosing infinite horizon information: Additionally, while financial analysts may find it interesting, we believe it is too much information for the average citizen and irrelevant.

On the topic of disclosing range information for major cost drivers and/or major programs:

SSA OIG wrote: Illustrations 1a and 1b are fairly easy to understand. However some data and graphs are not, such as Illustrations 8a and 8b. Therefore, it should be left as an option. Also, it could be too much information for the average reader.

SSA OCFO wrote: We believe that the display of major cost drivers and/or major programs as shown should be optional. These displays raise too many different scenarios and hypotheticals that may be more confusing than they are useful. The graphs attempt to present too much information; a narrative explanation would be much more effective.

SSA Chief Actuary Goss wrote: The specific displays of major cost drivers and/or major programs as shown should be altered, and should certainly be optional. These displays raise too many different scenarios and hypotheticals that may be more confusing than they are useful. The graphs attempt to present too much information; a narrative explanation could be much more effective.

Staff is neutral regarding the GAO recommendation for additional disclosure but notes that:

- much of this information is available through the SOSI
- the new requirement for a narrative discussion of the significance of different funding mechanisms for earmarked versus general revenues was not exposed for public comments, and
- a discussion of competing demands of mandatory and discretionary programs may give the appearance of endorsing policy recommendations, which a majority of the Board and a majority of respondents indicated would be inappropriate.

Question for the Board:

Does the Board wish to consider the inclusion of the disclosure requirements recommended by GAO in the first paragraph of this section?

B Respondents' Reaction to Minority Proposals

B1 Requirements for RSI should address foreign holdings of U.S.

Treasury Debt [Question 13]

Question 13 notes that 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. Question 13 asks if (a) including such RSI would be relevant and useful to readers, and (b) if the illustrative example provided in Appendix B was clear and understandable.

Pro: Arguments in favor of including this requirement:

As noted in paragraphs A64-A65 of the ED,

[A64] A significant minority of members supported a proposal that the proportion of U.S. Treasury debt held by foreign investors is also important information and should be reported as RSI. They point out that while it is important to report the large and growing gap between revenues and spending, the extent to which deficits are being financed by foreign lenders is also significant information, particularly in light of the large and growing increase in that proportion.

[A65] The members supporting this additional requirement point out that foreign lenders cannot be counted on to be always willing to finance the government's deficits; that the magnitude of this indebtedness to foreign lenders has national security implications, including threatening our international standing and influence and limiting our foreign policy options; and it results in the interest payments on the debt going abroad instead of providing income to U. S. residents and feeding into our economy

A majority (7 of 10) of the respondents believe that such RSI should be required.

Among the reasons given were:

- This information would show the reader the impact foreign countries could have on the U.S. economy.
- Trends in the proportion of U.S. Treasury debt held by foreign investors is a fundamental user consideration and such an important analysis.
- Yes, in that the proportion has been large and increasing, per Page 64 [of the ED].
- The ABFM welcomes the recommendations for...adding data on trends of foreign holding of U.S. Treasury debt.
- This is a very important financial issue that can have significant economic, fiscal, foreign relations and even national security implications over time.
- We believe trends in foreign holdings of U.S. Treasury debt is relevant information that citizens would like to know and should be presented as RSI.
- I believe that graphic information (like the pie chart in #10, Appendix B), regarding trends in the proportion of US Treasury debt held by foreign investors (especially foreign countries) should be made part of the Required Supplementary Information *and* be subject to the phased-in implementation. I

feel strongly about this because of our increasing reliance on foreign countries to fund our operating deficits at a time when the global economy is under great strain and these funds may not be available to us in the future as countries like China, Japan, and Germany are forced to shore up their own economies, especially with further global economic deterioration.

Con: Arguments against including this requirement

A majority of members did not support this proposal for the following reasons as explained in the Basis for Conclusions:

[A67] A majority of members believe that there should not be a requirement to disclose foreign holdings of U.S. Treasury debt, for reasons that included the following:

- (a) It is unclear how the information relates to the fiscal sustainability of current policy without change.
- (b) Information on foreign holdings of U.S. Treasury debt, which is based upon unaudited, unverifiable surveys rather than transaction records and is not available on a timely basis, may cause disclosure and/or audit issues.
- (c) The proposed reporting requirement could not extend to long-run projections since the capability to project future foreign holdings does not exist with current models.
- (d) A reporting requirement for existing foreign holdings would repeat information readily available in other places.

In addition, three respondents questioned whether this information is relevant to long-term fiscal sustainability.

Staff analysis and recommendation

Staff believes that there are strong arguments on both sides of this issue, and recommends that the final standard should encourage but not require the inclusion of this information in RSI that would not be subject to the phased-in implementation in paragraph 64 of the ED. The language would make it clear that “trends” is a reference to historical trends and does not imply that future trends in foreign holdings can or should be projected.

Staff proposes the following new section, “Required Supplementary Information” that would appear after “Disclosures” section:

Required Supplementary Information

[43] The inclusion of information about historical trends in the proportion of U.S. Treasury debt purchased or held by foreign investors as Required Supplementary Information is encouraged. Illustrative disclosures are displayed in Appendix B, Illustration 10.

Questions for the Board:

- a) Does the Board agree with staff recommendation that information on trends in foreign holdings of U.S. Treasury debt should be encouraged but not required to be included in “permanent” RSI of the CFR?
- b) If so, does the draft language above adequately accomplish this?

B2 Analysis of potential policy proposals should not be included
[Question 14]

A minority of Board members proposed 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.)

A majority of respondents (9 of 11) disagreed with this minority proposal. Among the reasons given were:

- It is not Treasury’s role to propose or even list policy alternatives to close a projected fiscal gap.
- The Board should not embarrass itself by attempting to prescribe policy.
- The subjectivity of options would appear to make this an inappropriate subject for mandatory provisions.
- It seems inappropriate to predict future government policy, and these types of policy issues may be better addressed in a separate report completed by GAO.
- Any recommendations should be part of another white paper.
- Including such policy assumptions would seem to “endorse” a specific policy. FASAB’s role is to establish accounting standards, not to establish policy standards that reflect various political views. In addition, it seems impossible to provide clear guidelines on how to select among the numerous possible policy alternatives.
- As suggested by a majority of the Board, including such policy alternatives would effectively “endorse” a specific policy. Neither FASAB nor the Executive Branch is charged with recommending policy alternatives in the context of the CFR. Including specific policy alternatives in the CFR would inevitably reflect political views.
- Policy alternatives should remain separate from fiscal sustainability reporting.

Staff analysis and recommendation

Staff believes that the reasons provided by majority of respondents- and by the majority of Board members- are compelling and that there should be no change in the majority proposal not to require reporting on various policy alternatives to close the fiscal gap.

Question for the Board:

Does the Board agree with staff recommendation of no change in the Board’s majority proposal regarding policy alternatives?

B3 Majority of respondents advised against developing reporting requirements relating to inter-generational equity [Question 15]

A majority of respondents (6 of 10) believe that FASAB should not undertake further research and analysis regarding inter-generational equity. Reasons presented include:

- The ED goes far enough without adding this additional requirements (sic) or information.
- “Inter-generational accounting” is an experimental and unsound concept. It should not be included in any government document.
- We believe the readers already understand this concept.
- It would not be appropriate to include these disclosures in the standard.
- The complexity of federal government obligations and the passage of benefits across generations, both directly and indirectly, make anything appearing to be an analysis of generational equity an exercise in judgment and a statement of political perspective. Whether, for example, current expenditure for a new rifle, or for a new highway, or for a school subsidy, or for a tax reduction benefits current taxpayers or future generations is entirely a matter of interpretation, perspective, and ultimately belief systems. This kind of analysis has no relevance to the CFR.
- We do not think further research and analysis by FASAB is warranted at this time.

Staff analysis and recommendation

Staff believes that the reasons provided by majority of respondents- and by the majority of Board members- are compelling and that there should be no additional research on inter-generational equity at this time. Staff recommends no changes to paragraph 41(e) regarding inter-period equity.

[Staff note: Paragraph 41(e) requires an explanation of the significance of the data presented or other information that puts the data into context. Options for context include but are not limited to....information that may be helpful to readers in assessing whether financial burdens were passed on by current-year taxpayers to future-year taxpayers.]

Question for the Board:

Does the Board agree with staff recommendation of no change to the Board’s proposal (no additional research) regarding “inter-generational equity”?

Attachment 1– Revised Timeline

Revised Timeline: Fiscal Sustainability Reporting Project Plan

April 5, 2007	Task Force Meeting: Technical Experts
May 24, 2007	Board meeting: Recap of results of April 2007 task force meeting
June 19, 2007	Task Force Meeting: Financial Statement Users/Communications Experts
July 25-26, 2007	Board meeting: Survey of international reporting; recap of results of June 2007 task force meeting
September 19-20, 2007	Board meeting: Present options and proposals for reporting
December 4-5, 2007	Board meeting: Present draft ED for discussion
February 13-14, 2008	Board meeting: Continue discussion of draft ED
April 16-17, 2008	Board meeting: Discuss preballot draft ED
June 18-19, 2008	Board meeting: Discuss fiscal imbalance and fiscal gap
August 20-21, 2008	Board meeting: Review preballot draft ED
August 29, 2008	Issue ED: Comments due January 5, 2009
February 25-26, 2009	Board meeting: Public Hearing; discuss ED comments and staff proposal(s)
April 22-23, 2009	Board meeting: Preballot draft SFFAS
June 17-18, 2009	Ballot Draft SFFAS, with ballots due before June 30th when two members complete their terms.
June 30, 2009	Transmittal to principals; begin 90-day review period
October 1, 2009	End 90-day review period and issue SFFAS