Letter of Comment No. 25 File Reference: 13-3PV Date Received: 2/27/12

Friday, February 24, 2012

GASB

Director of Research and Technical Activities

Project No. 13-3

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To Whom It May Concern:

I am writing to provide my comments regarding the Board's preliminary view of the proposed financial projections. Below are my comments:

Question Questions and Comments

1

- Question The Board's preliminary view is that there are five components of information that are necessary to assist users in assessing a governmental entity's fiscal sustainability (Chapter 3, paragraph 2):
 - Component 1 Projections of the total cash inflows and major individual cash inflows, in dollars and as a percentage of total cash inflows, with explanations of the known causes of fluctuations in cash inflows (Chapter 3, paragraphs 4-9)
 - Component 2 Projections of the total cash outflows and major individual cash outflows, in dollars and a percentage of total cash outflows, with explanations of the known causes of fluctuations in cash outflows (Chapter 3, paragraphs 10-14)
 - Component 3 Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits, and long-term contracts, with explanations of the known causes of fluctuations in financial obligations (Chapter 3, paragraphs 15-20)
 - Component 4 Projections of annual debt service payments (principal and interest) (Chapter 3, paragraphs 21-23)
 - Component 5 Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies (Chapter 3, paragraphs 24-26)

Do you agree with this view? Why or why not?

Comments – I do agree with the above five components. These appear to be essential components for users to assess a governmental entity's fiscal sustainability. However, these all appear to be pertaining to the base case scenario. Based on my extensive experience with financial projections and stress tests with Freddie Mac, I would recommend the Board to consider scenario and stress test analysis as part of the financial requirements. I do strongly believe that the Board is moving in the right direction. With the proposed pension/OPEB accounting changes, this added reporting requirement will definitely be a useful tool for users to have a more complete forward looking of any

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governmental entities of interest.

2 Question - The Board's preliminary view is that financial projections should be (a) based on current policy, (b) informed by historical information, and (c) adjusted for known events and conditions that affect the projection periods. Current policy includes policy changes that have been formally adopted by the end of the reporting period but that will not be effective until future periods (Chapter 4, paragraphs 2-7).

Do you agree with this view? Why or why not?

Comments – I definitely agree with this view. In order for financial projections to be relevant and meaningful, any known events or facts should be incorporated as much as possible with some qualified standards of deviation of errors. In addition, any correlation or value at risk analysis should be performed. Projections are only as good as assumptions included. Reflected on the 4q2007 financial meltdown, history does not necessarily repeat itself.

3 Question - The Board's preliminary view is that inflows and outflows should be projected on a cash basis of account ting, and financial obligations should be projected on an accrual basis of accounting (Chapter 4, paragraphs 8-12).

Do you agree with this view? Why or why not?

Comments – Since governments are primarily on a cash basis, I agree that the focus of financial projections should be on a cash basis and adjusted for known or projected obligations like OPEB, pensions, debt principal and interest payments as well as any potential debt issuances or refunding.

4 Question - The Board's preliminary view is that the identification and development of assumptions for making financial projections should be guided by a principles-based approach. Such an approach would set forth principles that require assumptions to be based on relevant historical information, as well as events and conditions that have occurred and affect the projection periods. Furthermore, these assumptions should be (a) consistent with each other (where appropriate) and with the information used as the basis for the assumptions and (b) comprehensive by considering significant trends, events, and conditions (Chapter 4, paragraphs 13-16).

Do you agree with this view? Why or why not?

Comments – I do agree with the Board's preliminary view in identifying and developing key assumptions driving financial projections. This includes historical information or events adjusted for recent known facts (i.e., expected debt issuance). This helps financial users assess and understand a governmental entity's fiscal sustainability. Scenario analysis will also be extremely helpful to users, particularly for governmental entities with sizeable derivative portfolios for their related market value can be significantly volatile by changes in interest rates. The scenario analysis should include parallel (+/-50 bps, +/-100 bps, +/-150 bps, etc.), bull and bear scenarios.

This yield curve information is useful for analyzing pensions, OPEB, investments, and derivative portfolios and to some extent variable rate debt service costs.

Helpful information should also include the identification of fixed vs. variable costs (salary vs one-time expenditure).

5 *Question* - The Board's preliminary view is that annual financial projections should be made for a minimum of five individual years beyond the reporting period for the purpose of external reporting (Chapter 4, paragraphs 19-23).

Do you agree with this view? Why or why not?

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Comments – It has been a general practice to have five years of financial projections. Personally, I think five years are too long. I would recommend going for three years the most. In this current economic time, the longer the projection the more volatile and uncertainties are involved.

Question - The Board's preliminary view is that all of the components of fiscal sustainability information are essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context and therefore should be required and communicated as required supplementary information (Chapter 5, paragraphs 7-12).

Do you agree with this view? Why or why not?

Comments – I agree with this view for the reasons stated in paragraphs 7-12.

7 *Question* - The Board's preliminary view is that all governmental entities should be required to report financial projections and related narrative discussions (Chapter 5, paragraphs 13 and 14).

Do you agree with this view? Why or why not?

Comments – I agree fully with the Board's view. Financial projections are not meaningful without accompanying narrative.

8 *Question* - Do you believe that a phase-in period for implementing the reporting requirements for financial projections and related narrative discussions would be appropriate (for example, requiring governmental entities over certain dollar thresholds to implement first)? If so, what phase-in criteria would you recommend (Chapter 5, paragraph 14)?

Comments – Personally, I do not see any potential problems in implementing these reporting requirements and therefore, do not have any preference on the phase-in period implementation driven by the size of governmental entities

Sincerely,

Pon Chen Yusuf

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