

State of Connecticut

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Hartford

March 16, 2012

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 13-3
Government Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

**Re: Project No. 13-3 Preliminary Views - Economic Condition Reporting:
Financial Projections ("GASB 13-3")**

Dear Director Bean:

Thank you for the opportunity to comment on GASB 13-3.

As Treasurer of the State of Connecticut, I serve as principal fiduciary of the State's \$24 billion Connecticut Retirement Plans and Trust Funds and its \$5 billion Short-Term Investment Fund ("STIF"). In addition, I have responsibility for the State's issuance of debt obligations and management of its \$19 billion debt portfolio. I also serve as an *ex officio* member of the boards of many of the State's quasi-public agencies which also issue debt. It is in these capacities that I submit this letter to express my views regarding GASB 13-3. I appreciate the opportunity to do so.

In fulfilling these functions, my office strives to produce financial and operating disclosure that is clear, concise and complete in all material respects. Where we consider it appropriate, we include forward looking information and give it context. I welcome the contribution by the Government Accounting Standards Board of its own developing perspective on this topic.

My issue with respect to these Preliminary Views is not about the usefulness of forward looking information -- including, where appropriate, projections -- but in what context and manner they should be reported. In that spirit, I ask you to consider the following aspects of the Preliminary Views:

GASB Should Clarify Which Statements May Benefit From the Inclusion of Projections.

My office annually issues two Comprehensive Annual Financial Reports ("CAFR"): one for the State's Short-Term Investment Fund ("STIF"), which is a state and local government investment pool; the other is for the State's Combined Investment Funds ("CIF"), containing pension and trust fund assets. I would suggest to you that including projections as required supplemental information in either CAFR is not materially useful information, and GASB should clarify that its Preliminary Views project does not apply to such financial statements.

The objective of STIF is to operate like a money market fund, providing the greatest possible return while protecting principal and providing liquidity for investors. Five-year projections of state and municipal deposits and withdrawals, including net investment returns earned and distributed, are highly speculative, and it would not be meaningful information for investors who care about the amount that the fund is earning and not about the predicted size of the pool over time. Disclosure aimed at "sustainability" is not useful in this context.

The CIF CAFR includes annual investment returns, contributions, withdrawals, and administrative and professional fees for the investment portfolios. While disclosure aimed at "sustainability" may be useful in evaluating the State's overall financial condition and the health of its retirement systems, separate five-year projections of the inflows and outflows for the CIF separately does not convey material financial information.

Pursuant to 80.20.35.c of Generally Accepted Accounting Principles ("GAAP"), STIF is an Investment Trust Fund and CIF is a Pension Trust Fund. According to Lisa Parker, GASB Project Manager, and Jay Fountain, GASB Consultant, these trust funds would not be subject to GASB 13-3. For the reasons just set forth, I agree that STIF and CIF should be exempt from inclusion under GASB 13-3 and respectfully request clarification of their exemption from the Preliminary Views project.

Requiring Financial Projections May Increase Costs And Create Liability For Public Debt Issuers.

The proposed requirement that financial projections be reported as supplemental information creates liability for a public debt issuer to investors based on the accuracy of these unaudited projections. In the corporate arena, issuers are not required to provide projections in their financial statements or securities offering documents. They are encouraged to include "forward-looking information," and to the extent that they do include forward-looking information, Securities and Exchange Commission and judicially created liability safe harbors would apply. The Preliminary Views contemplates more disclosure than required for corporate issuers without establishing corresponding protections. It could create significant costs to governmental entities for additional due diligence while at the same time increasing legal exposure.

Mixing Financial Projections With Audited Information May Be Misleading.

The inclusion of financial projections in audited financial statements is problematic. Audited information conforms to GAAP and presents historically objective information. Projections are based on assumptions and the professional skill, time, and effort of the preparer -- all of which are subjective. Combining these two similar but entirely different kinds of numbers in one place may generate confusion. A less sophisticated reader may not be able to recognize or comprehend these differences and, perhaps, believe that the projections are the same firm numbers as contained in the audited statements.

Even a more sophisticated user that can understand how the projected data relates to the remainder of the financial statement may be misinformed. The projections proposed by GASB 13-3 are to be created on a current services basis assuming no changes in revenues and expenditures. By definition, current service projections for governmental entities will often show out-year deficits. Most governments, however, must actively manage their fiscal situations within certain requirements that may very well change the results each year. In Connecticut, these requirements include a constitutional requirement to balance the budget, which resets all future years, and a statutory cap on spending. As budget adjustments are made, as economic conditions change, and as actual revenues and expenditures are realized, the projections will likely become outdated. As a result, current service projections do not accurately represent future period results, or even expected future results. Even assuming that one understands the nature and utility of current service projections as a budgetary or planning tool, it has little or no meaning alongside the audited financial statements.

My office discloses forward looking information where appropriate, but for the reasons set forth above I am at this point not convinced that it should be done in audited financial statements as currently contemplated by the Board in the Preliminary Views.

In summary, I concur with the two GASB Board members' alternative view that reporting of this information is subjective and not essential to the financial information being presented in an Annual Financial Report (AFR) or CAFR.

Should you have questions, please contact me or Robert Morgan, Assistant Treasurer, Financial Reporting (Bob.Morgan@ct.gov or 860-702-3290).

Sincerely,



Denise L. Nappier
Connecticut State Treasurer