



## Greater Washington Society of CPAs and GWSCPA Educational Foundation

---

1455 Pennsylvania Ave. NW, Suite 400, Washington, DC 20036  
202-204-8014 (v) 202-204-8015 (f) [www.gwscpa.org](http://www.gwscpa.org) [info@gwscpa.org](mailto:info@gwscpa.org)

February 9, 2009

Wendy Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mail Stop 6K17V  
441 G Street, NW – Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) exposure draft of a proposed statement, *Accounting for Social Insurance, Revised*.

FISC consists of 19 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members.

### **Following are our responses to the questions posed in the ED.**

Q1. The Board proposes to require social insurance component entities and the governmentwide entity to discuss and analyze key measures from the basic financial statements in their management's discussion and analysis ("MD&A"). See paragraphs 26-30 in the proposed standard and paragraphs A75-A79 in the basis for conclusions. Do you believe that key measures should be presented in the MD&A as described in this exposure draft? Please provide the rationale for your answers.

A1. Yes, this information should be presented in the MD&A. It adds to the understanding of the program and impacts of actual and potential changes in the programs. The MD&A should also include an analysis and presentation of the data in discrete increments that make up the 75-year long-term projection. The 75-year timeframe is too far into the future for most people to concern themselves and many will doubt the accuracy of 75 year projections. Most statisticians consider the accuracy of projections to decline dramatically as the timeframe increases more than a couple of years into the future.

Q2. The Board is proposing to add a line for the closed group measure to the balance sheet below assets, liabilities and net position and not included in the totals for these classifications. See paragraphs 31-32 in the proposed standard and paragraphs A81-A100 in the basis for conclusions. Two members have submitted alternative views on this issue. See paragraphs A139-A142 in the basis for conclusions for Mr. Patton's view. Mr. Patton and other members believe that a liability

greater than the due and payable amount should be recognized on the balance sheet. See paragraph A144 in the basis for conclusions for Mr. Werfel's view. Mr. Werfel and other members believe that the closed group measure should not be presented on the balance sheet. Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft? Please provide the rationale for your answers.

A2. We agree with adding the line below assets, liabilities, and net assets and not including in totals for these categories. The social insurance measures being based on a long-term projection cannot be directly compared to the "harder" numbers included on the balance sheet. We believe the open group amount should be shown. This position, though, was not unanimous among the committee members. Mr. Werfel's alternative view raises compelling arguments about the reporting of the closed group measure in the balance sheet. The reporting of the closed group measure as a "below the line" total on the balance sheet does not provide a basis for understanding to the reader, is not comparable and is undefined with respect to any other element in the balance sheet, and is not a fair presentation of the "pay-as-you-go" nature of the program. As a result, one member of our committee expressed that the closed group measure should not be recognized on the balance sheet.

Q3. The Board proposes to add a new summary section of the statement of social insurance ("SOSI") to present the closed and open group measures. See paragraphs 34-35 in the proposed standard and paragraphs A114-A116 in the basis for conclusions. Do you believe that the SOSI should have a summary section as described in this exposure draft? Please provide the rationale for your answers.

A3. We think this could be better achieved with note disclosure rather than adding a separate section. Further, we believe that blending the presentation of the open and closed groups on the SOSI would create additional points of confusion for the reader. As a result, we believe the reporting of the open group measure should remain in the MD&A and footnotes, and not within the principal statements.

Q4. The Board proposes a new basic financial statement entitled "statement of changes in social insurance amounts." The new statement would explain the changes during the reporting period in the present value amounts for the closed group measure included in the statement of social insurance. Mr. Werfel and other members have an alternative view. They believe the new statement should focus on changes in the open group measure and not the closed group measure. The question of the use of the appropriate measure is addressed in question 7 below. Do you believe that there should be a new basic financial statement explaining changes to the present value amount included in SOSI? Please provide the rationale for your answers.

A4. The Statement of Changes would add valuable information about what causes the measures to change. As noted below in response to question 7, we believe the focus should be on the open group rather than the closed group measures.

Q5. The Board proposes to disclose an accrued benefit obligation in notes to the financial statements. This information would include a five year trend when the standard is fully implemented. See paragraph 38 in the proposed standard and paragraphs A117-A123 in the basis for conclusions. Mr. Werfel and other members have an alternative view expressing opposition to this disclosure. See paragraph A146 in the basis for conclusions. Do you believe that an accrued

benefit obligation should be disclosed as described in the exposure draft? Please provide the rationale for your answers.

A.5. We believe only the chosen measures (open group, closed group, or Accrued Benefit Obligation (ABO)) should be shown. The inclusion of alternatives and too many presentations of data confuses the reader. As discussed below, we prefer the open group measures over the closed group measures and the ABO.

Q6. The Board considered but decided not to propose adding a line item to the statement of net cost (“SNC”) for the change during the reporting period in the closed group measure that would be presented below exchange revenue and expenses and not included in the totals for these classifications. Some argue that this measure should not be presented on the SNC because it is a fundamentally different measure. Others believe the change is an economic cost that belongs on the SNC, and that including this number at the bottom of the SNC appropriately links all basic financial statements. See paragraphs A101-A113 in the basis for conclusions. Do you believe that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and not included in the totals for these classifications? Please provide the rationale for your answers.

A6. We do not believe that the SNC should include a line item for the change during the period in the closed group measure. We have previously stated reasons for not including the measures in assets, liabilities, and net assets. Those reasons apply also to the SNC. If the measures are not included in assets, liabilities, and net assets, then the change should not flow through SNC.

Q7. The Board decided to present the **closed group measure** (CGM) (defined in paragraph 19) as a common thread among the proposed new reporting. The proposal requires that the CGM and other key measures from the financial statements be discussed in management’s discussion and analysis; that the CGM be presented on the balance sheet below assets, liabilities and net position (without being included in the totals for these categories); and that the changes in the CGM during the reporting period be presented and explained in the new summary section of the statement of social insurance and the new statement of changes in social insurance. The Board considered the **open group measure** (defined in paragraph 24) instead of the closed group measure as the focus for the disclosure. This exposure draft discussed both the closed group measure and the open group measure throughout. Paragraphs A69-A74 provide the basic rationale for the Board’s selection of the closed group measure. Mr. Werfel and other members have an alternative view regarding the presentation of the closed group measure. They oppose the addition of the closed group measure to the balance sheet. Further, they believe the open group measure is the appropriate measure to use in the new statement of changes in social insurance and not the closed group measure. See paragraph A145 in the basis for conclusions. Do you agree with the Board’s decision to feature the closed group measure? Please provide the rationale for your answers.

A7. We think there are good arguments for both the open group and closed group measures. We do think that whether FASAB ultimately chooses the open group or closed group measures, it should not require that both be presented. We believe that this will add confusion. The results are also similar enough that two methods are not required. It would be our preference that the open group measure be the one adopted by the FASAB in its final pronouncement.

Q8. The Board is proposing to change the requirement currently in SFFAS 17 for specific sensitivity analysis. The standard will require the entity to provide sensitivity analysis of the closed and open group measures appropriate for its particular social insurance program but will not specify a particular approach to the analysis. See paragraphs 42-43 of the standard and paragraphs A125-A137 of the basis for the conclusions. Do you believe that a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs? Please offer any comments that you wish to make on these provisions.

A8. We are concerned that allowing too much flexibility in the sensitivity analyses will result in less relevant information being provided. If flexibility is allowed, this could lead to changes in the presentation each year which would compromise its comparability and consistency. The objective should be to present relevant information in a way that the reader can readily understand its significance. We are unsure whether allowing the use of stochastic modeling “as an augment or alternative to sensitivity analysis” would produce better information. We think it could be difficult for many readers to understand and could lead to more confusion than the present requirement for sensitivity analysis does.

We have the following editorial comments.

Par A77, p. 47 – For clarity, in the last sentence of the paragraph, the Board should consider adding the word “significant” before changes, so that it reads, “explain why the significant changes occurred.”

Appendix B: Table of Key Measures, p. 68 – We ask that the Board consider adding “Decrease (Increase)” after “Change in NPV.”

Appendix C: Pro Forma Balance Sheet, p. 69 – Under the heading of *Social Insurance Contributions*, we suggest the following: 1) add a footnote reference after the heading, where this would be described, and 2) after “Net present value of future cash flow for current participants,” there should be an indication that it is the “closed group” measure.

Appendix D: Pro Forma Statement of Social Insurance – In the heading, there is a reference to Part I. Is there a Part II, or will there be in the final guidance? Also, the table is missing part of the outline near the top on the right hand side.

\*\*\*\*\*

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Daniel L. Kovlak  
FISC Chair