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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Barry Anderson

Non-Federal - Other

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 Board
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 United States

2 April 2007

Re: Request for Comments on Preliminary Views Document of the Federal Accounting Standards Advisory Board on the Issue of Accounting for Social Insurance

Dear Mrs. Comes:

OECD Secretary General, Angel Gurria, asked me to respond to David Mosso's letter of November 20, 2006 that relayed the preliminary views of members of the Federal Accounting Standards Advisory Board (FASAB) on the issue of accounting for social insurance.

I welcome the opportunity to comment on this issue, as I did previously in my August 3, 2006 letter to you. OECD's Working Party of Senior Budget Officials (SBO)—which my unit staffs—is very concerned with the application of accounting concepts to budgets and other financial statements. In fact, the Working Party established a Network on Financial Management specifically to review government accounting frameworks and focus on the issues associated with the adoption of accrual concepts in budget statements. Meetings of the SBO Network on Financial Management—the most recent of which was held in Paris on March 5-6 of this year—have brought members and staff of international accounting standards boards (including FASAB) and budgeting officials together annually for the past 7 years. Thus, we are very cognizant of the impact accounting standards and concepts can have on budget accounting. We also recognize the leadership FASAB can have in the international accounting standards community.

As we at OECD consider the issue of accounting for social insurance to be extremely important, the Chairman of the Network—Ian Mackintosh, who is also Chairman of the Accounting Standards Board for the United Kingdom—explicitly added FASAB's consideration of this issue to the agenda of our March 5-6 meeting, and I explicitly invited the members of FASAB—both those holding the Primary View and those holding the Alternative View—to attend our meeting and present their views. Although FASAB members or other representatives from the three agencies that held the Alternative View attended the March meeting, we were very disappointed that none of the FASAB members who held the Primary



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View choose to attend the meeting. Nevertheless, the delegate from the United States Treasury provided a fair presentation of both the Primary and Alternative Views and a very active discussion of the competing views by our delegates ensued. I can tell you that none of the over 100 delegates representing both OECD member countries and non-member countries from around the world supported the Primary View—and neither do we at OECD.

The crux of the issue on how to report the expenses and liabilities of social insurance programs appears to be when the obligating event for liability recognition occurs. The Primary View is that that event occurs when participants in the programs become fully insured under the terms of the programs—essentially after the participants have worked for 40 quarters in covered employment. I have not heard anyone from the accounting or budgeting communities from countries around the world express support for this view: not delegates to the OECD Network meeting held in March, nor delegates to the meeting of the International Public Sector Accounting Standards Board (IPSASB) held in Norwalk Connecticut last November (which I attended but again was not attended by any of the 6 FASAB members who supported the Primary View), nor even the new FASAB Chairmen, Tom Allen, who in a note to the OECD Network delegates stated that his view for most potential recipients “is different than the Primary View position of recognizing a liability”, although because he just joined FASAB in January and has not participated in the deliberations of the issue he currently supports the Primary View but would welcome comments on it.

I am not surprised by the absence of support for the 6 FASAB members who took the Primary View as, to be quite blunt, their view lacks credibility. They claim that “conditions for receiving a future benefit are *substantially met* when the participants become fully insured” (emphasis original) despite the fact there is no agreement as to the when the timing of such an event occurs. Moreover, they are dismissive of the very valid arguments of those who hold the Alternative View, including that future benefits can—and have been in the past—unilaterally be changed by the Government. They further dismiss the fact the payments participants make to these social insurance programs are part of nonexchange transactions that are substantially different from other types of retirement and pension programs provided by the private sector, which their proposed accounting treatment would attempt to mimic. Lastly, they dismiss the fact that were their accounting to be adopted, the result would not be to accomplish their stated goal of providing basic financial statements that are “transparent”—that is, readily understandable to an interested, non-expert reader”, but only confuse the public, elected representatives, and the media.

In sum, we support the Alternative View, including their proposed changes to financial statements to provide additional information on social insurance programs. The Primary View is not supported by the international accounting and budgeting communities, would not provide more transparent and understandable financial statements, and, as stated in the Alternative View, “would contain misleading information about the Government’s true financial position and would inappropriately shift the focus away from other expenses and liabilities that are managed by Federal agencies”. The proponents of the Primary View should be required to justify their unique position. Unless and until they satisfactorily provide such justification, we strongly encourage FASAB not to revise accounting for social insurance using the Primary View.



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Although the FASAB members who hold the Primary View chose not to attend either the OECD Network meeting or the IPSASB meeting, I would still like to hear them defend their position face-to-face before the international accounting and budgeting community, and I would be happy to discuss this issue further with you or any of the Board members in the future.

With best regards,



Division

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