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April 4, 2007

Mr. Tom L. Allen
Chairman, Federal Accounting Standards Advisory Board
441 G Street NW
Mailstop 6K17V
Washington, DC 20548

Dear Mr. Allen:

Ref: Comments on a preliminary views paper—*Accounting for Social Insurance, Revised*

We refer to the letter dated November 20, 2006 from your predecessor, Mr. David Mosso, inviting our comments on the above preliminary views paper. We welcome the initiative of the Federal Accounting Standards Advisory Board (FASAB) to strengthen accounting for social insurance by reviewing the existing standard in this important area. The paper sets out two views, referred to as *Primary* and *Alternative Views*, about accounting for social insurance as follows:

- the *Primary View* proposes the recognition of a liability and an expense for social insurance when participants become fully insured and thus *substantially meet* the conditions for eligibility; and
- The *Alternative View* proposes recognition of liabilities when the beneficiary is fully eligible and the benefits are *due and payable*.

We appreciate the goal of those advocating the *Primary View* to broaden the measure of fiscal sustainability through recognition of what they consider to be social insurance liabilities in accordance with applicable accounting rules. However, for reasons discussed below, on balance, we support the *Alternative View* which continues the current practice of recognizing social insurance obligations only when all eligibility criteria are met and benefits are due and payable.

First, we believe that the recognition of social insurance obligations in the balance sheet, as proposed by the *Primary View*, without the inclusion of a corresponding asset would provide a misleading view of the sustainability of the government's fiscal policies. Since the future social insurance taxes or contributions that would cover at least part of emerging social

insurance costs cannot, under existing accounting rules, be recognized as an asset, we believe that the liabilities should also not be recognized.

Second, we note that reliable measurement is an essential recognition criterion under generally accepted accounting principles. We believe that the measurement of social benefits obligations may present significant challenges for both the preparers and auditors of financial statements. Any future draft of the preliminary views paper or a related exposure draft would benefit from some discussion of the experience to date on this issue, including any reservations expressed by independent auditors. As an international organization, we also note that many of our member countries are likely to find the measurement of social insurance obligations a matter of considerable complexity.

Third, we would like to emphasize the importance of consistency of the approach proposed by the FASAB with related international standards. In this connection, we note that the International Public Sector Accounting Standards Board (IPSASB) intends to issue a revised exposure draft on the topic of accounting for social policy obligations. Our understanding is that the majority of the members of the IPSASB does not currently support the recognition of liabilities and expenses as suggested by the *Primary View*, but instead prefers a policy of disclosure of relevant amounts. Similarly, we note that social insurance liabilities are also not recognized in the balance sheet under existing international statistical standards. However, the proposed revision of the System of National Accounts, 1993 (SNA 1993) is likely to require disclosure of the relevant amounts in supplementary statements.

While we do not consider it appropriate to recognize liabilities and expenses for social insurance as proposed by the *Primary View*, we strongly support full disclosure of all relevant future cash flows, and the corresponding liabilities and assets, in supplementary statements and notes to the financial statements, as appropriate. In our opinion, this approach would provide a complete and more balanced view of the fiscal implications of social insurance policies and the sustainability of the government's fiscal position. This approach would also appear to be in line with the latest developments in international accounting and statistical standards.

Sincerely yours,



Richard Hemming
Deputy Director
Fiscal Affairs Department

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Non-Federal - Other

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cc: Ms. Wendy M. Comes
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