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April 23, 2007

Ms. Wendy M. Comes
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6K17V
Washington, DC 20548

Dear Ms. Comes:

We appreciate the opportunity to respond to the document summarizing the Preliminary Views of the Federal Accounting Standards Advisory Board on issues related to *Accounting for Social Insurance* ("PV Document").

We fully support the Board's direction of providing additional information associated with social insurance. In reviewing the PV document, we found that our views are generally consistent with those of the Primary View presented in the PV document. We acknowledge that the Board has been discussing two separate projects, one on the financial reporting model and another on sustainability reporting, that may significantly impact the overall presentation of the existing financial statements and introduce sustainability reporting. However, we have structured our responses to concentrate on the reporting objectives within the current financial reporting model, including the proposed concept statement, *Definition and Recognition of Elements of Financial Statements* as it relates to federal entities' accounting for social insurance.

In the remainder of this letter we provide our responses to the questions posed in the PV document.

PV Document Request for Comments and Our Response

1. Which obligating event do you believe creates a liability and expense that should be recognized? Please provide the rationale for your answer.

   KPMG Response: We believe the obligating event for recognizing a liability and expense occurs when participants commence work in covered employment. We understand that our view point goes a step further than the Primary View of recognizing a liability and expense when participants become fully insured under the terms of the programs and as defined in the glossary to the PV document. However, we agree with the Primary View documented in the basis of conclusions that the "social insurance programs are exchange programs that, with each period of covered employment, workers and their employers exchange a commitment to pay earmarked taxes for a promise from the Government to provide social insurance benefits in the future." We agree also with the Primary View documented in the basis of conclusions in the PV document that the social security liability meets the essential characteristics of a liability of the Federal Government – "1) it constitutes a present obligation to provide assets or services to another entity; and 2) the Federal government and the other entity have an agreement or understanding as to when settlement of the obligation is to occur." Consistent with Statement of Federal Financial Accounting Standard (SFFAS) No. 5, we are associating the term "obligation" with its generic or general meaning of a responsibility to act in a certain way and not federal budgetary accounting.

2. Do you believe that the Social Security and Medicare obligations are measurable for purposes of recording a liability after 40 quarters or equivalent of work in covered employment as proposed in the Primary View (see pars. 16 – 18 and especially subpar. 16g in the standard; also see A54 –A55 in the basis for conclusions)? Please provide the rationale for your answer.

   KPMG Response: We believe the Social Security and Medicare obligations are measurable for purposes of recording a liability from the point participants commence work in covered employment as well as in subsequent quarters. Thus, we agree with the Primary View but have taken the matter a step further as discussed in our response to the first question. According to the *Financial Report of the U.S. Government*, the Board of Trustees, which includes the Commissioner of the Social Security Administration, provide annual reports to Congress that present 75-year actuarial estimates of the Old-Age, Survivors, and Disability Insurance ("Social Security") and Medicare Trust Funds. The availability of these projections seems to be a point of agreement between both views as it is utilized within both discussions. However, the Alternative View is premised on the notion that, in spite of such projections, Social Security and Medicare obligations can not be measured reliably because Congress has the ability to legislate changes to future benefits to be paid out.

   We agree with the Primary View that the existence of an obligation should be determined based on the current law. While laws can be altered, financial reports should address conditions as they exist at the end of the reporting period. This view is consistent with existing accounting literature addressing the accounting for environmental cleanup liabilities and employee pensions which require that obligations are determined based on current law. The possibility that circumstances will change is not considered. Accordingly, we believe that future events, including potential changes in law, should not prevent expense and liability recognition for social insurance programs. Further, while we recognize the inherent uncertainties associated with estimating the present value of future benefits to be provided under social insurance programs in future periods, we believe that such obligations are measurable for financial reporting purposes.

3. a. Do you believe that the Primary View proposal to add line items to the SOSI that tie to revised expense and liability amounts reported on the statement of net cost and the balance sheet, respectively, should be adopted?

   b. Do you believe that the reasons for changes in SOSI amounts during the reporting period should be reported and, if so, do you favor such reporting (1) as proposed by the Primary View, (2) as proposed by the Alternative View, or (3) some other approach?

   Please provide the rationale for your answers.

KPMG Response: We believe correlating the expenses recognized with the change in the liability between the statement of net cost, balance sheet, and statement of social insurance provides a more meaningful presentation for readers of the financial statements. Thus, we agree with the Primary View proposal to add line items to the SOSI that tie to revised expense and liability amounts reported on the statement of net cost and the balance sheet, respectively.

We believe that the reasons for the changes in SOSI amounts during the reporting period should be reported as proposed by the Primary View. This approach is consistent with the traditional presentation of assumptions in the notes to the financial statements. For example, SFFAS No. 18 states the following for loan programs: "Reporting entities should disclose, discuss, and explain events and changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expenses, and subsidy reestimates."

4. Do you believe the proposal [of presenting a statement of fiscal sustainability] should be adopted? Please provide the rationale for your answer.

   KPMG Response: We believe the proposed statement of fiscal sustainability should be removed from the discussions relating to accounting for social insurance. We believe recognizing a liability for social insurance is moving in the right direction for determining sustainable solvency of the U.S. Government. However, we believe the statement of fiscal sustainability should be fully vetted within the broader project on that topic.

5. Do you believe that the Board should consider recognizing deferred revenue for earmarked revenues in excess of related program costs? Please provide the rationale for your answer.

   KPMG Response: We believe that the obligating event for expense and liability recognition occurs as participants work in covered employment. Accordingly, recognizing deferred revenue for earmarked revenues in excess of related program costs is not an essential element for the financial statements to "provide accurate and transparent information to Americans so that they can make well-informed decisions for themselves and their Government" [paragraph 42 of the PV document]. Our rationale is based on the following factors:

   - The *Financial Report of the U.S. Government* presents earmarked funds by major fund in accordance with SFFAS No. 27, *Identifying and Reporting Earmarked Funds*. Thus, the notes to the government-wide financial statements present the assets, liabilities, and change in net position by major fund for earmarked funds. The change in net position section includes disclosures of revenue from the public and program expenses. The information in the notes to the government-wide financial statements is supported by additional information in the component units' financial statements.
   - As noted in our responses to the other questions, we support the view to correlate the expenses recognized with the change in the liability between the statement of net cost, balance sheet, and statement of social insurance along with our view to recognize a liability and expense when participants commence work in covered employment.

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6. a. – Please offer any comments that you wish to make on the Primary View provisions.

   b. – Please offer any comments that you wish to make on the Alternative View provisions.

   KPMG Response: We have no additional comments regarding the provisions in the PV document.

If you have questions about our response, please contact Mr. Terrill E. Menzel at 518-427-4607 or tmenzel@kpmg.com.

Very truly yours,

KPMG LLP