Critical Perspectives on Accounting 36 (2016) 22–38

Contents lists available at ScienceDirect

Critical Perspectives on Accounting

journal homepage: www.elsevier.com/locate/cpa

An ethical perspective on accounting standard setting: Professional and lay-experts' contribution to GASB's Pension Project

Darlene Himick[a,*], Marion Brivot[b], Jean-François Henri[b]

[a] University of Ottawa, Telfer School of Management, 55 Laurier Avenue East Ottawa, ON K1N 6N5, Canada
[b] Université Laval Faculté des Sciences de l'Administration, École de Comptabilité, Pavillon Palasis-Prince 2325, Rue de la Terrasse, QC G1V 0A6, Canada

ARTICLE INFO

Article history:
Received 10 January 2014
Received in revised form 9 December 2015
Accepted 10 December 2015
Available online 27 January 2016

Keywords:
Standard setting
Ethics
GASB
Public pensions
Experts
Lay-citizens
Lay-experts
Policy making

ABSTRACT

This study focuses on the Governmental Accounting Standards Board's (GASB) *Pension Project* which, over 2009–2012, deliberated a highly contested issue over the "correct" discount rates to be used in the discounting of pension liabilities on government financial statements. We analyze the arguments used by participants to justify their preference and find that, despite the unprecedented economic consequences associated with changing the status quo discount rate, all groups of participants favor a deontological justification over a consequentialist or "mixed" line of reasoning. We use a mixed methods approach to determine the prevalence of particular argumentative styles, and to further examine the nature of the arguments made. This study increases our understanding of how "lay experts" – that is to say, citizens who have acquired knowledge in a particular technical domain, but who are not credentialized in the field – participate in policy making processes dominated by accredited "professional experts". We argue that if lay citizens are absent from the debate and if lay-experts, far from playing a mediating role between lay citizens and professional experts, espouse or mimic the latter's argumentative style, the benefit of widening participation in accounting standard setting processes – other than providing a thin layer of democratic legitimacy to the processes in question – is questionable.

1. Introduction

We live in an era when science and expertise is prominent, including in the setting of policies and regulation that impacts lives, both economically and socially.The use of experts permeates all aspects of society, including health, politics, and indeed economic and business functions. Accounting standard setting is no exception, and as accounting becomes more financialized, the involvement of experts is likely to only increase. Some view this trend as worrying (Estlund, 2007, 1993; Weinstock, 1999) because experts tend to marginalize and dissmiss other ways of thinking as biased, while, simultaneously, denying their own ideological stance (Jasanoff, 2003). Others, on the contrary, claim that "epistocracy" – a political system in which experts rule on the basis of their greater knowledge – is valuable because it allows citizens to avoid being subject to incompetent, high-stakes decision-making (Brennan, 2011, 2014). They also argue that it is wiser to rely on experts and the knowledge elites, in view of "the depressing portaits of the public's intellectual capabilities" that opinion surveys often

* Corresponding author.
E-mail addresses: dhimick@uottawa.ca (D. Himick), Marion.Brivot@fsa.ulaval.ca (M. Brivot), Jean-Francois.Henri@fsa.ulaval.ca (J.-F. Henri).

http://dx.doi.org/10.1016/j.cpa.2015.12.002
1045-2354/

produce (Fischer, 2009, p. 57), and given what they argue are the "racist, nationalist, and class-based attitudes" found in segments of the general populace (Fischer, 2009, p. 53).

Preferences for one or the above models vary according to place and time, but where the Governmental Accounting Standards Board (GASB) is concerned, measures have been taken to make sure that the consultation process that precedes the publication of any new standard is inclusive, thereby moving away from a purely epistocratic view of standard setting, and supporting the democratic view that citizens should have a platform to express their opinions, even on highly technical issues. As the Board's website[1] emphasizes: "The mission is accomplished through a comprehensive and independent process that *encourages broad participation"* and "*objectively considers all stakeholder views*".

Given this explicit aim, it is important to ask the following questions: what kinds of stakeholders participate in the process, and how do they express their opinions on the technical questions asked by GASB? Further, is there a distinction in the way that different types of experts participate, and what influence might they have on participation? These questions motivate the current study, which analyzes the ways in which various profiles of participants, in a public consultation process called "the Pension Project", between 2009 and 2012, framed their arguments in the comment letters that they addressed to GASB. The Pension Project deliberated a highly contested issue over the "correct" discount rates to be used in the discounting of pension liabilities on government financial statements.

Governments value their pension liabilities for reporting purposes using the methodology prescribed by the GASB. These valuations provide the basis for decisions on multi-billion dollar government planning and spending (Novy-Marx, 2011). One of the components that determine the level of cost of a pension is the valuation of the future payments that an employer is obligated to make to retirees. The valuation of this future liability stream is required to be known in today's dollars for two primary purposes: funding (which lets the sponsoring employer know how much cash to set aside this year to fund the obligation), and accounting (which lets stakeholders know the amount of the liability the sponsoring employer is responsible for). Arriving at a present value of this liability requires the selection of a rate of interest at which to discount the future cash flows. Yet, the selection of this discount rate is not self-evident, and indeed is subject to choice.

Around 2000, there emerged a disagreement about the discount rate methodology sanctioned by the GASB. At stake in the debate were the professional jurisdictions of the actuarial profession, the fiscal condition of state and local governments, and cost sharing between present and future taxpayers. Financial economists, led by the work of Bader and Gold (2003), proposed that the only discount rate that meets the requirements of finance theory would be the risk-free rate, while actuaries had long argued for the use of the expected rate of return that could be earned on the plan assets used to back the pension liabilities. As Biggs (2011, p. 2), pointed out:

> Overstating economists' disagreement with the actuarial approach would be difficult. In 2008, Donald Kohn, then vice chairman of the Fed, declared: "While economists are famous for disagreeing with each other on virtually every other conceivable issue, when it comes to this one there is no professional disagreement[2]: The only appropriate way to calculate the present value of a very low-risk liability is to use a very low-risk discount rate.

The difference in the amounts of the net accounting liability that would be calculated for state and local Defined Benefit (DB) pension plans using the two different discount rates was estimated in excess of two trillion dollars (Novy-Marx, 2011). To put this into perspective, this turn in an accounting treatment had the potential to produce an increased liability on government books that would collectively represent 1/7th the GDP of the United States as of 2011. The difference in discount rate would potentially double the annual expense for the benefits earned each year, from 12 to 14% of payroll to 28% of payroll (Novy-Marx, 2011). As a result, those who advocate for the discount rates produced by the financial economists believe that the use of any other rate would severely understate what they claim is the 'true cost' of providing pension benefits by nearly $100 billion each year. These amounts place dollar figures on what is an important social and political situation. The dilemma facing state and local governments is how to handle the ticking "time bomb" that is the DB pension institution in the public sector. The argument goes that adding additional liability values to the already stressed public pension system would be another nail in the DB institution's coffin. On the other hand, those arguing in favour of a risk free rate believe that the avoidance today of the "true cost" of these plans will push costs into the future at the expense of future generations of taxpayers. Or simply, that government services will have no choice but to be reduced if fiscal results are weaker as a result of added expense items or weaker balance sheet position (which could impact borrowing).

To help with their analysis of the status quo discount rate, and determine whether it should be changed to a new, market value oriented (risk free) rate, the GASB enlisted the aid of professional experts: actuaries, accountants and economists. It also opened up its due process to participation through comment letters, which attracted this same group of professional experts, as well as other participants (e.g., administrators of state pension plans). To analyze the different ways in which these groups participated and communicated their justifications and arguments, we examine the comment letters. We perform a close reading of the 106 comment letters sent in the first round of the due process, when participants could fully explicate their arguments for one, or another, discount rate. Since the magnitude of the potential consequences of the proposed change was significant, we attempt to discern whether, and to what extent, participants mobilized such

[1] http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1175804850352. Last accessed on October 24th, 2015.

[2] As we shall see in the empirical section, this bold assertion needs to be nuanced: some economists do, in fact, disagree with their peers' mainstream view on this issue.