Original Article

The changing political economy of pension fund accounting regulation: A comparative study of four Anglo-American countries

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ABSTRACT This article examines the inter-relationships between changes in the political economy of pensions law and changes in pension accounting regulation in four Anglo-American countries. A four-fold property rights framework is developed that identifies the common inequities in the ownership of pension deficits and surpluses. Deficiencies are identified relating to various issues concerning the recognition, measurement and disclosure of pension fund surpluses or deficits. These aspects include inequality in pension provision, the capture of pension regulation through delegation to narrow professional bodies, the corporatisation of pension accounting language and discourse, and the general opaqueness and diminution of public pension regulations. Until the 1970s, pensions were generally seen as being a paternalistic social security and pension funds were relatively unregulated. However, the social and economic consequences of ageing populations on the financing of public pensions has brought about a new emphasis on professionally developed accounting standards as a primary means of regulating the accountability of pension funds.

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INTRODUCTION

Mainstream researchers have paid much attention to how corporate accounting practices evolved or were influenced by the changing political economy of corporate laws. These efforts were stimulated by a theory of corporate property rights dominating those of other entities.^{1,2} However, such studies typically focus on the

relevance of such developments in the context of self-regulation of disclosures related to the sale of securities to investors.^{3,4} Thus, they ignore concurrent or equivalent changes in the political economy of public policy towards environmental management,⁵ cooperatives⁶ or sustainable competitive advantage.⁷ This approach has been appropriated by researchers studying the development of corporate financial reporting⁸ or the audit costs associated with de-listing decisions by EU firms.⁹ This overriding concern with shareholders is understandable, as the main objective of accounting bodies charged with

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promulgating professional accounting standards is to provide information that is relevant to investors and capital providers.

Critical research has provided an alternative perspective, by identifying a political economy approach to regulation. However, much of this research has also been primarily based on property rights concerning the corporate world, and as such emphasises the role of accounting in changing society views and the corporate stigmatisation attached to accounting by financialisation,¹⁰ or broader stakeholder perspectives.¹¹ Puxty *et al*¹² use a social order theoretical framework for analysing how accounting practices are regulated within advanced capitalist societies. In an important contribution, Tinker and Ghicas¹³ argue that pension accounting reflects developments in the changing economic environment, rather than being a tool for neutral accounting.

An important recent development concerns public policy towards pensions. However, although pension funds are now the most important institutional investors in the stock market and influence the financial retirement planning decisions of the vast proportion of the working population in most OECD countries,¹⁴ there is little attention paid to their connections with developments in their concurrent accounting practices. There have been significant policy shifts in pensions in many OECD countries, away from a 'paternalistic' public pensions universal coverage, towards encouraging greater participation in pension funds in Anglo-American countries. This policy has had both macro-economic effects on labour and capital markets¹⁵ and incentive effects on individual labour contracts.¹⁶ Deaton¹⁷ found that observed pension law reforms in Anglo-American countries appear to have been driven by pressures by powerful industry groups, rather than by a genuine desire to improve the economic welfare of the elderly.¹⁸ This draws attention to the broader interconnections between the state, class structures and the institutional features that potentially affect the development of pension accounting rules. An important unresolved issue is whether such influences also affect the

promulgation of pension accounting rules, in ways that have not hitherto been discussed or acknowledged by prior accounting research that investigates the relationship between corporate securities regulation and accounting.

This article adopts a property rights perspective to analyse the institutional effects on pension policy reform in four Anglo-American countries as a primary source affecting the subsequent developments of pension fund accounting regulation. This comparative analysis is powerful because it reveals common institutional sources and constraints to the development of pension accounting standards, but also emphasises how the differences are primarily explained by prior changes in the idiosyncratic and underlying institutional environment in which accounting rules are based, rather than from the context of an increasingly international-oriented corporate accounting environment. This should be contrasted to the standard comparative international accounting history research by simply explaining differences in different locations and cultures.¹⁹ It also helps obtain a better understanding about the importance and relevance of these disputes over the net wealth generated by public and private pension arrangements. The existence and nature of property rights disputes depicts the evolution of regulation as the outcome of ongoing disputes between government, a delegated regulator and opposing parties that are subject to that regulation over a contested issue. It is argued that powerful industry groups have succeeded in constraining, obfuscating or even destroying the legitimate expectations by pension participants and pensioners concerning their future entitlements to their share of pension surpluses or deficits.

Adopting a property rights perspective in explaining the legal origin and development of pension accounting rules is important because of the powerful influence of government industry and professionals over the magnitude, nature and financial dimensions of reported pension plan surpluses or deficits. These are highly susceptible to the ongoing funding and investment policies adopted by their trustees and their delegated professionals. Further, the exact rules that

establish and influence the inter-relationships between the various stakeholders involved (that is active participants, pension claimants and employer or government sponsors) are highly idiosyncratic and are often subject to conflicting funding and accounting principles. This contrasts with prior studies that seek to explain developments in accounting rules primarily by reference to open corporations, where the ownership rights and responsibilities concerning both the maintenance of capital and the ownership of distributable earnings are clearly and fully established in case law, legislation and accounting standards. The analysis focuses on the evolution of pension law and associated pension accounting rules in four Anglo-American countries: Australia, Canada, the United States and the United Kingdom.

THE CHANGING POLITICAL ECONOMY OF PENSIONS

This section develops the property rights perspective outlined in the above section to provide the institutional analysis needed to better understand how interactions in the shifts in the political economy of government public pensions policy and in the development of regulation of private pension funds influenced the subsequent development of pension fund-related accounting regulation.

Four Anglo-American economies are studied that share similar trends in their demographic, political, capital and labour markets: Australia, Canada, the United Kingdom and the United States. These countries were chosen for three reasons. First, while their legal and institutional sources of pension regulation differ, they have also faced similar demographic and social pressures for 'reform'. Second, they all share three 'pension pillars': (a) a government-managed social security system with generally universal coverage with the limited goal of reducing poverty among the old; (b) a privately managed, group-based, employer-sponsored pension savings pillar with widespread coverage among the working-age population to supplement the public system; and (c) an individual-based voluntary pension savings vehicle to supplement pillars (a) and (b).¹² Third, in all countries, pension funds are broadly viewed

as being separate legal entities from the employer sponsor and/or the financial intermediaries who manage them. Finally, all countries shared a shift in reliance on retirement income provision from public pensions towards private pension provision. Thus, explaining the shift from public to private is a critical issue in understanding the political economy of pension accounting regulation.

This section briefly outlines the key features of laws and regulations governing pension funds from which accounting rules are developed. It also briefly outlines common themes in how pension policy reform during the last three decades has affected and been affected by the concurrent development of pension fund accounting regulation in these four Anglo-American countries. These countries are distinguished from others by (a) a public policy recognition of the continuing role of private pension provision versus unfunded public pensions for a privileged sub-class of civil servants; (b) the extensive and broadening reliance of capital markets and intermediaries on both transforming capital and on the servicing of this provision; (c) a strict legal separation of the ownership and control of pension fund schemes between the employer, as equitable trusts, thereby disenfranchising the legitimate interests of pension fund property rights; and (d) relatively low pension payments that are endorsed and legitimated by the state and relevant institutions.

Table 1 summarises the relevant institutional features of public pensions in all four countries, which are discussed in more detail below.

The OECD data for each country included in the sample and means and standard deviations for the entire sample are summarised in Table 2. The table shows net contributions, payments and balance for each country, in terms between expected contributions and expenditures. This analysis reveals a shortfall in both the stock and flow funding ratios across the sample.

COUNTRY OVERVIEW

Australia

Unlike the other four countries reviewed in this section, the Australian pension arrangements have

Table 1: Comparative institutional arrangements affecting pension plans in Anglo-American countries

<i>Institutional characteristic</i>	<i>Australia</i>	<i>Canada</i>	<i>The United Kingdom</i>	<i>The United States</i>
<i>Public pensions</i>				
Supervisory legislation	Social Security Act	Federal and CPP/QPP	Social security legislation	Old Age and Disabilities Act
Type of public pension benefits	Flat-rate, means tested financed by government revenue	Flat-rate plus earnings-related financed by employers and employees	Flat-rate plus earnings-related (SERPS) financed by employers and employees	Earnings-related financed by employers and employees
Present value of Unfunded public pension liabilities (as a % of GDP)	97	107	24	29
<i>Private pensions</i>				
Number of pension plans	2672	15 142	> 100 000	872 000
Number of participants	3.9 million	2.7 million	5.8 million	42 million
Supervisory legislation	Suprannuation Industry Supervision Act 1993	Provincial-based legislation	Pensions Act, 1995	ERISA, 1974
Regulations to mandate annual pension plan financial reporting	Schedule 8, Occupational Superannuation Standards	Varies by province	Pensions Act, 1995, section 35	Form 5500 ERISA
Pension accounting rule	AAS 25 (1990)	CICA 4100 (1990)	SORP (1986)	SFAS 35 (1980)

Table 2: Net present value of public pension schemes in Anglo-American countries

<i>Country</i>	<i>Contributions</i>	<i>Expenditure</i>	<i>Balance</i>
Australia	0	96.7	−96.7
Canada	97.4	203.8	−100.7
United Kingdom	118.2	142.0	−23.8
United States	133.9	162.5	−23.0

This table calculates the net present value of employee and employer contributions, pensions paid until 2070, plus existing assets. The net present value refers to today's value of future receipts and payments. The calculations assume a discount rate of 5% per year over the period 1994–2070. The pension expenditures are assumed to be frozen as a percentage of GDP from 2015. Starting after 2005, retirement age is raised by 0.5 each year to reach 70 years of age. The eligibility rates are gradually decreased to 30% over the period 2015–2030, while the replacement rate (average pensions to average wages) is frozen at its 2010 level.

evolved from a formerly non-contributory public pension with limited private pension rights towards a means-tested, income- and asset-based, limited public pension and a mandatory defined contribution, industry-based system.

The second pillar of pensions, defined benefit, gradually diminished over time as new employers

discovered the significant costs involved. In order to overcome the reduced degree of participation by employees in pensions savings, a newly elected Labour Federal Government in 1983 embraced the concept of industry-wide, defined contribution-based occupational pension fund regulation as part of an 'accord' with the trade union movement. Over the next few years, 'operating standards' governing occupation-based pension funds were developed and gradually implemented. These were supervised by a newly created regulator, the Insurance and Superannuation Commission. These standards related to actuarial review, investment, vesting, portability and disclosure requirements. However, while promoting the growth in pension coverage, the 'award-based' superannuation was limited to the two-thirds of private sector employees, it depended on compliance enforced through industrial wage cases, and did not take account of the number of 'wealthy' employees who already had some pension rights.

In 1991, the policy shift went a step further when the government negotiated an extension of occupation-based pension arrangements as part of

an ‘accord’ with the union movement. Pension contributions were now recognised as a mandatory form of deferred labour compensation by employers and a levy was imposed on all employers who failed to provide a minimum level of contribution to industry-wide pension funds (via the *Superannuation Guarantee Levy Act* of 1991).

Pension accounting standards based on ‘best practice’ industry guidelines were originally developed in the mid-1970s by the Australian pension industry following a review of the occupation-based pensions. However, professionally endorsed accounting standards were not developed until a decade later, after it became clear that the new Labour government was proposing pensions reform (AAS 25). These were based largely on the prior US accounting standard SFAS 35 (see below). However, these met stringent opposition from the industry, on the basis that costs outweighed the benefits of disclosure. Moreover, unlike the analogous *Corporations Law*, there was no subsequent government endorsement of AAS 25 in *SIS*; instead, industry-developed standards were sanctioned by government officials.

Recently, the Australian Accounting Standards Board (AASB) issued an Exposure Draft (ED 179) that proposed changes to the accounting for pension plans to make them more consistent. These included the reporting of a cash flow statement for defined benefit pension plans, and a statement of changes in member benefits. However, it did not envisage providing a breakdown of the rights to different classes of stakeholder, continued to adopt the business-oriented accruals basis of accounting, and did not recognise the legitimate claims of future, existing and past employees to the pension fund surplus as a continuing claim.

Uniquely, the relevant accounting standard AAS 25 as initially drafted appeared to address the various schemes in a single standard (unlike those in other Anglo-American countries as outlined below). However, the accountability was limited to stewardship reporting by the delegated fund management, and industry and government subsequently limited and constrained the scope of

the reporting in such a way that the pension scheme trustees were not required to reveal the pension fund surplus or deficit to members and pensioners.

Canada

The Canadian pension system lacks uniformity, as the provinces, rather than the federal government, have a significant influence over the nature and pace of any pension reforms. Thus, beyond a basic non-contributory pension there is little uniform regulation of pension funds. This in turn leads to significant disparities in terms of coverage, security and eligibility across the various provinces. As 40 per cent of all Canadians work in the province of Ontario, and as that province has taken a leading role in the reform of institutional arrangements governing pension funds, we discuss major developments as they affect that province.

Until 50 years ago, regulatory arrangements affecting Canadian pension funds were limited to tax deductions for employee and employer contributions. In 1957 retirement-related savings plans were introduced as individual-based retirement savings contracts that were also tax-deductible, and these became very popular. In 1970, the Ontario government passed the *Pensions Benefits Act*, which specified detailed regulations with which pension funds had to comply, including detailed investment standards. Since the early 1980s there has been widespread debate about the status of legal arrangements governing Canadian pension funds, beginning with two detailed studies (the Lazar and Haley Reports). These were followed up by more definitive policy reform proposals both at the federal and provincial government levels. In the federal–provincial consensus of 1985, all governments agreed to certain minimum standards of legislative consistency in certain issues related to pension funds, such as vesting and locking in of pension benefits.

In 1987 Ontario passed a new *Pensions Benefit Act* that for the first time contained important provisions relating to many aspects of pension design and funding. These included membership rights relating to membership, vesting of

employer contributions, locking in of pensions and portability provisions. However, there was disagreement over appropriate interpretations, and the Ontario government promised a major overhaul of the entire Act in order to clarify a large number of the most controversial reform provisions.

The privatisation of Canadian public pensions was further developed with the formation of the CPP Investment Board in 1997, which was established to invest monies allocated to the CPP fund (currently CAD129 billion) on a commercial basis. The establishment of this organisation formalised and legitimised the role of private intermediaries in the allocation and appropriation of public monies.

Shortly thereafter the Canadian Institute of Chartered Accountants (CICA) issued an accounting standard for pension plans in March 1990 (CICA 4100). CICA upgraded CICA 4100 in April 2010 to incorporate additional recognition, including the measurement of a pension obligation, with details of changes in pension obligations similar to those prescribed by the AASB. However, unlike the Australian equivalent, CICA 4100 only applies to defined benefit pension plans and not the intermediaries that offer them.

The Canadian pension arrangements are similar to those in Australia, but lack uniformity across the provinces. Further, the relatively low level of public pension is accompanied by a lack of any general accountability by the Canadian federal government about the overall ability to meet the unfunded obligation. Finally, the lack of uniformity in second and third pillar pensions (only Ontario and Quebec offer an income-based supplementary public pension) has led to lack of accountability. Moreover, Canada does not offer any pension guarantee, which resulted in a large number of retirees of insolvent firms losing all their pension entitlements. Finally, the scope of accountability by pension fund trustees is limited to defined benefit arrangements. Although Canadian companies are due to adopt IFRS in 2011, it is not yet clear what impact, if any, this will have on enhancing accountability to members. Thus, Canada suffers from immiseration

of the elderly, discrimination among pension recipients depending on which province they live, a lack of public policy response to population ageing pressures due to a lack of coordination between the federal government and provincial governments, and the absence of any initiative by professional accounting bodies to enhance accountability.

The United Kingdom

Unlike Australia and Canada, the United Kingdom only relatively recently introduced a public pension system, which was contribution based. Further, private pensions were restricted to 'gratuities' by either government to public sector employees or by relatively regulated industries. It was not until the pension crisis following the Maxwell fiasco in 1992 that pensions became subject to 'regulation'. Following the election of the Labour government in 1996, the accountability of pension schemes was enhanced but remained outside UK GAAP, and did not involve the recognition of pension fund surpluses or deficits. Moreover, the funding position remained relatively unaccountable on a prudent basis. Furthermore, both government and private sector appropriated pension surpluses through a combination of taxation levies on excess surpluses and contribution holidays.

During the 1980s, the new Conservative government conducted a major study of the relationship between social security and pension funds, particularly in the light of projected demographic changes. It published a Green Paper that outlined possible alternative proposals in 1983, and subsequently published a White Paper in 1985, outlining its intentions.²⁰ The policy suggested was to encourage the working population to provide for their own pension provision so as to reduce the future burden on SERPS.

Around this time, the Pensions Research Accounting Group (PRAG) issued a Statement of Recommended Practice (SORP 1) that set out basic information to be provided by pension funds.²¹ During the early 1990s, the occupational pension fund industry suffered from anecdotal evidence apparent abuses by employer sponsors,

causing pension promises to be severely underfunded and causing alarm as to the adequacy of existing regulatory arrangements. The most publicized case was the looting of the Maxwell pension funds, when over £160 million was fraudulently invested during 1990–1991, causing 18 000 Maxwell pensioners to lose their pension entitlements.

Further evidence of the misuse of pension fund moneys was revealed in 1994 when it was found that the Church of England Pensions Fund incurred losses of up to £800 million owing to a ‘certain degree of complacency’ in the management of the fund’s capital.²² Furthermore, the pensions mis-selling scandal in 1993 highlighted significant shortcomings in the provision of financially intermediated products by the UK insurance industry and led to a public perception that insurance companies were dishonest.²³

In reviewing the implications of these events for the adequacy of the existing system of arrangements governing those responsible for administering, investing and advising pension funds, the Social Security Committee of the House of Commons recommended the establishment of an inquiry to urgently address the task. Despite doubts expressed by industry as to the need to overhaul trust law as the basis for regulating pension funds, the government appointed a Pensions Law Review Committee (the Goode Committee) to investigate whether the laws governing the accountability of those responsible for managing and advising pension funds could be improved. After issuing an issues paper in 1992, the Goode Committee proposed replacement of the existing SORP 1 on pension scheme accounts to improve their accountability. The new *Pensions Act 1995* codified the regulation of occupational pension funds, including clauses to tighten up sanctions against trustees, and established a new Occupational Pensions Regulatory Authority (OPRA). This body was subsequently re-branded ‘the Pension Regulator’, but did not accept any responsibility for the accountability and transparency of the entities that it regulated.

The importance of financial intermediaries managing and operating these schemes was legitimated through the industry-based development of accounting regulations for UK pension funds that arose from the implementation of the Goode Report.²³ The Accounting Standards Board decided not to include pension funds as a part of its mandate. Instead, in 1995 PRAG was charged by the Accounting Standards Board with developing a revised SORP ‘Financial Reports of Pension Schemes’.²⁴ However, the scope of pension accounts was severely circumscribed, with trustees limited to reporting on the resources utilised (rather than the sources of these resources), thereby revealing the pension deficit or surplus. PRAG attempted to revise the SORP a number of times, although always incremental to this purpose. Unlike the original SORP, the revised SORP contains requirements for market value of assets and production of two general purpose financial reports: a fund statement and a statement of changes in net assets. But while it does not have the status of a full accounting standard, it is unique because compliance is enforced under the new UK pensions legislation, which is supervised by the OPRA, effective for reporting years ending after 6 April 1997. Hence, this study provides unique evidence on the extent of ‘voluntary’ compliance with SORP effectively mandated by law. In addition, this study evaluates the effectiveness of the financial reporting provisions of a revised SORP issued in 1996 and also effective from that date. In 2002, the PRAG was asked to initiate a debate about including a figure for future liabilities in the accounts of defined benefit schemes. Unsurprisingly, most PRAG members were not interested in enhancing the transparency or revealing the property rights of pension funds to their members and therefore overwhelmingly rejected this suggestion. PRAG continued to produce new versions of its SORP, but failed to shed any further light on the issue.²⁵

Uniquely of the four countries, the United Kingdom is also subject to rules developed by the European Union. These include the Pension Fund Directive.²⁶ This requires minimum standards for prudential reporting, including

ensuring that 'members are informed about the financial position of the scheme'. Despite the UK government apparently being required to implement the EU directive within 24 months of its official publication (that is by May 2005), there are still no formal requirements, either within UK GAAP or the relevant SORP, for pension funds to produce this information for members. This apparent deficiency in accountability of UK pension schemes to their members through the failure to properly implement the information requirements of the directive appears to have gone unnoticed by the financial press and relevant UK public policy makers.

Of all the four countries reviewed in this section, the United Kingdom is the only one where the political economy of pension law lacks accountability over pension plan property rights. In particular, pension plans are not subject to GAAP, but merely to industry-controlled 'guidance', and are not even required to report their surpluses or deficits to their participants and pensioner members.

The United States

The economic recession experienced in the early 1970s resulted in a pattern of layoffs and firings of long-term unvested workers and the termination of pension funds with insufficient assets to pay promised benefits, especially in the steel industry. This stimulated the development of the first national uniform legislation for private sector pension funds via the Employee Retirement Income Security Act of 1974 (ERISA), but only after a lengthy period of congressional enquiry and public discussion. ERISA established minimum standards for vesting, funding, investment and disclosure for pension funds, and stimulated the controversial development of pension plan and employer sponsor accounting standards.

The passage of ERISA also set out extensive pension fund reporting requirements (Form 5500). However, these requirements were restricted to forms submitted to the Department of Labor, which are not easily accessible. This initiated a long and controversial pensions

project by the FASB, which faced opposition from the actuarial profession, leading to a lengthy delay before the final issue of accounting standard SFAS 35 in 1980. However, the FASB has not since amended the standard, which remains one of the oldest that are still in effect. By contrast, the FASB has amended the equivalent standard for employer cost accounting, SFAS 87, seven times, including amending the original disclosure of the funded position, which was originally only revealed in the footnotes, to full balance sheet recognition (SFAS 158). However, the FASB has clearly identified investors as its main constituents, and many of the changes were only initiated after a critical SEC report on the implementation of the Sarbanes Oxley Act.

As the recent global financial crisis of 2007–2009 originated in the United States, it should not be surprising that the effects on pension-related funding and investment policies are significant. Many employer sponsors appear to have exploited the crisis to indefinitely defer matching employee contributions to defined contribution plans. Finally, as many sponsor-defined contribution plans appear to invest in company own stock, most of the falls are not fully revealed in either the pension plan or corporate sponsor accounts.

COMMON PRESSURES FOR REFORM

The above section highlights the main idiosyncratic features affecting development of public and private pension regulations in each of the four countries, and how they affected the subsequent development of pension accounting rules. Table 3 summarises the major features of Anglo-American pension fund accounting standards. It shows that, while their objectives and intended users are similar, they contain significantly different requirements relating to the definition and measurement of pension liabilities to pension plan members.

There are substantial differences in the nature, timing and magnitude of policy reforms and their consequent impact on accounting rule development. However, there are also a number

Table 3: Major features of Anglo-American pension plan accounting standards

<i>Feature</i>	<i>Australia (AAS 25)</i>	<i>Canada (4100)</i>	<i>The United Kingdom (SORP)</i>	<i>The United States (SFAS35)</i>	<i>IASB (IAS 26)</i>
Primary objective	Provide useful information	Provide information about pension plan	Not stated	Provide specific information	Provide useful information
Intended users	Members	Participants	Members	Not stated	Not stated
Financial statements	Summary of financial position	Summary of market value	Resources	Vesting rights	Trustees report
Format requirements	General purpose	General purposes	Abbreviated	General purpose	General purpose

of similarities across these countries. The social security systems of the four Anglo-American countries operate almost exclusively on a pay-as-you-go (PAYG) basis. Consequently, any changes in the retired population relative to those still employed immediately impact the financial viability of such systems. But although the systems were conceived and implemented during a period of population growth (that is in the two decades after the end of the Second World War), ageing populations increased the financial strains on PAYG pension systems in the 1970s and 1980s. The expenditure increasing effect of these demographic trends was exacerbated by the maturing of earnings-related schemes that drove up the real and relevant costs of these retirement programmes.²⁷

Although institutional arrangements in most of the above countries require pension plans to provide accounts to members, they do not specify what form or content these accounts should take, or indeed how they are to be communicated. The legislative framework underpinning the regulation of pension plans in these countries also differs significantly. An important factor affecting developments in the political economy of pensions in all four countries is the apparent international harmonisation of accounting rules as developed by the International Accounting Standards Board. However, there does not appear to be widespread acceptance of the relevant standard IAS 26, Accounting and Reporting by Retirement Benefit Plans. This standard was originally issued in 1987 and reformatted in 1994, but has not been amended since. The standard

appears to condone or permit various approaches to pension plan reporting, but does not mandate the recognition of the pension surplus or deficit. As the standard was issued before the latest revisions to the equivalent pension cost accounting standard IAS 19, there is no equivalent disclosure of risks concerning recognition of the effect of changes in actuarial assumptions over time. Thus, it appears that, similar to pension accounting developments in each of the four countries, under IFRS, shareholders will be better informed about the financial position and performance of pension plans than the participants and pensioners, who have more direct and legitimate claims over the reported pension assets.

In the case of the United States and United Kingdom, this lack of harmonisation was resolved by the development of rules by accounting rule-making bodies that specified the major accounting and financial reporting requirements for pension plans. In contrast, the origins of pension plan accounting rules in the other two Anglo-American countries, Canada and Australia, were not directly related to the concurrent development of legislative frameworks that included requirements for pension plan accounting. By contrast, the legislative framework governing the financial operation of pension plans in Canada is rather limited, and differs from province to province. Section 4100 of CICA's 'Pension Plans' was issued in March 1990 and was intended to codify industry best practice financial reporting at the time. Similarly, the Australian Accounting Research Foundation

issued Australian Accounting Standard AAS 25, Financial Reporting by Superannuation Plans, largely in response to prior moves by industry bodies to develop 'best practice' guidelines for reporting by Australian pension plans.

CONCLUSION

This article explains and analyses the origins of the development of pension plan accounting rules as the outcome of earlier developments in the political economy of pensions law in four Anglo-American countries with regard to the nature and equitable distribution of pension fund property rights. The importance of taking a property rights perspective is demonstrated by the apparent domination of an alternative 'shareholder interest' perspective, which views pension accounting almost exclusively from the frame of reference of pension cost accounting by employer sponsors for defined benefit pension plans. According to this perspective, pension accounting rules evolved from an ongoing development of pension cost accounting, and assert that shareholders 'own' a pension fund subsidiary. However, this view ignores the legal reality that those responsible for operating pension fund surpluses and deficits are also directly accountable to pension plan participants and pensioners, who have a more clearly defined claim over pension fund assets.

This article has shown that pension plan accounting rules evolved from changing public policy perceptions about the role and importance of pensions provision in Anglo-American countries. Since the middle of the twentieth century, the retirement income security of the vast proportion of the elderly living in many countries has shifted from a traditional family-based dependency to an increasing reliance on a combination of social security-related public pension benefits and/or privately or employer-funded pensions. With population ageing, the aggregate size of these arrangements has grown in recent years, resulting in significant changes in the scope, governance, entitlement and/or contributions, funding and eligibility requirements in pension law. The funding and investment policies of these financial institutions are also exerting an increasing impact on the

evolution of public finances and investment activities. However, the financial accountability of those responsible for operating these increasingly powerful entities for participants, and for the broader society as a whole, remains rather obscure and opaque.

In contrast to the political economy of financialisation and corporatisation, which provides a critical perspective on accounting practices by public corporations, a property rights perspective is also important in helping understand the nature and distribution of wealth or surplus or deficits generated through the operation of pension arrangements. Of the four countries reviewed, the United Kingdom is the only one where there are no specific GAAP requirements for pension reporting. This is presumably because the public policy on pensions did not, unlike the other countries reviewed, explicitly recognise the existence of pension funds as separate legal entities that are required to produce accounts based on GAAP.

This article has presented a critical analysis of the institutional sources from which pension fund accounting standards developed and examined their economic effects on how pension liabilities are measured and defined. This analysis suggests that pension fund accounting standards in Anglo-American countries derived from common neo-classical economic perceptions about the government fiscal impact of ageing populations' pressures, leading to governments encouraging participation in pension funds by a significant proportion of the working population. However, the subsequent development of professional accounting standards during the 1980s only resulted as a by-product of legislation demanding greater accountability of pension funds, perhaps reflecting political concerns about the adequacy and security of self-funded pension funding arrangements.

This article adopts a property rights perspective to provide a critical evaluation of pensions policy and its accounting and accountability implications. It has sought to identify and explain sources of apparent anomalies in standards for pension plan accounting and financial reporting in certain Anglo-American countries whose governments

have encouraged privately funded retirement income savings. The development of standards in these countries was primarily motivated by moves by politicians to mandate financial reporting by pension plans to their members, but was subject to heavy lobbying activity by interest groups associated with the pension plan industry, whose economic wealth was most affected. Since rule-making activities were in an area at the outer limits of extant accounting theory and practice, apparent anomalies between these countries in rule-making outcomes appeared to be primarily determined by the extent to which these lobbying activities were successful, rather than by differing preconceptions about the role and nature of accounting by the accounting bodies who developed these standards.

The property rights perspective adopted in this article stands in contrast to the 'shareholder rights' perspective adopted by prior pension accounting research. This perspective tends to view pension accounting almost entirely within the frame of reference of the employer sponsor's accounting for defined benefit pension costs. Yet the evidence suggests that types of pension funding arrangements are diminishing over time through curtailment and termination, and are thus of gradually diminishing relative importance for retirement incomes. By contrast, this article has adopted a critical perspective by viewing disputes over the property rights of pension fund surpluses or deficits as the outcome of a broader environment of pension law reforms.²⁸

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