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DATE: 16 JUNE 2005
MEMO TO: MEMBERS OF THE IPSASB
FROM: JOHN STANFORD
SUBJECT: ED – ACCOUNTING FOR SOCIAL POLICIES OF GOVERNMENT (EXCLUDING PENSION ARRANGEMENTS)

ACTION REQUIRED

The Board is asked to:

- **consider** the issues raised in this memorandum
- **review** the draft Exposure Draft "Accounting for the Social Policies of Government (excluding Pension Arrangements)"; and
- **provide** staff with instructions for the next stage of drafting**.**

AGENDA MATERIAL

		Pages
9.2	ED XX, "Accounting for the Social Policies of Government (excluding Pension Arrangements)"	9.8 – 9.62

BACKGROUND

The ITC "Accounting for the Social Policies of Government" was issued in January 2004 with a deadline for comments of June 30 2004. The ITC had been developed by a separate Steering Committee and the views expressed were those of the Steering Committee rather than the IPSASB. Forty nine responses were received to the ITC.

At the Meeting in Delhi in November 2004 members reviewed the responses to the ITC. Respondents were generally supportive of the views expressed by the Steering Committee. In particular, members noted that the majority of respondents supported the view that the definition and recognition criteria in IPSAS19, *Provisions, Contingent Liabilities and Contingent Assets* should be applied in accounting for the social policies of government.

At the Delhi Meeting members noted that, whilst the Steering Committee had responded to the terms of the project brief, there was a concern that the scope of the project did not adequately deal with certain types of social security schemes operating to provide pension benefits to citizens and government and other employees in many countries. Following further analysis of the characteristics of such social security schemes at the Oslo Meeting in March 2005 members agreed that the Social Policy Obligations project should be split into the following broad components for its further development:

- Social benefits other than pensions (and similar social benefits) – with an ED on this component to be developed for consideration in July 2005. and for that ED to reflect decisions made by the IPSASB at its November 2004 meeting;
- Basic distress type pensions (and similar social benefits); and

- Global” pensions which required some contribution by or on behalf of members, and which provide benefits, which are related to the amount of contributions made.

The development of this ED is consistent with the approach agreed at the Delhi and Oslo meetings. Major issues dealt with in responding to directions provided by members are identified below.

ISSUES

(a) Scope

In order to action the directions of the Board at the Delhi and Oslo Meetings to exclude pensions and similar social benefits from the scope of the ED a scope exclusion has been introduced. The requirement at Paragraph 2 removes from the scope of this ED aged pension benefits and other individual goods and services and cash transfers, where the primary eligibility criterion for entitlement is reaching a specified pensionable age. Consistent with the IPSASB decision, the approach adopted in the ED is therefore broader than just removing pensions from the scope. The scope exclusion also includes individual goods and services such as age related medical benefits and cash transfers such as pension support, where one of the key eligibility criteria is attainment of a specified pensionable age. Employee pensions, including unfunded employee pension plans, are outside the scope of this ED as they are exchange transactions.

The scope section also acknowledges that the term “pensions” is used in many jurisdictions for cash transfer programs, although the eligibility criteria for those programs do not stipulate that an individual must reach a specified pensionable age. Probably the best example of this is a disability pension, which is provided to individuals who have sustained industrial injuries or have other medical conditions that are deemed sufficiently serious for then to be unable to work. In many cases these do not have eligibility criteria related to age. Commentary notes that such programs are within the scope of the ED.

As drafted the scope of the ED is currently restricted to social benefits excluding pension arrangements(see below (b) for a consideration of social benefits). This is consistent with the scope-out in IPSAS 19. However, it is arguable that the scope of the ED should be extended to all goods and services arising in a non-exchange transaction. One advantage of adopting such an approach would be that it would sidestep the need to define “social benefits”, which has proved problematic

Members are asked to give views on these issues relating to scope.

(b) Definition of Social Benefits

Notwithstanding the comments at (a) above, consistent with the view of the Board expressed in November 2004 the ED provides a definition of social benefits. This maintains elements from the definition of social benefits in the Government Finance Statistics Manual 2001 (GFSM 2001). However, it is broader than the definition in the GFSM and includes elements from the commentary paragraphs on the scope-out in IPSAS 19 in relation to social benefits and notions submitted by respondents to the Invitation to Comment. The ED identifies and differentiates three types of social benefit.

- Goods and services provided for collective consumption (collective goods and services)

- Goods and services provided for individual consumption (individual goods and services)
- Cash transfers

These types are discussed further and examples are given in paragraphs 12-18.

(c) Distinction between individual goods and services and cash transfers

The Basis for Conclusions argues that individual goods and services differ from cash transfers. In the former the transferor determines how the economic benefits or service potential transferred is to be consumed. In the latter, the recipient has full discretion as to how the economic benefits are used once eligibility criteria have been satisfied and the transferor sacrifices resources. For individual goods and services, it is not possible for the recipient to decide to use the economic benefits for a purpose other than that specified without the transferor's acquiescence.

Both the ED at paragraph 15 and the Basis for Conclusions at BC 15 acknowledge that in some cases cash reimbursements for individual goods and services may be provided to the recipient. In these cases a failure by the recipient to apply the economic benefits for the purpose specified by the transferor can lead to the transferor refusing to make the reimbursement.

The ED includes as a Specific Matter for Comment a question whether respondents agree with this distinction.

(d) Constructive obligations and social benefits

The ED retains the concept of a constructive obligation in relation to social benefits and provides requirements and commentary. At the Delhi Meeting in November 2004 members agreed that the first draft of the ED should include the staff recommendation that there is a rebuttable presumption that, in the absence of a legal obligation, a present obligation for individual goods and services does not arise prior to delivery. Staff was also asked to develop the circumstances of such a rebuttal.

In accordance with this direction staff has included such a rebuttable presumption in respect of goods and services that relate to specific events. Commentary on the circumstances under which the rebuttable presumption might be applied is given in paragraphs 52-54 of the ED. It acknowledges that there may be limited occasions where a present obligation arises when there is no legal requirement. In such cases a commitment communicated publicly to a third party would create a valid expectation and the government or public sector entity has no realistic alternative but to "deliver" – hence it cannot avoid the liability. The situation envisaged in the ED relates to action in response to a specific event such as a natural disaster in a foreign country where a constructive obligation arises as a result of commitments made to national and multi-national partners and from which realistically, it would not be possible to withdraw. Implementation Guidance highlights the consequences that arise from application of the rebuttable presumption at IG 39-49.

Board members have previously expressed reservations that the concept of a constructive obligation might be used inappropriately to recognize present obligations too widely. The aim of the approach in the ED is to limit the circumstances under which a constructive obligation gives rise to a present obligation prior to a legal obligation, whilst giving accounts-preparers a principles based approach to determining whether a present obligation has arisen as a result of a constructive obligation.

For cash transfers the ED states that a present obligation arises when an individual has satisfied all applicable eligibility criteria. The rationale for this approach is that once an individual has satisfied all eligibility criteria that individual has a genuine expectation that the cash transfer will be made and the entity little alternative but to settle under existing legislative requirements. The ED acknowledges the sovereign powers of government, but argues that it is unlikely that there will be a retrospective amendment of eligibility criteria. However, the resultant present obligation is only until the eligibility criteria have to be revalidated.

It is proposed to raise the issue of the rebuttable presumption for collective and individual goods and services and the point at which a present obligation arises in relation to cash transfers as Specific Matters for Comment.

(e) Obligating Events for Individual Goods and Services and Cash Transfers

In the view of Staff, the most problematic issue is whether the obligating event for individual goods and services differs from that for cash transfers. The ITC proposed that a present obligation for collective and individual goods and services arises when services are delivered. For cash transfers the ITC proposed that a present obligation arises when all applicable eligibility criteria are satisfied. These proposals were supported by a large majority of respondents. IPSASB accepted these views at the Delhi meeting, but decided to insert a rebuttable presumption for individual goods and services (see above (d)).

Staff has attempted to effect these decisions by analyzing when a present obligation arises for these two components of social benefits. In developing this analysis staff placed significant emphasis on the fact that for cash transfers the use of the resources is at the discretion of the recipient. The argument put forward in the ED is that the point at which the obligating event for cash transfers arises differs from when it arises for individual goods and services because, once eligibility criteria have been satisfied, government is not dependent on the actions of employees or other parties for the transfer of economic benefits or service potential. For individual goods and services, notwithstanding that the recipient has satisfied the eligibility criteria, the sacrifice of resources by the government is dependent upon a further action- the delivery of the goods or services by employees or another party. Therefore for individual goods and services a present obligation arises when service delivery is effected, whether by an entity's own employees or a private sector entity rather than when eligibility criteria are satisfied.

It is intended to raise this question as a Specific Matter for Comment. Members are asked for their views on this analysis.

(f) Legal Aid

Following discussion at the Delhi Meeting in November 2004 staff considered in detail the issue of when a present obligation arises in the case of legal aid. In the view of Staff legal aid does not, analytically, differ from other individual goods and services. Whilst claimants for legal aid are unlikely to have to seek to satisfy eligibility criteria more than once, unless charged with a further offence, this factor does not lead to accounting requirements that differ from those for other individual goods and services. Legal aid shares the common and defining characteristic of other individual goods and services that the economic benefits must be used for the purposes specified by the transferor i.e. the consumption of legal services.

Therefore, no liability to potential recipients arises prior to service delivery. Whilst legal aid can be provided by third party law firms as well as directly employed legal staff the existence of contracts with law firms that extend into periods beyond the reporting date does not give rise to a present obligation to beneficiaries prior to the delivery of the legal aid services. This principle also applies to all individual goods and services and commentary on it is provided in paragraph 45 and BC 21. Contracts with legal firms are executory contracts giving rise to exchange transactions and are outside the scope of this ED. A practical exemplification is provided in Implementation Guidance at IG50-51.

(g) Measurement: "Staying Alive"

The ED provides requirements and commentary for measurement in relation to social benefits at paragraphs 68-72. For cash transfers the maximum amount of any liability shall normally be the best estimate of the amount payable from the last validation point to the next validation point reduced by any amounts already paid at the reporting date. Commentary at paragraphs 59 and 60 introduce the notion of explicit as well as implicit revalidation. Explicit revalidation is where the individual has to satisfy all key threshold eligibility criteria at specified intervals in order to continue to receive the cash transfer.

Implicit revalidation does not require the individual to revalidate specified key threshold criteria. However, an individual may have to demonstrate that they are still living and resident in the jurisdiction within which the cash transfer is made by, for example, confirming their address or bank account details at specified intervals. Implicit revalidation is therefore similar to "staying alive". A recipient's failure to confirm details can entitle the transferor to stop further cash transfers. If it can be demonstrated that the transferor has previously terminated cash transfers in the same or similar programs as a result of such a provision it is reasonable to treat such implicit validation on the same basis as explicit validation. Therefore, the maximum liability would be the amount payable between the previous eligibility point and the point in the future at which the transferor can terminate the outflow of economic benefits less any amounts already paid.

The ED acknowledges that there may be rare occasions where an individual, having satisfied key threshold eligibility, is required to neither explicitly or implicitly revalidate their entitlement. Therefore paragraph 72 states that:

"in such cases the entity recognizes provision for both amounts that are due but unpaid in the current accounting period and amounts that will be paid in future accounting periods until the entitlement for benefits expires"

An example after paragraph 72 states that this might be the case where, once a child has initially asserted eligibility for a child benefit, payment of that cash transfer is made to the bank account nominated by the parents until eligibility expires on, for example, the child's sixteenth birthday. In such a case, the maximum liability would be for the full period of future benefits from the date of initial entitlement to the date of the sixteenth birthday.

Staff considers that instances where an entity has a liability for all the benefits potentially payable will be rare. In the illustrative case of child benefits above, the entity would only recognize a provision for benefits payable from birth until the 16th birthday if it continues to make a transfer without checks on the continuing existence and residency of the child or the parents' bank details. Staff considers that instances where explicit or implicit revalidation are entirely absent are likely to be rare.

(h) Interface with IPSAS 19

The ED replicates a considerable amount of material from IPSAS19, although in some cases the commentary has been varied to reflect the circumstances of non-exchange transactions and elsewhere has been omitted or expurgated. on the basis that it is not relevant to the circumstances of social benefits e.g. reimbursements, onerous contracts, restructuring and contingent assets Material replicated includes sections on:

- Recognition: Contingent Liabilities
- Measurement
- Changes in Provisions
- Use of Provisions
- Disclosure

Staff takes the view that, even though some of this material is identical or virtually identical to that in IPSAS 19 it should be repeated. The alternative would be to cross-refer to IPSAS 19 in these areas. In a stand-alone Standard staff does not think that this is appropriate. In the longer term the amount of duplication between this ED and IPSAS 19 inevitably raises the question of whether the material in the ED should be integrated into an updated IPSAS 19. Members' views are sought on these issues.

(i) Disclosure Requirements

As indicated above the ED replicates the disclosure requirements in IPSAS19. Consistent with IPSAS 19 the ED requires a series of disclosures for each class of provision.

Staff considered the appropriate requirements for the aggregation of provisions and contingent liabilities for social benefits in determining a class for disclosure purposes. The limited circumstances under which provisions and contingent liabilities are likely to arise for collective and individual goods and services will mean that disclosure for those components should not be onerous. However, for cash transfers disclosure could be more onerous if it is decided that each cash transfer program is a separate class.

Staff concluded that as provisions for collective and individual goods and services arise in different circumstances to those for cash transfers, primarily due to the different point at which an obligating event arises, it would not be appropriate to consolidate disclosures into a single class covering all social benefits. Therefore commentary notes that "whilst it may be appropriate to aggregate provisions and contingent liabilities for collective and individual goods and services to form one class it is not appropriate to include provisions and contingent liabilities for cash transfers within the same class". There is nothing to prevent prepares from more detailed disclosures if they consider it appropriate.

(j) Transitional provisions

Staff considered whether transitional provisions are necessary. Staff concluded that for collective and individual goods and services the limited circumstances under which provisions arise under the requirements of the ED do not justify the insertion of transitional provisions. Staff acknowledges that the position in respect of cash transfers is more ambiguous, and that, dependent upon existing accounting policies, the identification of provisions in relation to cash transfer programs might prove quite onerous for some entities. However, information on liabilities where individuals have satisfied eligibility criteria or cash transfer programs should be readily accessible. Therefore, on balance, staff does not think that transitional provisions are justified. However, the issue of Transitional Provisions will be raised as a Specific Matter for Comment.

(k) Changes Proposed to IAS 37 by IASB.

The ED has been underpinned by the framework in IPSAS19 and includes in Appendix A, with minor modifications, the decision tree from IPSAS19. In the view of staff this reinforces the points made in the commentary on Present Obligations. The initial starting point is to establish whether there has been an obligating event rather than whether there has been a present obligation as a result of an obligating event. This is meant to convey the importance of the establishment of whether an obligating event has taken place prior to whether a present obligation exists.

Members will note that IASB is proposing significant changes to IAS37. These are discussed in more detail at Agenda Item 11.8. These include changes in terminology:

- deleting the term 'provisions'
- changing the term from "a liability of uncertain timing or amount" to 'liability that is not a financial instrument';and
- introducing the term "contingency" to replace the terms "contingent assets and contingent liabilities

Consistent with decisions that have been made previously on convergence with IFRS this ED does not anticipate changes to IFRS since those changes have not yet been exposed by the IASB let alone been included in a final standard.. However, Staff feels that it should be pointed out that, in the event of their adoption into a full Standard and the IPSASB agreeing that those changes were appropriate for application to the public sector, the changes proposed to IAS37 may have an impact on this project.

FIRST DRAFT ED

Accounting for

Social Policies of Government

(excluding pension arrangements)

This Exposure Draft was approved by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

Acknowledgment

This Exposure Draft of an International Public Sector Accounting Standard deals with accounting for the social policies of government. Extracts from International Accounting Standard IAS 37 (1998), *Provisions, Contingent Liabilities and Contingent Assets* are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Board (IASB). IAS 37 was published by the International Accounting Standards Committee (IASC). The IASB and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the IASC. The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB.

The approved text of the IASs is that published by the IASB in the English language, and copies may be obtained directly from IASB Publications Department, 7th Floor, 166 Fleet Street, London EC4A 2DY, United Kingdom.

E-mail: publications@iasb.org.
Internet: http://www.iasb.org.

Information about the International Federation of Accountants and copies of this Exposure Draft can be found at its internet site, http://www.ifac.org.

The approved text of this Exposure Draft is that published in the English language.

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Commenting on this Exposure Draft

This Exposure Draft of the International Federation of Accountants (IFAC) was prepared by the International Public Sector Accounting Standards Board (IPSASB). The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard (IPSAS).

Comments should be submitted in writing so as to be received by xx xx 2006. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world.. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

Due Process and Timetable

An important part of the process of developing IPSASs is for the Committee to receive comments on the proposals set out in IPSASB

Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

Background

In January 2004 the Public Sector Committee (PSC which was reconstituted as the International Public Sector Accounting Standards Board in November 2004) issued an Invitation to Comment (ITC), *Accounting for Social Policies of Governments.* The ITC was prepared by a separately constituted Steering Committee. The Steering Committee included both members of the PSC and individuals from outside the Committee. The ITC addressed the financial reporting consequences of government's actions in providing a wide range of social benefits and cash transfers to individuals and organizations and their undertakings to provide such benefits and cash transfers in the future. The individual social benefits considered included aged pension benefits but not post-employment benefits, other long-term employee benefits and termination benefits provided by employers for employees.

Using a conceptual framework derived from that in IPSAS19, *Provisions, Contingent Liabilities and Contingent Assets* the ITC analyzed different accounting options for a range of collective and individual social benefits and cash transfers payable by governments and other public sector entities. The ITC put forward a series of views on the appropriate accounting treatment for these benefits and cash transfers. The views propounded in the ITC were those of the Steering Committee rather than those of the PSC.

The submissions received on the ITC reflected majority support for the views proposed by the Steering Committee, although the level and intensity of this support varied across the views put forward. In late 2004 the Committee considered comments made by constituents in their submissions and a number of staff papers addressing the key issues set out in the ITC. The ITC proposed that there was no case for issuing separate Exposure Drafts and IPSASs for aged pensions and other social benefits and cash transfers. This view received majority support from respondents. However, the Committee revisited this issue due to concerns about the extent to which certain types of global pension systems which provide pension benefits to government and other employees were within the scope of the ITC. A decision was therefore taken to deal with pensions and social benefits related to pensions separately from the other social policy obligations of government. The issue of this Exposure Draft reflects that decision.

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the accounting treatment of a range of governmental social policies excluding those related to pensions and benefits related to pensions, where the primary eligibility criterion is a specified pensionable age.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by xxx 2006. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including Implementation Guidance and the Basis for Conclusions) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The Committee would particularly value comment on the following issues-whether you agree that:

1. The definition of social benefits is sufficiently clear and comprehensive?. If you disagree can you detail how this definition should be modified.

2. The definitions of collective goods and services, individual goods and services and cash transfers are appropriate. If they are not appropriate can you detail how they should be modified.

3. It is appropriate to specify different accounting requirements for individual goods and services and cash transfers because the beneficiary has

   - discretion to use the economic benefits as he/she wishes in the case of cash transfers; but

   - must use the economic benefits transferred in individual goods and services in a manner specified by the transferor?

   If you do not think that different accounting requirements should be specified can you give reasons.

4. The rebuttable presumption that a present obligation in respect of collective goods and services and individual goods and services only arises when the goods and services are delivered. Do you think that this approach is appropriate? If you disagree when do you think that a present obligation in respect of individual and collective goods and services arises?

5. A present obligation in respect of cash transfers arises when all eligibility criteria have been satisfied. If you disagree can you indicate when a present obligation in relation to cash transfers does arise?

6. The ED should not mandate disclosures beyond those in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets.* If you think that additional disclosures should be required can you detail what those additional disclosures should be.

7. The scope of the Standard should be limited to social benefits or whether it should be expanded to include all goods and services or cash transfers in non-exchange transactions. Can you also provide reasons for your view.

8. There is a need for the insertion of transitional provisions. If you do think that transitional provisions are necessary can you provide reasons and also specify whether transitional provisions should apply to all social benefits or only some social benefits.

International Public Sector Accounting Standard
ED XX

Accounting for Social Policies of Governments (excluding Pension Arrangements)

CONTENTS

International Public Sector Accounting Standard XX, "Accounting for the Social Policies of Government" (IPSAS XX) is set out in paragraphs 1-XXX. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusion and the "Preface to the International Public Sector Accounting Standards". IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

FIRST DRAFT ONLY – FOR IPSASB REVIEW JULY 2005

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

Accounting for Social Policies of Governments (excluding Pension Arrangements)

Objective

1. Governments provide constituents with social benefits in the form of goods, services and cash transfers in the pursuit of social policy objectives. Generally such goods, services and cash transfers are provided without the receipt of consideration that is approximately equal to their value in return from the recipients of those benefits and transfers. The objective of this Standard is to identify the circumstances in which social policies of governments (other than those relating to the provision of aged pensions) give rise to a present obligation, and to establish requirements for accounting for such obligations.

Scope

2. **An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for social benefits arising from non-exchange transactions except for:**

   a) aged pension benefits

   b) other individual social benefits and cash transfers, where the primary eligibility criterion for entitlement is reaching a specified pensionable age; and

   c) other social benefits in respect of which accounting requirements are included in another international public sector accounting standard

3. In many cases, obligations to provide social benefits arise as a consequence of a government's commitment to undertake particular activities on an on-going basis over the long-term in order to provide particular goods and services to the community. The need for, and nature and supply of, goods and services to meet social policy obligations will often depend on a range of demographic and social factors.

4. This standard does not apply to aged pension benefits provided by governments to citizens when they reach a specified pensionable age. Such benefits include those arising from both basic pension schemes and global contributory schemes. In some jurisdictions aged pension benefits are linked to other individual goods and services and cash transfers such as enhanced health care benefits and pension support. If such goods and services and cash transfers are available more widely than to those who have reached pensionable age, they are within the scope of this Standard. If such benefits are only available to those who have reached pensionable age they are outside the scope of this Standard and will be dealt with in any Standard dealing with aged pension benefits.. In some cases certain cash transfers may be referred to as pensions although entitlement does not depend on reaching a "pensionable age" e.g. disability pensions payable to individuals who are considered no longer capable of working due to injury or certain medical conditions. This Standard does apply to such cash transfers.

5. In some jurisdictions governments or their entities may provide individual goods and services such as health, housing and transport where consideration of approximately equal value to the value of the goods or services provided is received in return from the recipient e.g. when a hospital has a wing for patients who pay for medical services. Such transactions are exchange transactions and are outside the scope of this Standard.

6. There may also be programs where the recipient of individual goods and services is required to provide consideration but that consideration is not of approximately equal value to the value of the benefits conferred by the government or entity of the government. For example an individual may be required to contribute a nominal amount to the cost of an educational course. Such arrangements are within the scope of this Standard.

7. This Standard does not apply to employee benefits, including post-employment benefits provided to government employees and other

employees in exchange for their services. Post-employment benefits include post-employment life insurance and post-employment medical care. Such benefits are exchange transactions. Medical benefits that are not post-employment benefits are individual goods and services and are within the scope of this Standard provided that they are not restricted to that segment of the population that has reached the specified pensionable age. Requirements in respect of employment benefits should be accounted for in accordance with the relevant international and national accounting standard.

Government Business Enterprises

8. This Standard applies to all public sector entities other than Government Business Enterprises.

9. The Preface to International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards, which are issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, Presentation of Financial Statements. They are profit-oriented. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).

Definitions

10. **The following terms are used in this Standard with the meanings specified:**

An <u>aged pension</u> is a social benefit payable to that segment of the population that has reached a specified age known as the pensionable age.

A <u>cash transfer</u> is a payment in cash or in kind, to protect individuals against certain social risks where that individual has discretion as to how the transfer shall be used.

<u>Collective goods and services</u> are goods and services provided for consumption by the entire population or by all sections of a particular segment of the population.

***A* <u>constructive obligation</u> is an obligation that derives from an entity's actions where:**

(*a)* by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A <u>contingent liability</u> is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognized because:

(i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

An <u>exchange transaction</u> is a transaction in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

<u>Government</u> means national, state/provincial, municipal and other levels of administration/government or their equivalents

<u>Individual goods and services</u> are goods and services provided for individual consumption to protect an individual or household against certain social risks where the individual or household does not have discretion as to how those economic benefits should be used

A key eligibility criterion is a condition that an applicant must meet for entitlement to individual goods and services and cash transfers

A legal obligation is an obligation that derives from:

a) a contract through its explicit or implicit terms

b) legislation; or

***c)* other operation of law**

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

A non-exchange transaction is a transaction that is not an exchange transaction. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

Pensionable age is a specified age at which an individual becomes eligible for individual goods and services and cash transfers where that age is the primary eligibility criterion for entitlement.

A provision is a liability of uncertain timing or amount.

Social benefits are cash payments and goods and services provided in a non exchange transaction to protect the entire population, or specific segments of it, against certain social risks.

Social benefits other than aged pensions are goods and services and cash transfers provided in a non-exchange transaction to protect the entire population, or specific segments of it, against certain social risks where there is no eligibility criterion that the

recipient has attained a specified age known as the pensionable age

A <u>social risk</u> is an event or circumstance that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their incomes.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards and are reproduced in the Glossary of Defined Terms published separately.

Goods and Services Encompassed by Social Benefits

11. Government social policies are developed to address and respond to certain risks. In pursuit of these social policies, government and their entities provide goods and services without approximately equal consideration in exchange-that is in a non-exchange transaction. Goods and services may be provided for collective consumption or for consumption by individuals or households. Government and their entities also provide cash transfers. Those goods and services and cash transfers are generally termed social benefits.

Collective Good and Services

12. Goods and services provided for collective consumption are provided simultaneously to all members of the community or to all members of a particular section of the community, such as all households living in a particular region. Such goods and services differ from individual goods and services and cash transfers in that they are "indivisible" and cannot be apportioned between individual citizens or households. Collective goods and services are automatically acquired and consumed by all members of the community, or group of households in question, without any action on their part. By their nature, collective services cannot be sold to individuals in the market place. Examples include:

    (a) national defense;

    (b) the conduct of international relations;

(c) public order and safety (including police services, fire protection services, law courts and prisons);

(d) the efficient operation of the social and economic system of a country; and

(e) the formulation and administration of government policy, setting and enforcement of standards, regulation and licensing of personnel and institutions, and applied research and experimental development

Individual Goods and Services

13. Governments provide a range of goods and services for individual consumption. Such goods and services are acquired by an individual or household and are used to satisfy the needs and wants of that individual or members of that household. Unlike collective goods and services individual goods and services can be bought and sold in the market. However, in many cases, there is no requirement for the beneficiaries of these goods and services to pay an amount equivalent to the fair value of the services provided. Goods and services provided for individual consumption include the delivery of:

(a) health services,

(b) educational services,

(c) housing services,

(d) transport services; and

(e) social services to the community.

14. The provision of individual goods and services is often intended to contribute to the collective good by, for example, creating a workforce that is better educated or technically competent in certain areas or a population that is in better health. However, individual goods and services are provided in the first instance for consumption by individuals or households. Unlike collective goods and services, goods and services for individual consumption are generally subject

to eligibility criteria. These criteria may need to be revalidated at regular intervals e.g. where the provision of medical services is only available to those with incomes below a specified level. Individual goods and services can be provided in a number of ways. For example methods to provide free or subsidized health and educational goods and services to individuals include:

a) the direct provision of free or subsidized goods and services. Governments may deliver services directly themselves or pay for all or part of the cost of, for example, consultations with a general medical practitioner, or for the cost of certain medicinal drugs and patent medicines. The government's contribution or subsidy is generally restricted to service providers or products that are approved by a government agency.

b) paying another organization to deliver goods and services to individuals. For example, a government may pay a private hospital a set fee per service, such as for performing an operation on an individual. Normally such arrangements will require the hospital to meet certain criteria specified by the government. Governments may also pay private sector providers of educational services a subsidy for each student. Frequently upper limits are set on the amount that the government will pay under such arrangements.

c) the reimbursement of households and individuals for certain types of expenditure. Rather than providing a subsidy at point of purchase or consumption, a government may require individuals to apply for reimbursement. For example, individuals attending a doctor's surgery may be required to pay a standard fee, which a government will reimburse in full for certain individuals or a government may reimburse individuals with disabilities for the cost of certain home services; and

d) providing individuals with vouchers that can be redeemed for goods and services. For example, some jurisdictions provide individuals with vouchers that entitle them to free education at one of a selected number of schools. The school then redeems the voucher with the government.

15. A key characteristic of individual goods and services is that the economic benefits transferred must be used for the purposes specified by the transferor. They therefore differ from cash transfers

to individuals (see below paragraphs 16-18). Where the economic benefit transferred in relation to individual goods and services involves the transfer of cash as at paragraph 14(c) this is a specific reimbursement. Such a reimbursement will normally require proof that such services have been received. The recipient does not have discretion to use the cash as he/she deems appropriate.

Cash Transfers to Individuals

16. In many instances governments and their entities will provide individual benefits in the form of cash transfers to address social risks facing individuals and/or their households. Such benefits include:

    a) child benefits

    b) invalidity and sickness benefits

    c) unemployment benefits

    d) income supplements; and

    e) housing benefits

17. The key characteristic of cash transfers- and a fundamental difference from individual goods and services- is that the recipient has discretion as to how to use the cash transfer as he/she considers appropriate. If a recipient has to validate that the cash has been used for a specified purpose the transaction is a reimbursement rather than a cash transfer and is to be treated as an individual good or service.

18. On occasions cash transfers will be made to beneficiaries as reductions in the amount of income tax that they have to pay. If such transactions are available to individuals regardless of whether they pay taxes they are "tax expenses" and fall within the definition of a cash transfer. "Tax expenses" are to be distinguished from "tax expenditures" which arise from preferential provisions of the tax law that provide taxpayers with concessions that are not available to others. "Tax expenditures" are foregone revenue; consequently they are not expenses incurred by the entity and are not within the definition of a cash transfer.

Aged pensions

19. Many jurisdictions provide citizens with cash transfers once they have reached a specified age. The arrangements for payment of such transfers vary widely across the world as do the terms used to describe them, which include the basic pension, social security pension and retirement pension. However, such transfers generally have the aim of protecting individuals over a specified age from the risk of poverty. As well as cash transfers many jurisdictions also provide individual goods and services to individuals who have reached the specified pensionable age, for example vouchers which can be used to meet all or part of utility bills. The term "aged pension" includes both cash transfers and individual goods and services where a key criterion is that the individual has reached a specified age.

20. As noted in paragraph 7, the term "pension" can also be used in the context of cash transfers where the key eligibility criteria do not include a requirement that a specified pensionable age has been reached. The term "aged pension" does not include such cash transfers.

Obligating Events and Present Obligations

21. The existence of a "present obligation as a result of a past event is the threshold condition for recognition of a liability. For an event to be an obligating event, it is necessary that the entity has no realistic alternative other than to settle the obligation created by the event. An obligating event may give rise to a legal or constructive obligation. A liability may exist when a present obligation of the entity arises from an obligating event.

22. An obligation always involves another party to whom the obligation is owed. In many commercial contracts both parties will know to whom the obligation is owed. However, specific identification of the other party is not necessary, for the establishment of an obligation. The obligation arising from a governmental social policy will often be to the public at large in the case of collective goods and services or to a large segment of the population in the case of individual goods and services and cash transfers.

Legal Obligations and Constructive Obligations

23. A legal obligation exists when a party has a legal or otherwise enforceable right to obtain judgment through a court of competent jurisdiction, or by way of another binding process, to enforce payment, performance or compensation. A determination of whether a particular transaction or event would give rise to a legal obligation and is therefore an obligating event must ultimately be made by a court or other quasi-judicial mechanism. However, it is also possible that a legal obligation exists when it is clear from legislation or previous examples of legal action that, if the issue were taken to court, the issue would be decided in the applicant's favor. This may be the case for a number of cash transfers where the particular circumstances of an applicant's eligibility may not have been tested in court, but the experience of similar previous cases may suggest that an obligating event has occurred.

24. Legal obligations often arise as a result of contractual obligations. A contract is an agreement with specific terms between two or more persons or entities in which one agrees to provide goods or services or to take certain actions in return for valuable consideration.

25. Contracts may also arise where the consideration provided by one party is not of approximately equal value to the value of the benefits conferred by the other party to the contract. In some cases, the consideration may be nominal in relation to the benefits conferred (for example, a small monetary consideration may be provided merely to give the transaction the form of a contract).

26. In some jurisdictions, a government's delivery of social benefits to constituents may be referred to as a "social contract". The use of the term "social contract" cannot be deemed to establish a legally enforceable agreement with specific terms as in paragraph 24 A government's implicit or explicit agreement to provide social benefits in future periods does not constitute a legal contract and does not give rise to a present obligation. This is because any such obligation is a future rather than a present obligation.

27. Constructive obligations are broader than legal obligations. Constructive obligations may encompass certain obligations that a government has a "moral" duty to honor because it has led individuals or entities to believe that it will settle such obligations and has no realistic alternative but to do so.

28. An obligation always involves a commitment to another party. Therefore it follows that a decision by a government or government entity's management, governing body or controlling entity does not give rise to a constructive obligation at the reporting date unless the decision has been communicated before the reporting date to those affected by it in a manner sufficiently specific to raise a valid expectation in them that the entity will discharge its responsibilities. General political commitments or statements of policy intention do not give rise to present obligations, because these statements are not sufficiently specific and there is no obligating event

Contingent Liabilities

29. Contingent liabilities include:

- possible obligations arising from past events but which need confirmation whether the entity has a present obligation that could lead to an outflow of economic benefits or service potential; and

- present obligations that do not satisfy recognition criteria. In both cases, the obligation must arise from a past event.

However, in the case of possible obligations the existence of the obligating event may be confirmed only in the future, for example where a group of individuals have applied for a cash transfer, but where their eligibility is uncertain until the outcome of a legal case is known.

Initial Recognition

Provisions

30. **A provision in respect of a social benefit shall be recognized when:**

    a) **an entity has a present obligation (legal or constructive) as a result of a past event;**

    b) **it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and**

c) **a reliable estimate can be made of the amount of the obligation**

31. **If these conditions are not met no provision shall be recognized.**

Present Obligation

32. This standard requires that when a present obligation arises in respect of a social benefit and that present obligation satisfies recognition criteria it will be recognized as a provision. A present obligation arises as a result of a past event, which is an "obligating event".

33. Present obligations for social benefits may arise from legal obligations and constructive obligations.

34. Subject to meeting criteria relating to a probable outflow of resources and reliability of measurement, legal obligations are recognized when a present obligation enforceable through the legal system or other binding process arises, and the obligation meets the recognition criteria. This is often the point at which the obligation is due to be paid.

35. However, there may be cases where a constructive obligation may arise at an earlier point than a legal obligation. Where a matter is subject to court judgment or other binding process and the outcome is uncertain, there may be a contingent liability rather than a provision.

36. A government may, as a result of previous public undertakings or commitments, be seen as having an obligation to provide particular goods and services for the benefit of its constituents in future periods. However, an obligation to provide goods or services (or other benefits) to constituents in the future does not of itself give rise to a present obligation that should be recognized as a provision. All aspects of the definitions of, and recognition criteria for, a liability must be satisfied for recognition to occur, including the requirement that a past event has given rise to a present obligation that the government or government entity has no realistic alternative but to settle.

37. Consistent with the requirements of IPSAS 19, a provision is not recognized for costs that need to be incurred to continue an entity's activities in the future. These costs will be recognized in the future when the obligating event occurs and the recognition criteria are satisfied. They may include costs associated with service delivery such as salary costs and rents and the acquisition of capital equipment.

38. In some cases the sovereign powers of government mean that steps can be taken to avoid or substantially limit obligations. Globally many governments have powers to effect legislative change retrospectively. . However, notwithstanding the existence of such powers assessments of whether a government or entity has no realistic alternative but to settle are made within the framework of existing legislation, although that framework can change in the future.

39. If a present obligation exists then in order for a liability to be recognized an outflow of resources embodying economic benefits or service potential must be probable. There may be instances where a present obligation arises from a legal or constructive obligation, but that it is deemed that an outflow of economic benefits and service potential is not probable

40. This might occur when a third party assumes responsibility for settling a liability arising from a present obligation with its own resources, although the reporting entity has primary responsibility. An example is the provision of a scholarship in the form of a cash transfer available to an individual intending to attend state institutions who has satisfied certain entry qualifications, if it is considered probable that the individual will receive an alternative private scholarship.

41. There may be cases where, although a liability exists, no reliable estimate can be made of the amount. In the context of social benefits such instances are likely to be extremely rare. Where no reliable estimate can be made a liability exists that cannot be recognized. That liability is disclosed as a contingent liability (see paragraph 89)

Collective and Individual Goods and Services and Cash Transfers

42. **There is a rebuttable presumption that a present obligation for the provision of collective and individual goods and services arises when the goods or services are delivered and not before such delivery.**

43. **When a present obligation arises in respect of collective and individual goods and services it shall be recognized as a provision in accordance with paragraph 30.**

Collective and Individual Goods and Services

44. Unless the presumption can be rebutted in accordance with paragraph 42 this Standard requires that a liability for collective and individual goods and services be recognized as a provision when the goods and services are delivered. Therefore a provision will not be recognized for collective and individual goods and services to be provided in future periods. There are likely to be expectations that the state will continue with many activities into the foreseeable future. Indeed a failure to maintain activity in a number of areas may arguably jeopardize the continued existence of the state. However, the expectation that goods or services will be provided in the future does not give rise to a present obligation arising from a past event that results in the government having no realistic alternative but to settle. Therefore a liability in respect of the future costs of maintaining activity in these areas is not recognized.

45. There may be circumstances in relation to disaster relief where a reporting entity considers that, in the light of commitments it has made to other parties, it has a present obligation to provide collective and individual goods and services and that such an obligation cannot be realistically avoided. Such circumstances are discussed in paragraphs 52-54.

46. An entity may have contracts with third parties for the supply of goods and services needed to provide collective benefits on an ongoing basis, including into the future. When the goods or services are provided a present obligation will arise in respect of the service provider – the past event that gives rise to the present obligation is the provision of goods and services. Expenses and liabilities in

relation to such contractual arrangements to supply goods and services will be recognized as for other executory contracts in accordance with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets.* Similarly, contingent liabilities associated with agreements with suppliers are disclosed in accordance with IPSAS 19,

47. If collective and individual services are provided directly by government entities using the government's employees, present obligations arise as a result of contracts with those employees. The entity accounts for such transactions in the same way as for other employment contracts. The fact that the reporting entity has entered into employment contracts with employees involved in the provision of collective and individual goods and services for future periods does not create a present obligation in relation to citizens prior to delivery of those services. Rather, a present obligation to employees arises as those employees provide the services in accordance with the employment contract.

48. Where the entity has entered into commitments for the acquisition of property, plant and equipment needed to provide collective and collective goods and services in the future-e.g. a new embassy building or new hospital- those commitments should be disclosed in accordance with IPSAS 17, *Property, Plant & Equipment.*

49. Where an individual purchases goods and services and seeks reimbursement from a public sector entity a present obligation will arise at the point at which the goods and services are provided to the individual, provided it can be demonstrated that the individual had a prior authorization to purchase the goods and services and had met all key eligibility criteria. Under such circumstances the individual is, in substance, acting as an agent of the public sector entity and is incurring expenditure on behalf of that entity.

50. **Provisions in relation to collective and individual goods and services shall not be recognized except where the rebuttable presumption in paragraph 42 is applied.**

51. Where a public sector entity has determined that a commitment to multi-national partners in respect of disaster relief has resulted in a present obligation the provision should be the best estimate for fulfilling that commitment. Factors which might be taken into account in making that estimate are discussed in paragraph 54.

Rebuttable Presumption-Obligations

52. There may be instances where a government or other public sector entity responds to specific events by providing goods or services to individuals or communities. Disaster relief is an example of such an activity. A government might provide services traditionally classified as collective benefits such as police services with the objective of ensuring that law and order is maintained in a locale where a natural disaster has occurred. A government might also provide emergency health care to individuals whose economic livelihood has been destroyed or otherwise affected by such a disaster.

53. In accordance with paragraph 42 a government would not normally have a present obligation in relation to collective or individual goods and services until such goods and services are provided. However, there may be instances where the government has given a commitment to participate in disaster relief initiatives to other partners, such as other national governments or supra-national organizations. Once such commitments have been communicated to other partners government might take the view that it is "locked-in" to joint arrangements, which it cannot realistically avoid. Such a view might be underpinned by factors such as a public announcement of the intention to participate in a joint initiative and the availability of funding under existing budgetary authorities or existing contingency arrangements. In such circumstances the government might conclude that there is a present obligation as a result of a constructive obligation and, if there are still outstanding obligations at the reporting date, that it is necessary to recognize a provision.

54. Where a government has determined that a commitment to multi-national partners in respect of disaster relief has resulted in a present obligation the provision should be the best estimate for fulfilling that commitment. In making this estimate factors that the entity will consider include published plans, budgetary authorizations and publicly stated pledges communicated to partner organizations

Cash Transfers

55. **A present obligation for cash transfers to individuals in satisfaction of an entity's social policy obligations arises when applicable eligibility criteria have been satisfied. When a present obligation arises it shall be recognized as a provision in accordance with the requirements of paragraph 42.**

56. This standard requires an entity to recognize a provision for cash transfers when an individual first satisfies all the threshold (initial) eligibility criteria required to qualify for a cash transfer, although the date at which payment becomes legally due may not be until after eligibility has been asserted and validated.

57. This is because where eligibility criteria have been satisfied an entity may have no realistic alternative but to settle its obligations for amounts payable until the criteria have to be next validated. Whilst, as acknowledged in paragraph 38, governments and other public sector entities can modify eligibility criteria it is unlikely that such changes will be retrospective. The government may therefore have no realistic alternative but to provide to eligible recipients cash transfers they are presently entitled to as a consequence of satisfying those eligibility criteria.

58. Cash transfers differ from individual goods and services because, once eligibility criteria have been satisfied, government is not dependent on the actions of employees or other parties for the transfer of economic benefits or service potential. For individual goods and services, notwithstanding that the recipient has satisfied the eligibility criteria, the sacrifice of resources by the government is dependent upon the delivery of the goods or services by employees or another party.

59. Where eligibility criteria have been satisfied the present obligation is limited to the amount to which the beneficiary is entitled between validation points. Recipients may be required to repeatedly satisfy all eligibility criteria in future periods for the receipt of further benefits in those periods. A present obligation for the provision of those additional benefits does not arise until the recipients satisfy those eligibility criteria in future periods.

60. Eligibility criteria may include the requirement that an individual "stays alive" and periodically asserts their continued existence in order to maintain eligibility. In such cases the assertion that an individual is still alive may be implicit. Such an implicit assertion could take the form of an individual being required to revalidate their address at periodic intervals.

61. There may be cases, where once an individual has satisfied all eligibility criteria, no further validation of entitlement is required. In such cases the entity has an obligation for both amounts that are due

but unpaid in the current accounting period and amounts that will be paid in future accounting periods until the entitlement for the benefits expires.

62. In responding to specific events such as disasters a government may make cash transfers to individuals or households. Where the provision of cash transfers forms part of the disaster relief initiative a present obligation arises when all eligibility criteria are satisfied by the recipients of the cash transfer.

Contingent Liabilities

63. **An entity shall not recognize a contingent liability.**

64. A contingent liability is disclosed, as required by paragraph 89, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

65. Contingent liabilities include possible obligations, or present obligations that do not satisfy recognition criteria. In both cases, the obligation must arise from a past event. However, in the case of possible obligations the existence of the obligating event may be confirmed only in the future.

66. Apart from circumstances when the rebuttal presumption in paragraph is applied there are no obligating events in respect of collective and individual goods and services until the goods and services are delivered. Therefore an entity does not disclose the existence of a contingent liability in respect of collective and individual goods and services unless that rebuttable presumption has been applied. For example where a government is "locked " into a multi-national relief initiative, but because the responsibilities of the different partners have still to be confirmed the government will disclose a contingent liability.

67. For cash transfers a contingent liability will be disclosed where a large number of individuals have applied for a program such as income support but, due to ambiguity over interpretation of the rules governing the program, there is uncertainty over whether one or more of the key eligibility criteria has been met. This may have led to a legal action that should result in a clarification of the nature and extent of any liability. If the results of this legal action will not be known until after the reporting date then a contingent liability will be

disclosed unless the possibility of a judgment inimical to the entity is remote. Such a disclosure includes, where feasible, an estimate of the financial implications in the event that the court deciding that the key eligibility criterion has been satisfied.

Measurement

68. **The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.**

69. Under the requirements of this Standard there are limited circumstances in which provisions can arise. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. The estimates of outcome and financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

70. A provision is recognized in respect of cash transfers to which the recipient is currently entitled as a consequence of satisfaction of the eligibility criteria where those benefits are not due to be paid until future periods. The present obligation is for the benefits to be provided to the individual until the individual must next satisfy the eligibility criteria less any of those benefits that have already been transferred.

71. In making the best estimate of the provision in relation to cash transfers, it is necessary to identify future cash flows. Matters which will need to be considered include: the number of recipients entitled to a benefit in each period, the rate(s) of benefit to which they will be entitled in each period, the period over which the provision is being measured and expected changes in benefit entitlements.

72. There may be cases, where once an individual has satisfied all eligibility criteria, no further validation of entitlement is required. In such cases the entity recognizes a provision for both amounts that are due but unpaid in the current accounting period and amounts that will be paid in future accounting periods until the entitlement for the benefits expires.

Example: **Child Benefit with Entitlement Validated Once**

Where a parent is entitled to a child benefit payable from the birth of a child to day of the child's sixteenth birthday and no further checks are carried out to confirm the child's continuing existence the liability covers the period from birth until the date of the sixteenth birthday. In such a case it is probable that reliance will have to be placed on an actuarial assessment for an estimate of the liability. Such an actuarial assessment will take into account variables such as child mortality rates and emigration that will have an impact on the liability.

Present Value

73. **Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**

74. In cases relating to cash transfers where eligibility must only be validated once provisions may be settled by one-off payments or by a series of recurring payments over the long term. In such circumstances, where the effect is likely to be material, such provisions are discounted.

75. Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. In cases relating to cash transfers where eligibility must only be validated once provisions are likely to be settled a number of years after the reporting date. In such circumstances, where the effect is likely to be material, such provisions are discounted.

76. When a provision is discounted over a number of years, the present value of the provision will increase each year as the provision comes closer to the expected time of settlement. Paragraph 87 requires disclosure of the increase during the period in the discounted amount arising from the passage of time.

77. The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted.

78. The discount rate selected should be selected to reflect the nature of the liability and the risks associated with that liability. For many liabilities arising from the social policies of government the risk will be low and it will therefore be appropriate to select a risk-free rate such as that derived from a government bond.

Future Events

79. **Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.**

80. Expected future events may be particularly important in measuring provisions. For example, in some jurisdictions it is common to index link cash transfers to the general inflation rate or other specific price indices. In some cases such index-linking may be legally required. In such circumstances if there is sufficient evidence of likely expected rates of inflation this should be reflected in the amount of the provision.

81. The effect of possible new legislation may affect the amount of an existing obligation of a government or an individual public sector entity in relation to cash transfers. This might be the case where the legislation has the intention to tighten or relax existing eligibility criteria significantly. Such legislation might be taken into consideration in measuring that obligation only when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence. This will depend upon the nature of the legislative system and a variety of short-term factors. Evidence is required both of what legislation will entail and of whether it is virtually certain to be enacted and implemented in due course. In many cases, sufficient objective evidence will not exist until both the new legislation is enacted and budgetary authorizations have been effected to provide the necessary resources to implement the new legislation.

Changes in Provisions

82. **Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable**

that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision should be reversed.

83. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as an interest expense.

Use of Provisions

84. **A provision shall be used only for expenditures for which the provision was originally recognized.**

85. If provisions are recognized in respect of social benefits, only expenditures that relate to the original provision are set against them. Setting expenditures against a provision that was originally recognized for another purpose would conceal the impact of two different events. For example it would be misleading to apply a provision arising from application of the rebuttable presumption on specific events in relation to collective and individual goods and services at paragraph to cash transfer programs such as unemployment benefits.

Disclosures

86. **In determining the classes of provision for the disclosures in paragraphs 87-89 cash transfers shall be distinguished from collective and individual goods and services**

87. **For each class of provision relating to collective or individual goods and services and cash transfers, an entity shall disclose:**

    a) **the carrying amount at the beginning and end of the period;**

    b) **additional provisions made in the period, including increases to existing provisions;**

    c) **amounts used (that is, incurred and charged against the provision) during the period;**

    d) **unused amounts reversed during the period; and**

e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

88. **An entity should disclose the following for each class of provision relating to collective or individual goods and services and cash transfers*:***

a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;

b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity should disclose the major assumptions made concerning future events, as addressed in paragraph ; and

c) the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

89. **Unless the possibility of any outflow in settlement is remote, an entity should disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:**

a) an estimate of its financial effect, measured under paragraphs ;

b) an indication of the uncertainties relating to the amount or timing of any outflow; and

c) the possibility of any reimbursement.

90. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfill the requirements of paragraphs 87-89 making this assessment it will be necessary to balance the needs of users for

meaningful information with the need for that information to be concise and accessible. Provisions and contingent liabilities relating to collective and individual goods and services arise differently from those relating to cash transfers. Whilst it my be appropriate to aggregate provisions and contingent liabilities for collective and individual goods and services to form one class it is not appropriate to include provisions and contingent liabilities for cash transfers within the same class.

91. Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 87-89 and in a way that shows the link between the provision and the contingent liability. This could be the case where a provision is recognized as a result of a constructive obligation in relation to a cash transfer program like sickness benefit whilst a contingent liability is also disclosed where a legal case is pending for a further group seeking to assert eligibility for that benefit.

92. For liabilities arising from cash transfers where validation of eligibility criteria on one occasion confers entitlement for a long period an entity is very likely to use experts to measure a provision. In such cases, information relating to the valuation can usefully be disclosed. Such information might include whether experts such as actuaries are third parties or directly employed staff.

Effective Date

93. **This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after XX Month Year. Earlier application is encouraged.**

94. When an entity adopts the accrual basis of accounting as defined by International Public Sector Accounting Standards for financial reporting purposes subsequent to this effective date, this Standard applies to the entity’s annual financial statements covering periods beginning on or after the date of adoption.

Implementation Guidance

Accounting for Social Policies of Government — Examples

This implementation guidance illustrates the application of the provisions of the Standard to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of the Standard or to indicate the IPSASB's endorsement of the situations or methods illustrated. Application of the provisions of this Standard may require assessment of facts and circumstances other than those illustrated here.

All the entities in the examples have a reporting date of December 31. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. References to "best estimate" are to the present value amount, where the effect of the time value of money is material.

Example 1: Police Services

IG1 A government operates a national police service. The government has publicly stated its intention to increase current police numbers from current levels over the next two years.

Analysis

Present obligation as a result of a past obligating event —

IG2 There is no present obligation to provide policing services in future periods, regardless of whether statements have been made of intentions to increase police numbers, reduce them or maintain them at current levels. General statements of intent are not obligating events

Example 2: Free Health Care-Universal to Residents

IG3 Under legislation, a government is required to provide free health care services to all citizens who satisfy residential eligibility criteria. Health care is provided by a combination of government operated hospitals and clinics and healthcare institutions operated by both for-profit and not-for-profit entities.

Analysis

IG4 **Present obligation as a result of a past obligating event —** There is no present obligation to provide healthcare services in future periods. The government accounts for any exchange contracts with for profit and not-for-profit hospitals entered into in order to provide these services in accordance with generally accepted accounting practice. Exchange contracts could include the employment of doctors, nurses, paramedical staff and healthcare administrators, services provided by not-for-profit hospitals, purchases from medical suppliers and agreements with construction firms for the construction of new healthcare facilities.

Example 3: Free Health Care to Members of Low Income Families

IG5 A government provides specified healthcare services free to both adults and children under 18 years of age of families where the monthly family income is less than 300 currency units. Families wishing to obtain free healthcare services have to apply to the government's Department of Health providing evidence that their monthly income is less than 300 currency units. When their applications have been validated they are eligible for free healthcare services for a 6 month period, after which time their eligibility has to be revalidated. The government arranges for the healthcare to be provided through 6 clinics and hospitals owned and operated by not-for-profit entities.

IG6 The government pays 5,000,000 currency units at the beginning of each month in advance to each of the 6 providers. The last payments covered the period to the reporting date. Individual medical services are invoiced to the Government by each of the providers at the end of each month after the services have been provided. The Government processes the invoice 4 weeks after receipt. At the reporting date invoices to the value of 10,000,000 currency units relating to services in the last month of the reporting period are unpaid. In addition it is estimated that the value of services provide by the reporting date, but not yet invoiced, is a further 2,000.000 currency units.

Analysis

IG7 **Present obligation as a result of a past obligating event —** The present obligation to eligible citizens arises as the hospitals and clinics deliver the medical services. There is no present obligation in relation to future accounting periods, to those who have had their eligibility confirmed, regardless of the fact that some individuals' eligibility continues into the next accounting period.

IG8 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable in respect of the services provided in the clinics and hospitals in the current accounting period by the not-for-profit entities.

IG9 **Recognition and Measurement** — The government recognizes an expense of 12,000,000 currency units for the total amount of services provided during the final month and a provision for the same amount.

Example 4a: Child Benefits (eligibility confirmed at intervals)

IG 10 Government A has legislation that specifies the eligibility criteria for child benefits. The parents of each eligible child receive 200 currency units each month from the government. The eligibility criteria are:

- the child is a resident of the country; and
- the child is aged 16 years or under.

IG11 Entitlement commences when an application has been received and approved. No payments are made for periods prior to the date on which eligibility has been confirmed. Payments are made in the middle of each month. Entitlement ends at the end of the month that the child ceases to satisfy eligibility criteria (for example, the child reaches 16 years of age or the child ceases to be a resident). Parents are expected to notify the government immediately that eligibility ceases. Parents are required to sign a declaration at the end of the year stating that the child satisfies the eligibility criteria. This validates eligibility for a 12 month prospective period. Any payments received in respect of periods that the child does not satisfy eligibility criteria must be repaid to the government.

IG12 At year-end, 4,000 babies have met the eligibility criteria and had applications approved but have not yet received the first instalment of benefit. The average amount owed is one month's entitlement.

IG 13 At the reporting date, 10,000 children in total (including the 4,000 babies newly eligible) have validated their eligibility for entitlement to child benefits for the next 12 month period. 500 children reach the age of 16 and cease to be eligible in that period. It is estimated that a further 100 children currently registered or expected to register will cease qualifying for child benefits during that period either through ceasing to meet the residence criterion or mortality. (It is assumed that the incidence of children reaching the age of 16 and ceasing to be eligible occurs evenly throughout the year.) It is expected that 1,000 babies will be born in the year following the reporting date.

Analysis

IG 14 **Present obligation as a result of a past obligating event** — A present obligation arises when children meet both eligibility criteria. There is a present obligation in respect of the amounts due and payable for the 4,000 babies who have recently validated eligibility. There is also a present obligation in respect of all 10,000 children who have validated entitlement at the reporting date. There is no present obligation in respect of the 1,000 babies expected to be born in the year following the reporting date.

IG 15 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable.

IG16 **Recognition**—Provisions are recognized in respect of the present obligations for the amounts due and payable for the 4,000 babies who have recently asserted eligibility and for an estimate of benefits payable over the next 12 month period.

IG17 **Measurement**— The 200 currency units payable in respect of each eligible child would be expensed each month as the payments are made. At year-end, the government recognizes a provision of 800,000 currency units for the amounts due and payable for the 4,000 babies who have recently had applications approved (4,000 x 200) and a provision for 23,280,000 currency units for child benefit payable in the following year because eligibility does not have to be validated until the end of the next reporting period. ((10,000–250-50) x 12 x 200).

Example 4b: Child Benefits (eligibility confirmed only once)

IG18 Government B has legislation that specifies the eligibility criteria for child benefits. The parents of each eligible child receives 200 currency units each month from the government. The eligibility criteria are:

- the child is a resident of the country; and
- the child is aged 16 years or under.

IG19 Entitlement is backdated to the date of a child's birth. However, backdating is only permissible to the beginning of the financial year (i.e 1 January). Payment is either made to a nominated bank account or in person at a government office. Entitlement stops at the end of the month that the child ceases to satisfy eligibility criteria (for example, the child reaches 16 years of age or the child ceases to be a resident). Parents are expected to notify the government immediately that eligibility ceases. Once initial eligibility is confirmed there are no further validation checks. Payment is automatically discontinued in the month following that on which a child has reached 16 years of age.

IG20 At year end, 15,000 children were eligible for child benefit. A further 1,000 had confirmed their eligibility but payments had not been processed. That average outstanding entitlement for these babies was three months A further 1,100 babies are expected to be born in the financial year following the reporting period.

IG21 Each year it is expected that 10 children will die or migrate (it is assumed that the incidence of children reaching the age of 16 and ceasing to be eligible occurs evenly throughout the year)

IG22 **Present obligation as a result of a past obligating event** — A present obligation exists only when children meet both eligibility criteria. Therefore there is a present obligation for 16,000 children. There is no present obligation in respect of the

1,100 babies expected to be born in the year following the reporting date.

IG 23 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable.

IG24 **Recognition**— A provision is recognized for the amount of unpaid benefit relating to the 1,000 babies whose eligibility has been confirmed but whose payment is outstanding and for all 16,000 children who have confirmed eligibility at the reporting date.

IG25 **Measurement**—The 200 currency units payable in respect of each eligible child is expensed each month as the payments are made At year end, the government recognizes a provision of 600,000 currency units for unpaid benefit in respect of the 1,000 babies whose eligibility has been confirmed but whose payment is outstanding. The provision for accrued child benefits for all 16,000 children whose eligibility has been confirmed is based on an actuarial assessment and is discounted at a risk-free interest rate. Such an assessment will take into account variables such as mortality and outward migration.

Example 5: Unemployment Benefits

IG31 A government agency provides support through unemployment benefits to people who are unable to find paid employment. To receive an unemployment benefit, a claimant has to demonstrate that he or she meets the entitlement criteria when making a claim.

IG32 Unemployment benefit will be paid if the claimant is:

- aged over18, but under pensionable age for a basic state pension;
- available for work; and
- actively seeking work — the government agency has the discretion to terminate the benefit if an individual rejects more than 3 offers of work. This discretion has been rarely exercised in the past

IG33 Unemployment benefit is paid to eligible claimants at a two-weekly interval. Individuals have to reassert eligibility for the benefit each month by appearing at one of the agency's offices. Entitlement ceases immediately if the criteria are breached.

IG34 The benefit is 400 currency units per four weeks. The final payment occurs on the reporting date. The benefit is payable from date of approval of an application. As at reporting date, there are 100 individuals whose applications have been approved but whose payments have been delayed because they were not entered into the payment system in time for the December 31 payment. These individuals are owed, on average, one week's benefit.

Analysis

IG35 **Present obligation as a result of a past obligating event** — A present obligation exists only when an individual meets all eligibility criteria required to qualify for an unemployment benefit. The individual must continue to meet eligibility criteria on an ongoing basis.

IG36 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable.

IG37 **Recognition** — 400 currency units would be expensed every four weeks as the government credits the recipients' bank accounts. The government records a provision for any amounts due and payable at year-end to individuals who have confirmed eligibility but whose payments have not been processed.

IG38 **Measurement** — At year-end, the government would recognize a liability of 10,000 currency units (100 individuals × 100 currency units).

Example 7a: Disaster Relief – Services to be provided & clarity over details of provision

IG39 On December 10, 200X, a massive earthquake struck Country A. On December 14, 200X the national government made a public commitment to participate in a multi-national relief initiative and pledged to provide policing services, by sending 100 officers for a 2 month period, and to also provide specified medical supplies. This commitment was communicated to a major supra-national organization and a number of governments, which have also agreed to assist in the effort. The government made a similar commitment following a disaster in Country B, a neighbour of Country A, two years earlier and honored the commitment. A separate contingency fund exists for such purposes and no further budgetary authorisation is required to allow the government to access these funds. The total cost of the policing component of the commitment, including transportation, is estimated to be 10 million currency units and the cost of the medical supplies is estimated to be 5 million currency units. At the reporting date of 31 December only 3 million currency units had been spent.

Analysis

IG40 **Present obligation as a result of a past obligating event** — The public commitment, and its communication to very significant multi-national partner organizations. are obligating events giving rise to a present obligation. The experience of the honoring of a similar commitment two years previously is important evidence to support this conclusion.

IG41 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable.

IG42 **Recognition** —. A liability would be recognised for an estimate of the police services and medical supplies which have not been delivered at the reporting date

IG43 **Measurement** — At year-end, the government would recognize a liability of 12 million currency units.

Example 7b: Disaster Relief Services to be provided but uncertainty over key details of provision

IG44 On December 29, 200X, a typhoon struck Country B. On December 30, 200X the national government made a public commitment to participate in a multi-national relief initiative and pledged to provide assistance in preserving law and order and to provide food and specified medical supplies. This commitment was communicated to a major supra-national organization and a number of governments, which has also agreed to assist in the relief effort. The government made a similar commitment following a disaster in Country D, a neighbour of Country B two years earlier and honoured that commitment. A separate contingency fund exists for such purposes and no further budgetary authorisation is required to allow the government to access these funds. However, at the reporting date the exact responsibilities of each partner were still to be clarified and the cost was uncertain. Insufficient evidence has arisen in the period between the reporting date and the authorization of the statements for a reliable estimate of the cost of the commitment to be made.

Analysis

IG45 **Present obligation as a result of a past obligating event** — The public commitment, and its communication to very significant multi-national partner organizations. are obligating events giving rise to a present obligation. The experience of the honouring of a similar commitment two years previously is important evidence to support this conclusion.

IG46 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable.

IG47 **Disclosure:** The existence of a contingent liability would be disclosed together with the reasons for the uncertainty over the amount of any outflow and its timing.

Example 7c: Disaster Relief – Services to be provided but vagueness over details of provision

IG48 On December 18, 200X, a landslide occurred in Country C. On December 24, 200X the national government pledged its support for victims but did not provide a detailed plan or state the total amount pledged. The responsible minister has stated that the government will provide assistance of around several million currency units. However, there is no established policy regarding the provision of disaster relief, no approved budget and, on previous occasions, similar commitments have either not been fulfilled or have resulted in the despatch of supplies and services for considerably smaller sums than those initially announced. By the reporting date of December 31, 200X the government had not actually produced a detailed plan and the legislature had not approved resources.

Analysis

IG49 **Present obligation as a result of a past obligating event** — The minister's statement is too vague to be an obligating event and no present obligation exists.

EXAMPLE 8: LEGAL AID

IG50 A government provides legal aid to individuals whose income in the previous financial year was below a specified annual amount. Legal aid is provided by law firms with which the government has long-term contracts rather than the government's own employees. The government's legal aid program is highly detailed and well-documented and legal aid has been consistently provided in conformity with it for over 20 years. All individuals charged with a criminal offence are advised of their right to request legal aid. At the reporting date 1500 individuals had had applications for legal aid approved. Estimates of the cost of legal representation are based on a standard costing model that stratifies offences according to the nature of the offence and duration of trials. Past experience has suggested that the estimates provided by this model are robust. The estimated cost of providing legal services for the 1,500 cases is 5 million currency units.

Analysis

IG51 **Present obligation as a result of a past obligating event** — The present obligation arises when the legal services are delivered. There is no present obligation to those who have had their eligibility confirmed but have yet to receive legal services.

Basis for Conclusions

The Basis for Conclusions accompanies, but is not part of EDXXX, Accounting for the Social Policies of Government (excluding Pension Arrangements).

Introduction

BC1 This Basis for Conclusions summarises the International Public Sector Accounting Standards Board's considerations in reaching the conclusions in ED XX, *Accounting for the Social Policies of Government (excluding Pension Arrangements).* Individual Board members gave greater weight to some factors than to others. In forming their views Board members considered in depth the views expressed by the Steering Committee on Social Policy Obligations in the Invitation to Comment (ITC), *Accounting for the Social Policies of Governments* issued in January 2004 and to the views expressed by constituents who responded to the consultation on that ITC.

BC2 All governments and many public sector entities provide social benefits in non-exchange transactions. For many public sector entities expenditure on social benefits constitutes the majority of outflows of economic benefits and service potential. There are no authoritative international requirements or guidance on accounting for obligations arising from governmental social policies and different approaches have been adopted. The Public Sector Committee (PSC, the predecessor to IPSASB) approved IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* in October 2002. However, provisions and contingent liabilities arising from social benefits provided in non-exchange transactions were scoped out of that standard.

BC3 For jurisdictions currently reporting on the full accrual basis the most common practice is for resources used in the provision of most social benefits to be expensed as goods and services are delivered. Most jurisdictions currently recognize as provisions only those social benefits that are provided by cash transfer and that are legally overdue for payment. A minority of jurisdictions may also recognize the portion of periodic cash transfers that has accrued since the previous payment. Because of their significance to the financial performance of very many public sector entities the Board considers that it is essential to develop well understood, generally agreed methods of accounting for social policy obligations, supported by sound conceptual arguments.

Conceptual Underpinnings

BC4 Social benefits were scoped out of IPSAS 19 to allow further consideration to be given to the topic. Subsequently the PSC established a Steering Committee comprising both PSC members and individuals from outside the Committee. The Board accepted the Steering Committee recommendation that the conceptual approach and definitions in IPSAS 19 could be applied in determining when obligations arise from social policies in a non-exchange context. The Board also noted that this approach had received strong support from consultees to the ITC.

BC5 The Board acknowledges that the concept of a constructive obligation is difficult to apply in the public sector and noted arguments that, in relation to non-exchange transactions, only legal obligations can give rise to present obligations. However, it is of the view that constructive obligations are an essential part of the conceptual framework for determining whether liabilities exist in relation to governmental social policies. The Board therefore concluded that it should not preclude the possibility hat a constructive obligation might give rise to a present obligation in advance of a legal obligation. Therefore the Board decided that the concept of a constructive obligation should be retained as part of the conceptual framework for developing requirements for non-exchange transactions for governmental social policies. Consistent with this general approach the Board is also of the view that the notion of a contingent liability and the approach to measurement from IPSAS 19 should be adopted in this Standard.

Scope

BC6 The original intention of the Board was to include aged pensions and other benefits to citizens who have reached a specified retirement age not related to an individual’s employment as cash transfers and individual goods and services. They therefore would have been within the scope of this Standard. In substance the Board initially assumed that goods and services and cash transfers where the primary eligibility criterion is age were no different to other benefits with specified eligibility criteria and that the same principles could be applied as for other individual goods and services. Such an approach would have been consistent with both the views of the Steering Committee and the majority of respondents to the ITC.

BC7 The Board noted that in many countries the social security system provides pension benefits to all citizens or large groups of citizens, including government and other employees. That is, the one system provides basic pension benefits for no or minimal consideration as well as benefits in exchange for consideration in the form of contributions by or on behalf of members. To enable further research on the key aspects of such systems, including the extent to which they might be within the scope of existing national and international standards, pensions were excluded from the scope of this Standard. The Board intends to develop a separate Standard to deal with aged pensions and similar benefits, including pensions where the benefit payable is flat-rate or is dependent upon contributions, membership periods or linked in some way to remuneration levels as an employee. The Board is aware that in some jurisdictions aged pensions are far less significant than other individual social benefits and cash transfers. It is anticipated that focusing on social benefits other than aged pensions will make this Standard more accessible and relevant across all jurisdictions that adopt the accrual basis of financial reporting.

BC8 The Board also considered whether the scope should include all goods and services provided in non-exchange transactions on the basis that the accounting for goods and services or cash transfers in a non-exchange transaction is unlikely to be different dependent on whether they are provided as social benefits or not. However, it was decided to limit the scope to social benefits in order to ensure compatibility with IPSAS 19. In paragraph 1(a) of IPSAS 19 the scope exclusion for non-exchange transactions is limited to those arising from social benefits.

Definitions

BC9 The Board considered whether the term "social benefits" should be defined. It noted the view of the Steering Committee that what constitutes social benefits varies from jurisdiction to jurisdiction and that this makes the adoption of an exhaustive definition problematic. The Board also acknowledged the view of the Steering Committee that if items were not considered as a "social benefit" they would be dealt with under another International Public Sector Accounting Standard and that this reduces the consequences and risks of not defining the term. The Board also noted that at consultation responses were almost evenly split as to whether a definition is necessary.

BC10 The Board recognized the attraction of relying on a broad notion of social benefits. However, on balance, it was decided that the term should be defined. In reaching this conclusion the Board felt that a convincing analysis of when a present obligation in relation to social benefits arises would be difficult unless the term is defined and disaggregated. As a starting point, the Board took the definition used in the scope-out in IPSAS19. The Board agreed that any definition should be generic rather than a detailed list of which benefits fall in which category.

BC11 The Board also noted the current definition of social benefits in statistical reporting bases including the Government Finance Statistics Manual 2001 (GFSM 2001), which itself is consistent with the System of National Accounts (SNA 1993). The Board agreed with the view of the Steering Committee that, whilst this Standard should use terminology consistent with statistical reporting bases wherever possible, the definition of social benefits should be broader than that used in GFSM 2001. In this context, the Board noted that GFSM 2001 explains that "there is no universally accepted definition of the scope of social benefits and the social risks covered are liable to vary from scheme to scheme and from government to government."

BC12 The Board therefore adopted a three-part definition of social benefits as:

- Goods and services provided for collective consumption
- Goods and services provided for individual consumption
- Cash payments and transfers

In the ED the short hand terms "collective goods and services", "individual goods and services" and "cash transfers" are used.

BC13 This approach is consistent with convention and the analysis in the ITC. Each of these areas has distinguishing characteristics. which are important in analyzing when present obligations arise. The main difference between collective and individual goods and services is that the former are indivisible benefits that cannot be split between different members of society. It therefore follows that consumption of such goods and services is not dependent upon the satisfaction of eligibility criteria. Consumption of individual goods and services and entitlement to cash transfers are dependent upon the satisfaction of eligibility criteria. However, whereas for individual goods and services the transferor can stipulate the purposes to which the resources sacrificed must be applied, for cash transfers the recipient has discretion how to use those resources.

BC14 The Board acknowledged that for individual social benefits there may be cases where the economic benefits are transferred to the recipient in the form of cash. However, such cash transfers are reimbursements. In common with other methods of providing individual goods and services the recipient does not have discretion as to how the resources are to be used. The expenditure relating to such reimbursements will often require prior authorization and normally reimbursements will only be made after documented proof that the expenditure for which reimbursement is sought has been for purposes specified by the transferor. Such transactions are therefore different to cash transfers.

BC15 The Board recognized that in some cases cash transfers will be made to beneficiaries as reductions in the amount of income tax for which they are liable. If such transactions are available to individuals regardless of whether they pay taxes they fall within the definition of a cash transfer and are to be recognized as if the payment had been made directly in cash to the recipient. In such cases the tax system is used for administrative purposes. However, if allowances are only available to individuals who incur tax liabilities they are tax expenditures- preferential provisions of the tax law that provide taxpayers with concessions that are not available to others- and are not social benefits. Consistent with the approach adopted in the ED, *Non-exchange Revenue (including Taxes and Transfers) and Contributions from Owners* tax expenditures are foregone revenue; consequently they are not expenses incurred by the entity. They are therefore outside the scope of this Standard. This treatment is also consistent with the requirements on offsetting in paragraphs 54 and 55 of IPSAS1, *Presentation of Financial Statements*

Present Obligations for Social Benefits

BC16 The definition of an obligating event requires that a government has no realistic alternative to settling the obligation. The Board acknowledged that, for social benefits, governments, because of their sovereign powers, have a number of realistic alternatives to providing goods and services in future periods and have considerable discretion to reduce the level of services, introduce alternative programs which have a considerable impact on demand or even to cease to provide the service altogether. Nevertheless, financial reporting reflects the position at the reporting date based on known conditions; analysis of when a present obligation arises is within this context. For this reason the Board concluded that it is inappropriate to rely on the sovereign powers of government to justify a widespread non-recognition of liabilities for legal obligations.

BC17 The Board therefore considered when a present obligation arises in respect of each of the three types of social benefits. For collective and individual goods and services the Board considered whether a present obligation might arise before the delivery of those services. The Board acknowledged that many citizens have a very strong expectation that their government will continue to provide collective goods and services into the future. Indeed a failure to maintain a basic defense capability, a minimum law enforcement capability and a core administrative apparatus might imperil the continued existence of government and state. However, whilst these are important considerations they do not of themselves give rise to a present obligation for a number of reasons.

BC18 First the provision of collective and individual goods and services is an ongoing activity of government. Consistent with IPSAS 19 an entity would not recognize estimates of future outflows of economic benefits and service potential projected to be necessary for it to remain as a going concern in the future. A present obligation arises as a consequence of a past event; the need to incur costs in the future does not qualify as a past event. For a government to do so would be akin to a manufacturing entity recognizing estimates of employee costs and the costs of raw materials for future accounting periods. Such outflows represent the cost of future obligations rather than present obligations.

BC19 Second, there may not be a present obligation, whether legal or constructive, to provide such services in the future. A current legal obligation should not be taken to convey a future legal obligation. Similarly while constructive obligations may occur less frequently, a current constructive obligation should not be taken to convey a future constructive obligation. In many cases a legal obligation only arises at the time that services are delivered. Whilst there will be expectations that a government will continue to provide collective and individual goods and services, and citizens may have a valid expectation that such provision will occur, there is not a past event, which creates an obligation that an entity has no realistic alternative but to settle.

BC20 Third, whilst certain key points in an individual's life such as birth, entry to primary education, entry to the workforce and marriage are valuable for forecasting future demand levels for certain social benefits they do constitute obligating events. Consequently they do not give rise to present obligations.

BC21 The Board also considered whether the existence of contractual arrangements with employees and other third parties such as suppliers created an indirect and implicit commitment to citizens sufficient to give rise to a present obligation to citizens at a point when the contractual arrangements are entered into with third parties. The Board concluded that entry into such contractual arrangements was too remote to be deemed an obligating event in the context of the government's commitments to citizens.

BC22 For both collective and individual goods and services it was acknowledged that there may be limited cases where a constructive obligation gives rise to a present obligation prior to the delivery of services even though no legal obligation to deliver these services exists. This may occur when a government has communicated publicly a commitment to a third party, which creates a valid expectation, and the government cannot realistically avoid settlement. For this reason the Standard includes a rebuttable presumption that a present obligation in respect of both collective and individual goods and services does not arise prior to the delivery of the services.

BC23 The Board considered that a present obligation arises for cash transfers when an individual has satisfied all eligibility criteria, although the point at which the payment becomes legally due and enforceable may be at a point in the future. Once an individual has satisfied all eligibility criteria there is a genuine expectation that the cash transfer will be made and it is likely that a government will have no realistic alternative but to settle. In these cases, satisfaction of eligibility criteria establishes the present obligation.

BC24 Recognizing that many individual goods and services have eligibility criteria the Board gave particular consideration to the issue of whether the point at which an obligating event arises differs for individual goods and services and cash transfers. This can be distinguished from goods and services where government needs to take additional action before the benefit is conferred and an obligating event occurs. Those additional actions in the form of delivery of the services by the entity's employees or a third party create the present obligation for financial reporting purposes. The consequences for measurement are considered in paragraphs BC 25-27.

Extent of Present Obligation and Measurement-Cash Transfers

BC25 Having concluded that, for cash transfers, a present obligation arises when all key eligibility criteria have been satisfied the Board considered the extent of that present obligation and the implications for measurement. In particular the Board considered whether a present obligation might exist for economic benefits to be provided to an individual in future periods regardless of whether the individual is required to satisfy key eligibility criteria again. Whilst noting that many individuals would have a valid expectation that benefits would continue to be provided, the Board put emphasis on the fact that government can avoid a sacrifice of economic resources beyond the next validation point if individuals do not continue to satisfy key eligibility criteria. The Board concurred with the view of the Steering Committee that a present obligation only exists until the next validation point. Therefore the maximum amount of any provision shall be the best estimate of the obligation payable from the last validation point to the next validation point.

BC26 In considering what constitutes validation the Board considered whether there might be implicit as well as explicit validation. Explicit validation is where the individual has to positively assert compliance with and have validated all key threshold eligibility criteria at specified intervals in order to continue to receive the cash transfer. Implicit validation does not require the individual to revalidate all key threshold criteria. However, an individual may have to demonstrate that they are still living and resident in the jurisdiction within which the cash transfer is made, by, for example, confirming their address at specified intervals. Where a failure to confirm such details entitles the transferor to terminate the cash transfer and it can be demonstrated that the transferor has previously terminated cash transfers in the same or similar programs as result of such a provision it is reasonable to treat such implicit validation on the same basis as explicit validation.

BC27 There may be rare occasions where an individual, having satisfied key threshold eligibility criteria, is required to neither explicitly or implicitly reassert their entitlement. This might be the case where, once a child has initially asserted eligibility for a child benefit and had that eligibility validated, payment of that cash transfer is made to the bank account nominated by the parents until eligibility expires on, for example, the child's sixteenth birthday. In such case the provision would be for the full period of future benefits.

Disclosures

BC28 The Board considered whether it should require disclosures in relation to provisions for social benefits additional to those in IPSAS 1 and IPSAS 19. The Board agreed with the Steering Committee that the provision of further disclosures on the overall financial sustainability of governmental policy on social benefits is very important in enhancing the accountability of governments and their entities. However, in common with both the Steering Committee and respondents to the ITC the Board has strong reservations whether the general-purpose financial statements are the appropriate location for disclosures about the future viability of governmental programs. The Board therefore concluded that it should not mandate disclosures additional to those required by IPSAS 1 and IPSAS 19.

BC29 In determining what constitutes a class for disclosure purposes the Board sought to achieve a balance between the aim to provide information relevant to users and the risk of excessive detail. The Board therefore considered whether it would be appropriate to treat provisions and contingent liabilities arising from all social benefits as one class for disclosure purposes. However, consistent with the conclusion that present obligations for collective and individual goods and services and cash transfers arise at different points the Board concluded that, at a minimum, disclosures should differentiate provisions and contingent liabilities arising from collective and individual goods and services and those arising from cash transfers. Accounts preparers can use their discretion to make more detailed disclosures if they consider it appropriate.

Transitional Provisions

BC30 The Board considered whether transitional arrangements are necessary and, if necessary, the appropriate extent of and duration of such arrangements. In evaluating these issues it was noted that, in many jurisdictions that are already reporting on the full accrual basis many of the treatments required by the Standard will involve little or no change from current policies. This is particularly the case for collective and individual goods and services, where provisions in advance of service delivery will only be recognized in the limited circumstances where the rebuttable presumption in relation to specific events is applied.

BC31 The requirement in relation to cash transfers that liabilities be recognized for sums to which an individual has confirmed eligibility up to the next point at which eligibility has to be reasserted rather than amounts "due and payable" at the reporting date is potentially more far-reaching in its implications. Those implications may be especially significant for entities where both budgets and financial reporting are on the accrual basis and there are a number of programs giving rise to provisions. However, the Board also considered that the information needed for financial reporting purposes should be readily available from existing databases. It was therefore decided that there is no justification for introducing transitional arrangements.