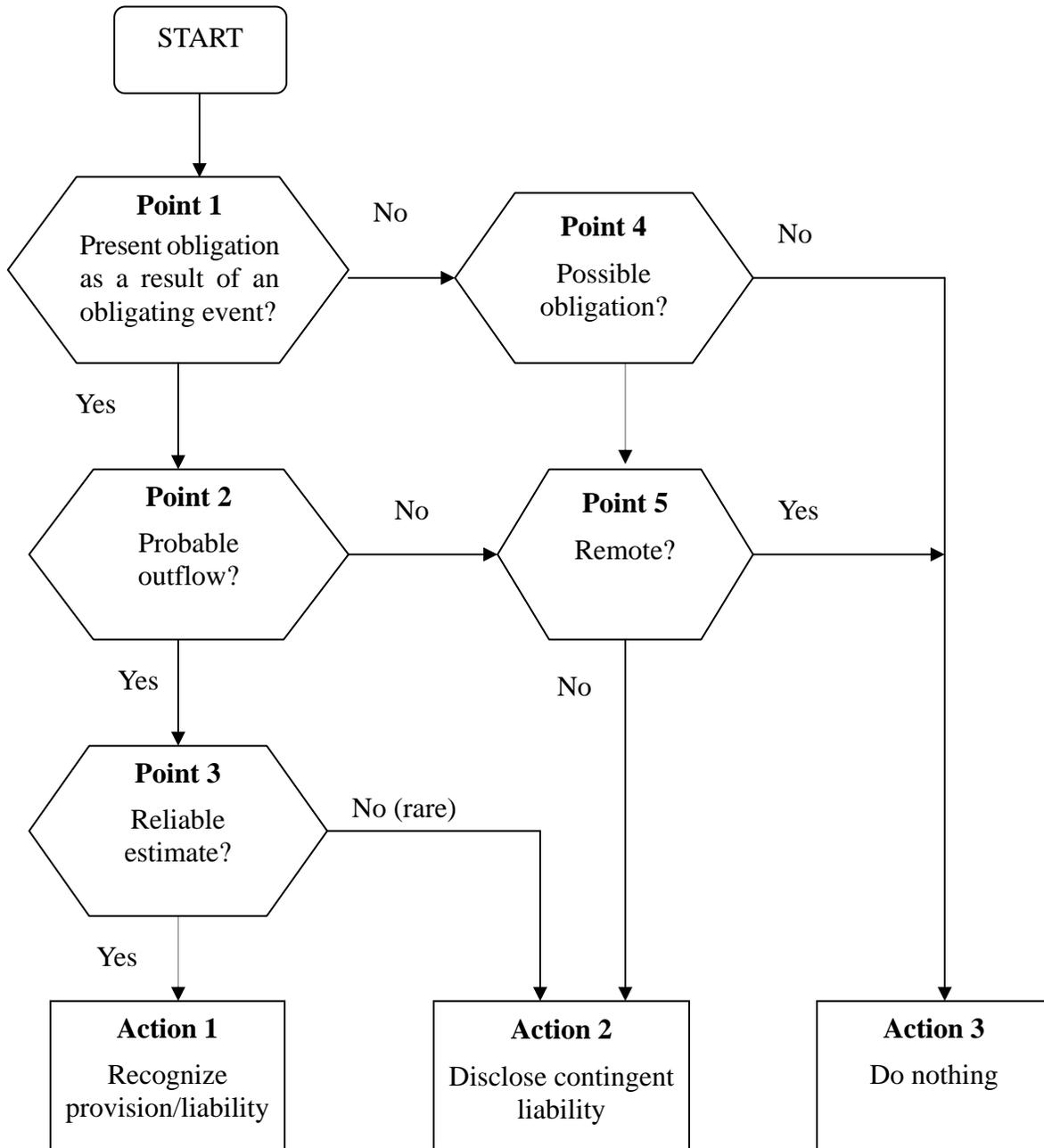


ADDITIONAL PAGE FOR AGENDA ITEM 9.2

(to be inserted after page 9.42)

DECISION TREE: ASSESSMENT OF PRESENT OBLIGATION & RECOGNITION CRITERIA

Implementation Guidance: Decision Tree: Assessment of Present Obligation & Recognition Criteria





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DATE: 8 JULY 2005
MEMO TO: MEMBERS OF THE IPSASB
FROM: PAUL SUTCLIFFE
SUBJECT: ACCOUNTING FOR SOCIAL POLICIES OF GOVERNMENT -
PENSIONS

ACTION REQUIRED

The Board is asked to:

- **Consider** the matrices on the characteristics of arrangement for the provision of age and similar pensions in member jurisdictions;
- **Consider** the extract from a potential exposure draft encompassing requirements for basic/distress pension benefits; and
- **Provide** directions to staff on the further development of the project.

AGENDA MATERIAL

| | Pages |
|--|--------------|
| 9.4 Pension Arrangements – matrices of characteristics from member jurisdictions | 9.90 – 9.94 |
| 9.5 Extract of potential ED dealing with basic/distress pension benefits | 9.95 – 9.107 |
| 9.6 Paper from Mr F Lequiller of the OECD | To be tabled |

BACKGROUND

The ITC “Accounting for Social Policies of Government” included Steering Committee recommendations on accounting for social benefits excluded from IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets” – that is, social benefits, including pensions, that are provided other than as a result of an exchange transaction. The majority view of the Steering Committee was that pensions within the scope of the ITC would give rise to a present obligation when the eligibility criteria are satisfied. The ITC noted:

“Countries such as France, Germany and Italy offer comprehensive public pension programs designed to provide retired citizens with a retirement income based on the income they earned during their working life. These pensions fall within the scope of this Chapter. Countries such as Australia, Canada, the United Kingdom and the United States rely more heavily on private pensions but also have some state pensions that would fall within the scope of this Chapter. (footnote 1, page 68).”

At previous meetings, members noted that there was a growing expectation that the IPSASB would deal explicitly with the full range of pensions, and agreed to respond to that expectation. There was particular concern that specific guidance was not being developed for “general” or “global” pension schemes/arrangements which are established and funded (at least in part) by governments to provide pension benefits for the population of any jurisdiction (or major sections thereof). These include schemes to which private sector employees and employers (and in some cases public sector employees and employers)

contribute as they earn income. They also include schemes which may be established separately from governments, but which have government “backing”, sometimes in the form of an implicit “guarantee”.

At the March 2005 meeting, members agreed:

- to progress this project (at least initially) by considering the pension component of social policy obligations separately from the other components;
- to structure consideration of the pension component to focus separately on “basic/distress” type pensions (and similar social benefits) and the “general/global” pension schemes. Members confirmed their preliminary view that basic/distress pensions would give rise to a present obligation when the eligibility criteria are satisfied. The amount of that liability would be equal to the present value of the benefit to be provided up to the point when revalidation is necessary; and
- to action a project to consider whether IAS 19 “Employee Benefits” should be applied to public sector entities as staff resources become available. Materials dealing with the applicability of IAS 19 to the public sector have not been prepared for consideration at this meeting.

The relevant extract from the minutes of the IPSASB March 2005 meeting is attached to this memorandum as Attachment 1.

MATRIX OF KEY CHARACTERISTICS OF PENSION ARRANGEMENTS

Agenda materials for the last meeting (Oslo, March 2005) included a paper which outlined key features of the pension arrangements in some member jurisdictions. Members directed staff to develop a matrix of key characteristics of “global pension schemes” in member jurisdictions for consideration at the July 2005 meeting. That matrix was also to identify whether governments in member jurisdictions provided “backing” or “guarantees” for at least some benefits of independent pension schemes. Members would then:

- consider whether/when a present obligation of the government arose in respect of these arrangements; and
- would provide staff with directions for the development of a first draft exposure draft dealing with recognition, measurement and/or disclosure of pension obligations in general purpose financial statements.

To this end, information sheets/draft matrices identifying potential arrangements in member jurisdictions were distributed to members for review in May with a request for further input. The matrices attached at item 9.4 were compiled from the input received. Given that members have indicated a preliminary view on when a present obligation arises in respect of a basic/distress pension, the matrices also attempt to draw out characteristics which distinguish the basic/distress type pension arrangements from other (general/global) arrangements.

Matrix A identifies the types of arrangements in place in member jurisdictions. It also identifies jurisdictions where obligations may arise in respect of occupational, industry or other schemes that are “backed by” the government, and for which there is an expectation that the government will ensure that members of those schemes will receive at least some of the benefits as “promised” (that is a “guarantee or quasi-guarantee” type situation that arises in some jurisdictions).

Matrix B identifies key characteristics of general/global schemes operated by governments in member jurisdictions.

Matrix C identifies key characteristics of arrangements for the provision of basic/distress type pension benefits by governments in member jurisdictions, whether through a separate scheme or under a general/global scheme.

Matrix D identifies jurisdictions in which pension benefits are also provided through additional/supplementary government contributory schemes, and the key characteristics of such schemes.

As anticipated, features do differ in each jurisdiction but some themes do emerge. For example:

- basic distress type pensions are provided in most jurisdictions that responded, whether through separate arrangements or as part of a general/global scheme;
- the amount of the benefit provided by way of a basic/distress pension is not related to the amount of contributions made. In most jurisdictions, contributions are not mandatory, including in those jurisdictions where such benefits are provided as a component of a global scheme. However, in a number of jurisdictions, the benefit is related to the period of membership;
- most pension schemes which provide distress or general benefits to citizens are defined benefit schemes and are either pay-as-you-go (PAYG) or only partially funded;
- contributions are mandatory in those jurisdictions which operate the general/global type arrangements and the amount of benefits provided (other than the basic/distress benefits) are related to the contributions made and/or the period of benefits; and
- additional pension schemes for government employees (or schemes which encompass government employees) are in place in most jurisdictions – these schemes are generally defined benefit schemes, contributory with the amount of benefits related to contributions made, and may be fully or partially funded.

The characteristics identified have been limited to those perceived as major defining features. Arrangements in each jurisdiction are likely to have many additional features and may not fit perfectly into the various categories identified. The matrices focus on the characteristics that are anticipated to drive and shape the development of financial reporting requirements. At this meeting, as members focus on key issues in financial reporting, there will be the opportunity to draw out additional defining features.

ISSUES AND APPROACH

At the November 2004 meeting, members noted the majority of respondents supported the SC view that the definition and recognition criteria in IPSAS 19 “Provisions Contingent Liabilities and Contingent Assets” should be applied in accounting for the social policies of governments. At that meeting, members agreed that these principles should initially be applied in developing the first draft of EDs on this project. This is the approach that has been applied in developing an ED on the non-pension component of this project (included at Agenda item 9.2). It is also the starting point for consideration of issues in this memorandum.

Key definitions and the recognition criteria from IPSAS 19 are attached to this memorandum as Attachment 2. A summary of the major features of those definitions and recognition criteria are identified below.

FIGURE 2 – FROM ITC CHAPTER 4

| Legal Obligation | Constructive Obligation |
|---|--|
| The past (obligating) event has occurred (<i>from definitions of a liability and an obligating event</i>). | The past (obligating) event has occurred (<i>from definitions of a liability and an obligating event</i>). |
| A legal obligation is derived from a contract, legislation or other operation of law (<i>from definitions of an obligating event and a legal obligation</i>). | A constructive obligation arises when a government, by an established pattern of past practice, published policies or sufficiently specific current statement has indicated acceptance of responsibility and created a valid expectation that it will discharge those responsibilities (<i>from definitions of an obligating event and a constructive obligation</i>). |
| There is no realistic alternative to settling the obligation (<i>from definition of an obligating event</i>). | There is no realistic alternative to settling the obligation (<i>from definition of an obligating event</i>). |
| A present obligation must exist (<i>from definition of a liability</i>). | A present obligation must exist (<i>from definition of a liability</i>). |
| Settlement of the obligation is expected to result in an outflow of resources embodying economic benefits or service potential (<i>from definition of a liability</i>). | Settlement of the obligation is expected to result in an outflow of resources embodying economic benefits or service potential (<i>from definition of a liability</i>). |
| The expected outflow must be probable and measurable (<i>from recognition criteria</i>). | The expected outflow must be probable and measurable (<i>from recognition criteria</i>). |

As the IPSASB moves forward on the pensions component of this project, it will be useful to test the arrangements in member jurisdictions against the definition of, and recognition criteria for, a liability/provision and draw out the implications of adoption of the IPSAS 19 approach in those jurisdictions. It will also be useful to revisit the recommendations of the Steering Committee on disclosure issues. Members will recall that at the Delhi meeting the IPSASB reviewed the submissions made on the ITC, but did not consider disclosure issues in great detail.

Basic/Distress Pensions

Agenda item 9.5 provides an extract of a first draft of an exposure draft reflecting the Board's initial views on basic/distress pensions. It is not proposed to subject 9.5 to detailed review at this meeting. At this stage we are attempting to assemble the components of a possible pensions ED. However, members are requested to confirm that in broad terms, this reflects their previous decision about the approach to be adopted in respect of basic pensions.

It is proposed that a detailed review of the requirements relating to distress/general pensions (Agenda item 9.5) will take place when a first draft of an ED dealing with the general/global

pension schemes is developed. However, as members develop views on accounting for general/global pensions, it may be appropriate to revisit where the basic/distress pension component best sits. Staff are of the view that there may be a case for inclusion of requirements for accounting for basic/distress pensions in the ED developed as Agenda item 9.2 (with appropriate change of name of the ED, and updating of objectives and scope paragraphs). This is because that ED (at Agenda item 9.2) proposes that a present obligation for cash transfers to individuals arises when applicable eligibility criteria have been satisfied, and this reflects the initial view of the IPSASB in respect of basic/distress type pensions. Whether or not this is appropriate will become clearer when the IPSASB provides directions for the development of an ED dealing with general/global type pension arrangements.

In reviewing the broad approach proposed in respect of basic/distress pensions at Agenda item 9.5, responses to Matrix C indicate that the following could usefully be revisited at the meeting:

- the relationship between satisfaction of initial eligibility criteria, the amount of the liability and the need for revalidation. Matrix C indicates that in some jurisdictions, the basic/distress benefit is available for the individual's remaining life once eligibility is established. In these circumstances, it is appropriate to confirm the role that "staying alive" plays in the revalidation of eligibility and satisfaction of the recognition criteria; and
- the relationship between contributions and entitlement to a pension benefit. Matrix C indicates that in some jurisdictions contributions to the basic pension scheme are mandatory. In these circumstances, it is appropriate to confirm, or otherwise, that satisfaction of the eligibility criteria is the defining event in creating a present obligation, rather than the payment of contributions.

Global Pensions which include contributions by/on behalf of members/citizens

The key issues to address in considering the implications of IPSAS 19 for financial reporting for global schemes, are not dissimilar from those dealt with in respect of the separate basic/distress type pensions schemes.

Those issues being:

1. Does a present obligation of the government (or a government controlled entity) to provide pension benefits arise prior to payment of the benefit entitlements?
2. If yes to question 1, what is the event that creates the present obligation. Is it possible to identify it? When does it occur? Is it different from that proposed in respect of the basic/distress pension arrangements?
3. Is it probable that there will be an outflow of resources to settle that present obligation in the future?
4. If yes to question 3, can the amount of the outflow that will occur in future to settle that present obligation be reliably measured as at reporting date?
5. Are assets currently set aside to meet that outflow? If yes, can those assets be offset against the liability. Matrix B indicates that in most jurisdictions the schemes are PAYG schemes.

In dealing with such pension arrangements it will be particularly important to explore the relationship that might exist in each jurisdiction between:

- contributions made by, or on behalf of, citizens and the creation of a present obligation as defined by IPSAS 19; and

- qualifying for membership (and period of membership) and the creation of a present obligation as defined by IPSAS 19.

The minority view of Steering Committee members was that a present obligation arose before satisfaction of eligibility criteria. While the majority of respondents supported the Steering Committee majority view, some respondents noted that the minority view was the more conceptually sound position. Respondents to the ITC, including some who supported application of IPSAS 19 principles, noted that:

- further guidance should be provided on the conditions that must be present for a constructive obligation to arise in the public sector (from non-exchange transactions); and
- there was a potential imbalance between recognizing constructive obligations but not recognizing the future tax revenues that will be used to fund such obligations.

Extracts from the staff papers presented at the Delhi meeting (November 2004) which summarize submissions on the pension components of the ITC, including the disclosure issues, and staff views thereon are included as Attachments 3 and 4 to this memorandum.

As noted at previous meetings IAS 19 “Employee Benefits” does not fit with the specification of general/global government pension schemes. However, if the relationship between contributions made by, or on behalf of, citizens and an entitlement to future pension benefits is in the nature of an exchange relationship, the financial reporting techniques and consequences may be closer to those in IAS 19 than those proposed by the ITC.

As the Board explores circumstances in which a present obligation may arise for pension benefit entitlements, it will be necessary to acknowledge that because of the sovereign power of governments to establish and change legislation, there may always be a realistic alternative to sacrificing resources in settlement of a constructive obligation. This point was made by some respondents to the ITC. As noted in staff papers presented at the Delhi meeting, staff are of the view that the financial statements should reflect present obligations that arise in respect of the conditions that existed during, and as at the end of, that reporting period. The consequence of this approach is that the focus should be on what constitutes the obligating event under existing conditions and the existing legislative framework.

Additional/Separate Schemes

Matrix A indicates that in many jurisdictions additional/separate schemes are established to provide additional/supplementary pension benefits. Matrix D identifies key characteristics of these schemes. Where such schemes are in place, it will be necessary to consider whether the government controls those schemes and therefore should include in consolidated whole of government financial statements the assets and liabilities of that scheme. In the absence of government control over any separate schemes, it will be necessary to consider whether government “backing” or “guarantee” of such schemes creates a present obligation, whether legal or constructive, to transfer resources to that scheme where assets are not sufficient to meet the promised benefits. If a present obligation does arise, it will be necessary to consider whether it satisfies recognition criteria - that is, whether:

- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Arrangements for discussion at the meeting

It is anticipated that at the meeting Mr William Reimert, a consulting actuary will make a presentation on some of the major issues and concepts which the Board will need to be deal with as it develops requirements relating to pension obligations arising from pension schemes. Mr Reimert has had extensive experience in government pension arrangements in the USA. He has provided input to GASB on their pension accounting projects. It is anticipated he will also be able to provide us with some insights on the extent to which it is possible to separate basic/distress pension benefits from the other benefits and therefore whether they can be treated differently.

Mr François Lequiller, Head, National Accounts at the OECD has also agreed to provide us with a paper on which will outline potential developments for pension accounting in the national accounts. Mr Lequiller's paper will be forwarded when available.

ATTACHMENT 1

Extract from Draft Minutes of IPSASB Meeting March 2005

9. SOCIAL POLICY OBLIGATIONS

The IPSASB received and noted a memorandum from the Technical Director and a paper which outlined pension arrangements in a number of countries and identified staff views on how the project should be structured for future development.

Members reviewed the agenda materials and agreed the project should be split into the following broad components for its further development:

- Social benefits other than pensions (and similar social benefits) – an ED on this component is to be developed for consideration at the July 2005 IPSASB meeting. That ED is to reflect decisions made by the IPSASB at its November 2004 meeting;
- Basic distress type pensions (and similar social benefits). Members confirmed their preliminary view that these pensions would give rise to a liability in circumstances consistent with the majority view of the Steering Committee who developed the ITC; and
- “Global” pensions which required some contribution by or on behalf of pension plan members, and which provide benefits which are related to the amount of contributions made. It was agreed that a matrix identifying key components of such pensions in each jurisdiction should be developed for consideration at the next meeting. The matrix is to be developed by staff with input from members, and a final draft is to be circulated to members out of session for review. Members also agreed that the matrix should identify whether governments in member jurisdictions guaranteed the benefits of private sector or other non-government pension schemes.

Members noted that the separation and grouping of pension components would need to be reviewed on an ongoing basis.

Members also agreed that pensions provided as consideration for employee services should be included within its work program. Members noted that for private sector enterprises and GBE’s subject to IFRSs, pensions provided as a consequence of employment are dealt with in IAS 19 “Employee Benefits”, and the development of this project will consider the applicability of IAS 19 to public sector employee benefits. It was agreed that subject to resource availability, this project will be developed in parallel with the social security pensions components (which is the primary priority) noted above.

Action Required:

Develop for consideration at the July meeting: a first draft ED on social benefits other than pensions and similar benefit and a matrix of characteristics of global type pensions. The matrix is to be circulated to members for input and comment. Subject to resource availability a brief document outlining key issues on the applicability of IAS 19 to public sector entities may also be prepared.

Person(s) Responsible:

Members, staff.

ATTACHMENT 2

IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets”

Definition and Recognition Criteria

18. ...

A constructive obligation 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 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.

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.

A provision is a liability of uncertain timing or amount.

...

22. A provision should 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.*

If these conditions are not met, no provision should be recognized.

Present Obligation

23. *In some cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.*

(Attachment 2 Continued- Extract IPSAS 19)

Past Event

25. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:
 - (a) where the settlement of the obligation can be enforced by law; or
 - (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.
26. Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future. The only liabilities recognized in an entity's statement of financial position are those that exist at the reporting date.
27. It is only those obligations arising from past events existing independently of an entity's future actions (that is, the future conduct of its activities) that are recognized as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on a public sector entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that public sector entity. Similarly, a public sector entity would recognize a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station to the extent that the public sector entity is obliged to rectify damage already caused (International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment*, deals with items, including dismantling and site restoring costs, that are included in the cost of an asset). In contrast, because of legal requirements, pressure from constituents, or a desire to demonstrate community leadership, an entity may intend or need to carry out expenditure to operate in a particular way in the future. An example would be where a public sector entity decides to fit emission controls on certain of its vehicles or a government laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions - for example, by changing their method of operation, they have no present obligation for that future expenditure and no provision is recognized.
28. An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed — indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a decision by an 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 sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.
29. An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused by a government agency there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the controlling government or the individual agency publicly accepts responsibility for rectification in a way that creates a constructive obligation.
30. Where details of a proposed new law have yet to be finalized, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. However, differences in circumstances surrounding enactment often make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases, it is not possible to judge whether a proposed new law is virtually certain to be enacted as drafted and any decision about the existence of an obligation should await the enactment of the proposed law.

ATTACHMENT 3

Extract: Staff Memorandum presented at Delhi Meeting – November 2004

Summary of Responses to issues identified in ITC “Accounting for Social Policies of Governments”

Issue (i) Old age pension obligations (see ITC Chapter 8)

Steering Committee members did not have a unanimous view on this issue. The views of the Steering Committee regarding the identification of present obligations for old age pension benefits to be provided in future periods are outlined below:

- *The Majority View: Option 1 (satisfy all eligibility criteria)*
- *The Minority View: Option 3 (key participatory events: workforce entry)*

Option 2: satisfy threshold eligibility criteria was not supported by Steering Committee members.

The majority of respondents (26) supported the Steering Committee Majority View (Option 1) on grounds of principle, and in some cases pragmatism. Some respondents noted Option 3 was the more conceptually sound position but that Option 1 was supported on pragmatic grounds, particularly since it would be difficult to specify the “point” at which a liability is recognized under Option 3. There was also an acknowledgement of the merits of the other options amongst some who supported Option 1 and, in some cases, a sense that Option 1 may not reflect all the liabilities of a government.

Some respondents noted support for Option 1 was conditional on the disclosure of information on future pension obligations in the financial statements, including disclosures about projected pensions and similar old-age benefits. However, a substantial minority did not support requiring more disclosures about future pension obligations, than about obligations for other cash transfers, particularly within audited financial statements. Some also noted that the significance of pensions and other benefits differs between jurisdictions and such a requirement was unnecessary at the international level.

Some who supported Option 1 were influenced by the governments’ ability to avoid making payment by changing legislation. Others expressed the view that the government’s ability to avoid making a payment is not, by itself, an adequate criterion to distinguish between a liability and a commitment for future payments.

Five respondents supported Option 3. Broadly they are of the view that “no realistic alternative but to settle” an obligation to provide a social benefit may exist at a time prior to the initial satisfaction of the eligibility criteria, and may extend for a time beyond the period when a re-validation of the criteria is necessary.

Seven respondents expressed support for an approach other than the Steering Committee majority or minority view. These included support for recognition on a “due and payables” or legal obligation basis, disclosure rather than recognition, specification of pensionable age

(Attachment 3 Continued- Extract: Staff Memorandum presented at Delhi Meeting)

as the obligating event (this approximates Steering Committee Option 2) and support for the Steering Committee minority view but without specification of a “bright time” for determining when a present obligation arises.

Staff View

Staff support the Steering Committee majority view. This reflects the application of a consistent approach across all social benefits, and is appealing on those grounds.

In some jurisdictions the expectation of, and reliance on, aged pension may be high amongst constituents. However, it is not clear that this is different from expectations of, or reliance on, other benefits that may be provided - such as free or subsidized health or education benefits and discretionary cash advances.

Staff share the views implicit in a number of responses that while the Steering Committee majority view provides a basis for identifying liabilities that will satisfy recognition criteria, it will not capture all obligations of a government in respect of social benefits. Therefore, application of the Steering Committee majority view should be supported by additional disclosures where pension obligations are significant.

Issue (j) Should disclosure requirements in IPSAS 1 *Presentation of Financial Statements* and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* apply (Chapter 9)

The majority of respondents (29) agree with the Steering Committee View in Chapter 9 that the disclosure requirements in IPSAS 1, “Presentation of Financial Statements” and IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” should apply in respect of social benefits and that additional detailed disclosures of individual social benefits should not generally be required.

A substantial minority (6) were of the view that additional disclosures were necessary. Conversely, one respondent was of the view that less disclosure than that required by IPSAS 19 was appropriate.

Staff View

Staff support the Steering Committee view.

Issue (k) Should the PSC explore the possibility of requiring disclosures about the overall sustainability of a government’s social benefits including the assumption that higher level disclosures are more likely to meet users’ needs? (Chapter 9)

The Steering Committee proposed that the PSC should explore the possibility of requiring disclosures about the overall sustainability of a government’s social benefits. To respond to concerns about potential information overload, the Steering Committee proposed that such disclosures should encompass all social benefits in aggregate rather than focus on individual benefits, unless the future obligations associated with a specific individual benefit are much greater than those associated with all other benefits.

(Attachment 3 Continued- Extract: Staff Memorandum presented at Delhi Meeting)

The majority of respondents (37) agreed with the Steering Committee View, including the view that higher level aggregate disclosures are more likely to meet users' needs. Two respondents were opposed to this proposition, because such disclosures did not belong within financial statements.

A number of those that supported the Steering Committee view also noted that the financial statements may not be the most appropriate location for such disclosures. The concerns about the location of disclosures were based on:

- the difficulty of providing an audit opinion on such disclosures (due to estimations and reliance on political assertions);
- information overload within the financial statements; and
- unnecessary duplication of detailed disclosures.

Some respondents proposed cross referencing within the financial statements to other more detailed disclosure documents and some proposed including such additional disclosures in an operating and financial review commentary accompanying the financial statements. In this context, potential links between this project and the IASB Management Commentary project were noted. Potential links to the PSC Budget Reporting project were also noted. Other respondents advocated the preparation of separate "inter-generational" reports as part of budget or planning documents which would be made publicly available.

Many respondents provided differing views on the nature and level of details of such disclosure including:

- limiting disclosures to indicating if the government has made any public comment on the sustainability or proposed significant changes to the composition of its social benefits program and, if so, disclose details of how those statements and reports can be accessed.
- noting when sustainability information was developed.
- separate disclosure of certain major programs such as public health, pensions, and education should likely merit separate disclosure with other benefits in aggregate

Staff View

Staff agree with the Steering Committee view that the PSC could usefully explore the issue of encouraging/requiring sustainability disclosures. It would provide the opportunity for co-ordination with other IFAC Committees and to draw on work undertaken, and being developed, by other standards setters and authoritative bodies. It does of course raise the issue of the PSC mandate and the "authority" of guidance the PSC might provide for reporting outside general purpose financial statements.

This would be a major project in its own right. Actioning of such a project should be made in the context of the broader work program discussion.

Other Matters

Specific matters for comment (1) in the ITC also sought views on audit issues that might arise if "sustainability disclosures" were included in the financial statements.

(Attachment 3 Continued - Extract: Staff Memorandum presented at Delhi Meeting)

There was considerable concern about the auditability of sustainability disclosures. In short, the issues were:

- Scope of audit/audit mandate and the nature of audit skills to effectively audit such disclosures.
- Nature of audit assurance to be provided.
- Whether benefits of auditing sustainability disclosures would justify the cost.
- The inherent subjectivity and complexity of the underlying assumptions and the sensitivity of resulting projections to small changes in these assumptions
- Political issues and the consequential potential for limited access to critical data. A respondent also noted that the consequence of auditing such disclosures could be that auditors comment on government policy and this is not appropriate.

Respondents also noted that additional guidance on audit procedures and the nature of assurance would need to be provided by the IAASB. One respondent noted that the pending review of ISA 3400 “The Examination of Prospective Financial Information” may provide the opportunity to deal with some matters related to this issue.

Respondents also noted that:

- certain examples in the appendix need to be tested against the Steering Committee views and in some cases need to be reinforced with additional explanation of the rationale for the conclusions reached about the existence or not of a present obligation; and
- the exposure draft should canvas the need for transitional requirements;
- the exposure draft should incorporate any relevant updating of IASs/IFRSs through its improvements project, and seek input on whether a separate IPSAS was necessary or IPSAS 19 should be updated to deal with obligations for some benefits.

ATTACHMENT 4**Extract from materials presented at Delhi meeting November 2004****Summary of submissions received – specific matters for comment**
ITC Accounting for Social Policies of Governments

Note: Comments identified in this analysis are drawn from the submissions. They attempt to capture the relevant points made in individual submission, particularly if the point is reflective of a theme that seems to be emerging or raises a new perspective on the issue. In some cases, similar points may have been made in a number of submissions, and are not repeated – as such, a comment is not included for each submission.

| |
|---|
| Staff Update: This summary has been updated for additional submissions. |
|---|

| Submissions Received | Country |
|--|--------------------------|
| <i>Professional Accounting Bodies and National Standard Setters</i> | |
| 1 Australian Accounting Standards Board (AASB) | Australia |
| 2 CPA Australia | Australia |
| 3 Chamber of Auditors | Azerbaijan Republic |
| 4 Certified General Accountants of Canada (CGA Canada) | Canada |
| 6 Government Accounting Standards Advisory Board (Director, Secretariat) (SR Burman) | India |
| 6A Government Accounting Standards Advisory Board (Deputy Director) (GASAB) | India |
| 7 Japanese Institute of Certified Public Accountants (JICPA) | Japan |
| 8 Institute of Chartered Accountants of New Zealand (ICANZ) | New Zealand |
| 9 Den Norske Revisorforening (The Norwegian Institute of Public Accountants) (DNR) | Norway |
| 10 Accounting Standards Board (ASB SA) | South Africa |
| 11 South African Institute of Chartered Accountants (SAICA) | South Africa |
| 12 Federation of Accountants (FAR) | Sweden |
| 13 Accounting Standards Board (ASB UK) | United Kingdom |
| 15 Chartered Institute for Public Finance and Accountancy (CIPFA) | United Kingdom |
| 16 Institute of Chartered Accountants in England and Wales (ICAEW) | United Kingdom |
| 17 Institute of Chartered Accountants in Scotland (ICAS) | United Kingdom |
| 18 Association of Government Accountants (AGA) | United States of America |
| <i>Government Organizations</i> | |
| 19 Heads of Treasury Accounting Research Advisory Committee (HoTARAC) | Australia |
| 20 Comptroller General of British Columbia (CGBC) | Canada |
| 21A Ministry of Community Safety and Correctional Services, Ontario (CSCS Ontario) | Canada |
| 22 Treasury Board of Canada (TBS Canada) | Canada |
| 23 Ministry of Finances, Province of Québec (Québec Finance) | Canada |
| 26 Ministère de l'Économie, des Finances et de l'Industrie (France Finance) | France |
| 28 Accountant General (AG Malaysia) | Malaysia |
| 29 New Zealand Treasury (NZ Treasury) | New Zealand |
| 30 Comptrollership General of Peru (CG Peru) | Peru |
| 31 Financial Management Authority (FMA) | Sweden |
| 32 Federal Office of Finance and the Conference of Cantonal Ministers of Finance (Swiss Responses) | Switzerland |
| 33 Controller General, Ministry of Finance (CG Thailand) | Thailand |
| 34 HM Treasury | United Kingdom |
| 35 Financial Reporting Advisory Board to HM Treasury (FRAB) | United Kingdom |

Item 9.3 *Memo from Paul Sutcliffe*
IPSASB New York July 2005

| Submissions Received | Country |
|---|----------------|
| <i>Audit Institutions</i> | |
| 36 Australasian Council of Auditors-General (New South Wales, Queensland and Western Australia members) (AGs Australia) | Australia |
| 40 Auditor General (AG Canada) | Canada |
| 43 Auditor-General (AG NZ) | New Zealand |
| 44 State Audit Bureau (Audit Qatar) | Qatar |
| 45 Auditor-General South Africa (AG SA) | South Africa |
| 46 National Audit Office (NAO) | United Kingdom |
| 48 Audit Commission (AC UK) | United Kingdom |
| 48A Auditor General of Québec (AG Québec) | Canada |
| <i>International and Regional Organizations</i> | |
| 49 Fédération des Experts Comptables Européens (FEE) | Europe |
| <i>Other Individuals and Organizations</i> | |
| 54 Song Qichao | China (P.R.) |
| 55 Jean-Bernard Mattret | France |
| 56 International Centre for Public Sector Accounting (ICPSA) | Indonesia |
| 5 Institut der Wirtschaftsprüfer (IDW) | Germany |
| 50 International Organization of Supreme Audit Institutions (INTOSAI) | International |
| 57 Mohamed Osman Meoani \ Co, | Sudan |
| 58 Confidential | |
| <i>Additional Submissions</i> | |
| 59 ACCA | United Kingdom |
| 60 OEC/CNCC | France |

(Attachment 4 Continued – Extract Summary of Responses to issues in ITC)

SPECIFIC MATTERS FOR COMMENT

- (i) Do you agree with the majority view of the Steering Committee regarding old age pension obligations, the minority view or do you have another view (see Chapter 8)?
- (i) If you agree with the majority view of the Steering Committee, are you of the view that additional disclosures about future obligations to provide pensions should be provided?
- (ii) If you agree with the minority view of the Steering Committee, please confirm or outline the conditions you believe need to be present to support the existence of an obligating event.
- (iii) If you have a different view of the circumstances, under which a provision for old age pensions should be recognized as a liability, please outline that view.

SUMMARY OF OVERALL VIEWS (i) Old Age Pensions

| | | |
|--|----|-----------|
| Agree with SC Majority View (Option 1) | | 28 |
| Additional disclosures: Yes | A1 | 14 |
| Additional disclosures: No | A2 | 8 |
| No clear view on disclosures | A3 | 6 |
| Agree with SC Minority View (Option 3) | B | 5 |
| Different View | C | 7 |
| No Clear View | D | 3 |
| No response | E | 5 |
| Respondent 48A | | 1 |
| Total (includes 2 additional responses) | | 49 |

| | Respondent | View | Summary (i) |
|---|---------------------|-------------|--|
| 1 | AASB | C | Respondent proposes applying Option 3 to all social benefits to individuals – but considers that it is not appropriate to specify the key participatory event in a standard (ie no “bright lines”). Respondent considers that no realistic alternative is likely to satisfy in the case of benefits that form a major portion of an individual’s income. Respondent noted subjectivity required to implement Option 3 but that this should not deter PSC from considering this approach. If PSC rejects Option 3, respondent would support Option 1. |
| 2 | CPA Australia | A1 | Option 1 – supported for old age pensions. Respondent supports additional disclosures about potential future obligations (possibly in financial statements). |
| 3 | Chamber of Auditors | E | |
| 4 | CGA Canada | B | In general respondent supports the minority view and gives examples of determining the obligating event for the Canadian Old Age pension. PSC should consider the impact of international reciprocal agreements on pension obligations. Respondent notes that regular statements to contributors constitute a basis for recognition of a liability. |
| 5 | IDW | B | Respondent supports minority view and measurement approach A (benefit rights are considered to accrue over a period of time). Respondent notes that regular statements to contributors constitutes a basis for recognition of a liability |
| 6 | SR Burman | C | Respondent had a different view. Respondent supported note disclosure rather than recognition of actual liability in financial statements. Respondent also supported measurement approach B (the obligation is measured as the present value of total estimated future cash flows to |

| | Respondent | View | Summary (i) |
|-----|-------------------|-------------|--|
| | | | individuals who are currently at, or older than, workforce entry age) and participation in the work force as the obligating event. |
| 6A | GASAB | A1 | Agrees with the majority view. Supports additional disclosures. |
| 7 | JICPA | A3 | |
| 8 | ICANZ | A1 | Agrees with the majority view. ED should require comprehensive sustainability disclosures for all social policy obligations. |
| 9 | DNR | C | Supports Option 3 but pensionable age rather than workforce entry. No clear view expressed in relation to the obligating event. |
| 10 | ASB SA | A1 | Agrees with majority view. Re: respondent not supporting minority view – individuals may have a realistic expectation of receiving benefit but the government may still have realistic alternatives. Respondent supports additional disclosures re key assumptions concerning future obligations as per IAS 1 (improved) |
| 11 | SAICA | A1 | Agree with majority view – in line with IPSAS 19. Minority of members support recognition of all future benefits from meeting all eligibility criteria. Supports additional disclosures key assumptions etc as per IAS 1 (improved). |
| 12 | FAR | C | Supports Option 3, but supports “pensionable age” rather than workforce entry. Obligating event – No clear view expressed |
| 13 | ASB UK | A3 | Respondent supports consistent approach to all social benefits. |
| 15 | CIPFA | A1 | On balance, CIPFA supports the majority Steering Committee View on practical grounds. Respondent supports disclosure where old-age pension obligations are material. |
| 16 | ICAEW | A3 | Support Option 1 but with reservations about old age pensions. |
| 17 | ICAS | A2 | Additional disclosure should be limited to that provided for other cash transfers. |
| 18 | AGA | A3 | |
| 19 | HoTARAC | A2 | A majority of HoTARAC members support the “due and payable” approach to all categories of social benefits. Support additional disclosure of a Government’s intention to continue to provide benefits |
| 20 | CGBC | C | Respondent has another view. Respondent supports a more limited version of option 1. Respondent does not believe that an expense should be recognized in respect of liability. Respondent does not support disclosure in general purpose financial statements – other documents more appropriate. Disclosures should include future tax revenues. |
| 21A | CSCS Ontario | B | Agree with minority view. Obligating event: <ul style="list-style-type: none"> ▪ Workforce entry; or ▪ Graduated recognition of the liability as the number of years in the workforce increases. If majority view is adopted in an ED, additional disclosures must be required. |
| 22 | TBS Canada | A2 | Support voluntary disclosure (non-audited). |
| 23 | Québec Finance | A1 | Respondent also suggested that it may be useful entities provide information on probable future costs of programs arising from social policies |
| 26 | France Finance | A3 | Majority view (Option 1) supported as “best compromise” between principles and comparability. |

| | Respondent | View | Summary (i) |
|-----|----------------|------|--|
| | | | Respondent noted application of Option 1 and 2 can give the same result in some circumstances. |
| 28 | AG Malaysia | A1 | |
| 29 | NZ Treasury | A1 | Respondent: <ul style="list-style-type: none"> ▪ agrees with the majority view of the Steering Committee (assuming that liability accrued as conditions are satisfied and time passes); ▪ supports flexible disclosure requirements (see also response to (k)); ▪ provides background on a NZ pension scheme; ▪ provides extensive discussion of pros and cons of recognizing a liability in the accounts (Treasury believes the arguments against recognizing the liability hold more weight partly because of the equivalent certainty between the ability to collect tax and the obligation to pay pensions); and ▪ considers that financial statements should be prepared on the basis of existing legislation. |
| 30 | Peru CG | E | |
| 31 | FMA | A2 | Does not support additional disclosure. |
| 32 | Swiss Response | A1 | Option 1 – supported. Respondent notes that Switzerland has two types of old age pensions, one of which is solely redistributive. |
| 33 | Thailand CG | C | No clear view – some support for pensionable age. |
| 34 | HM Treasury | A3 | Option 1 – supported by majority. Some favor Option 3 workforce entry. |
| 35 | FRAB | E | |
| 36 | AGs Australia | B | Option 3 – supported. Support participation in workforce as recognition point. Support measurement approach A. |
| 40 | AG Canada | C | Note the issue had sparked much debate – request more discussion of principles for recognition of old age pensions as a liability. Support additional disclosures. |
| 43 | AG NZ | A1 | Users require information on sustainability of a government’s social policies. |
| 44 | Audit Qatar | A1 | |
| 45 | AG SA | E | |
| 46 | NAO UK | D | Option 1 – acknowledge practical advantages. Some support for key participatory events: workforce entry. Note that in some jurisdictions there will be a link between contributions and eligibility. Support additional disclosures where material. |
| 48 | AC UK | D | Respondent acknowledges merit of argument that there may be a constructive obligation for old age pensions. Respondent considers that additional disclosure/sustainability reporting is a more pragmatic response. |
| 48A | AG Québec | | |
| 49 | FEE | A2 | Majority support Option 1 with <u>no</u> additional disclosures because pensions are not material in all jurisdictions. Minority support Option 3 Pensionable age |
| 50 | INTOSAI | D | Mixed views expressed by members. Some members support considering a broad range of additional disclosures, including public sector specific statements. |
| 54 | Song Qichao | B | Support the view of the minority because as soon as a person enters into the workforce and participate in the old age pension plans, the obligation of the government occurs. |
| 55 | JB Mattret | A2 | |

| | Respondent | View | Summary (i) |
|----|----------------------|-------------|--|
| 56 | ICPSA | E | |
| 57 | Mohamed Osman Meoani | A2 | |
| 58 | Confidential | A2 | Option 1 – supported. |
| 59 | ACCA | A1 | Additional disclosures should not form part of the financial statements and they should include possible alternative levels of service provision, taxation and government debt. |
| 60 | OEC/CNCC | A1 | Additional disclosures may be categorized as: <ul style="list-style-type: none"> ▪ social assistance (no contribution from the beneficiaries); ▪ social security (with imposed contributions, and controlled by public units); and ▪ unfunded pension plans for government employees. |

(Attachment 4 Continued – Extract Summary of Responses to issues in ITC)

- (j) **Do you agree with the Steering Committee View in Chapter 9 that the disclosure requirements in IPSAS 1 Presentation of Financial Statements and IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets should apply in respect of social benefits and that additional detailed disclosures of individual social benefits should not generally be required?**

SUMMARY (j)

| | | |
|--|---|-----------|
| Agree with SC – no additional detailed disclosures required | A | 30 |
| Disagree with SC – support additional/different detailed disclosures | B | 7 |
| No Clear View | C | 3 |
| No response | D | 8 |
| Respondent 48A | | 1 |
| Total (includes 2 additional responses) | | 49 |

A number of View A respondents also commented on the need to provide information on sustainability.

| | Respondent | View | Summary (j) |
|-----|---------------------|-------------|--|
| 1 | AASB | A | Disclose each material class of social benefit. Under option 1, disclose contingent liabilities for possible future benefits. |
| 2 | CPA Australia | A | Disclose each material class of social benefit. |
| 3 | Chamber of Auditors | D | |
| 4 | CGA Canada | A | Disclose each material class of social benefit, eg health care. |
| 5 | IDW | B | Respondent also supports additional detailed disclosure of social benefits. |
| 6 | SR Burman | A | Respondent notes sustainability disclosures may be required. |
| 6A | GASAB | B | Respondent also supports additional detailed disclosure of social benefits. |
| 7 | JICPA | C | Depends on the nature of the benefits. |
| 8 | ICANZ | A | Respondent notes additional disclosure sustainability disclosures may be required. |
| 9 | DNR | D | |
| 10 | ASB SA | B | Respondent proposes additional disclosures re funding of obligations and actuarial assumptions. Respondent proposes limited disclosure in Consolidated Gov. reports – more detail in individual entity reports. |
| 11 | SAICA | B | Additional disclosures re funding of obligations and actuarial assumptions. Limited disclosure in Consolidated Gov. reports – more detail in individual entity reports |
| 12 | FAR | D | |
| 13 | ASB UK | D | |
| 15 | CIPFA | A | Respondent notes additional disclosure sustainability disclosures may be required. |
| 16 | ICAEW | A | |
| 17 | ICAS | A | Respondent agreed with SC Views but proposed also considering materiality. |
| 18 | AGA | A | |
| 19 | HoTARAC | A | Respondent considered disclosure of whether the Government intends to continue to provide benefits in accordance with its social policy obligations, may be useful to users of financial reports. |
| 20 | CGBC | C | Respondent's agreement with SC Views is subject to the types of constructive obligations recognized under the forthcoming IPSAS. |
| 21A | CSCS Ontario | B | Respondent noted need for additional disclosure through supplemental information. |
| 22 | TBS Canada | B | Respondent proposes less disclosure than IPSAS 19. |
| 23 | Québec Finance | A | |

| | Respondent | View | Summary (j) |
|-----|----------------------|-------------|---|
| 26 | France Finance | A | |
| 28 | AG Malaysia | A | |
| 29 | NZ Treasury | A | |
| 30 | Peru CG | D | |
| 31 | FMA | A | |
| 32 | Swiss Response | A | |
| 33 | Thailand CG | A | Respondent agreed with SC Views but proposed also considering materiality. Respondent considered disclosures should be made both in Consolidated Gov statements and in individual entity statements. |
| 34 | HM Treasury | A | |
| 35 | FRAB | D | |
| 36 | AGs Australia | A | |
| 40 | AG Canada | A | Respondent noted need to consider materiality. |
| 43 | AG NZ | A | |
| 44 | Audit Qatar | A | |
| 45 | AG SA | D | |
| 46 | NAO UK | A | |
| 48 | AC UK | A | |
| 48A | AG Québec | | |
| 49 | FEE | A | |
| 50 | INTOSAI | B | Respondent considers additional disclosure of individual social benefits may be necessary. |
| 54 | Song Qichao | A | |
| 55 | JB Mattret | A | |
| 56 | ICPSA | D | |
| 57 | Mohamed Osman Meoani | A | |
| 58 | Confidential | A | |
| 59 | ACCA | A | |
| 60 | OE/CNCC | C | It is not clear if the new IPSAS will cover: <ul style="list-style-type: none"> ▪ social security schemes; and ▪ unfunded pensions for government employees. |

(Attachment 4 Continued – Extract Summary of Responses to issues in ITC)

- (k) **Do you agree with the Steering Committee View in Chapter 9 that the PSC should explore the possibility of requiring disclosures about the overall sustainability of a government’s social benefits including the assumption that higher level disclosures are more likely to meet users’ needs?** *(To respond to concerns about information overload, the Steering Committee proposes that disclosures about the sustainability of social benefits should encompass all social benefits collectively, unless the future obligations associated with a specific individual benefit are much greater than those associated with all other benefits).*

SUMMARY (k)

| | | |
|---|---|-----------|
| Agree with SC – explore sustainability disclosures | A | 39 |
| Disagree with SC | B | 2 |
| No Clear View | C | 1 |
| No response | D | 6 |
| Respondent 48A | | 1 |
| Total (includes 2 additional responses) | | 49 |

| | Respondent | View | Summary (k) |
|----|---------------------|-------------|---|
| 1 | AASB | A | Sustainability disclosures are useful but will not give a complete picture of a government’s obligations. Location of disclosures – respondent suggested providing links to other public documents rather than including such disclosures in the financial statements. Respondent commented on desirability of avoiding duplication of information. |
| 2 | CPA Australia | A | Location – respondent considers arguments for and against including sustainability disclosures in the financial statements. Disclose – major types of benefits separately and other benefits in aggregate. |
| 3 | Chamber of Auditors | D | |
| 4 | CGA Canada | A | Respondent considers that that aggregate reporting is unlikely to be helpful – disclose material programs. |
| 5 | IDW | A | No clear view on location. |
| 6 | SR Burman | A | Sustainability disclosures support informed decision making and inform citizens. Disclose – significant schemes. |
| 6A | GASAB | A | Recommend overall sustainability social benefits and include sustainability of the social benefit programs in terms of their provision with regard to the objective as well as financial sustainability. |
| 7 | JICPA | A | |
| 8 | ICANZ | A | Strong support for proposal. Disclosures – have regard to: <ul style="list-style-type: none"> ▪ IASB Management Commentary project; and ▪ PSC Budget Reporting project Respondent cited the Fiscal Strategy Report NZ Government as an example of long term disclosures. |
| 9 | DNR | A | |
| 10 | ASB SA | A | Respondent supports development of a framework for reporting sustainability disclosures. Location – no clear view on location. |
| 11 | SAICA | A | Respondent proposes that regard be had to any sustainability reporting framework produced by IFAC. |
| 12 | FAR | A | |
| 13 | ASB UK | D | |
| 15 | CIPFA | A | Location – respondent considers sustainability disclosures should be |

| | Respondent | View | Summary (k) |
|-----|-------------------|-------------|---|
| | | | in a separate sustainability report. Disclosure – respondent supports aggregate disclosure. |
| 16 | ICAEW | A | Consider also budgetary and possibly other narrative information. |
| 17 | ICAS | A | Supports requiring disclosures. Location – respondent considers sustainability disclosures should not be part of the financial statements subject to true and fair audit. |
| 18 | AGA | A | Supports requiring disclosures. Respondent noted difficulty in measuring information, especially long range forecasts. Notes audit issues. |
| 19 | HoTARAC | A | Supports requiring disclosures. Respondent proposes that PSC should work with IASB and referred to the IASB Management Commentary project. Location – respondent considers sustainability disclosures could be included in a separate statement as part of the budget and cites Australian disclosure examples. Respondent suggests a separate conceptual framework for public sector reporting may be needed. |
| 20 | CGBC | A | Location – respondent considers sustainability disclosures belong in the budget and fiscal plan documents. |
| 21A | CSCS Ontario | A | The interested reader cannot be fully informed about the sustainability of government programs without knowing the impact of the continuation of all programs. Supplemental information should be provided on specific programs to those readers that require that level of information. |
| 22 | TBS Canada | A | Location – respondent considers sustainability disclosures belong in budget and planning documents and perhaps unedited financial statement discussion and analysis material accompanying audited financial statements. |
| 23 | Québec Finance | B | Location – respondent considers sustainability disclosures do not belong in financial statements. |
| 26 | France Finance | C | |
| 28 | AG Malaysia | A | Emphasized the importance of PSC exploring the possibility of requiring disclosures on the overall sustainability of a government's social benefits |
| 29 | NZ Treasury | A | Supports requiring disclosures. Respondent considers it is difficult to separate sustainability from a government's overall fiscal-financial program. Respondent cited examples of requirements for long term reporting (NZ, UK, Australia) and examples of long-term reports. Respondent gave examples of long-term fiscal projections and fiscal sustainability indicators that should be required. Respondent cited approaches to measuring “fiscal gap” or “fiscal imbalance”. Reporting requirements should not be overly prescriptive. |
| 30 | Peru CG | D | |
| 31 | FMA | A | Location – respondent considers sustainability disclosures should not be included in an annual report. Possibly in budget reports. |
| 32 | Swiss Response | A | Supports requiring disclosures. Location – respondent considers sustainability disclosures should be in a management report. |
| 33 | Thailand CG | A | |
| 34 | HM Treasury | A | Respondent cites UK example of long term reporting (Long Term Public Finance Report). Location of disclosures – respondent suggested providing links to other public documents rather than including such disclosures in the financial statements. Disclose – respondent notes difficulty in selecting indicators but |

| | Respondent | View | Summary (k) |
|-----|----------------------|-------------|---|
| | | | comments that once indicators are selected they should be used consistently. |
| 35 | FRAB | D | |
| 36 | AGs Australia | A | For balanced reporting, need to acknowledge revenue generated to fund such liabilities. |
| 40 | AG Canada | A | Supports requiring disclosures. Location – respondent considers sustainability disclosures should be in a financial statement discussion and analysis. |
| 43 | AG NZ | A | |
| 44 | Audit Qatar | A | |
| 45 | AG SA | D | |
| 46 | NAO UK | A | Supports requiring disclosures. Location – respondent considers sustainability disclosures should be in a separate statement. |
| 48 | AC UK | A | Supports requiring disclosures. Guard against information overload. |
| 48A | AG Québec | | |
| 49 | FEE | A | Such disclosures would be consistent with the requirements of IAS 19. Respondent notes audit assurance issues. |
| 50 | INTOSAI | A | General support for proposal. One member noted need to reconsider in overall context of a financial model that meets user needs. |
| 54 | Song Qichao | A | |
| 55 | JB Mattret | A | This work could be linked to PSC Budget reporting project. |
| 56 | ICPSA | D | |
| 57 | Mohamed Osman Meoani | A | |
| 58 | Confidential | B | Respondent does not support additional disclosures in the financial statements because of political influence on forecasts. |
| 59 | ACCA | A | |
| 60 | OECC/CNCC | A | |

(Attachment 4 Continued – Extract Summary of Responses to issues in ITC)

(I) Do you foresee any audit issues that might arise if “sustainability disclosures” were included in the financial statements? If so, please describe those issues.

| | Respondent | Summary of issues (I) |
|----|---------------------|---|
| 1 | AASB | Need to consider the costs and benefits of auditing sustainability disclosures. |
| 2 | CPA Australia | Support disclosure but acknowledge difficulty of auditing economic assumptions. Could limit disclosures to five years to reduce audit difficulty. |
| 3 | Chamber of Auditors | No response. |
| 4 | CGA Canada | Respondent noted key issues: <ul style="list-style-type: none"> ▪ reluctance of governments to make assumptions explicit; ▪ complexity of making revenue assumptions/projections; ▪ impact on policy decisions; and ▪ political issues. |
| 5 | IDW | No specific issues noted. |
| 6 | SR Burman | Scope of audit will be determined within a jurisdiction. Sensitivity analysis and disclosure of assumptions made would reduce audit difficulties. |
| 6A | GASAB | Respondent noted key issues: <ul style="list-style-type: none"> ▪ criteria for mapping sustainability; and ▪ materiality/relevance of disclosures. |
| 7 | JICPA | Respondent considers that the audit procedures and the scope of assurance provided by auditing need to be clarified. |
| 8 | ICANZ | Respondent noted pending revision of ISA 3400 <i>Examination of Prospective Financial Information</i> . Audit issues should not prevent development of sustainability disclosures. |
| 9 | DNR | Audit issues will exist – but there are already issues associated with auditing cash flow projections in relation to impairment of assets. |
| 10 | ASB SA | Respondent explained scope of audit in South Africa. Respondent raised key issues: <ul style="list-style-type: none"> ▪ the impact of the disclosure on the audit opinion; ▪ the lack of audit guidance on how to audit sustainability disclosures; ▪ the need to educate auditors by way providing training on the auditing of sustainability disclosures; and ▪ the uncertainty as to what level of assurance is expected from the auditor, versus what assurance can be taken from the information disclosed. |
| 11 | SAICA | Respondent noted: <ul style="list-style-type: none"> ▪ need for guidance on how to audit sustainability disclosures; and ▪ training for auditors. |
| 12 | FAR | No specific issues raised. |
| 13 | ASB UK | No response. |
| 15 | CIPFA | Support additional disclosures in principle. Audit issues could include: <ul style="list-style-type: none"> ▪ lack of independent evidence; ▪ appropriate location of sustainability disclosures – respondent prefers a separate document, possibly in an Operating and Financial Review (OFR)(UK); and ▪ nature of review – actuarial assumptions could be reviewed for consistency with financial statements rather than for truth and fairness. |
| 16 | ICAEW | Type of disclosures – could be similar to those required in an Operating and Financial Review (UK). Nature of audit – possibly processes and consistency with financial statements. |
| 17 | ICAS | Respondent noted key issues: <ul style="list-style-type: none"> ▪ lack of guidance; ▪ auditors’ remit; ▪ difficulty of auditor querying assumptions made by a government; and ▪ future funding of some entities subject to annual approval processes. |

| | Respondent | Summary of issues (I) |
|-----|----------------------|--|
| 18 | AGA | Respondent noted the subjectivity of estimates. |
| 19 | HoTARAC | Respondent noted the inherent difficulty in verifying prospective information – auditors usually respond by limiting the scope of their work. |
| 20 | CGBC | Need to highlight scope of financial statements and audit report for users. |
| 21A | CSCS Ontario | Audit issues include the sensitivity of forecasts to small changes in rates. Need to disclose key assumptions and methodologies. |
| 22 | TBS Canada | Audit issues identified include: <ul style="list-style-type: none"> ▪ complexity/size of task; and ▪ ability to produce timely financial statements with current numbers. |
| 23 | Québec Finance | Certification problems – obligations depend upon policy views of party in power. |
| 26 | France Finance | No comment. |
| 28 | AG Malaysia | No audit issues identified. |
| 29 | NZ Treasury | Location – respondent considers sustainability disclosures should be in a separate document and not audited. |
| 30 | Peru CG | No response |
| 31 | FMA | Location – respondent considers sustainability disclosures should be in a separate document such as a budget report. |
| 32 | Swiss Response | Location – respondent considers sustainability disclosures should be in a management report rather than in financial statements (and not audited). |
| 33 | Thailand CG | Audit should be limited to commenting on the consistency of assumptions with other information in the financial statements. |
| 34 | HM Treasury | There will be audit issues if sustainability disclosures are included in general purpose financial statements. |
| 35 | FRAB | No response. |
| 36 | AGs Australia | Respondent considers sustainability disclosures should be audited but acknowledges difficulty if some underlying assumptions are not verifiable. |
| 40 | AG Canada | There will be issues but these should be addressable. |
| 43 | AG NZ | Audit issues should not deter the development of sustainability reporting. |
| 44 | Audit Qatar | No audit issues identified. |
| 45 | AG SA | No response |
| 46 | NAO UK | Location – respondent considers sustainability disclosures should be outside financial statements, possibly in OFR(UK) or MDA. Possibly limit audit to assurance re methodology and assumptions (for example, conformity with best practice). |
| 48 | AC UK | Respondent considers forecast will be difficult to audit. Possibly limit audit to assurance re methodology and assumptions. |
| 48A | AG Québec | |
| 49 | FEE | Agree there will be audit issues but auditors already audit cash flow projections for impairment testing. |
| 50 | INTOSAI | Agree there will be audit issues but these may be similar to audit issues associated with other estimations currently incorporated in financial statements. |
| 54 | Song Qichao | No specific issues raised. Respondent considers all information in annual reports should be audited. |
| 55 | JB Mattret | No audit issues identified. |
| 56 | ICPSA | No response |
| 57 | Mohamed Osman Meoani | Issues include: <ul style="list-style-type: none"> ▪ location of disclosures; and ▪ whether disclosures are reliable. |
| 58 | Confidential | Respondent noted: <ul style="list-style-type: none"> ▪ political issues – difficulty of commenting on government disclosures; and ▪ nature of audit opinion – unable to give a true and fair view. Respondent queried the usefulness of auditing such disclosures. |
| 59 | ACCA | There may be some problems with the form of the audit opinion if such projections were to be included within the financial statements |
| 60 | OEC/CNCC | No comment at this stage because it depends on the information provided in the financial statements and the scope of the audit. |

BROAD OVERVIEW OF CHARACTERISTICS OF GOVERNMENT PENSIONS IN IPSASB MEMBER JURISDICTIONS

**MATRIX A: TYPES OF GOVERNMENTAL SOCIAL BENEFIT PENSION PLANS
(COMPILED FROM INFORMATION PROVIDED BY IPSASB MEMBERS/TECHNICAL ADVISORS)**

| Types of Pensions (Pension Benefits) | Arg'tina | Aus. | Canada | France | Germany | India | Israel | Japan | Malaysia | Mexico | N.Zland | Norway | SAfrica | UK | USA |
|---|----------|------|--------|--------|---------|-------|--------|-------|----------|--------|---------|--------|---------|----|-----|
| Global Scheme | | ✓ | | ✓ | ✓ | | | ✓ | | | | ✓ | | | ✓ |
| Basic/Distress pensions | ✓ | ✓ | | ✓ | | | | ✓ | | | ✓ | ✓ | | | ✓ |
| Contributory/supplementary pension benefits | ✓**** | | | ✓ | ✓ | | | ✓ | | | | ✓ | | | ✓ |
| Including: | | | | | | | | | | | | | | | |
| Employee pension benefits | | | | | | | | | | | | | | | |
| - private sector employees | | | | ✓ | ✓ | | | ✓ | | | | ✓ | | | ✓ |
| - gov. employees | ✓ | | | | ✓ | | | | | | | ✓ | | | ✓ |
| Other- please identify | *** | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| Separate/additional schemes | | ✓ | ✓ | ✓ | | | | ✓ | | | | ✓ | ✓ | ✓ | ✓ |
| Basic pension | | | ✓ | | | | | ✓ | | | | | | ✓ | ✓ |
| Additional contributory pension schemes | ✓ | | ✓ | ✓ | | | | | | | | ✓ | | ✓ | ✓ |
| Gov. employee scheme | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Other - please identify | | ✓* | | | | | | ✓** | | | | | | ✓ | |
| | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| Gov "backing" for pension benefits of other schemes: | | | | | | | | | | | | | ✓# | ✓# | |
| Industry type schemes | | | | ✓ | | | | | | | | ✓ | ✓ | ✓ | |
| Other private sector schemes | ✓ | | | | | | | | | | | | ✓ | ✓ | |
| | | | | | | | | | | | | | | | |

*Aus - Co-contribution scheme #UK and SA through tax relief on contributions. ***Argentina All income earners except those in special schemes

** Japan: Some employees (school teachers) exempted from global scheme and covered by separate scheme similar to global scheme.

BROAD OVERVIEW OF CHARACTERISTICS OF GOVERNMENT PENSIONS IN IPSASB MEMBER JURISDICTIONS

MATRIX B: GLOBAL PENSION SCHEMES

(COMPILED FROM INFORMATION PROVIDED BY IPSASB MEMBERS/TECHNICAL ADVISORS)

| TOPIC | Arg'tina | Aus | Canada | France | Germany | India | Israel | Japan | Malaysia | Mexico | N.Zland | Norway | SAfrica | UK | USA |
|---------------------------------------|-----------------|------------|---------------|---------------|----------------|--------------|---------------|--------------|-----------------|---------------|----------------|---------------|----------------|-----------|------------|
| Members/contributors | | | | | | | | | | | | | | | |
| All citizens for basic pension | | ✓ | | ✓ | ✓ | | | ✓ | | | | ✓ | | | |
| All income earners | ✓ | | | ✓ | ✓ | | | ✓ | | | | ✓ | | | ✓ |
| Other- please identify | ✓# | | | | | | | | | | ✓ | | | | |
| | | | | | | | | | | | | | | | |
| Contributions | | | | | | | | | | | | | | | |
| Mandatory if earn income | ✓ | | | ✓ | ✓ | | | ✓ | | | | ✓ | | | ✓ |
| Mandatory for Gov employer | ✓ | | | | ✓ | | | | | | | ✓ | | | |
| Mandatory for private sector employer | ✓ | | | ✓ | ✓ | | | ✓ | | | | ✓ | | | ✓ |
| Optional | | | | | | | | | | | | | | | |
| Not relevant | | ✓ | | | | | | | | | ✓ | | | | |
| | | | | | | | | | | | | | | | |
| Benefits- eligibility criteria | | | | | | | | | | | | | | | |
| Residency/membership criteria | ✓ | ✓ | | ✓ | | | | ✓ | | | ✓ | ✓ | | | |
| Minimum age criteria | ✓ | ✓ | | ✓ | ✓ | | | ✓ | | | ✓ | | | | |
| Asset/income test | ✓ | ✓ | | ✓ | | | | | | | | ✓ | | | |
| Other | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| Amount of benefits | | | | | | | | | | | | | | | |
| Basic/distress benefit if qualify | ✓ | ✓ | | ✓ | ✓ | | | ✓ | | | ✓* | ✓ | | | ✓ |
| Related to contributions made | ✓ | | | ✓ | | | | ✓ | | | | ✓ | | | ✓ |
| Period of membership | ✓ | | | ✓ | ✓ | | | ✓ | | | | ✓ | | | ✓ |
| Previous income levels | | | | | ✓ | | | | | | | ✓ | | | ✓ |
| Other – please specify | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| Nature of benefit | | | | | | | | | | | | | | | |
| Defined benefit | ✓ | ✓ | | ✓ | ✓ | | | ✓ | | | ✓ | ✓ | | | ✓ |
| Defined contribution | # | | | | | | | | | | | | | | |

| TOPIC | Arg'tina | Aus | Canada | France | Germany | India | Israel | Japan | Malaysia | Mexico | N.Zland | Norway | SAfrica | UK | USA |
|----------------------------------|----------|-----|--------|--------|---------|-------|--------|-------|----------|--------|---------|--------|---------|----|-----|
| Period of Benefit | | | | | | | | | | | | | | | |
| For remaining life | ✓ | ✓ | | ✓ | ✓ | | | ✓ | | | ✓ | ✓ | | | ✓ |
| For specified period | | | | | | | | | | | | | | | |
| Transferable on death | ✓ | | | ✓ | ✓ | | | ✓ | | | | | | | ✓ |
| Other | | | | | | | | | | | | | | | |
| Funding of pension scheme | | | | | | | | | | | | | | | |
| Fully funded | # | | | | | | | | | | | | | | |
| Partially funded | | | | | | | | ✓ | | | ✓* | | | | |
| Pay as you go | ✓ | ✓ | | ✓ | ✓ | | | | | | ✓* | ✓ | | | ✓ |
| | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |

NZ Basic benefit to all. Funding could be interpreted as either PAYG or partially funded - essentially a “smoothed” PAYG system.

#Argentina All citizens except those that are members of special schemes. Private schemes which the government regulates and oversees is a defined contribution scheme.

BROAD OVERVIEW OF CHARACTERISTICS OF GOVERNMENT PENSIONS IN IPSASB MEMBER JURISDICTIONS
MATRIX C: BASIC/DISTRESS PENSIONS – (COMPONENT OF GLOBAL SCHEME AND SEPARATE SCHEMES)
 (COMPILED FROM INFORMATION PROVIDED BY IPSASB MEMBERS/TECHNICAL ADVISORS)

| TOPIC | Arg'tina | Aust | Canada | France | Germany | India | Israel | Japan | Malaysia | Mexico | N.Zland | Norway | SAfrica | UK | USA |
|--|----------|------|--------|--------|---------|-------|--------|-------|----------|--------|---------|--------|---------|----|-----|
| <i>Benefits- eligibility criteria</i> | | | | | | | | | | | | | | | |
| Residency requirements | ✓ | ✓ | ✓ | | | | | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Minimum age criteria | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | ✓ | ✓ | ✓ | |
| Period of membership | ✓ | | | ✓ | | | | ✓ | | | | ✓ | | ✓ | |
| Means tested | | ✓ | ✓ | ✓ | | | | | | | | | | | ✓ |
| Other | | | | | | | | | | | | | | | |
| <i>Period of Benefit</i> | | | | | | | | | | | | | | | |
| For remaining life | ✓ | ✓ | | ✓ | | | | ✓ | | | ✓ | | | ✓ | ✓ |
| Until "revalidation" | | | ✓ | | | | | | | | | | ✓ | | |
| Transferable (if survivor) | | | | | | | | | | | | | | | |
| For specified period | | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | ✓* | | | |
| <i>Amount of Benefits</i> | | | | | | | | | | | | | | | |
| Related to contributions | | | | | | | | | | | | | | | |
| Related to membership period | ✓ | | ✓ | | | | | ✓ | | | | | | ✓ | |
| Related to previous income | | | | ✓ | | | | | | | | | | | |
| Other | | ✓# | | | | | | | | | | | | | ✓ |
| <i>Funding</i> | | | | | | | | | | | | | | | |
| Fully funded | ✓## | | | | | | | | | | | | | | |
| Partially funded | | | | | | | | ✓ | | | | | | | |
| Pay as you go | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | | ✓** | ✓ | ✓ | ✓ | ✓ |
| <i>Contributions</i> | | | | | | | | | | | | | | | |
| Mandatory (if earn income) | ✓ | | | | | | | ✓ | | | | | | ✓ | |
| Optional | | | | | | | | | | | | | | | |
| Not relevant | | ✓ | ✓ | ✓ | ✓ | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ |

#Aus Amount -flat rate.*Norway-period the benefit is needed.**NZ Interpreted as either PAYG or partially funded.## For private/contributory schemes

BROAD OVERVIEW OF CHARACTERISTICS OF GOVERNMENT PENSIONS IN IPSASB MEMBER JURISDICTIONS

MATRIX D: ADDITIONAL/SEPARATE GOVERNMENT CONTRIBUTORY PENSION SCHEMES

(COMPILED FROM INFORMATION PROVIDED BY IPSASB MEMBERS/TECHNICAL ADVISORS)

| TOPIC | Arg'tina | Aus | Canada | France | Germany | India | Israel | Japan | Malaysia | Mexico | N.Zland | Norway | SAfrica | UK | USA |
|--|-----------------|------------|---------------|---------------|----------------|--------------|---------------|--------------|-----------------|---------------|----------------|---------------|----------------|-----------|------------|
| <i>Membership</i> | | | | | | | | | | | | | | | |
| Mandatory-all income earner | # | | ✓ | | | | | | | | | | | ✓ | |
| government employee | | ✓ | | ✓ | ✓ | | | ✓ | | | | | ✓ | ✓ | ✓ |
| Optional | ✓# | ✓ | | | | | | | | | ✓ | | | ✓ | ✓ |
| | | | | | | | | | | | | | | | |
| <i>Type of Scheme</i> | | | | | | | | | | | | | | | |
| Defined Benefit | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | ✓* | | ✓ | ** | ✓ |
| Defined Contribution | ✓ | ✓ | | | | | | | | | ✓ | | | ** | ✓ |
| | | | | | | | | | | | | | | | |
| <i>Benefits- eligibility criteria</i> | | | | | | | | | | | | | | | |
| Age | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | | ✓ | ✓ | ✓ |
| Contributions | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | | ✓ | ✓ | |
| Means tested | | | | | | | | | | | | | | ✓ | |
| | | | | | | | | | | | | | | | |
| <i>Period of Benefit-DBS</i> | | | | | | | | | | | | | | | |
| For remaining life | ✓ | ✓ | | ✓ | ✓ | | | ✓ | | | ✓ | | ✓ | ✓ | ✓ |
| Transferable | ✓ | ✓ | | | | | | | | | ✓ | | ✓ | | ✓ |
| For specified period | | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| <i>Benefits related to</i> | | | | | | | | | | | | | | | |
| Contributions | ✓ | ✓ | ✓ | | | | | ✓ | | | ✓# | | | ✓ | ✓ |
| Membership | ✓ | | | ✓ | ✓ | | | | | | ✓* | | ✓ | ✓ | |
| Previous income | | | | ✓ | ✓ | | | | | | ✓* | | ✓ | | ✓ |
| | | | | | | | | | | | | | | | |
| <i>Funding</i> | | | | | | | | | | | | | | | |
| Fully funded | # | | | | | | | | | | ✓# | | ✓ | | ✓ |
| Partially funded | | ✓ | ✓ | ✓ | | | | ✓ | | | ✓* | | | | ✓ |
| Pay as you go | ✓ | | | | ✓ | | | | | | | | | ✓ | ✓ |

*NZ Relates to defined benefit schemes – which still exist but are closed to new members # – Relates to defined contribution schemes.

**UK Neither- rate defined by legislation. # Arg Private sector employees contribute to accumulation scheme - gov. “backs”. Gov employees may choose an accumulation scheme

Accounting for Basic Pension Arrangements

(and other age
related social benefits)

**Extracts for consideration for inclusion in
Proposed International Public Sector Accounting
Standard**

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

Accounting for Basic Pension Arrangements (and Other Age Related Social Benefits)

Objective

1. The objective of this Standard/section of Standard is to establish requirements for accounting for basic pension arrangements where the amount of the pension benefits are not linked to contributions. It also deals with certain other social benefits of government provided in non-exchange transactions only to recipients that have reached a specified pensionable age. Such benefits are provided by governments and other public sector entities to address a number of age related social risks facing individuals.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for:**
 - (a) **basic aged pensions and age related cash transfers, where the amount of pension benefits or transfers is not dependant upon the amount of contributions; and**
 - (b) **age related goods and services.**

(Staff Note: This paragraph is. only needed if this is a stand alone ED.).

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3. Many jurisdictions have social policies to provide benefits for individuals who have reached a specified age. Such benefits are often cash transfers, which enable an individual to supplement their own resources or resources from post-employment benefits to which they have an entitlement as a result of their previous employment. Such cash transfers are commonly known as pensions. Benefits under pension arrangements may be dependent upon the amount of contributions paid over a recipient's working life and may be linked to an individual's remuneration in employment over their working life. Such pension arrangements are outside the scope of this Standard.
4. 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 not apply to such cash transfers.
5. Age related social benefits also include individual goods and services such as health care and ancillary cash transfers that are restricted to that segment of the population that has reached pensionable age. For example, in some jurisdictions there may be forms of housing benefit or income support that are only available to those who have reached pensionable age. In jurisdictions with cold winter climates there may be programs to subsidize the utility bills of individuals who have reached a specified age. Such programs reflect the increased vulnerability of the aged to hypothermia and the fact that utility bills are likely to consume a larger proportion of an individual's income than for an individual still in the workforce. Transactions relating to such programs are within the scope of this Standard if the value of the resources transferred are not dependant on the amount of any contributions made by recipients.
6. This Standard does not apply to employee benefits, including post-employment benefits provided to government employees and other employees in exchange for their services as employees. Post-employment benefits include post-employment life insurance and post-employment medical care. Such benefits are exchange transactions, where benefits payable are dependant upon contributions made. Requirements in respect of employment benefits should be accounted for in accordance

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with relevant international and national standards dealing with employee benefits.

7. In some jurisdictions the government or other public sector entity acts as the guarantor of last resort for all or part of the benefits payable under defined benefit or defined contribution plans where a private sector entity is unable to meet obligations under such plans. In order to meet such guarantees government may operate a restricted fund financed by contributions levied on some or all defined benefit or defined contribution plans operating in a jurisdiction. Alternatively, such guarantees, where called upon, may be financed from general taxation. Such guarantees may give rise to provisions or contingent liabilities. However, they are not basic aged pensions or age related cash transfers and are not within the scope of this Standard.

Government Business Enterprises

(Staff Note: Usual exclusion will be included if this is a stand alone ED)

Definitions

8. **The following terms are used in this Standard with the meanings specified:** *(Staff Note: Additional definitions will be added as needed if this becomes a stand alone ED)*

An age related cash transfer is a cash transfer other than a pension, to protect individuals who have reached pensionable age against certain social risks, the amount of which is not dependant on contributions made by recipients and where an individual has discretion as to how the transfer shall be used.

Age related goods and services are goods and services provided for individual consumption to protect an individual who reaches pensionable age against certain social risks, where the amount of the resources transferred is not dependant upon contributions made by the recipient

A basic aged pension is a cash transfer payable to that segment of the population that has reached pensionable age

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where the amount of the transfer is not related to the amount of contributions made by the beneficiary or to a beneficiary's remuneration as an employee.

A key eligibility criterion is a condition that an applicant must meet for entitlement to the basic aged pension, age related cash transfers and age related individual goods and services.

Pensionable age is a specified age at which an individual becomes eligible for individual social benefits and cash transfers not otherwise provided.

A social risk is an event or circumstance that may adversely affect the welfare of individuals or 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.

Aged Pensions

9. Many jurisdictions provide cash transfers known as pensions to those who have reached a specified age. A basic aged pension is a cash transfer that is intended to address a social risk by providing or contributing towards the provision of a minimum standard of living to individuals that have reached a specified age. It may also be known by other terms such as a distress or social security pension.
10. Whilst the arrangements may vary significantly in different jurisdictions the defining characteristic of the basic aged pension as defined in this Standard is that the cash transfers payable under the scheme are not related to the amount contributed by an individual or to an individual's earnings.
11. In some jurisdictions there may be key eligibility criteria relating to access to the basic aged pension. These may include the period over which an individual has been a member of the scheme during their working lives, residency in a jurisdiction or the period for which an individual has been a taxpayer. Where

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an individual has not maintained scheme membership throughout their working life, for example because they have spent periods outside the workforce, have only recently established residency in a jurisdiction or because a continuous period of residency was interrupted, there may be reductions in entitlement levels.

12. Worldwide there is very significant variation in both the key eligibility criteria and the way these criteria operate. In some cases the basic state pension is means-tested. For example, individuals whose annual income and/or assets are above a specified threshold may forfeit eligibility completely or may be subject to a reduction from the full entitlement.
13. The regulations governing the basic aged pension program in some jurisdictions may require an individual to have a record of making contributions over a specified minimum period in order to be eligible for a full entitlement. An abatement from the full entitlement applies where an individual's contribution period is less than that minimum period. However, such a condition is in the nature of a threshold requirement and the benefits payable are not related to the amount of those contributions.
14. In some jurisdictions the basic aged pension may be provided as part of a global contributory scheme. In other jurisdictions, the basic aged pension is administered separately from any global contributory scheme.
15. Typically under global contributory schemes individuals make contributions during their working lives and receive benefits related to either the amount of contributions paid or earnings. These global schemes may include a basic aged pension component. Such a component may act as a "safety net", by providing a minimum amount for those who otherwise have no entitlement under the global contributory scheme or whose entitlements are minimal. Where transfers under the "safety net" component are not dependant upon the amount of contributions they are treated as a basic aged pension for the purposes of this Standard. (
16. Where a scheme includes both a basic aged component and additional benefits related to contributions made, only the basic pension component is within the scope of this Standard.

Age Related Cash Transfers

17. Certain cash transfers may be aged related in that a key eligibility criterion is that an individual has reached pensionable age. For instance, in some jurisdictions further cash payments in the form of pension support may be available to those who have not qualified for the full entitlement of the basic aged pension.

18. Like cash transfers paid in the form of an aged pension, the recipient of age related cash transfers has discretion 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 recipient does not have discretion as to how the cash transfer is used. The transaction is a reimbursement rather than a cash transfer and is to be treated as an individual good or service;

Age Related Individual Goods and Services *(Staff Note: paragraphs 13-15 of General SPO ED at Item 9.2 apply here).*

(Staff note: If this is a separate Standard, paragraphs will be added dealing with:

- **Obligating Events and Present Obligations,**
- **Legal Obligations and Constructive Obligations,**
- **Contingent Liabilities**

These paras will replicate those in the general SPO ED at paragraphs 21 –29 of Item 9.2

Initial Recognition

(Staff Note: If this is a separate ED the paragraphs on Initial Recognition will mirror those in paragraphs 30-41 in the General SPO ED at Item 9.2.)

Basic Aged Pension, Age Related Cash Transfers and Age Related Individual Goods and Services

Basic Aged Pension and Age Related Cash Transfers

19. **A present obligation for the basic aged pension and other age related cash transfers arises when key eligibility criteria have been satisfied. When a present obligation arises it shall be recognized as a provision in accordance with the requirements of paragraph 31 (in Item 9.2)**

20. This Standard reflects the view that an entity has a present obligation for amounts to be paid in respect of the basic aged pension and age related cash transfers when an individual satisfies all key eligibility criteria required to qualify for a pension payment or other cash transfer, although the date at which payment becomes legally due may not be until after eligibility has been asserted and validated. It requires the entity to recognize a provision for this amount when recognition criteria related to the probable outflow of resources and reliability of measurement are satisfied. This is because where eligibility criteria have been satisfied an entity has no realistic alternative but to settle its obligations for amounts for which eligibility has been validated.

21. The assessment of whether a government has no realistic alternative but to settle an obligation is made within the framework of existing legislation. Whilst, governments can modify key eligibility criteria it is unlikely that such changes will be retrospective. Changes in present obligations arising from legislative change are made only when such changes have been enacted or are virtually certain to be enacted. This Standard therefore reflects the view that a government has no realistic alternative but to provide to eligible recipients basic pensions and age related cash transfers they are presently

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entitled to as a consequence of satisfying those eligibility criteria.

22. Where key 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.
23. Key eligibility criteria for the basic pension 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 or bank details at periodic intervals.
24. 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.

Age Related Individual Goods and Services

25. **A present obligation for the provision of age related individual goods and services arises when the goods or services are delivered and not before such delivery.**
26. **When a present obligation arises in respect of individual goods and services it shall be recognized as a provision in accordance with paragraph 31 (in Item 9.2).**
27. Individual goods and services differ from basic aged pension and cash transfers, because, once key eligibility criteria have been satisfied, government is dependent on the actions of employees or other parties for the creation of a present obligation to transfer economic benefits or service potential. For individual goods and services, notwithstanding that the recipient

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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 e.g. an operation has to be performed by a medical practitioner directly employed by a government entity or a third party provider of medical services.

28. This Standard therefore requires that a liability for age related individual goods and services be recognized as a provision when the goods and services are delivered. Therefore a provision will not be recognized for age related individual goods and services to be provided in future periods. There are likely to be expectations that the government will continue with many activities designed to provide benefits to those who have reached pensionable age into the foreseeable future. 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.
29. An entity may have contracts with third parties for the supply of goods and services needed to provide age related individual 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.
30. If 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 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

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employees arises as those employees provide the services in accordance with the employment contract.

31. Where the entity has entered into commitments for the acquisition of property, plant and equipment needed to provide individuals goods and services in the future-e.g. a new hospital or clinic- those commitments should be disclosed in accordance with IPSAS 17, *Property, Plant & Equipment*.
32. 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.

Contingent Liabilities

(Staff Note: Requirements and commentary relating to Contingent Liabilities will mirror those in SPO ED at paragraphs 63-67 of ED at Item 9.2)

Measurement

33. **The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.**
34. 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.

35. A provision is recognized in respect of the basic aged pension and age related 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.

36. 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. As the expiry date for the basic state pension and other age related cash transfers will normally be on death such an estimate may require an actuarial assessment.

37. In making the best estimate of the provision in relation to the basic pension and age related 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.

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Staff Note: If standalone ED, sections will be necessary on:

Present Value

Future Events

Changes in Provisions

Use of Provisions

Disclosures

(Staff Note: Detail of disclosures will be considered when requirements for pensions are agreed and members can assess the “package”.)

Effective Date

(Staff Note: To be considered when approach determined)