



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 4 OCTOBER 2004
MEMO TO: MEMBERS OF THE PUBLIC SECTOR COMMITTEE
FROM: PAUL SUTCLIFFE
SUBJECT: ANALYSIS OF SUBMISSIONS ON INVITATION TO COMMENT
– ACCOUNTING FOR SOCIAL POLICIES OF GOVERNMENT

ACTION REQUIRED

The Committee is asked to:

- **note** the Submissions on the Invitation to Comment “Accounting for the Social Policies of Government” (ITC SPO) and the analysis of those submissions; and
- **provide** directions on the development of an exposure draft dealing with the matters identified in the ITC.
- **Consider** the role that the Steering Committee should play in the development of an exposure draft

AGENDA MATERIAL

	Pages
9.2 Summary of Submissions	9.17 – 9.61
9.3 Additional Submissions received	9.62 – 9.78
9.4 Submissions Booklet	Distributed previously
9.5 Invitation to Comment Accounting for Social Policies of Government	Distributed previously

BACKGROUND

The Public Sector Committee (PSC) issued the ITC “Accounting for the Social Policies of Government” in January 2004. Comments were due by 30 June 2004. Forty-five (45) submissions had been received when the submission “booklets” were prepared and distributed. One confidential submission and one additional submission have also been distributed separately to members. As of date of this memo, a total of 49 responses have been received. (Please note some submissions are numbered above 50. This is because the initial numbering was based on advice/expectations regarding forthcoming submissions, but some submissions anticipated have not yet been received. The original numbering has been retained.)

The analysis of submissions is included at Agenda item 9.2. It encompasses 46 of the 47 submissions distributed to members. The identity, nature and country of each respondent is identified in the listing of submissions at the commencement of Agenda item 9.2. One submission included in the submissions booklet was made in French only. Staff do not have sufficiently strong command of French to enable an informed summary and analysis of this submission to be made. The CICA (Canada) is assisting the PSC with a translation of this response into English. Once completed, it will be distributed to members. Two additional

submissions were received after the analysis of submissions was completed. These additional submissions are attached at item 9.3.

This memo summarizes respondents' comments on the issues raised in the ITC and explores the implications of those responses for the development of an Exposure Draft of an IPSAS. The summary has been prepared to assist members in drawing together major themes and issues. It is not a replacement for the detailed views in the submissions themselves, and should be read in conjunction with those submissions. As with all summaries and analysis, some judgment has been necessary in classifying responses and drawing out major points made by respondents. In some cases, an expression of support (or opposition) was qualified with some concerns and/or an acknowledgement of the merits of an alternative approach. Staff have classified responses to reflect their perception of where, on balance, the respondent's views lay. Where staff have not felt that the response can be classified as either support or opposition, the response has been identified as no clear view. Joanne Scott, who many members will know from her days as a PSC staff member and consultant to the social policies Steering Committee, prepared the analysis of responses at Agenda item 9.2.

General Observations

Respondents noted the complexity of the issue (in some cases noting that there was a majority and minority view of those preparing submission), and its importance for financial reporting. The majority of respondents supported the views of the Steering Committee. However, a number of those respondents made it clear that in some cases this was on the grounds of pragmatism as much as principle or concept. (I think some Steering Committee members would empathize with this observation.) Notwithstanding the support for the Steering Committee's views, some common concerns and issues emerge – in some cases they reflect issues of significance in particular jurisdictions or under particular forms of arrangements for the delivery of benefits, for example the need:

- for consistent application of approaches;
- for caution in applying the definition of a constructive obligations in the public sector in general, and to social policy obligations in particular;
- to clarify the distinction between contributory Vs non-contributory and exchange Vs non-exchange arrangements for the provision of benefits, including the clarification of how the PSC proposes that employee pension schemes funded from consolidated revenue should be treated;
- to consider the impact that the sovereign right to legislate has on a government's financial statements; and
- for the PSC to provide guidance on disclosures regarding sustainability and future taxation revenues.

While submissions addressed all aspects of the ITC, the single most important issue was whether, and when, a constructive obligation arose in respect of the social policies of governments. The Steering Committee identified general principles or approaches to resolving this issue, and applied these approaches to specific benefit types. There was strong support that the principles and approaches identified by the Steering Committee were appropriate, but some respondents had reservations about the conclusions reached by the Steering Committee when those approaches were applied to certain specific benefits.

Specific matters for Comment

The ITC identified a number of specific matters for comment that the PSC would specifically welcome comments on. An overview of the responses to each specific matter for comment raised in the ITC follows. Staff views on how these matters should be dealt with in the first draft of an exposure draft are also included below.

Issue (a) – Should separate exposure drafts be developed to deal with (i) old age pensions and (ii) other social benefits

The majority of respondents (31) supported the development of a single exposure draft (ED) to encompass old age pensions and other social policy obligations, noting it was important to apply the same principles to the recognition and measurements of all social policy obligations. Some respondents also noted that old age pensions were not significant in certain jurisdictions and dealing with them separately from other social policy obligations could not be justified on grounds of principle or materiality. (Conversely, this was precisely the reason why some respondents advocated separate IPSASs for aged pension – see below)

Nine respondents supported the development of separate IPSASs for old age pensions and other obligations. In some cases, this was on pragmatic grounds because the issues involved in dealing with old age pensions were more complex and the amounts of far greater significance in some jurisdictions than others. Therefore, it was sensible to deal with them separately. Other respondents advocated dealing with them separately because the issues to be considered in respect of them were quite different from other social policies. For example, some noted that while governments had an alternative to settling obligations for a wide range of social policy obligations, they had no realistic alternative but to settle the pension obligations that had accrued to the existing population.

A number of respondents who advocated that separate EDs be prepared, also noted that the same principles should be reflected in each ED.

Staff View

Staff are of the view that the PSC should commence the development of a single ED which established broad principles for application to all social policy obligations including old age pensions, and then draw out the implications of these principles for specific types of obligations. This was the view adopted by the Steering Committee and is advocated by many respondents. Some respondents also identified potential groupings of social benefits which could usefully be identified in such an ED.

Issue (b): Should unfunded employee pension plans to be paid from government revenues be included in the scope of this project

The majority of respondents (33) supported the exclusion of unfunded employee pension plans from the scope of this project, primarily on grounds that such benefits/plans relate to the government's role as an employer. Consequently, these pension obligations arise from an exchange transaction. Five respondents were of the view that unfunded employee benefit schemes should be included within the scope of this project, primarily because they included features of exchange and non-exchange transactions and would not fit within IAS 19 "Employee Benefits" or a PSC equivalent IPSAS.

Staff View

Staff are of the view that at this stage unfunded employee benefit plans should be excluded from the scope of this project. This was the view of the Steering Committee and the majority of respondents. Whether or not such plans fit within the scope of IAS 19 should be considered when the PSC considers its strategy in respect of IAS 19. At that stage, the PSC should consider where and how such pension plans should be treated. The work plan proposes that the PSC consider its strategy in respect of IAS 19 during 2005. Staff are of the view that that consideration be co-ordinated with the development of this exposure draft and therefore take place at the March or July 2005 meeting before final decisions about the scope of this project are made.

Issue (c) – Is it necessary to define social benefits

There was less agreement on whether social benefits should be defined for purposes of development of the exposure draft, than for other issues identified in the specific matters for comment. 21 respondents were of the view that they should be defined, and 18 were of the view that they need not be defined.

The ITC itself acknowledges the difficulty of developing an appropriate definition. The Steering Committee noted that it was of the view that they should not be defined: “What constitutes social benefits may vary from jurisdiction to jurisdiction. As such, it is questionable whether an exhaustive definition is appropriate, particularly when it is generally understood what constitutes social benefits in any jurisdiction. If an item does not qualify for treatment as a social benefit in accordance with the proposals in this ITC, it will be dealt with in accordance with other relevant IPSASs”. (ITC para 2.17.)

The respondents who did not support the development of a definition noted the difficulty of including all characteristics in a comprehensive definition. Some also noted that what constituted social benefits would differ from jurisdiction to jurisdiction. They favoured the ITC approach of drawing out general characteristics.

Many respondents who supported the inclusion of a definition of social benefits provided their views on how they should be defined. For the most part those views were that the definition should be based on:

- the definition in IPSAS 19 as reflected in figure 2.2 of the ITC;
- the guidance in the GFSM 2001 manual, with appropriate examples. Some respondents noted the GFSM approach should be supplemented with the characteristic that benefits be non-exchange in nature. Other respondents did not support the inclusion of non-exchange in the definition; and
- the guidance in the GFSM 2001 supplemented with the addition of direct payments by government as identified in the ITC. Such definitions to be supported by examples as included in the ITC.

Some also provided examples of definitions. These are included in Figure 1 below.

Staff View

The Steering Committee experienced difficulty in developing a comprehensive definition of social benefits. The proposed definitions in figure 1 capture key elements of a definition, but may themselves raise additional definitional issues (for example, what is a social benefit policy? Is it always clear which government interventions relate to income security and

which do not? etc). Staff are of the view that a definition based on the explanation in IPSAS 19 should be developed. However, it is likely that any definition will be very broad and will need to be supplemented by a comprehensive explanation and commentary, as was anticipated by the Steering Committee.

An alternative is to develop an IPSAS dealing with obligations arising from non-exchange transactions. However, the PSC did consider, and reject, this approach when “carving-out” social benefits from IPSAS 19.

FIGURE 1

DEFINITIONS OF SOCIAL BENEFITS PROPOSED BY RESPONDENTS

“A *social benefit* is a good, service or other benefit that is provided in a non-exchange transaction by or on behalf of a government in pursuit of its social policy objectives. Social benefits may be provided for collective consumption or for individual consumption to protect and enhance the welfare and wellbeing of the community and/or individuals. Social benefits include:

- (a) the delivery of health, education, housing, transport, and other social services to the community; and
- (b) payment or other provision of benefits to families, the aged, the disabled, unemployed, veterans and others. (AASB)

“Public measures or systematic State intervention to assure all residents of a country of adequate living standards and to provide them income security.”
(S.R. Burman)

“Social benefits are payments in cash or in kind, to protect the entire population, or specific segments of it, against certain social risks where an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.” (SAICA)

“*Social Benefit*: Goods, services or other financial benefits the government supplies to the community as a whole that arise from social policies such as education, health, social security, etc.” (Quebec Finance)

Issue (d): Should the definition of a liability, legal obligation and constructive obligation in IPSAS 19 be applied to non-exchange transactions in the public sector

The majority of respondents (37) agreed that the definitions in IPSAS 19, “Provision, Contingent Liabilities and Contingent Assets” should be applied in determining whether a present obligation and a liability arose in respect of social policy obligations dealt with in the ITC. However, notwithstanding their support, a number of respondents noted that the application of constructive obligations to public sector entities remains problematic. Some noted that few such obligations would arise from social benefits. (The elements of IPSAS 19 that the Steering Committee applied in identifying the key components of legal and constructive obligations are identified in Figure 2 below.)

Those that disagreed with adoption of IPSAS 19 definitions did so primarily because of concerns about the application of the notion of a constructive obligation to the public sector.

Some respondents noted that it had too broad a scope for application in the public sector where many activities are not subject to legal relationships between the provider of the benefit and the recipient. Rather, governments respond to social and political necessities. As such, past practice was not as reliable a guide to future practice as in the private sector where the profit motive is a constant which directs activity, and that activity predominantly operates within the parameters of contractual or legislative obligations and relationships.

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>).

A number of respondents, 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). They noted this was necessary to avoid the recognition of obligations that will not result in the outflow of future economic resources or service potential. Conditions proposed included a stronger acknowledgement of the role of legislature, such as requiring that the government had explicitly accepted responsibility for provision of the benefit and that this was reflected in government plans, budgets and legislation.

Some respondents also noted that because governments established, and could change legislation, there was always a realistic alternative to sacrificing resources in settlement of a constructive. Consequently, there was a danger that obligations may be recognized when they will not result in the outflow of future economic benefits.

Some respondents also:

- expressed reservations about whether the concept of a constructive obligation was applied consistently throughout the ITC; and
- commented on the potential imbalance between recognizing constructive obligations but not recognizing the future tax revenues that will be used to fund such obligations.

A number of respondents noted that at the time of making submissions, the IASB was considering amending IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and that such amendments may have an impact on the definitions used in an IPSAS on social policy obligations. They also advocated that the IPSASs adopt the same definitions as in the IASs. The IASB exposure draft proposing amendments to IAS 37 has not yet been issued. The IASB update at item 12 (c) in this Agenda includes information about progress on the IASB projects.

Staff View

Staff are of the view that the ED should apply the definitions in IPSAS 19 as proposed by the Steering Committee. While the ability of governments to change legislation and therefore avoid future obligations should be acknowledged, the draft ED should note that financial statements prepared in respect of the reporting period, should reflect liabilities that arose 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. Of course this approach does not resolve concerns about just what is the obligating event for social benefits, and what conditions need to be present for such an event to arise.

A number of respondents noted that further guidance needed to be provided on the conditions that must exist for a present obligation to arise. Staff are of the view that such conditions should, at least initially, be considered in the context of specific social benefits considered by the ITC (in issues (f), (g), (h), (i) below). The Steering Committee, like many respondents, was of the view that the application of the notion of constructive obligations was difficult in the public sector and that further guidance needed to be provided on just what constituted an obligating event which gave rise to a present obligation. This was the subject of Chapter 4 of the ITC and gave rise to the three broad approaches identified in issue (e) below.

IASB “Updates” earlier in 2004 indicate that the amendments proposed to IAS 37 are likely to focus primarily on contingent assets and contingent liabilities, recognition of restructuring costs and termination benefits. However, they may also deal with concerns that that in respect of a constructive obligation, the presence of an obligating event as a necessary condition for the identification of a present obligation is not sufficiently prominent. Revisions to IAS 37 may also include clarification of the basis for measurement if provisions. The need for the existence of an obligating event, and the nature of that event was clearly drawn out in the ITC. (See Issue (e) below.)

The PSC will always face concerns that the IASB may introduce new or amend existing IASs/IFRs on which IPSASs are based. Staff are of the view that the approach the PSC should adopt in dealing with public sector specific issues such as this is to be cognizant of IASB developments but move ahead with its own work program within the context of its existing IPSASs.

ISSUE (e) – The alternative approaches in the ITC to determining when a constructive obligation for the provision of social benefits arises.

The approach adopted by the Steering Committee was to identify general principles or approaches to identifying a present obligation, and to apply those principles/approaches to specific benefit types.

In broad terms, the majority of respondents (34) agreed with the Steering Committee's conclusions regarding the alternate approaches to identifying the obligating event, and therefore the conditions that should exist for a present obligation to arise. These approaches are summarized in figure 3 below. They are:

- the existence of a legal obligation which arises from a contract, legislation or other operation of law; and
- in the absence of a legal obligation, a constructive obligation which could arise:
 - when recipients satisfied all eligibility criteria; or
 - when recipients satisfied key “threshold” criteria; or
 - at some point prior to the “threshold” identified above.

Some respondents noted additional circumstances where constructive obligations may arise including:

- where a government has legislated particular courses of action for its populous which in turn are dependent on actions of the government. For example, the requirement that children between the ages of 6 and 16 attend school; and
- certain regulatory programs where a government has obligations to enforce types of behavior to defined standards, such as food inspection, medical device inspections, and environmental inspections.

5 respondents were of the view that there were alternative approaches to those proposed by the Steering Committee. These included:

- that satisfying eligibility criteria was not “conclusive” as to whether an obligation should be recognised. A constructive obligation cannot exist until applicable legislation has been passed and put into effect;
- whether the right to receive benefits is unconditional as at reporting date and, if not, the nature of events that still need to occur before the right becomes unconditional. A respondent expressed the view that where events that still have to take place for the transfer of resources or the creation of a legal liability are under the entity's control, an obligation does not exist because the entity retains discretion to avoid the transfer. However, where these events are outside the entity's control, the entity has no discretion to avoid the transfer if the other party meets the conditions and hence a liability exists;
- that greater emphasis could be placed on the consideration that “valid expectations” and “no realistic alternatives but to settle” are more likely to exist in the shorter term (e.g. next month's unemployment benefit) than in the longer term (e.g. an old-age pension that is still expected to be payable for another 20 years).

FIGURE 3 -FROM ITC – CHAPTER 4

Constructive Obligation – broad approaches

Option 1 – Satisfy all eligibility criteria (After paragraph 4.32)

In the absence of a legal obligation, a past event giving rise to a present obligation occurs when an individual satisfies all applicable eligibility criteria.

In the case of ongoing benefits which are subject to regular satisfaction of eligibility criteria, the maximum amount of the present obligation is the benefit that the individual is entitled to from the current point in time until the next point in time at which eligibility criteria must be satisfied.

Where validation of eligibility criteria is required only once, the present obligation is for all future benefits to be provided to that individual as a result of that validation.

Option 2 – Satisfy threshold eligibility criteria (After paragraph 4.35)

In the absence of a legal obligation, a past event giving rise to a present obligation occurs when an individual meets the eligibility criteria for the first time (the threshold criteria). The present obligation is for all benefits to be provided to the individual in future periods regardless of whether the individual is required to satisfy eligibility criteria again in future periods.

Option 3 – Key participatory events (After paragraph 4.36)

In the absence of a legal obligation, a past event, or series of past events, giving rise to a present obligation occurs prior to the point at which an individual meets threshold eligibility criteria (where threshold criteria are applicable).

The present obligation arises when key participatory events have occurred that lead an individual to have a reasonable expectation of eventually satisfying eligibility criteria for a benefit and, as a result, the individual has relied on that expectation over a period of time leaving the government with no realistic alternative but to settle the obligation in the future.

The present obligation is for all benefits to be provided to the individual in future periods regardless of whether the individual is required to satisfy eligibility criteria again in future periods.

Many respondents noted their support for a particular option as a general approach (mainly option 1) and applied this consistently throughout their response when dealing with specific issues. Some noted that option 1 was broader than current national requirements which tended to focus on a due and payable

Staff View

The large majority of respondents agreed that the general approaches identified in the ITC cover the major alternatives in respect of identification of a constructive obligation. Staff are of the view that these approaches should form the basis of the PSC's consideration of specific benefits. However, staff are also of the view that certain refinements and elaborations proposed by respondents can provide additional guidance on the circumstances in which a present obligation arises. This is particularly so in respect of consideration of whether the right to receive a benefit is unconditional as at reporting date and, if not:

- (a) the nature of events that need to occur before the right becomes unconditional; and
- (b) whether the nature of those events are such that the entity does have a realistic alternative to settling the obligation.

Issue (f) Do you agree with the Steering Committee Views in Chapter 5 being:

f(i) A present obligation for the provision of goods or services to constituents does not arise prior to the provision of those goods and services?

f(ii) IPSASs (or GAAP) should be applied to accounting for the costs of acquiring the goods or services to be transferred

Chapter 5 dealt with the provision of collective and individual goods and services. The Steering Committees Views on these matters are outlined below in figure 4.

FIGURE 4 -FROM ITC – CHAPTER 5

Steering Committee View – Collective Goods and Services (After paragraph 5.12)

Where a government meets its social policy objectives by delivering services for the benefit of the community as a whole, there is no present obligation prior to the delivery of the service. Input costs associated with exchange transactions that a government enters into to deliver collective services are accounted for in accordance with generally accepted accounting practice for those costs.

Steering Committee View – Individual Goods and Services (After paragraph 5.17)

Where a government meets its social policy objectives by providing goods or services to individuals, there is no present obligation prior to the provision of the good or service.

Steering Committee View – Individual Goods and Services (After paragraph 5.25)

The existence of a present obligation is not conditional on the means by which a service is provided to individuals (for example, directly by a government entity, by a third party on behalf of the government, by voucher, by cash advance or by reimbursement).

The majority of respondents supported SC view f(i) (30 respondents) and view f(ii) (26 respondents). Many noted that this was because providing both collective and individual goods and services is part of the ongoing activities of a government, and that a government has no realistic alternative to providing such goods and services.

There was also some support on pragmatic grounds from those that disagreed in principle, and some support for the SC view on collective goods and services from those that held a different view on individual goods and services.

A significant minority (8 respondents) disagreed with the Steering Committee's conclusion on f(i). This disagreement was largely based on the view that under Steering Committee Option 1 (see figure 3) which the Steering Committee favoured, a present obligation may arise before delivery if all eligibility criteria were satisfied. Some respondents noted that obligations to supply some goods and services may be stronger than obligations for other benefits, noting that situations exist where governments have legislated that citizens conduct themselves in certain ways, which obligates the government to provide services - for example, education and health care.

Staff View

Staff are of the view that the Steering Committee view should be supported in respect of collective goods and services – a present obligation does not arise prior to delivery because a realistic alternative to settlement exists – with some elaboration and refinement as noted below. Staff also support the Steering Committee view in respect of the provision of individual goods and services.

Arguments in submissions that in principle circumstances may exist in some jurisdictions in respect of some benefits that give rise to a present obligation prior to delivery are persuasive. Staff are of the view that this possibility should not be precluded, and that the first draft of an ED should reflect that there is a rebuttable presumption that in the absence of a legal obligation, a present obligation for individual goods and services does not arise prior to delivery. The Exposure draft could then explore the circumstances in which this may be rebutted.

Issue (g) Cash advances for purchase of specified goods/services (Chapter 5) differ from cash advances for discretionary use? (Chapter 6)

The Steering Committee view on Cash Transfers dealt with in Chapter 6 was:

A present obligation for the payment of future cash transfers does not arise until an individual has satisfied all eligibility criteria. The maximum amount of the obligation is the amount that the individual is entitled to from one validation point until the next.

Hence, depending on the eligibility criteria, a present obligation could arise before the cash was transferred.

The majority of respondents (27) agreed that the financial reporting consequences of cash advances provided by a government to allow individuals to purchase specified goods and services (as discussed in Chapter 5) differ from cash advances which are provided for use at the discretion of the recipient (as discussed in Chapter 6). Some respondents noted that implicit in the Steering Committee view was that cash advances for specified goods and services discussed in Chapter 5 were to be repaid if not spent as specified, and vouchers not used as specified were to be cancelled.

Those that did not support the Steering Committee's view raised similar concerns to those raised in respect of issue (f) above noting:

- the same principles should apply to goods, services, specific purpose cash advances and discretionary cash transfers; and
- a present obligation will exist when eligibility criteria are met.

Some respondents noted they could support the distinction between cash advances and discretionary cash transfers on pragmatic grounds, if not on grounds of principle.

Staff View

Staff support the Steering Committee view, but agree that further explanation of the consequences of not expending cash advances as specified, and not using "vouchers" which are non-cancelable, needs to be further developed. Similarly, observations made in issue (f) would apply in respect of whether or not there were circumstances in some jurisdictions in which a present obligation for cash advances for the acquisition of specified goods and services arose before such acquisition.

Issue (h) The principles developed in Chapter 5 and 6 also apply to specific events such as disaster relief.

The majority of respondents (31) agreed with the Steering Committee View, that the principles developed in Chapters 5 and 6 also apply to specific events, such as disaster relief, which give rise to obligations which government will satisfy in the future. However, there was a significant minority that did not support the Steering Committee view.

Many who disagreed noted that the accounting treatment for disaster relief (and other benefits) should be determined by reference to whether or not the eligibility criteria have been satisfied – that is the principles/approach should be applied consistently across all potential benefits. In large measure, this reflected their concerns about the interpretation of the Steering Committee's Option 1 (see figure 3) as it was applied in Chapter 5 and Chapter 6.

One respondent noted that the proposed treatment of disaster relief is inconsistent with the treatment of an obligation to clean up pollution spills illustrated in IPSAS 19, but this inconsistency will be overcome if a constructive obligation could exist prior to the provision of goods and services when all eligibility criteria are satisfied and the individual or the community can require the government to provide some or all of those goods or services.

One respondent noted that there should be greater emphasis on the occurrence of the event and government announcement to provide relief, rather than a strict application of eligibility requirements and one respondent noted that consideration should be given to applying the principles of insurance accounting to disaster relief.

Staff View

Staff are of the view that the approaches and elaborations and refinements proposed in issues (f) and (g) should flow through to dealing with these specific events.

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 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.

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.

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.

ROLE OF THE STEERING COMMITTEE

When the ITC was issued members noted that the role the Steering Committee should have in the development of the exposure draft would be determined when the PSC was considering the development of an exposure draft. At that stage, some members noted a preference for the development of the exposure draft to be handled directly at PSC level. This was because the primary responsibility for issue of exposure drafts and IPSASs rested with the PSC and, to discharge that responsibility, members should debate the issues directly. Members noted that in developing the ITC, the Steering Committees had developed considerable knowledge and expertise as a consequence of the development process, and this should now be reflected and reinforced at PSC level.

Staff agree with this view and propose that:

- the Steering Committee develop the exposure draft directly; and
- Steering Committee members be invited to form a Project Advisory Panel for the ongoing development process.

This will ensure that the knowledge and expertise of the Steering Committee is not lost to the development process and reflects the process adopted by the PSC in respect of other of its projects.

**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.

Submissions Received		Country
Professional Accounting Bodies and National Standard Setters		
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
Government Organizations		
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

Submissions Received

		Country
26	Ministère de l'Economie, 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 Reponse)	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

Audit Institutions

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

International and Regional Organizations

49	Fédération des Experts Comptables Européens (FEE)	Europe
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Other Individuals and Organizations

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	

SPECIFIC MATTERS FOR COMMENT

(a) Do you consider that separate Exposure Drafts and IPSASs should be prepared for:

- (i) old age and similar pensions; and**
- (ii) other social policy obligations?**

SUMMARY OF OVERALL VIEWS (a)

Prepare separate IPSAS	A	9
Prepare a single IPSAS	B	31
No Clear View	C	1
No response	D	5
Respondent 48A		1
Total		47

	Respondent	View	Summary (a)
1	AASB	B	<p>Respondent considered that:</p> <ul style="list-style-type: none"> ▪ the same principles/approach should be applied to all types of social policy obligations; and ▪ separate standards could lead to inconsistent treatment. <p>Respondent noted that differential treatment of pensions on the grounds of materiality is not relevant for all jurisdictions.</p>
2	CPA Australia	B	Respondent concerned that separate standards could lead to opportunities for accounting arbitrage.
3	Chamber of Auditors	D	
4	CGA Canada	A	<p>Respondent considers that separate IPSASs are desirable given the materiality of pensions and the potential difficulties surrounding the development of standard on pensions.</p> <p>The respondent highlighted possibility of requiring disclosure of the scope and limitations of reporting on social policies and programs.</p>
5	IDW	B	The approach taken to assess the existence of a liability for old age and similar pensions should not be different from other social policy obligations.
6	SR Burman	A	Respondent noted the materiality of old age pensions. Respondent supported different Options for pensions and other benefits.
6A	GASAB	B	<p>Respondent identified possible groups of non-exchange social benefits which could be useful within the IPSAS:</p> <ul style="list-style-type: none"> ▪ collective non-exchange transactions; ▪ targeted non-exchange transactions; ▪ near-exchange transactions; and ▪ contributory transactions.
7	JICPA	B	A single IPSAS as old aged pensions and other social policy obligations are typical social policy obligations.

	Respondent	View	Summary (a)
8	ICANZ	B	Respondent considers there is no conceptual justification for differing treatments and that separate standards could lead to inconsistent treatments.
9	DNR	B	Respondent considers there is no justification for differing treatments.
10	ASB SA	B	The principles that apply to old age and similar pensions should also be applied to other social policy obligations. As a result of similar principles being applied, a single ED and IPSAS should be developed for social policy obligations.
11	SAICA	B	The principle(s) adopted to recognize the old pension obligation is similar to that of other social policy obligations and therefore only one ED and IPSAS should be prepared.
12	FAR	B	A benefit in addressing old age and similar pensions with other types of social policy obligations in the same IPSAS when a principle based approach is used is to highlight the fundamental similarities between these two types of obligations. A principle based approach may be the only practical way to produce a standard that can be applied to all particular pension schemes across the world.
13	ASB UK	B	The same principles should underlie the financial reporting relating to all commitments to provide public benefits and therefore a single IPSAS on this topic would be preferable.
15	CIPFA	A	Respondent considers that pensions pose different problems to other social benefits.
16	ICAEW	B	Respondent noted that a single standard will help to ensure consistency.
17	ICAS	B	The criteria for recognition of a liability should not be different for old age pensions and similar obligations and other social policy obligations.
18	AGA	D	
19	HoTARAC	B	Majority View (B) Minority View (A) – both complex topics
20	CGBC	B	One IPSAS should be prepared for old age pensions and other similar social policy obligations.
21 A	CSCS Ontario	A	Individuals rely on old age pensions when making financial decisions. Changes to policy would require significant mitigation strategies.
22	TBS Canada	B	Does not appear to be necessary, especially under the current proposals which are based on common principles.
23	Québec Finance	B	All social policy obligations, regardless of their nature, should be dealt with in a single ED, and subsequently, in a single standard. Old age pensions, despite their specific features, should be accounted for and presented according to the same normative principles as other social policy obligations.

	Respondent	View	Summary (a)
26	France Finance	B	Respondent acknowledged that if for practical reasons that may necessitate different accounting treatment of these two types of social policy obligations, a common principle basis will have to be defined.
28	AG Malaysia	B	Not necessary to prepare separate EDs and IPSASs as the accounting treatment proposed in the ITC for both of the issues mentioned above are quite similar.
29	NZ Treasury	B	Same accounting principles should apply to these two areas
30	Peru CG	D	
31	FMA	B	Respondent suggested that in the short term a study of old age pension systems in various jurisdictions and illustrating the application of principles would be helpful.
32	Swiss Response	B	Respondent proposed keeping the number of standards to a minimum because it reduces the need for interpretations.
33	Thailand CG	A	Reasonable to develop separate EDs and IPSASs for old age and similar pensions and other social policy obligations
34	HM Treasury	B	Considers the same accounting principles applicable to both old age and similar pensions with other social policy obligations, notwithstanding the potential difficulties in addressing the treatment of the latter.
35	FRAB	D	
36	AGs Australia	B	Single pronouncement is preferred for consistency and completeness, due to similarities in the nature and timing of the old age pensions and other social policy obligations.
40	AG Canada	A	Respondent proposed that PSC consider one principles standard plus a series of exposure drafts on specific issues.
43	AG NZ	B	No conceptual justification for separate treatment.
44	Audit Qatar	B	
45	AG SA	D	
46	NAO UK	B	Respondent acknowledged that it may be difficult to reach agreement on a standard accounting practice for old age pensions and that two standards may be a pragmatic solution.
48	AC UK	B	Same accounting principles should apply to both (i) and (ii). Therefore, one ED and IPSAS.
48 A	AG Québec		
49	FEE	B	Respondent noted that differences in types of pension schemes may make one standard difficult.
50	INTOSAI	B	Majority View (B)
54	Song Qichao	A	Considers separate EDs and IPSASs should be prepared because old age and other social policy obligations are important components of the government obligation.
55	JB Mattret	B	Does not consider separate ED and IPSASs should be prepared for old age and similar pensions and other social policy obligations because old age and similar pension are a variety of social policy obligations.
56	ICPSA	C	

	Respondent	View	Summary (a)
57	Mohamed Osman Meoani	A	Yes because pensions are regular payments to individuals subject to eligibility criteria, while social benefits are provided to meet the social policy objectives of a Government.
58	Confidential	A	For practicality purposes to issue separate EDs and IPSASs

SPECIFIC MATTERS FOR COMMENT

- (b) Do you consider that unfunded pension plans to provide government employees with benefits as a consequence of their employment, where the pensions are to be paid from government revenues, should be included or excluded from the scope of any forthcoming IPSAS on social policy obligations?**

SUMMARY (b)

Include Unfunded Pension Plans	A	5
Exclude Unfunded Pension Plans	B	33
No Clear View	C	3
No response	D	5
Respondent 48A		1
Total		47

Common themes in the comments made by View B respondents were:

- (1) such obligations to employees are not social policy obligations – they relate to the government’s role as an employer;
- (2) the obligation to employees arises from an exchange transaction;
- (3) IAS 19 deals with such transactions; and
- (4) the PSC is encouraged to develop an IPSAS dealing with employee benefits.

	Respondent	View	Summary (b)
1	AASB	B	Respondent identified common themes (2-4) shown above. Respondent noted that government employees are likely to have greater legal rights to pensions than citizens.
2	CPA Australia	B	Respondent identified common themes (2-4) shown above.
3	Chamber of Auditors	D	
4	CGA Canada	B	Respondent identified common theme (2) shown above.
5	IDW		Respondent identified common themes (1) and (3) shown above.
6	SR Burman	A	Respondent noted that such pensions sometimes contain both exchange and non-exchange elements. Respondent considers that an IPSAS on old age pensions could also address government employee pension schemes.
6A	GASAB	A	Such pensions may be regarded as “near-exchange” transactions. Respondent considered that the IPSAS should also address other post-retirement benefits to government employees
7	JICPA	B	Respondent identified common theme (2) shown above.
8	ICANZ	B	Respondent identified common themes (2-4) shown above. Respondent notes that IAS 19 specifically addresses state plans.
9	DNR	B	Respondent identified common themes (1) and (3) shown above.
10	ASB SA	B	Respondent identified common themes (2-4) shown above.

	Respondent	View	Summary (b)
11	SAICA	B	Respondent identified common themes (2) and (3) shown above.
12	FAR	B	Respondent identified common themes (2) and (3) shown above.
13	ASB UK	D	
15	CIPFA	B	Respondent identified common themes (2) and (4) shown above.
16	ICAEW	B	
17	ICAS	B	Respondent identified common themes (2) and (3) shown above.
18	AGA	D	
19	HoTARAC	B	Respondent identified common themes (3) and (4) shown above.
20	CGBC	C	Respondent expressed the view that pensions forming part of an exchange transaction are covered by IPSAS 19. (IAS 19 rather than IPSAS 19 addresses such transactions).
21 A	CSCS Ontario	C	Unfunded pension plans should be included in financial statement reporting with respect to the deficit or surplus of the pension plan liabilities and the potential impact on future government expenditures.
22	TBS Canada	B	Respondent identified common themes (2) and (4) shown above.
23	Québec Finance	B	Respondent identified common theme (1) shown above.
26	France Finance	A	Respondent notes that government employee pensions in some jurisdictions may not meet the definition of employee benefits in IAS 19. Respondent considers that some government employee pensions are similar to unfunded compulsory contributory schemes.
28	AG Malaysia	B	Respondent identified common theme (2) shown above.
29	NZ Treasury	B	Respondent identified common themes (2-4) shown above.
30	Peru CG	D	
31	FMA	B	Respondent identified common theme (1-2) above.
32	Swiss Response	B	Respondent identified common theme (3) shown above.
33	Thailand CG	B	Respondent identified common theme (2) shown above.
34	HM Treasury	B	Respondent identified common themes (1) and (3) shown above.
35	FRAB	D	
36	AGs Australia	B	Respondent identified common theme (3) shown above.
40	AG Canada	B	Respondent identified common theme (2) shown above.
43	AG NZ	B	Respondent identified common themes (1, 3 and 4) above.
44	Audit Qatar	A	Should be included.
45	AG SA	D	
46	NAO UK	B	Respondent identified common themes (1) and (3) shown above.
48	AC UK	B	Respondent identified common themes (1) and (3) shown above.

	Respondent	View	Summary (b)
48 A	AG Québec		
49	FEE	B	Respondent identified common themes (1) and (3) shown above.
50	INTOSAI	B	Majority View (B) identified common themes (1-4) shown above. Minority View (A) considers there is a constructive obligation.
54	Song Qichao	B	Respondent identified common theme (1).
55	JB Mattret	B	Respondent identified common themes (3) and (4) shown above.
56	ICPSA	C	Pensions are paid from the national budget allocation and should be included from the scope of any forthcoming IPSAS on social policy obligations. It caused a lot of fund and a routine budget allocation. This means that the pension included on the government expenditure scales
57	Mohamed Osman Meoani	B	Respondent identified common theme (1)
58	Confidential	B	Respondent identified common theme (1)

SPECIFIC MATTERS FOR COMMENT

- (c) **Do you agree that notions of social benefits are well understood and need not be defined in an IPSAS? If you are of the view that it is necessary to define social benefits for inclusion in an International Public Sector Accounting Standard (IPSAS), please outline the reasons for this view and your proposed definition.** *(The ITC includes guidance on the nature of social benefits in Chapter 2 but does not define them. The Steering Committee is of the view that they should not be defined. This is because what constitutes social benefits may vary from jurisdiction to jurisdiction and it is questionable whether an exhaustive definition is appropriate, particularly when it is generally understood what constitutes social benefits in any jurisdiction. The Steering Committee notes that if an item does not qualify for treatment as a social benefit in accordance with the proposals in this ITC, it will be dealt with in accordance with other relevant IPSASs.)*

SUMMARY (c)

Do not define social benefits in an IPSAS	A	18
Define social benefits in an IPSAS	B	21
No Clear View	C	3
No response	D	4
Respondent 48A		1
Total		47

	Respondent	View	Summary (c)
1	AASB	B	<p>Respondent noted that a definition should reduce inconsistent classifications in different jurisdictions.</p> <p>Respondent proposed basing a definition of social benefits on IPSAS 19 wording.</p> <p>A <i>social benefit</i> is a good, service or other benefit that is provided in a non-exchange transaction by or on behalf of a government in pursuit of its social policy objectives. Social benefits may be provided for collective consumption or for individual consumption to protect and enhance the welfare and wellbeing of the community and/or individuals. Social benefits include:</p> <p>(a) the delivery of health, education, housing, transport, and other social services to the community; and</p> <p>(b) payment or other provision of benefits to families, the aged, the disabled, unemployed, veterans and others.</p> <p>[Respondent expressed reluctance to include the term “non-exchange” in the definition.]</p> <p>Respondent proposed that PSC consider providing guidance on other benefits eg foreign aid, farm subsidies.</p> <p>Respondent noted that an alternative solution would be expand the scope of the IPSAS to cover all forms of constructive obligations – ie to move away from the exchange/non-exchange split.</p>

	Respondent	View	Summary (c)
2	CPA Australia	B	Considers social benefits are not well understood. Respondent proposed a broad definition of social benefits based on GFSM 2001 wording with supporting guidance.
3	Chamber of Auditors	D	
4	CGA Canada	B	Respondent proposed basing a definition of social benefits on GFSM plus IPSAS 19 wording re exclusions. Respondent noted that a definition should reduce the scope for governments to select favorable treatments.
5	IDW	B	A definition is essential to determine what falls within the scope of an IPSAS. Respondent proposed basing a definition of social benefits on Figure 2.2 of ITC. Respondent noted it may be easier to state what is not included in the scope of the standard.
6	SR Burman	B	Proposed definition: <i>Public measures or systematic State intervention to assure all residents of a country of adequate living standards and to provide them income security</i> ”. Respondent also gave examples of types of social benefits.
6A	GASAB	C	If social benefits are not defined, consider requiring disclosure of criteria used for classification and types of social benefits included in the financial statements.
7	JICPA	A	Respondent considers that explanation in paragraph 2.1 is sufficient.
8	ICANZ	A	Although the respondent did not consider that a definition of social benefits was required, the respondent proposed providing guidance based on IPSAS 19 paragraphs 7-11. Respondent noted that users require information on the impact of both economic and social policies.
9	DNR	A	Respondent supported the explanation provided in the ITC and presumably would like to see this included in some way in an IPSAS.
10	ASB SA	B	Respondent proposed basing a definition of social benefits on the GFS definition, modified to focus on the non-exchange aspect. Respondent considered that the IPSAS should include guidance and examples to assist in application.
11	SAICA	B	Supports definition in order to ensure consistent recognition of social benefits in financial statements. Respondent proposed basing a definition of social benefits on the GFS definition, modified to focus on the non-exchange aspect. e.g. Social benefits are payments in cash or in kind, to protect the entire population, or specific segment of it, against certain

	Respondent	View	Summary (c)
			social risks where an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.
12	FAR	A	Respondent supported the explanation provided in the ITC and presumably would like to see this included in some way in an IPSAS.
13	ASB UK	A	
15	CIPFA	B	Respondent proposed basing a definition of social benefits on Figure 2.2 in the ITC.
16	ICAEW	B	Respondent does not agree that social benefits are well understood.
17	ICAS	B	Respondent proposes basing definition on Figure 2.2 but notes that modifications would be required.
18	AGA	B	Since social benefits are not well understood, they need to be defined. Such definitions are crucial to both the development of the standards and their eventual implementation. Definitions that are agreed on during the planning stage are necessary to encourage general acceptance of the standards.
19	HoTARAC	A	Majority (A) consider that guidance in Figure 2.2 of the ITC is adequate. Minority (B) did not propose a definition.
20	CGBC	A	Respondent considers that examples of major types of social benefits should be provided.
21 A	CSCS Ontario	B	A definition will result in greater clarity for the reader.
22	TBS Canada	A	Respondent considers that providing examples and categories is useful. Respondent noted that it may be easier to state what is not a social benefit. Respondent considers that benefits to veterans should be accounted for as employee benefits.
23	Québec Finance	B	<i>Social Benefits</i> : Goods, services or other financial benefits the government supplies to the community as a whole that arise from social policies such as education, health, social security, etc.
26	France Finance	B	Respondent acknowledged difficulties to define <i>social benefits</i> applicable to different national systems. Nevertheless, guidance should be given for application of the standard.
28	AG Malaysia	A	
29	NZ Treasury	A	Guidance, rather than a definition, is sufficient. Guidance needs to address the characteristic of non-exchange. Respondent requests consistency with GFSM 2001 to the extent possible.
30	Peru CG	D	

	Respondent	View	Summary (c)
31	FMA	C	Difficult to define social benefits. Respondent considers that the scope of an IPSAS should be broader than social benefits. See also response 1 (AASB).
32	Swiss Response	B	Propose a general definition of social benefits containing also services and in-kind transfers but not a complete list of all details.
33	Thailand CG	B	Respondent considers that if no definition is provided, criteria will be required to ensure consistency.
34	HM Treasury	A	Respondent recognize the difficulties inherent in attempting to provide a generic definition for all jurisdictions.
35	FRAB	D	
36	Ags Australia	B	Base definition on IPSAS 19 description of social benefits.
40	AG Canada	B	A definition would be useful in future proofing against new types of social benefits.
43	AG NZ	A	No definition required, but further guidance is required.
44	Audit Qatar	A	
45	AG SA	D	
46	NAO UK	B	Respondent proposed using description in Figure 2.2 as a starting point.
48	AC UK	A	Acknowledged difficulties to provide a generic definition for all jurisdictions.
48 A	AG Québec		
49	FEE	B	Respondent proposed using description in Figure 2.2 as a starting point.
50	INTOSAI	C	Views include: <ul style="list-style-type: none"> do not define but provide further guidance to clarify scope; do not define but provide examples of general characteristics; and do not define because benefits are jurisdiction specific.
54	Song Qichao	A	
55	JB Mattret	A	Respondent noted guidance in IPSAS 19 and the ITC.
56	ICPSA	B	Disagrees that social benefits are well understood. Base definition on “a payment, in cash or in kind to protect the entire population, or specific segment of it, against certain social risks”.
57	Mohamed Osman Meoani	A	Respondent noted to include the nature of social benefits for more clarification
58	Confidential	A	Considers that benefits are jurisdiction specific.

SPECIFIC MATTERS FOR COMMENT

- (d) Do you agree that the definition of a liability and the related concepts of a legal and constructive obligation in IPSAS 19 should be applied to non-exchange transactions in the public sector (see Chapter 3)? If you disagree, please outline the concept of a liability that you believe is appropriate for non-exchange transactions in the public sector.**

SUMMARY (d)

Agree (that definition liability etc should be applied)	A	36
Disagree	B	4
No Clear View	C	1
No response	D	5
Respondent 48A		1
Total		47

	Respondent	View	Summary (d)
1	AASB	A	Respondent considers the characteristics of a liability should be equally applicable to exchange and non-exchange transactions.
2	CPA Australia	A	Definitions should be consistently applied throughout IPSASs.
3	Chamber of Auditors	D	
4	CGA Canada	A	
5	IDW	A	Respondent does not consider that these definitions are consistently applied in the ITC. Respondent contrasts the discussion in the ITC and accounting for employee benefits and environmental rehabilitation in the private sector. Respondent disagrees with use of “staying alive” as an eligibility criteria in the ITC.
6	SR Burman	A	
6A	GASAB	A	Respondent considers that it is important to moderate the concept of constructive obligation with government’s action plans and budgetary and planned commitments.
7	JICPA	A	
8	ICANZ	A	Respondent notes that the application of these concepts (particularly constructive obligations) to social policy obligations raises a number of difficult issues.
9	DNR	A	
10	ASB SA	A	Respondent supports application of the definition of a liability and a legal obligation. Respondent expressed concern about application of the definition of constructive obligations. The respondent recommended that if the definition of constructive obligation is applied, that guidance on the

	Respondent	View	Summary (d)
			obligating event that gave rise to the constructive obligation be specific and limiting to avoid the recognition of obligations that will not result in the outflow of future economic resources or service potential.
11	SAICA	A	Respondent noted difficulty of applying the definition of constructive obligation. Respondent therefore recommended that the Exposure Draft and the IPSAS provide guidance on the past event that gives rise to the constructive obligation; and examples.
12	FAR	A	
13	ASB UK	C	Respondent considers that the PSC should use the same definitions as the IASB. Respondent noted that the ASB is working on a similar issue and will provide a copy of a forthcoming ED to the PSC.
15	CIPFA	A	
16	ICAEW	A	Respondent considered that linking constructive obligations to non-exchange transactions may not be appropriate.
17	ICAS	A	Respondent noted that determination of when a constructive obligation arises is of critical importance. Respondent noted that increased recognition of social benefit liabilities could have a huge impact on financial statements.
18	AGA	A	
19	HoTARAC	A	Respondent considers that there are a limited number of constructive obligations arising from social benefits in the public sector. Respondent gave examples of (the limited) situations where, in their opinion, a government would have a present obligation for a particular income support payment or service provision.
20	CGBC	B	Respondent considers that applying the definition of a constructive obligation could lead to overstatement of social benefit liabilities. Respondent notes that in British Columbia liabilities are not recognized until they are supported by legislation. Respondent noted that increased constructive obligations would need to be balanced by disclosure of future tax revenues.
21 A	CSCS Ontario	A	

	Respondent	View	Summary (d)
22	TBS Canada	A	Respondent noted application of definition of constructive obligation requires judgment. Respondent noted Canada currently permits recognition of constructive obligations only where there is enabling legislation or authorization prior to completion of financial statements.
23	Québec Finance	A	
26	France Finance	B	Respondent disagreed with applying the notion of constructive obligations to government. Respondent contrasted the environment in which private enterprises and governments operate – see also response 29 (NZ Treasury) for a similar comment.
28	AG Malaysia	A	
29	NZ Treasury	B	Respondent expressed concerns about the definition of a constructive obligation. Respondent would take a narrow approach to defining the concept of constructive obligations – reliability of balance sheets is important. Respondent noted difficulties that private sector have encountered with constructive obligations and the IASB review of constructive obligations. Disclosures may be more meaningful than recognition of constructive obligations.
30	Peru CG	D	
31	FMA	A	Respondent noted difficulties in determining provisions. Respondent noted that government often has a realistic alternative besides sacrificing recourses in the future.
32	Swiss Response	A	
33	Thailand CG	A	
34	HM Treasury	A	
35	FRAB	D	
36	AGs Australia	A	Further guidance on constructive obligations is required.
40	AG Canada	A	Recognize role of legislature – refer response to (e) below
43	AG NZ	A	Respondent noted the difficulty of measuring constructive obligations.
44	Audit Qatar	A	
45	AG SA	D	
46	NAO UK	B	Proposed further consideration of constructive obligations. Noted private sector rationale for introducing definition.
48	AC UK	A	
48 A	AG Québec		
49	FEE	A	
50	INTOSAI	A	One respondent considers a broader conceptual framework is required. Constructive obligations – measurement problematic.
54	Song Qichao	A	

	Respondent	View	Summary (d)
55	JB Mattret	A	Respondent noted changes to the definition of contingent liability in IAS 37.
56	ICPSA	D	
57	Mohamed Osman Meoani	A	
58	Confidential	A	

SPECIFIC MATTERS FOR COMMENT

- (e) **Do you agree with the Steering Committee’s conclusions about the alternate approaches to determine when a constructive obligation arises in Chapter 4? Are you of the view that there are other circumstances in which a constructive obligation may arise? If so, please describe those circumstances.**

SUMMARY (e)

Agree with SC alternate approaches to constructive obligations	A	34
Disagree with SC – other circumstances exist	B	5
No Clear View	C	2
No Response	D	5
Respondent 48A		1
Total		47

	Respondent	View	Summary (e)
1	AASB	A	However, variations also exist – “valid expectations” and “no realistic alternatives but to settle” are more likely to exist in short term than long term.
2	CPA Australia	A	Respondent supports Option 1 (based on a strict application of criteria). Respondent noted that if stated continuing eligibility criteria are not enforced Option 1 will be the same as Option 2.
3	Chamber of Auditors	D	
4	CGA Canada	A	Respondent noted additional circumstances where constructive obligations may arise – for example, education, health care (in Canada) and regulatory inspections of quality standards.
5	IDW	C	Respondent considers that in Germany most social benefits are legal obligations.
6	SR Burman	A	Respondent noted that Option 2 could be viewed as a subset of Option 3 in many cases and may not be separately included as a separate option.
6A	GASAB	A	Option 1 supported
7	JICPA	A	
8	ICANZ	A	Option 1 – supported Option 2 – not supported Option 3 – some merit
9	DNR	A	
10	ASB SA	A	Option 1 – supported Option 2 – not supported (could lead to overstatement of liabilities if eligibility criteria change) Option 3 – not supported Respondent considers a constructive obligation cannot exist unless all the following are satisfied:

	Respondent	View	Summary (e)
			<ul style="list-style-type: none"> ▪ legislation; ▪ policy; and ▪ funding. <p>This is noted in response to (d) above.</p>
11	SAICA	A	
12	FAR	A	
13	ASB UK	B	Respondent proposes that in considering whether an entity has discretion to avoid a transfer the PSC considers whether any of the events that still have to take place are under the entity's control.
15	CIPFA	A	Option 1 – supported as a practical solution. Respondent notes inconsistency between option 1 and standards such as IAS 19.
16	ICAEW	A	Broad support for ITC views but old age pensions may need further consideration.
17	ICAS	A	Option 1 – supported
18	AGA	A	
19	HoTARAC	B	Majority support due and payable approach – satisfying the eligibility criteria is not conclusive as to whether an obligation should be recognized. Most due and payables will be legal obligations rather than constructive obligations. Minority support Option 1.
20	CGBC	B	Respondent disagrees with Option 1 – respondent considers that a constructive obligation cannot exist until applicable legislation has been passed and put into effect.
21 A	CSCS Ontario	A	
22	TBS Canada	B	Respondent considers that a constructive obligation could exist under Option 1 prior to all eligibility criteria being technically met (for example if technical eligibility criteria are not strictly applied).
23	Québec Finance	A	Option 1 – supported. Respondent noted need to match tax revenues with social policy obligations.
26	France Finance	B	Respondent expressed reservations regarding the notions of constructive and legal obligations. Constructive obligations considered to have too broad a scope for a government. Respondent noted differences in the environment that governments and private sector entities operate in. Respondent noted need to consider the ability of a government to change the law when assessing realistic alternatives.
28	AG Malaysia	A	
29	NZ Treasury	A	The options outlined are sufficient to “shape the debate”.
30	Peru CG	D	
31	FMA	A	

	Respondent	View	Summary (e)
32	Swiss Response	A	Agree with options, especially Option 1. If Options 2 and 3 are used, need to develop criteria for consistency.
33	Thailand CG	A	
34	HM Treasury	A	If Option 3 is included in an ED it will need to focus more on determining key participatory events.
35	FRAB	D	
36	AGs Australia	A	Respondent supports Option 3 (refined) for many social benefits.
40	AG Canada	C	Considers constructive obligations too broad – also need enabling legislation or authorization.
43	AG NZ	A	Support Option 1 for future ED. Acknowledge conceptual arguments for Option 3.
44	Audit Qatar	A	
45	AG SA	D	
46	NAO UK	A	Option 1 – broad support – may not apply to old age pensions. Option 3 – identified some difficulties.
48	AC UK	A	
48 A	AG Québec		
49	FEE	A	Option 1 – supported.
50	INTOSAI	A	
54	Song Qichao	A	
55	JB Mattret	A	
56	ICPSA	D	
57	Mohamed Osman Meoani	A	
58	Confidential	A	Option 1 – support because closest to current practice and to ensure comparability between jurisdictions.

SPECIFIC MATTERS FOR COMMENT

- (f)(i) Do you agree with the Steering Committee View in Chapter 5 that a present obligation for the provision of goods or services to constituents does not arise prior to the provision of those goods and services?**
- (f)(ii) Do you agree that any costs incurred in acquiring goods and services for delivery in the future should be recognized in accordance with IPSASs or, in the absence of such, other generally accepted accounting practices for dealing with such exchange transactions?**

SUMMARY (f)

	View	(f)(i)	(f)(ii)
Agree with SC	A	30	26
Disagree with SC	B	8	1
No clear view	C	3	1
No response	D	5	18
48A		1	1
Total		47	47

	Respondent	View	Summary (f)
1	AASB	(f)(i)B (f)(ii)A	Respondent considers that a present obligation could arise prior to provision of goods and services (this is consistent with Option 3). Determination of existence of present obligation should be independent of the method of delivery. Respondent gave examples where an obligation could arise prior to provision. Respondent noted that they could accept SC view on pragmatic grounds.
2	CPA Australia	(f)(i)B (f)(ii)A	Respondent identified conflict between Option 1 (satisfy all eligibility requirements) and the proposed treatment of obligations to provide goods and services (recognize as provided regardless of whether all eligibility criteria met).
3	Chamber of Auditors	D	
4	CGA Canada	(f)(i)B (f)(ii) D	Respondent noted some obligations to provide goods and services may be supported by legislation and constitutional treaties. Respondent cited example of health care in Canada. Respondent supports consistent application of principles.
5	IDW	(f)(i)B (f)(ii)A	Determination of existence of present obligation should be independent of method of delivery. The manner of settlement is not a recognition criteria. Agree that collective goods and services are part of ongoing activities.
6	SR Burman	(f)(i)A (f)(ii)A	Agreed with this SC view but noted that old age pension may be an exception to the rule.
6A	GASAB	(f)(i)A (f)(ii)A	

	Respondent	View	Summary (f)
7	JICPA	(f)(i)A (f)(ii)A	
8	ICANZ	(f)(i)B (f)(ii)A	An obligation for a social benefit will crystallise once the relevant eligibility criteria have been satisfied, regardless of the form of the benefit provided.
9	DNR	(f)(i)A (f)(ii) D	Agree that collective services are an ongoing activity. Governments have realistic alternatives to providing services.
10	ASB SA	(f)(i)B (f)(ii)A	Respondent considers that if there are eligibility criteria, a liability should be recognized when the criteria are met. Respondent cited hospital waiting lists and receipt of vouchers as examples.
11	SAICA	(f)(i)A (f)(ii) D	Majority View A agree with SC. Minority View B consider an obligation may exist in respect of medical treatment and vouchers (refer ITC paras 5.21 and 5.24).
12	FAR	(f)(i)A (f)(ii) D	Agree with SC views in respect of both collective and individual services.
13	ASB UK	f(i) C f(ii) C	Respondent highlighted need to consider potential obligations to suppliers etc.
15	CIPFA	(f)(i) B (f)(ii) D	Agree with SC views in respect of collective services. Individual goods and services – an obligation could exist prior to provision. Respondent identified hospital waiting lists as giving rise to a possible obligation.
16	ICAEW	(f)(i)A (f)(ii)A	
17	ICAS	(f)(i)A (f)(ii) D	Agree with SC views in respect of collective and individual services. Considers that individual goods and services are part of ongoing activities of government. Governments have realistic alternatives to providing individual goods and services.
18	AGA	(f)(i)A (f)(ii)A	
19	HoTARAC	(f)(i)A (f)(ii)A	The Government has a number of realistic alternatives, including the power to revise policies, introduce new programs to replace existing services or enact new legislation to revise eligibility criteria.
20	CGBC	(f)(i)A (f)(ii)A	
21 A	CSCS Ontario	(f)(i)A (f)(ii)A	
22	TBS Canada	(f)(i)A (f)(ii) D	The ITC did not explicitly address transfers to other levels of government – if ED has a broader scope respondent requests that this issue be considered. Respondent outlined issues associated with transfers between levels of government.

	Respondent	View	Summary (f)
23	Québec Finance	(f)(i)A (f)(ii)A	Social policy obligations that arise from exchange transactions should be accounted for in a way that is consistent with other exchange transactions indicated in the relevant IPSAS.
26	France Finance	(f)(i)C (f)(ii) D	
28	AG Malaysia	(f)(i)A (f)(ii)A	
29	NZ Treasury	(f)(i)A (f)(ii)A	Reasons for supporting SC views: 1. The provision can be regarded as an ongoing activity of government. 2. There is unlikely to be a current legal obligation to supply such services in the future (outside of signed contracts for supply, which are outside the scope of the paper). 3. Governments have a number of realistic alternatives to providing such goods and services in future periods. 4. For provision of goods and services to individuals, eligibility criteria generally apply.
30	Peru CG	D	
31	FMA	(f)(i)A (f)(ii)A	
32	Swiss Response	(f)(i)A (f)(ii) D	
33	Thailand CG	(f)(i)A (f)(ii) D	
34	HM Treasury	(f)(i)A (f)(ii)A	
35	FRAB	D	
36	AGs Australia	(f)(i)A (f)(ii)A	Respondent supports Steering Committee views but highlights need for consistent treatment of obligations regardless of how the obligation is settled.
40	AG Canada	(f)(i)A (f)(ii)A	
43	AG NZ	(f)(i)B (f)(ii)A	ED should focus on conceptual issue – when does an obligation arise?
44	Audit Qatar	(f)(i)A (f)(ii)B	
45	AG SA	D	
46	NAO UK	(f)(i)A (f)(ii) D	
48	AC UK	(f)(i)A (f)(ii)A	
48 A	AG Québec		

	Respondent	View	Summary (f)
49	FEE	(f)(i)A (f)(ii) D	Respondent agreed with the SC in question (f)(i). Respondent acknowledged that a government announcement may give rise to an expectation that these goods and services will be provided in future periods. However, governments can and do change the type and level of services they provide, and therefore realistic alternatives to settling the “obligation” do exist.
50	INTOSAI	(f)(i)C (f)(ii) D	Members had mixed views. Two members expressed concern re SC views.
54	Song Qichao	(f)(i)A (f)(ii)A	
55	JB Mattret	(f)(i)A (f)(ii)A	
56	ICPSA	D	
57	Mohamed Osman Meoani	(f)(i)A (f)(ii)A	
58	Confidential	(f)(i)A (f)(ii)A	

SPECIFIC MATTERS FOR COMMENT

- (g) Do you agree that the financial reporting consequences of cash advances provided by a government to allow individuals to purchase specified goods and services as discussed in Chapter 5 differ from cash advances discussed in Chapter 6 which are provided for use at the discretion of the recipient? If you disagree with this view, please outline your views on how an entity should account for cash advances discussed in Chapter 5 and Chapter 6.**

SUMMARY OF OVERALL VIEWS (g)

Agree with SC position on cash advances	A	27
Disagree SC	B	6
No Clear View	C	6
No response	D	7
Respondent 48A		1
Total		47

	Respondent	View	Summary (g)
1	AASB	B	<p>Respondents reasons for disagreeing with SC:</p> <ul style="list-style-type: none"> ▪ the existence of a present obligation should be independent from the manner of settlement; ▪ the same treatment should apply to both; and ▪ an obligation exists when all eligibility criteria met. <p>If the recipient has to refund any unsubstantiated money then the government has an asset.</p> <p>Respondent would reluctantly support SC views on pragmatic grounds – refer also response to (f).</p>
2	CPA Australia	A	<p>Respondent considers a liability for unrepresented vouchers (depending on terms of vouchers for example transferability, validity period and whether the voucher is in substance cancelable) could exist.</p> <p>Non-cancelable vouchers may create an obligation at time of issue.</p>
3	Chamber of Auditors	D	
4	CGA Canada	A	Respondent agreed the reporting should differ but requested clarification about the point at which the obligations occur.
5	IDW	B	Respondent considers the existence of a present obligation should be independent from the manner of settlement.
6	SR Burman	A	
6A	GASAB	A	
7	JICPA	A	
8	ICANZ	C	Respondent agrees with SC View 3 but not sure of purpose of question.
9	DNR	A	
10	ASB SA	C	<p>Agree with SC only if no eligibility criteria.</p> <p>If there are eligibility criteria a present obligation may exist prior to provision of goods or services if all eligibility criteria met.</p>

	Respondent	View	Summary (g)
11	SAICA	C	Agree with SC view that in the case there are eligibility criteria (Ch 6), the criteria have to be met before the obligation is recognized while as where there are no eligibility criteria (Ch 5) the obligation only arises when the goods or services are purchased.
12	FAR	A	
13	ASB UK	D	
15	CIPFA	A	
16	ICAEW	A	
17	ICAS	A	Agree but consider that applying the ‘assets and liabilities’ approach to the recognition of cash advances for specific purposes may give rise to practical difficulties for the preparers of financial statements.
18	AGA	B	Steering Committee encouraged to revisit the recognition and measurement basis for such obligations as defense. Respondent considers that a government has no realistic alternative to settle these obligations. Respondent acknowledges there are no easy recognition points for these types of obligations.
19	HoTARAC	B	A majority of HoTARAC members support a “due and payable” approach for all categories of social benefits.
20	CGBC	C	Respondent notes that ITC was not clear as to whether cash advances needed to be repaid. Respondent disagrees with 5.23(c) because of measurement difficulties.
21 A	CSCS Ontario	A	
22	TBS Canada	A	Agree but only if cash advance would need to be repaid if not spent in accordance with conditions.
23	Québec Finance	C	when the government controls the conditions of transfers, a liability should be recorded in periods these conditions are satisfied. Otherwise, a liability should be recorded at the time the conditions are satisfied for the first time.
26	France Finance	D	
28	AG Malaysia	A	
29	NZ Treasury	B	In respondent’s view the only ways that supply of goods and services to individuals, provision of cash to individuals to purchase specific goods and services, and straight cash advances differ is the extent to which the government has discretion over the mode of delivery and any eligibility differences. Respondent does not consider that different approaches to validation reviews should have an impact on recognition of liabilities as recipients would have to repay amounts they are not entitled to (refer para 6.20). Respondent considers that the sovereign power to legislate should not be taken into account in recognition issues – base financial statements on existing law.

	Respondent	View	Summary (g)
30	Peru CG	D	
31	FMA	A	
32	Swiss Response	A	Respondent noted that treatment of cash advances may depend on whether there are conditions.
33	Thailand CG	A	
34	HM Treasury	A	
35	FRAB	D	
36	AGs Australia	C	Respondent is unclear on objective of question.
40	AG Canada	A	PSC should explore whether cash transfer subject to restrictions constitute pre-payments.
43	AG NZ	A	Respondent agrees with SC views on the basis that a recipient required to purchase specified goods and services has a present obligation to fulfill.
44	Audit Qatar	A	
45	AG SA	D	
46	NAO UK	A	
48	AC UK	A	
48 A	AG Québec		
49	FEE	A	
50	INTOSAI	A	One member noted that if restrictions on cash advances are not monitored they may be similar to discretionary cash advances. One member supported the use of matching.
54	Song Qichao	A	
55	JB Mattret	A	
56	ICPSA	D	
57	Mohamed Osman Meoani	A	
58	Confidential	B	Respondent considers the existence of a present obligation should be independent from the manner of settlement.

SPECIFIC MATTERS FOR COMMENT

- (h) Do you agree with the Steering Committee View in Chapter 7, that the principles developed in Chapters 5 and 6 also apply to specific events, such as disaster relief, which give rise to obligations which government will satisfy in the future? If you disagree with this view, please identify the factor(s) that make disaster relief and similar specific events different from other benefits as considered in Chapters 5 and 6.**

SUMMARY OF OVERALL VIEWS (h)

Agree with SC	A	31
Disagree SC	B	9
No Clear View	C	0
No response	D	6
Respondent 48A		1
Total		47

	Respondent	View	Summary (h)
1	AASB	B	Respondent: <ul style="list-style-type: none"> stressed need for consistent application of principles; noted inconsistency between proposed treatment and treatment of obligations to clean up pollution under IPSAS 19; and considers a constructive obligation may exist prior to provision of goods and services.
2	CPA Australia	A	Respondent agreed with SC views and did not believe that the principles to be applied to specific events should be based on the nature of the specific event.
3	Chamber of Auditors	D	
4	CGA Canada	B	Respondent disagrees with SC conclusions in Chapter 5. Respondent considers that an obligation can exist prior to provision of goods and services.
5	IDW	B	Respondent disagrees with SC conclusions in Chapters 5 and 6.
6	SR Burman	A	Respondent agreed but considered there may need to be exceptions such as restructuring of government business enterprises.
6A	GASAB	A	
7	JICPA	A	
8	ICANZ	B	Respondent considers that an obligation can exist when eligibility criteria are met (if eligibility criteria exist) and that any forthcoming IPSAS should focus on eligibility criteria. Respondent noted that in the case of disaster relief individuals usually only have to satisfy eligibility criteria once.
9	DNR	A	Respondent noted that it is possible for a government to agree to provide disaster relief and to subsequently withdraw assistance.

	Respondent	View	Summary (h)
10	ASB SA	B	Respondent considers that: <ul style="list-style-type: none"> ▪ an obligation arises when eligibility criteria are met; and ▪ a declaration re benefit to be received would give the individual a valid expectation.
11	SAICA	A	
12	FAR	A	Respondent noted that it is possible for a government to agree to provide disaster relief and to subsequently withdraw assistance.
13	ASB UK	D	
15	CIPFA	A	Respondent differentiates between disaster relief and hospital waiting lists – respondent considers disaster relief may be approved but withdrawn prior to allocation of resources.
16	ICAEW	A	
17	ICAS	A	
18	AGA	A	
19	HoTARAC	A	Classified as “A” because in Chapter 5 respondent agrees that there is no obligation prior to the provision of the goods and services.
20	CGBC	A	Respondent noted that recognition should not occur until liability meets recognition criteria, including the existence of legislation authorizing the obligation.
21 A	CSCS Ontario	A	
22	TBS Canada	A	Respondent agrees with SC Views but would be more flexible in recognizing an obligation for disaster relief.
23	Québec Finance	A	Respondent agreed with SC Views but stated that the obligation arises when the eligibility criteria are met.
26	France Finance	A	
28	AG Malaysia	A	
29	NZ Treasury	A	Respondent noted that if there are no ongoing eligibility criteria it may be that a liability should be recognized when eligibility criteria are met.
30	Peru CG	D	
31	FMA	A	
32	Swiss Response	A	
33	Thailand CG	A	Respondent noted that disaster relief can take a variety of forms including breaks on loan repayments.
34	HM Treasury	A	
35	FRAB	D	
36	AGs Australia	B	Respondent suggested there may be similarities between disaster relief and insurance liabilities and if so, treatment should be consistent.
40	AG Canada	B	Respondent considers that in some cases a liability could exist prior to provision of goods and services. However, other promised government actions may be more appropriate regarded as commitments.

	Respondent	View	Summary (h)
43	AG NZ	B	Respondent considers an obligation for disaster relief should be recognized when eligibility criteria are met.
44	Audit Qatar	A	
45	AG SA	D	
46	NAO UK	A	
48	AC UK	A	
48 A	AG Québec		
49	FEE	A	Respondent considers it is possible for a government to withdraw from agreements to provide disaster relief.
50	INTOSAI	B	Respondent considers an obligation for disaster relief should be recognized when eligibility criteria are met.
54	Song Qichao	A	
55	JB Mattret	A	
56	ICPSA	D	
57	Mohamed Osman Meoani	A	
58	Confidential	A	

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)		26
Additional disclosures: Yes	A1	12
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		47

	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 be satisfied 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

	Respondent	View	Summary (i)
			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 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.

	Respondent	View	Summary (i)
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	Quebec 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 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.

	Respondent	View	Summary (i)
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 favour 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	
56	ICPSA	E	
57	Mohamed Osman Meoani	A2	
58	Confidential	A2	Option 1 – supported.

SPECIFIC MATTERS FOR COMMENT

- (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	29
Disagree with SC – support additional/different detailed disclosures	B	7
No Clear View	C	2
No response	D	8
Respondent 48A		1
Total		47

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	

	Respondent	View	Summary (j)
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.
21 A	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	
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	
48 A	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	

SPECIFIC MATTERS FOR COMMENT

- (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	37
Disagree with SC	B	2
No Clear View	C	1
No response	D	6
Respondent 48A		1
Total		47

	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.

	Respondent	View	Summary (k)
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 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.
21 A	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

	Respondent	View	Summary (k)
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 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.
48 A	AG Québec		
49	FEE	A	Such disclosures would be consistent with the requirements of IAS 19. Respondent notes audit assurance issues.

	Respondent	View	Summary (k)
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.

SPECIFIC MATTERS FOR COMMENT

(l) 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 (l)
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;

	Respondent	Summary of issues (I)
		<ul style="list-style-type: none"> ▪ 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.
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.
21 A	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.

	Respondent	Summary of issues (I)
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.
48 A	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.

ADDITIONAL ISSUES RAISED BY RESPONDENTS

	Respondent	Summary of Additional Issues Raised
1	AASB	
2	CPA Australia	Respondent noted the need to prepare financial statements based on “what is” rather than “what might be”. “When we consider the existence of an obligation and refer to the possibility of change, we are considering the ability of the entity to change that policy (that is, the entity is not irrevocably committed under existing legislation) rather than the likelihood, or otherwise of the current or future leadership changing the policy.”
6	SR Burman	Respondent proposed a classification system for types of social benefits.
10	ASB SA	Respondent suggested there may be a need for transitional provisions. Respondent proposed that PSC incorporate changes made by IASB in its Improvements Project in any forthcoming IPSAS.
11	SAICA	Respondent proposed that PSC incorporate changes made by IASB in its Improvements Project in any forthcoming IPSAS. Respondent considered social benefits could be included within IPSAS 19. Respondent noted need for an IPSAS to be clear and short.
15	CIPFA	Respondent provided comments in relation to each SC view. Where appropriate these comments have been used as responses to issues raised. Issues relating to Appendix 1 Examples <u>Example 1: Defence.</u> The respondent noted that the ITC does not provide a rationale for there being no present obligation to provide defence services in the future.
18	AGA	The respondent highlighted inconsistencies in examples in the Appendix. <u>Example 1:</u> Respondent considers that an obligation to provide defense services in the future should be reported as contingent liability. (<i>The ITC took the view that there is no “past event” as required by the definition of a contingent liability.</i>) <u>Examples 2 and 3</u> Respondent considers examples 2 and 3 are inconsistent. (<i>Examples illustrate SC Views re provision of goods and services to individuals.</i>) <u>Example 5</u> Respondent disagrees with a liability for all 200 applications being recognized. (<i>The example states that ‘Entitlement for the benefit is from the date at which applicants first meet eligibility criteria, not the date of application.’</i>)
19	HoTARAC	Attachment A Respondent provided extracts from Australian Accounting Standard (AAS) 31 <i>Financial Reporting by Governments</i> .

	Respondent	Summary of Additional Issues Raised
		Attachment B Respondent also provided a summary of their views on each class of obligation.
26	France Finance	Respondent provided a diagram entitled “ <i>Summary of Problems Relating to Social Security Obligations</i> ” and raised issues regarding the scope of the ITC (exchange vs non-exchange, contributory vs non-contributory).
49	FEE	Respondent provided comments in relation to each SC view. Where appropriate these comments have been used as responses to issues raised.

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Consultation Response

ACCOUNTING FOR SOCIAL POLICIES OF GOVERNMENTS

IFAC Public Sector Committee

Comments from ACCA
September 2004

ACCA is the largest and fastest-growing international accountancy body. Over 320,000 students and members in 160 countries are served by more than 70 staffed offices and other centres.

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Item 9.3 *Additional Submissions received*
PSC New Delhi November 2004

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The Association of Chartered Certified Accountants



Executive Summary

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to respond to the Invitation To Comment (the ITC) *Accounting for Social Policies of Governments* - IFAC Public Sector Committee. These comments have been prepared in consultation with members of ACCA's Public Sector Technical Issues Panel, a group of experienced accountants working in the public sector. They have also been considered by ACCA's Financial Reporting Committee.

We support the general approach of the ITC in applying the concepts of liabilities and constructive liabilities to social policies of governments and the majority view of their application to old-age pensions.

Governments' financial accounts prepared on an accrual basis should include the costs of the social policies which were applicable to the reporting period. This should take account of any social payments which are due for the period, but which were unpaid at the end of it. These payments will be liabilities as they will be present obligations at the balance sheet date. Any obligations for periods after the balance sheet date will be future obligations and so should not be recognised as liabilities in the balance sheet.

It is important that financial information is provided which helps to make governments accountable for the social policies they are pursuing, in terms of pensions and other sorts of benefits. Governments should provide additional information, including longer-term projections of the costs of their social policies. Thus, for example, the UK Government produces an annual report on the long-term financing implications of its policies. This report aims to provide a comprehensive analysis of long-term economic and demographic developments, and their likely impact on public finances. We consider that such reports should not form part of a government's financial statements and that they should include possible alternative levels of service provision, taxation and government debt.



Detailed Comments

Political commitments and legal liabilities

1. The political obligation which a government has to provide future social services is fundamentally different from the legal obligation which it has to pay its debts.
2. This is recognised by the ITC, which explains that:

“A government may, as a result of previous public undertakings or commitments, be seen as having an obligation to provide particular goods and services for the benefit of its constituents in both current and future periods. However, an obligation to provide goods or services (or other benefits) to constituents in the future does not of itself give rise to a liability for financial reporting purposes.” (paragraph 3.7).
3. This is demonstrated, for example, in the UK, where as a result of a change in Government policy, the link between the value of state pensions and average salaries was broken. As a result, in recent years the relative value of the state pension has fallen significantly. If the Government did have an obligation to maintain the value of the state pension it has successfully managed to avoid this obligation.
4. Any political obligation is hard to delineate and define and such obligations continue to apply for an indeterminate period into the future. Judgements about the nature of such obligations are subjective and will change over time. We therefore agree with the general approach of the ITC not to require government financial statements to include them by limiting the application of the concept of constructive obligations in this area.
5. The ITC comes close to saying that a government has an obligation to account for the costs of the goods and services it has provided during



the year. With cash payments to individuals, however, the ITC refers to the government's obligation to pay the amounts which are due until the next validation point (which may be in the following financial year).

6. This extension of liabilities may add some uncertainty to the reliability of the amounts involved. For example:
the government may have the discretion to make additional checks at any time,
 - the death of the recipient would terminate the obligation and
 - benefits paid under fraud or mistake might be subject to reclaim.
7. We believe that it would be more appropriate to consider such payments as part of the ongoing services which governments provide. As a result, only those payments which relate to time periods before the balance sheet date should be recognised as liabilities.

Accounting for the sustainability of government policies

8. While the general purpose financial statements of governments should essentially reflect the legal obligations they have incurred, we think it important that governments also provide relevant information to help meet their accountability for the longer term financial implications of the social policies they have chosen to pursue. Governments are increasingly choosing to provide additional financial information, including longer-term projections of the probable costs of their social policies. Thus, in the last two years an annual report has been produced, as part of the UK Government's pre-budget statement, on the long-term financing of its policies. This report aims to provide "a comprehensive analysis of long-term economic and demographic developments, and their likely impact on the public finances" (HM Treasury, 2003, *Long-Term Public Finance Report: Fiscal Sustainability with an Ageing Population*).
9. We believe that the ITC does not necessarily make a clear enough distinction between these longer-term financial projections and



government general-purpose financial statements. We believe that these reports should be developed as two completely different types of financial report, which should be clearly distinguished as they have different bases and objectives.

10. Financial statements should be objective, independently verifiable and so auditable. They should provide essentially historic information about past events, which can be substantiated or audited through comparison with individual financial transactions. Information about the sustainability of government policies, in contrast, covers future events and time periods and so will inevitably be subject to additional uncertainties. Any 'audit' of such information will inevitably be of a different type from the audit of the financial statements themselves.
11. Information to be provided on the sustainability of social programmes is circumscribed in the ITC as this is to be considered both "without significant increases in the tax burden" (paragraph 9.12) and "without increasing the debt burden on the economy" (paragraph 9.16). This would, however, probably have the effect of significantly reducing the usefulness of the information provided. The future is inevitably uncertain. Thus, we believe that to be useful, information on future financial projections for governments should consider alternative levels of the following:
 - social policy provision
 - taxation and
 - government debt.
12. In addition, future projections should also utilise appropriate scenario analysis to consider the implications of different combinations of the above options. To be useful, information about the future should paint different pictures about what this could be. These scenarios can then form the basis of political decisions by citizens about the future they would prefer. They could also be an aid to public accountability. A government should be elected on the basis of its prospective policies and the effects these may have. The government should then be held to

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account for the extent to which those policies are implemented as promised.



Specific Matters for Comment

Below we have provided our responses to the specific issues on which the ITC requested comments.

(a) Do you consider that separate Exposure Drafts and IPSASs should be prepared for: (i) old age and similar pensions; and (ii) other social policy obligations?

We consider that a single Exposure Draft and IPSAS should be developed for all types of social policy obligation. We believe that essentially the same challenges are faced when accounting for old age pensions as for other social policy obligations.

(b) Do you consider that unfunded pension plans to provide government employees with benefits as a consequence of their employment, where the pensions are to be paid from government revenues, should be included or excluded from the scope of any forthcoming IPSAS on social policy obligations?

We consider that all occupational pensions provided by governments to their employees should be excluded from the scope of any IPSAS developed from this ITC. Such pensions should be accounted for in the same manner as other employment-related benefits.

(c) Do you agree that notions of social benefits are well understood and need not be defined in an IPSAS? If you are of the view that it is necessary to define social benefits for inclusion in an International Public Sector Accounting Standard (IPSAS), please outline the reasons for this view and your proposed definition.

We agree that it should be unnecessary to develop an explicit definition of social benefits for inclusion in an IPSAS to be produced on this topic.



(d) Do you agree that the definition of a liability and the related concepts of a legal and constructive obligation in IPSAS 19 should be applied to non-exchange transactions in the public sector (see Chapter 3)? If you disagree, please outline the concept of a liability that you believe is appropriate for non-exchange transactions in the public sector.

We agree with the definition of a liability developed in IPSAS 19 being applied to non-exchange transactions in the public sector. We consider, however, that the past event which gives rise to a liability may also include the passage of time. Thus social payments relating to periods after the balance sheet date are not present obligations as the past event includes not only the individual qualifying for the benefit, but also the passage of time for which the benefit relates. Thus liabilities should only be recognised in the financial statements for goods, services or payments relating to the reporting period. Payments for future periods should be considered to be in the nature of executory contracts which are dependent on the passage of time for the liability to crystallise.

(e) Do you agree with the Steering Committee's conclusions about the alternate approaches to determine when a constructive obligation arises, in Chapter 4? Are you of the view that there are other circumstances in which a constructive obligation may arise? If so, please describe those circumstances.

We agree with the Steering Committee's conclusions on when a constructive obligation arises except that we believe this only applies to payments relating to periods before the balance sheet date. This is because one of the applicable eligibility criteria will be that the individual has lived throughout the period for which the payments are due. Thus, for example, in the case of state pensions, if a recipient were to die on the balance sheet date the government would only be liable for benefits up to that date.



(f) Do you agree with the Steering Committee view in Chapter 5 that a present obligation for the provision of goods or services to constituents does not arise prior to the provision of those goods and services? Do you agree that any costs incurred in acquiring goods and services for delivery in the future should be recognized in accordance with IPSASs or, in the absence of such, other generally accepted accounting practices for dealing with such exchange transactions?

We agree with both of these views.

(g) Do you agree that the financial reporting consequences of cash advances provided by a government to allow individuals to purchase specified goods and services as discussed in Chapter 5 differ from cash advances discussed in Chapter 6, which are provided for use at the discretion of the recipient? If you disagree with this view, please outline your views on how an entity should account for cash advances discussed in Chapter 5 and Chapter 6.

We consider that these two types of transaction do not fundamentally differ and should be accounted for in the same manner. Cash advances should be recognised if they are present obligations at the balance sheet date. Thus they will be recognised as liabilities if they relate to the time period before the balance sheet date, but remain unpaid.

(h) Do you agree with the Steering Committee view in Chapter 7, that the principles developed in Chapters 5 and 6 also apply to specific events, such as disaster relief, which give rise to obligations which government will satisfy in the future? If you disagree with this view, please identify the factor(s) that make disaster relief and similar specific events different from other benefits as considered in Chapters 5 and 6.

We agree with the treatment suggested by the Steering Committee.



(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)?

We agree with the majority view of the Steering Committee.

We consider that such disclosures should be provided. They should not, however, form part of the financial statements and they should include possible alternative levels of service provision, taxation and government debt.

(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?

We agree with this view of the Steering Committee. We consider, however, that disclosures, at least in the notes to the accounts, may be appropriate for particularly significant individual social benefits.

(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.)*

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We consider that such disclosures should not form part of the financial statements and they should include possible alternative levels of service provision, taxation and government debt.

(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.

We consider that there will be difficult problems with the form of the audit opinion if such projections were to be included within the financial statements.

- (a) Do you consider that separate Exposure Drafts and IPSASs should be prepared for:
- (i) old age and similar pensions; and
 - (ii) other social policy obligations?

On a conceptual point of view, there are strong arguments to consider at the same time :

- old age and similar pensions, paid not only to citizens but **also to government employees**,
- and, other social policy obligations.

On a practical point of view, it seems advisable to consider two separate E.D. :

- one for other social policy obligations, based on the current ITC,
- one for old age and similar pensions (citizens and government employees).

(See also infra, § b)

- (b) Do you consider that unfunded pension plans to provide government employees with benefits as a consequence of their employment, where the pensions are to be paid from government revenues, should be included or excluded from the scope of any forthcoming IPSAS on social policy obligations?

There is no conceptual difference between :

- unfunded pension plans for government employees paid from government revenues,
- social assistance schemes providing for old age and similar pensions, with no contributions from the beneficiaries,
- social security schemes ¹ organized through public entities which provide unfunded pensions plans with mandatory contributions from the beneficiaries.

All these issues must be addressed at the same time, even if, for practical reasons, the PSC comes to the conclusion that, **by convention**, the unfunded pension plans for government employees should be treated differently from the two other categories.

¹ The economic significance of social security schemes is huge in many countries throughout the world, especially in Europe. In France, for instance, mandatory contributions to social security schemes are equivalent to 61 % of all taxes collected by the central and the local governments.

- (c) Do you agree that notions of social benefits are well understood and need not be defined in an IPSAS? If you are of the view that it is necessary to define social benefits for inclusion in an International Public Sector Accounting Standard (IPSAS), please outline the reasons for this view and your proposed definition. *(The ITC includes guidance on the nature of social benefits in Chapter 2 but does not define them. The Steering Committee is of the view that they should not be defined. This is because what constitutes social benefits may vary from jurisdiction to jurisdiction and it is questionable whether an exhaustive definition is appropriate, particularly when it is generally understood what constitutes social benefits in any jurisdiction. The Steering Committee notes that if an item does not qualify for treatment as a social benefit in accordance with the proposals in this ITC, it will be dealt with in accordance with other relevant IPSASs.)*

It seems difficult to find a general definition of the social benefits.

The approach taken by the Steering Committee seems sensible and practical.

- (d) Do you agree that the definition of a liability and the related concepts of a legal and constructive obligation in IPSAS 19 should be applied to non-exchange transactions in the public sector (see Chapter 3)? If you disagree, please outline the concept of a liability that you believe is appropriate for non-exchange transactions in the public sector.

It seems reasonable to retain the same concept of legal and constructive obligation as used by IAS 19.

However, the difficulty is to define what is precisely a constructive obligation in the context of the public sector, where the government has the power to introduce new legislation and to change the rules of the game with immediate effect.

- (e) Do you agree with the Steering Committee's conclusions about the alternate approaches to determine when a constructive obligation arises in Chapter 4? Are you of the view that there are other circumstances in which a constructive obligation may arise? If so, please describe those circumstances.

Yes, the chapter 4 seems quite exhaustive.

However, we question the usefulness and the understandability of option 2 (satisfy threshold eligibility criteria), because, in practice, it seems very difficult to define the « threshold eligibility criteria ».

- (f) Do you agree with the Steering Committee View in Chapter 5 that a present obligation for the provision of goods or services to constituents does not arise prior to the provision of those goods and services? Do you agree that any costs incurred in acquiring goods and services for delivery in the future should be recognized in accordance with IPSASs or, in the absence of such, other generally accepted accounting practices for dealing with such exchange transactions?

Yes, we agree on the principle.

However, in situations where :

- a decision to provide for the goods and services has been taken,
- and there is no realistic alternative but to settle,

a present obligation arises and must be accounted for.

- (g) Do you agree that the financial reporting consequences of cash advances provided by a government to allow individuals to purchase specified goods and services as discussed in Chapter 5 differ from cash advances discussed in Chapter 6 which are provided for use at the discretion of the recipient? If you disagree with this view, please outline your views on how an entity should account for cash advances discussed in Chapter 5 and Chapter 6.

No comment. Subject too specific at this stage.

- (h) Do you agree with the Steering Committee View in Chapter 7, that the principles developed in Chapters 5 and 6 also apply to specific events, such as disaster relief, which give rise to obligations which government will satisfy in the future? If you disagree with this view, please identify the factor(s) that make disaster relief and similar specific events different from other benefits as considered in Chapters 5 and 6.

Yes, we agree that the same principles should apply in the various situations.

- (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.

We support the majority view of the steering committee.

We are of the view that additional disclosures about future obligations should be provided.

The information to be provided may differ depending upon the scheme prevailing for old age pension obligations.

In that respect, the main schemes should be encompassed, ie :

- social assistance (no contribution from the beneficiaries),

- social security (with imposed contributions, and controlled by public units),
- unfunded pension plans for government employees.

(See also *supra*, § b)

- (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?

No definite answer can be given at this stage.

It depends on the scope of the social policies covered by the standard.

At this stage, it is not clear if it will cover :

- social security schemes,
- unfunded pensions for government employees.

- (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's 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.)*

Yes, we agree.

We are of the opinion that :

- most of the social policies do not meet the criteria to be accounted for as present obligation unless they satisfy all eligibility criteria,
- however, disclosures about the overall sustainability of a government's social benefits (based on present factors : population, tax rate, etc) should be required or, at least, encouraged.

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

ACCOUNTING FOR SOCIAL POLICIES OF GOVERNMENTS

Comments by OEC/CNCC (France) on ITC

No comment, at this stage.

It depends on :

- the scope of the social policies covered by the standard,
- the nature and the extent of the information required for disclosure.