



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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DATE: 23 FEBRUARY 2006  
MEMO TO: MEMBERS OF THE IPSASB  
FROM: JOHN STANFORD  
SUBJECT: ED – ACCOUNTING FOR SOCIAL POLICIES OF GOVERNMENT  
– NON PENSIONS

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### **ACTION REQUIRED**

The Board is asked to:

- **consider** the approach to key issues on which Staff was given directions at the Cape Town meeting; and
- **review** the draft Exposure Draft “Accounting for the Social Policies of Government (excluding Pension Arrangements)” and provide Staff with directions for further development.

### **AGENDA MATERIAL**

	Pages
8.2 ED XX, “Accounting for the Social Policies of Government (excluding Pension Arrangements)”	8.6 – 8.57

### **BACKGROUND**

At the Cape Town meeting in November 2005 members reviewed and considered the effects of the implementation of the working decisions made at previous meetings and modified or reversed some of those decisions.

In particular it was decided that:

- differences in the black letter requirements for collective and individual goods and services should be eliminated. It was also acknowledged that this decision may have implications for definitions of collective and individual goods and services and explanations of them in commentary; and
- “staying alive” should not be treated as an implicit eligibility requirement for individual goods and services and cash transfers-there may be some programs where staying alive is a formal eligibility criterion and even some rare cases where eligibility is not determined until after an individual’s death.

Members directed staff to modify the draft ED so that it:

- eliminated differences in the black letter requirements for collective and individual goods and services;
- reflected that present obligations for collective and individual goods and services do not arise until the goods and services are delivered;

- specified that present obligations for cash transfers are limited to amounts “due and payable” at the reporting date; and
- required the disclosure in a separate schedule of the estimated present value of the future cash benefits to be provided to current participants of social policy programs.

The revised draft ED at Item 8.2 actions these directions. The draft is presented as a clean copy. A marked-up version is available from Staff on request.

## ISSUES

### (a) **Elimination of different requirements for collective and individual goods and services**

In accordance with the direction given at Cape Town, the requirements for collective and individual goods and services have been standardized. The definitions in the draft for the Cape Town meeting have been retained,. The commentary on individual goods and services at paragraph 15 has been modified, in order to highlight that some services can operate as both collective and individual goods and services, using police services as an example. Staff believes that the distinction between collective and individual good and services is still valid. This is because it is so entrenched in statistical accounting circles and also because many individual goods and services do require the satisfaction of eligibility criteria, a characteristic that they share with cash transfer programs. However, staff seeks a view from members as to whether the distinction between collective and individual goods and services should be retained.

The point at which present obligations for individual goods and services and collective goods and services arise is now identical: a present obligation of the government or reporting entity arises when goods are provided or services delivered to beneficiaries. The obligation is to the provider/deliverer rather than to the beneficiary. Both the definition of eligibility criteria at paragraph 10 and related commentary acknowledge that individual goods and services have eligibility criteria. However, it is explained in paragraph 33 that even where an individual has satisfied all eligibility criteria he/she must still present himself/herself to benefit from the services or receive the goods. Until this point there is therefore no requirement on the reporting entity to sacrifice resources. This rationale is used to explain why a present obligation for goods and services does not arise until the goods and services are delivered, although a beneficiary may have satisfied all eligibility criteria

Members are asked to agree this approach or provide directions for modification.

### (b) **Removal of “staying alive” as an implicit eligibility criterion**

The draft for the Cape Town meeting had the implicit eligibility criterion of “staying alive” as a key mechanism in the determination of when a present obligation arises for both individual goods and services and cash transfers. “Staying alive” as an implicit eligibility criterion has now been deleted from the revised ED. The Basis for Conclusions at paragraph BC 26 explains that for certain programs “staying alive” may operate as an explicit eligibility criterion.

Members are asked to agree the rationale in the Basis for Conclusions.

### (c) **“Due and payable”**

Staff has concerns that the point at which a present obligation arises as a result of a transfer being “due and payable” may be capable of different interpretations and that it is important

to adopt an agreed interpretation of “due and payable” in order to inform future development of the cash transfer component of this project.

In the view of Staff the term “due and payable” has two components - “due” indicates that eligibility criteria have been satisfied and the beneficiary is entitled to or “due” a benefit; and “payable” indicates the date on which the cash outflow from the transferor is to occur.

Consistent with this interpretation, Staff has implemented the direction from members in the ED so that a liability should be recognized for amounts where:

- eligibility criteria have been satisfied; and
- the resultant cash transfer is payable before the reporting date, and has not been paid as at the reporting date.

The timing of these two points may coincide i.e. an amount becomes payable at the point at which all eligibility criteria are satisfied. This may not always be the case, however.

Therefore, in order to demonstrate the point about possible differences of interpretation, Staff highlights the following 2 scenarios (in all cases the reporting date is 31 December) relating to programs for support for individuals with physical disabilities providing a benefit of 500 currency units a month.

In the first scenario Program A requires individuals to satisfy eligibility on the first day of every second month. Satisfaction of the eligibility criteria entitles the participant to receive a cash transfer which is payable two weeks after eligibility criteria have been satisfied. This payment relates to the month in which eligibility criteria are satisfied and the following month. During the reporting period the last date at which eligibility criteria must be satisfied is 1 November and payment is then due on 15 November. In such a scenario there appears little doubt that an entity would expense a two month installment of the benefit and, if the payment was made on 15 November would not recognize a liability. If the transfer payable on 15 November had not been made by the year-end a liability of 500 currency units would be recognized for that amount.

In the second scenario, under Program B, the timing of eligibility validation and payment arrangements differs. Eligibility has only to be satisfied at 4 monthly intervals. Payment of 2000 currency units for the full 4 months is made 2 months after the satisfaction of eligibility criteria. During the reporting period the last date at which eligibility criteria must be satisfied is 1 November, but payment is not made until 1 January, the day after the reporting date. Under these circumstances the amount that is due and payable and therefore should be recognized as a liability may be open to interpretation. The liability might, arguably, be any one of the following:

- For the full amount of the payment which will be payable on 1 January i.e. 2000 currency units. The rationale for this is that the applicant has a reasonable expectation that he/she will receive the full amount on 1 January and the transferor entity has little realistic alternative to settle even though the legal payment date is after the end of the reporting period;
- Zero; on the basis that the amount is not strictly payable until 1 January, which is not in the reporting period and the transferor entity can avoid any sacrifice of resources until 1 January;
- Two months payments (i.e. 1000 currency units) on the basis that under the accrual basis, this is the amount that relates to the reporting period.

In the ED at Agenda Item 8.2 the second of these interpretations has been applied, because a present obligation only arises when eligibility criteria have been satisfied and the date at which, under legislation, the transfer of resources is to be effected has been reached. Staff

has some unease with this approach and considers that a present obligation may arise when an amount is “due” regardless of whether that amount is “payable” before the reporting date, unless there is a virtual certainty that the government will enact retrospective legislation that will allow it to avoid the outflow. The enactment of retrospective legislation is likely to be rare and in both commentary and the Basis for Conclusions it is emphasized that the assessment of whether a present obligation arises is made in the context of the current legal framework for a particular program.

There may be rare occasions where satisfaction of eligibility criteria gives a right to benefits which cover a retrospective period. An example is where an individual’s satisfaction of eligibility criteria on 30 September entitles him/her to a cash transfer payable on 15 October which covers the 6 month period from 1 April until 30 September. In such cases the amount “due and payable” will be limited to that 6 monthly payment, if it is outstanding at the reporting date. There will be no accrual for the period from 30 September to 31 December because the eligibility criteria for this period have not been satisfied.

Members are asked to consider the interpretation of “due and payable” in the context of the revised ED and to confirm the approach to the determination of [present obligations and the measurement of the liability in relation to cash transfers in the ED or provide alternative directions.

#### **(d) Disclosures**

In accordance with the direction given at the Cape Town meeting Staff has developed requirements for the disclosure in a separate statement of potential liabilities for current beneficiaries of cash transfer programs. The requirement is for an entity to present information about the present value of future cash transfers for its major cash transfer programs for all participants who had satisfied eligibility criteria at the reporting date.

These disclosures may necessitate the use of actuarially assessed data. However, Staff considers it unduly onerous and inappropriate to require actuarially based information to be used. Where actuarial assumptions are involved there is a requirement to disclose the principal assumptions in making the cash transfer projections. These actuarial assumptions may include both demographic assumptions such as mortality, emigration and the extent to which existing participants will cease to satisfy eligibility criteria and financial assumptions including future benefit increases and discount rates. An illustrative example of such a disclosure is provided at Appendix B.

Staff are of view that it needs to be made clear that these disclosures do not attempt to indicate the sustainability of the program or arrangement, although they may provide an input to analyses of sustainability, rather only the present value of future cash transfers related to current participants. Arguably some may see the discounted amount as a better reflection of the liability under an accrual basis.

These disclosures are very much a first step in a more detailed analysis of sustainability reporting that the IPSASB hopes to initiate in the future. Despite the limitations of the disclosures which have been inserted into this draft of the ED it would be unrealistic to include requirements for sustainability disclosures that entail highly sophisticated projections, which have only tenuous links to the statement of financial position and statement of financial performance, and which would be overly demanding of entities in the process of migrating to the full accrual basis.

Members are asked to approve the approach in the ED or provide alternative directions.

**(e) Transitional Provisions**

The previous draft of the ED did not include transitional provisions. The Basis for Conclusions for the previous draft explained that the requirements of the Standard were unlikely to lead to a radical modification of existing approaches. This rationale remains viable for the recognition and measurement requirements of the draft ED - in fact the circumstances under which present obligations arise and liabilities are recognized are likely to more closely reflect current practice than the requirements in the previous draft.

The introduction of the disclosures at (d) has necessitated a review of the line on transitional provisions. Staff considered whether limited transitional provision should be introduced in respect of all these disclosures, which, for some entities, will require the commissioning of actuarially based information that is not currently available. However, the disclosures only apply to current participants in a program—that is beneficiaries who have satisfied explicit eligibility. Consequently the key data necessary to make actuarial calculations should be easily available from records needed for the sound financial management of the program. On balance, therefore, Staff considers that extensive transitional provisions are still not justified. However, a transitional provision has been inserted for the comparative requirements for the 4 years preceding the reporting period. In addition the requirement in paragraph 60 of IPSAS 1 for comparative information in the first year of adoption has been waived in recognition of the fact that actuarial data may be needed. It is intended to ask constituents for their views on the necessity of further transitional provisions as a specific matter for comment.

Members are asked to confirm the approach in the ED or to provide alternative directions on for transitional provisions.

**(f) Impact of IASB project on Provisions, Contingent Liabilities and Contingent Assets**

Some members and TAs have expressed continuing concerns about the potential impact of the IASB's project on IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, in particular that the wholesale adoption of the proposals in the IASB's 2005 Exposure Draft would have a radical impact on the conceptual underpinnings of the ED and in particular on the evaluation of present obligations, recognition and measurement aspects of the ED. The Basis for Conclusions at paragraph BC 3 acknowledges the potential impact of IAS 37, but argues that, firstly, it would be inappropriate to pre-empt the outcome of the IASB's consultation process and that, secondly, due to the significance of accounting for social benefits for very many public sector entities it would not be appropriate to defer further development of the project until the outcome of the IASB project is more certain. This approach is consistent with that adopted in the recently issued ED 29, *Revenue from Non-Exchange Transactions (including Taxes and Transfers)*.

**THIRD DRAFT ED**

Accounting for  
Social Policies of Government  
(excluding Pension Arrangements)

*ED xx Social Policies of Government*

*Item 8.2 Draft ED on SPOs (excluding Pension Arrangements)*  
IPSASB Tokyo March 2006

#### Commenting on this Exposure Draft

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

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

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## **INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

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

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

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

### **Due Process and Timetable**

An important part of the process of developing IPSASs is for the Committee to receive comments on the proposals set out in IPSASB Exposure Drafts from governments, public sector entities, auditors,

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

## **Background**

For many public sector entities a considerable proportion of their expenses relate to the provision of social benefits in non-exchange transactions. Key issues related to accounting for social benefits include the point at which liabilities should be recognized in relation to different programs and activities and the extent of such liabilities. These issues have not been addressed by International Public Sector Accounting Standards, and other international guidance does not address these issues from a public sector perspective.

This Exposure Draft has been developed following consideration of responses to an Invitation to Comment (ITC) that was developed by a Steering Committee appointed by the former Public Sector Committee (PSC). (At its November 2004 meeting, the IFAC Council approved a change in name of the Public Sector Committee to the International Public sector accounting Standards Board (IPSASB). The ITC was published by the PSC in January 2004 with a request for comments to be received by June 30, 2004..

## **Purpose of the Exposure Draft**

This Exposure Draft proposes requirements for the accounting treatment of a range of governmental social policies other than those related to pensions and benefits related to pensions.

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## Request for Comments

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

## Specific Matters for Comment

The IPSASB would particularly value comment on whether you agree that:

1. The definition of social benefits is sufficiently clear and comprehensive? If you disagree can you explain how this definition should be modified.
2. The definitions of collective goods and services, individual goods and services and cash transfers are necessary and appropriate. If they are not necessary and appropriate can you explain how they should be modified.
3. A present obligation in respect of collective and individual goods and services only arises to the provider of those goods and services when the goods and services are delivered. If you disagree to whom do you think that a present obligation in respect of collective and individual goods and services arises and at what point does such a present obligation arise?
4. A present obligation in respect of cash transfers arises when amounts become “due and payable”. In the ED “due” is when all eligibility criteria have been satisfied and “payable” is when the transfer of the benefit is to be made. If you

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disagree can you indicate when a present obligation in relation to cash transfers arises?

5. A line item should be required on the statement of financial position for liabilities arising from social benefits? If you disagree what alternative presentation do you think is appropriate?
6. The ED should require the disclosure of the potential projected liability to current beneficiaries, determined on an actuarial basis and discounted to present value. If you do not agree that this disclosure is appropriate can you explain what disclosure, if any, in relation to potential liabilities should be required?
7. There is no need for more extensive transitional provisions. Currently the only transitional provision is in respect of the comparative information for the disclosures of the present value of future costs of major cash transfer programs. If you think that further transitional provisions are necessary can you provide reasons and also specify whether transitional provisions should apply to the whole Standard or only to certain parts of the Standard.

# International Public Sector Accounting Standard ED XX

## Accounting for Social Policies of Governments (excluding Pension Arrangements)

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# Appendix:

## A. Amendments to other International Public Sector Accounting Standards

## Implementation Guidance

## Projections of Cost of Major Cash Transfer Programs: Illustrative Example

## Basis for Conclusions

International Public Sector Accounting Standard XX, “Accounting for the Social Policies of Government” (IPSAS XX) is set out in paragraphs 1-64. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusions and the “Preface to the International Public Sector Accounting Standards”. IPSAS 1, “Presentation of Financial Statements” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## **INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX**

### **Accounting for Social Policies of Governments (excluding Pension Arrangements)**

#### **Objective**

1. Governments provide constituents with social benefits in the form of goods, services and cash transfers in the pursuit of social policy objectives. The objective of this Standard is to identify the circumstances in which social policies of governments (other than those relating to the provision of aged pensions and other age related social benefits) give rise to a liability, and to establish requirements for accounting for such obligations.

#### **Scope**

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

- a) **Aged pension benefits; and**
- b) **Other individual social benefits and cash transfers, where the eligibility criteria for entitlement include reaching a specified pensionable age.**

3. Social benefits are provided to members of the community in a non exchange transaction, often without any consideration. They include health and educational services and cash transfers such as unemployment benefit. However, not all these social benefits are dealt with by this Standard.

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4. This Standard does not apply to aged pension benefits provided by governments to citizens when they reach a pensionable age which is specified in legislation or regulation. In some jurisdictions, individual goods and services and cash transfers such as enhanced health care benefits and pension support are also linked to aged pension benefits. If such goods and services and cash transfers are available more widely than to those who have reached pensionable age, they are within the scope of this Standard. If such benefits are only available to those who have reached pensionable age they are outside the scope of this Standard and will be dealt with in the Standard(s) dealing with aged pension benefits. In some cases certain cash transfers may be referred to as pensions although entitlement does not depend on reaching a “pensionable age” – for example, disability pensions payable to individuals who are considered no longer capable of working due to injury or certain medical conditions. This Standard does apply to such cash transfers.

5. In some jurisdictions governments or public sector entities may provide individual goods and services such as health, housing and transport in exchange for consideration of approximately equal value - for example, when a hospital has a wing for patients who pay for medical services. Such transactions are exchange transactions and are outside the scope of this Standard.

6. In some jurisdictions, governments or their entities may provide individual goods and services in exchange for consideration that is not approximately equal in value to the benefits transferred by the government or public sector entity- for example, an individual may be required to contribute a nominal amount to the cost of an educational course. Such arrangements are within the scope of this Standard.

7. This Standard does not apply to employee benefits, including post-employment benefits provided to government employees and other employees in exchange for their services. Requirements in respect of employee benefits should be accounted for in accordance with the separate Standard dealing with employee benefits.

### **Government Business Enterprises**

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

9. The Preface to International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards, which are issued by the International Accounting Standards Board (IASB).

## Definitions

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

**An aged pension is a cash transfer payable only to that segment of the population that has reached a specified age known as the pensionable age.**

**A cash transfer is a non-exchange transaction in cash, or an expense paid through the tax system, to protect individuals against certain social risks where use of the cash payment is at the discretion of the individual.**

**Collective goods and services are goods and services provided for consumption by the entire population or by a particular segment of the population in any jurisdiction in order to protect the population or segment from certain social risks.**

**A constructive obligation is an obligation that derives from an entity's actions where:**

- (a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and**
- (b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.**

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**A contingent liability is:**

- (a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or**
- (b) A present obligation that arises from past events but is not recognized because:**
  - (i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or**
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.**

**A cash transfer that is “due and payable” is a transfer for which eligibility criteria have been satisfied and, in accordance with legislation and/or regulations and other authorities governing the program, is payable to the beneficiary.**

**An eligibility criterion is a requirement that an applicant must meet for entitlement to individual goods and services and cash transfers.**

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

**Expenses paid through the tax system are amounts available for beneficiaries regardless of whether or not they pay taxes**

**Government means national, state/provincial, local/municipal and other levels of administration/government or their equivalents.**

**Individual goods and services** are goods and services provided for individual consumption to protect an individual or individual household against certain social risks.

A **legal obligation** is an obligation that derives from:

- a) A contract through its explicit or implicit terms;
- b) Legislation; or
- c) Other operation of law.

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

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

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

A **participant in a cash transfer program** is an individual that has satisfied all eligibility criteria at the reporting date.

**Pensionable age** is an age specified in legislation at which an individual becomes eligible for individual goods and services and cash transfers where that age is an eligibility criterion for entitlement.

**Social benefits** are cash transfers and individual and collective goods and services provided in a non exchange transaction to

**protect the entire population, or individuals or individual households against certain social risks.**

**Social benefits other than aged pensions are social benefits where there is no eligibility criterion that the recipient has reached pensionable age.**

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

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

### **Goods and Services Encompassed by Social Benefits**

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

### **Collective Good and Services**

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

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- (a) national defense;
- (b) the conduct of international relations;
- (c) public order and safety (including police services, fire protection services, law courts and prisons);
- (d) the efficient operation of the social and economic system of a country; and
- (e) the formulation and administration of government policy, setting and enforcement of standards, regulation and licensing of personnel and institutions, and applied research and experimental development.

### **Individual Goods and Services**

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

- (a) health services,
- (b) educational services,
- (c) housing services,
- (d) transport services; and
- (e) social services to the community.

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14. The provision of individual goods and services is often intended to contribute to the collective welfare by, for example, creating a workforce that is better educated or technically competent in certain areas, or a population that is in better health. However, individual goods and services are provided in the first instance for consumption by individuals or individual households. Unlike collective goods and services, individual goods and services are subject to the satisfaction of eligibility criteria. Such eligibility criteria differ widely between types of benefits in their number and complexity. Some eligibility criteria may need to be revalidated at regular intervals -for example, where the provision of medical services is only available to those with incomes below a specified level. Individual goods and services can be provided in a number of ways. For example methods to provide free or subsidized health and educational goods and services to individuals include:

- a) The direct provision of the goods and services. Governments may deliver services directly, for example, in government controlled schools or hospitals with government employed teachers and medical staff..
- b) Paying another organization to deliver goods and services to individuals. For example, a government may pay a private hospital a set fee per service, such as for performing an operation on an individual. Normally such arrangements will require the hospital to meet certain criteria specified by the government. Governments may also pay private sector providers of educational services a subsidy for each student. Frequently upper limits are set on the amount that the government will pay under such arrangements.
- c) The reimbursement of households and individuals for certain types of expenditure. Rather than providing free or subsidized goods or services at the point of purchase or consumption, a government may require individuals to purchase the goods and services and then apply for reimbursement. For example, individuals attending a doctor's surgery may be required to pay a standard fee, which a government will reimburse in full for certain individuals or a government may reimburse individuals with disabilities for the cost of certain home services when proof of receipt of those services is provided; and

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

15. There may be certain instances where a service may be provided on both a collective and an individual basis. For example policing services are both collective and individual goods and services. Members of the community are subject to the protection of the police as a component of the broader criminal justice system and normally do not have to take positive action to consume such services. However, there are occasions when an individual does have to take positive action in order to benefit from policing services. For example, an individual whose dwelling has been burgled will have to contact the police in order to have the incident investigated. There may be jurisdictions where the community may have the option of acquiring increased police protection by making an additional contribution to the cost of police services - usually in an exchange transaction. In some jurisdictions security services may also be provided in the market place. Although such security services will not normally have the same legal powers available to national or local police services, they may augment the role of the police by providing certain members of the community with additional assurance.

16. A key characteristic of individual goods and services is that the economic benefits transferred must be used for the purposes specified by the transferor. They therefore differ from cash transfers to individuals where the individual has discretion over the purposes for which the resources may be used (see below paragraphs 17-19). Where the resources embodied in individual goods and services involve the transfer of cash as at paragraph 13(c) this is a specific reimbursement.

### **Cash Transfers**

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

- a) child benefits

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- b) invalidity and sickness benefits
- c) unemployment benefits
- d) income supplements; and
- e) housing benefits (where paid to the applicant rather than directly to the landlord)

18. The key characteristic of cash transfers as defined in this Standard - and the fundamental difference from individual goods and services- is that the purposes for which the cash transferred may be used is at the discretion of the recipient. If a recipient has to validate that the cash has been used for a purpose specified by the transferor the transaction is a reimbursement rather than a cash transfer and is to be treated as an individual good or service.

19. On occasions cash transfers will be made to beneficiaries as reductions in the amount of income tax that they have to pay rather than as a direct cash payment. In such cases, for administrative efficiency, the taxation system is used to process a transfer, which would otherwise be transferred in cash,. Such reductions in taxation are within the definition of cash transfers. ED 29, *Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)* provides additional commentary on tax expenses and tax expenditures..

20. There may be instances where a particular social benefit program or arrangement includes both cash transfers and individual goods and services. An example is a housing support program where rental allowances for the tenants of private landlords are paid to recipients in cash, whereas rental allowances to recipients who are tenants of public housing authorities are paid directly to the housing authority. In such cases resource outflows under the program may be differentiated between cash transfers and individual goods and services.

### **Aged pensions**

21. Many jurisdictions provide citizens with cash transfers once they have reached a specified age as laid down in legislation, referred to

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in this Standard as the pensionable age. The arrangements for payment of such transfers vary widely across the world as do the terms used to describe them. However, such transfers generally have the common aim of protecting individuals over a specified age from the risk of poverty. As well as cash transfers many jurisdictions also provide individual goods and services to individuals who have reached the specified pensionable age, for example vouchers which can be used to meet all or part of utility bills. The term “aged pension” includes both cash transfers and individual goods and services where an eligibility criterion is that the individual has reached pensionable age.

22. As noted in paragraph 4, the term “pension” can also be used in the context of cash transfers where the eligibility criteria do not include a requirement that pensionable age has been reached. The term “aged pension” does not include such cash transfers.

### **Obligating Events and Present Obligations**

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

24. An obligation always involves another party to whom the obligation is owed. In many commercial contracts both parties will know to whom the obligation is owed. However, specific identification of the other party is not necessary for the establishment of an obligation. The obligation arising from a governmental social policy may be to a large number of citizens..

### **Legal Obligations and Constructive Obligations**

25. A legal obligation exists when a party has a legal or otherwise enforceable right to obtain judgment through a court of competent jurisdiction to enforce payment, performance or compensation. A determination of whether a particular transaction or event would give rise to a legal obligation must ultimately be made by a court or other quasi-judicial mechanism. A legal obligation exists when it is clear from legislation or previous examples of legal action that, if the issue were

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taken to court, the issue would be decided in the applicant's favor. This may be the case for a number of cash transfers where the particular circumstances of an applicant's eligibility may not have been tested in court, but the experience of similar previous cases may suggest that an obligating event has occurred.

26. Legal obligations often arise as a result of contractual obligations. A contract is an agreement with specific terms between two or more persons or entities in which one agrees to provide goods or services or to take certain actions in return for valuable consideration, including where the consideration provided by one party is not of approximately equal value to the value of the benefits conferred by the other party to the contract. In some cases, the consideration may be nominal in relation to the benefits conferred (for example, a small monetary consideration may be provided merely to give the transaction the form of a contract).

27. In some jurisdictions, a government's perceived commitment to deliver social benefits to constituents may be referred to as a "social contract". The use of the term "social contract" does not establish a legally enforceable agreement with specific terms as in paragraph 25.

28. Future obligations can be distinguished from present obligations. A government's implicit or explicit agreement to provide social benefits in future periods does not constitute a legal contract and does not give rise to a present obligation.

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

30. An obligation always involves a commitment to another party. Therefore it follows that a decision by a government or government entity's management, governing body or controlling entity does not give rise to a constructive obligation at the reporting date unless the decision has been communicated before the reporting date to those affected by it in a manner sufficiently specific to raise a valid expectation in them that the entity will discharge its responsibilities. General political commitments or statements of policy intention do not give rise to present

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obligations, because these statements are not sufficiently specific and therefore the entity does have a realistic alternative to settling an obligation.

### **Contingent Liabilities**

31. Contingent liabilities include possible obligations where the existence of the obligating event may be confirmed only in the future. An example may be where a group of individuals have applied for benefits under a cash transfer program, but where their eligibility is uncertain until the outcome of a legal case is known.

## **Present Obligations**

### **Collective and Individual Goods and Services**

32. **A present obligation for the provision of collective and individual goods and services arises when the goods or services are delivered and not before such delivery.**

33. This Standard requires that a present obligation for collective and individual goods and services does not arise until the delivery of the goods and services. The present obligation is to the deliverer of those goods and services and not to the beneficiary (see paragraphs 35 and 36). As indicated at paragraph 14 programs and arrangements for the provision of individual goods and services involve eligibility criteria which applicants for the benefits of the program must satisfy in order to establish an entitlement to the transfer of goods and services. Regardless of whether such eligibility criteria have been satisfied there is no obligation on the entity providing individual goods and services to sacrifice resources prior to delivery of those goods and services to the individual or individual household that has satisfied the eligibility criteria.

34. Where an individual purchases goods and services and seeks reimbursement from a public sector entity a present obligation may arise at the point at which the goods and services are provided to the individual. This is the case if it can be demonstrated that the individual had a prior authorization to purchase the goods and services and had met all eligibility criteria and the entity providing

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the reimbursement has sufficient information to measure the amount outstanding reliably. In such circumstances the individual is, in substance, acting as an agent of the public sector entity and is incurring expenditure on behalf of that entity.

35. An entity may have contracts with third parties for the supply of goods and services needed to provide collective and individual goods and services on an ongoing basis, including into the future. When the goods or services are provided a present obligation will arise in respect of the provider – the past event that gives rise to the present obligation is the provision of goods and services. Expenses and liabilities in relation to such contractual arrangements to supply goods and services will be recognized as for other contracts in accordance with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. Similarly, contingent liabilities associated with agreements with suppliers are disclosed in accordance with IPSAS 19.
36. If collective and individual services are provided directly by government entities using the government's employees, present obligations arise as a result of contracts with those employees. The entity accounts for such transactions in the same way as for other employment contracts. The fact that the reporting entity has entered into employment contracts with employees involved in the provision of collective and individual goods and services for future periods does not create a present obligation in relation to citizens prior to delivery of those services. Rather, a present obligation to employees arises as those employees provide the services in accordance with those employment contracts.

## Cash Transfers

37. **A present obligation for cash transfers arises when such a transfer is due and payable.**
38. Under the requirements of this Standard a present obligation for a cash transfer arises when an amount becomes “due and payable”. An amount becomes “due and payable” on the date that the transfer is to be made in accordance with governing legislation or regulations

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following the satisfaction of eligibility criteria by the individual. There is no present obligation if the individual has not satisfied the eligibility criteria or if the eligibility criteria have been satisfied, but the date at which the transfer is to be effected and is legally enforceable by the beneficiary has been reached.

39. This Standard takes the view that an entity has no realistic alternative but to settle its obligations, which are due and payable and have not been settled as at the reporting date. Whilst, governments and other public sector entities can modify eligibility criteria it is unlikely that such changes will be retrospective. The government may therefore have no realistic alternative but to provide to eligible recipients cash transfers to which they are entitled up until the reporting date as a consequence of satisfying those eligibility criteria. Such an assessment is made in the context of the current legal framework governing a program or activity.

## Initial Recognition

40. **Where a present obligation has arisen a liability in respect of a cash transfer shall be recognized when:**
- (a) **it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and**
  - (b) **a reliable estimate can be made of the amount of the obligation**

*Probable Outflow of Resources Embodying Economic Benefits or Service Potential*

41. For a liability arising from a present obligation to be recognized an outflow of resources embodying economic benefits or service potential must be probable. There may be rare instances where a present obligation arises from a legal obligation, but it is deemed that an outflow of economic benefits and service potential is not probable. In such cases an entity discloses a contingent liability,

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unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

#### *Reliable Estimates*

42. There may be cases where, although a liability exists, no reliable estimate can be made of the amount. In the context of the requirements of this Standard in relation to social benefits such instances are likely to be extremely rare. Where no reliable estimate can be made a liability exists that cannot be recognized. That liability is disclosed as a contingent liability (see paragraph 43)

## **Contingent Liabilities**

43. **An entity shall not recognize a contingent liability in respect of social benefits.**

44. Contingent liabilities are not recognized because they do not satisfy either the definition of, or recognition criteria for, a liability.

## **Measurement –Cash Transfers**

45. **The amount recognized as a liability shall be amounts “due and payable” and outstanding at the reporting date.**
46. Under the requirements of this Standard liabilities arise for cash transfer programs in respect of amounts due and payable and outstanding at the reporting date. No liability is recognized if the eligibility criteria have been satisfied, but the amount to which eligibility has been validated is not payable until after the reporting date.

## Presentation and Disclosures

### Line Items

47. **A line-item for Liabilities Arising from Social Benefits shall be presented on the face of the Statement of Financial Position.?**
48. This Standard. requires public sector entities to present the aggregate of liabilities related to social benefits (excluding pension arrangements) as a line item on the face of the Statement of Financial Position. An entity that considers it appropriate to present more detailed information on a line item basis about cash transfer programs is permitted to do so. An entity may consider it appropriate to present more detailed information for major cash transfer programs or programs related to a particular group of beneficiaries such as those under the age of 5 years.

### Contingent Liabilities

49. **Unless the possibility of any outflow in settlement is remote, an entity should disclose for social benefits (excluding the aged pension) at the reporting date a brief description of the nature of the contingent liabilities and, where practicable:**
- (a) An estimate of the aggregate financial effect of those contingent liabilities, measured under paragraphs 45-56;**
  - (b) An indication of the major uncertainties relating to the amount or timing of any outflow; and**
  - (c) The possibility of any reimbursement.**
50. This Standard requires entities to disclose a brief description of how those contingent liabilities relating to social benefits have arisen, an estimate of the aggregate financial effect and details of the timing of any outflow and the likelihood of any reimbursement.

51. There are no obligating events in respect of collective and individual goods and services until the goods and services are delivered, and then only to the service provider or deliverer of goods to the reporting entity. Therefore an entity does not disclose the existence of a contingent liability in respect of obligations to beneficiaries for collective and individual goods and services provided in non-exchange transactions.

52. For cash transfers a contingent liability will be disclosed where a large number of individuals have applied for a program, such as income support, but, due to ambiguity over interpretation of the rules governing the program, there is uncertainty over whether one or more of the eligibility criteria have been met. If the eligibility criterion/criteria in question had been met the individuals would have been entitled to receive a payment before or on the reporting date.

53. This may have led to a legal action that should result in a clarification of the nature and extent of any liability. If the results of this legal action will not be known until after the reporting date then a contingent liability will be disclosed unless the possibility of a judgment inimical to the entity is remote. Such a disclosure includes, where feasible, an estimate of the financial implications in the event of the court deciding that the key eligibility criterion has been satisfied

#### **Disclosure of Information on Present Value of Future Cash Transfers of Major Cash Transfer Programs and Arrangements**

**54. An entity shall disclose in a separate statement the present value of future cash transfers for all major cash transfer programs and arrangements for all participants at the reporting date.**

55. In making an assessment of the present value of future cash transfers the entity will discount the projected amount of those future cash transfers. The discount rate used will reflect the estimated timing of benefit payments and will be related to the yield on government bonds at the reporting date.

**56. An entity shall disclose the following information for each major cash transfer program:**

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**(a) A general description of the cash transfer program, including the principal legislation and regulations governing the program and the number of participants at the reporting date.**

**(b) The rate used to discount future cash transfers to their present value.**

**(c) Estimated future increases of benefits under cash transfer programs.**

**(d) The principal actuarial assumptions, if any, used at the reporting date. –**

**(e) Changes to the principal actuarial assumptions since the last reporting date**

**(f) Comparative figures for the 4 years immediately preceding the reporting period.**

57. This Standard requires an entity to disclose information about the present value of future cash transfers for its major cash transfer programs for all current participants who have satisfied explicit eligibility criteria at the reporting date. These projections may need to be based on actuarial assumptions. Actuarial assumptions may include demographic factors such as life expectancy, emigration and the extent to which existing participants will cease to satisfy other explicit eligibility criteria and financial factors including future benefit increases. This information does not include projections for future cash transfers for future participants, who have not yet satisfied eligibility criteria, including current applicants for whom eligibility criteria had not been validated at the reporting date.

58. Where actuarial assumptions are used this Standard requires the disclosure of the principal assumptions used to provide the projections of future cash transfers and any changes to those assumptions since projections disclosed at the previous reporting date. This information is useful in facilitating the assessment of the viability of the projections. The Standard also requires comparative information, which provides an

indication of the rate at which the projected financial impact of a particular cash transfer program or arrangement is decreasing.

59. Professional judgment is applied in determining which programs are major programs by reference to the qualitative characteristics of financial reporting in IPSAS 1. Such a judgment is based primarily on the current annual expenditure of a program.

60. The disclosures required by this Standard may be a useful input to assessments of the sustainability of major cash programs. However, such assessments need to take into account a wide range of factors not addressed in this Standard.

## Transitional Provisions

61. **The full requirement for comparative information at paragraph 56 (f) does not take effect until a date five years after the adoption of this Standard. During this 5 year period entities are required to provide comparative information on an incremental basis. There is no requirement for comparative information in the first year of adoption of this Standard.**

62. This Standard does not require the disclosure of full comparative information on the projected cost of major cash transfer programs until a date five years after the initial adoption of this Standard. During the period between initial adoption and the fifth year of adoption entities are required to disclose comparative information about the projected cost of major cash transfer programs on an incremental basis i.e. on the first year of adoption entities are only required to disclose projected cost information for that year, in the second year cost information for that year and the initial year until at the of the fifth year a full disclosure can be made. Entities are encouraged to present full comparative information if possible. .

## Effective Date

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

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

## Appendix A

### Amendments to Other IPSASs

In IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” the following paragraph is deleted:

~~99. Where an entity elects to recognize in its financial statements provisions for social benefits for which it does not receive consideration that is approximately equal to the value of the goods and services provided, directly in return from the recipients of those benefits, it should make the disclosures required in paragraphs 97 and 98 in respect of those provisions.~~

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## Implementation Guidance

### Accounting for Social Policies of Government — Examples

*This guidance accompanies, but is not part of, proposed IPSAS XX.”.*

#### Example 1: Collective Goods and Services: General Commitments

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

#### *Analysis*

##### **Present obligation as a result of a past obligating event —**

IG2 There is no present obligation to provide policing services in future periods, regardless of whether statements have been made of intentions to increase police numbers, reduce them or maintain them at current levels. This is because such statements do not leave the government without a realistic alternative to settling the obligation created by the announcement. General statements of intent are not obligating events. A present obligation to police employees arises as those employees provide policing services in accordance with their employment contracts.

#### Example 2: Individual Goods and Services: Free Health Care-Universal to Residents

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

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*Analysis*

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

**Example 3: Individual Goods and Services: Free Health Care to Low Income Individuals**

- IG5 Under healthcare legislation a government provides specified healthcare services free to both adults and children under 18 years of age of families where the individual income is less than 300 currency units. Individuals wishing to obtain free healthcare services have to apply to the government's Department of Health providing evidence that their monthly income is less than 300 currency units. When their applications have been validated they are eligible for free healthcare services for a 6 month period, after which time their eligibility has to be revalidated. The government arranges for the healthcare services to be provided through clinics and hospitals operated by non-for-profit foundations.

*Analysis*

- IG6 **Present obligation as a result of a past obligating event** — A present obligation arises to the not-for-profit foundations providing the medical care as that care is delivered. There is no present obligation prior to this point, including to those who have had their eligibility confirmed, regardless of the fact that some individuals' eligibility continues into the next accounting period.

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**Example 4a: Child Benefits (eligibility to be reconfirmed)**

IG 7 Government A has legislation that specifies the eligibility criteria for child benefits. The parents of each eligible child receive 200 currency units each month from the government. The eligibility criteria are:

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

IG 8 Entitlement commences when an application has been received and approved. No payments are made for periods prior to the date on which eligibility has been confirmed. Payments are made in the middle of each month. The parents of a child whose eligibility is confirmed after the 10<sup>th</sup> of each month will not receive the payment until the following month.

IG 9 At year-end, 6,000 children have satisfied eligibility criteria, as a result of which their parents are in receipt of benefits. The payment for these children was made before the reporting date. A further 4,000 babies have met the eligibility criteria and had applications approved but have not yet received the first instalment of benefit. The average amount owed is one month's entitlement. The eligibility of 2,000 of these babies was not, however, validated until after the 10th of the month.

IG 10 Therefore, at the reporting date, 10,000 children in total (including the 4,000 babies newly eligible) have validated their eligibility for entitlement to child benefits for the next 12 month period. It is expected that 1,000 babies will be born in the year following the reporting date.

*Analysis*

IG 11 **Present obligation as a result of a past obligating event** —A present obligation arises when children have satisfied eligibility criteria and the amount due is payable. At reporting date there is a liability in respect of the amounts due and payable and outstanding for 2,000 of the 4,000 babies who have recently validated eligibility. There is not a present obligation at the

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reporting date in respect of the 2,000 babies whose eligibility had been confirmed after the 10<sup>th</sup> of the month and for whom the cash transfer is not payable until the month following the reporting date. In addition there is no present obligation in respect of the 1,000 babies expected to be born in the year following the reporting date.

- IG 12 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable in respect of 2,000 of the 4,000 babies whose eligibility has been confirmed.
- IG 13 **Recognition**—A liability is recognized in respect of the present obligations for the amounts due and payable for the 2,000 of 4,000 babies who have recently asserted eligibility.
- IG 14 **Measurement**— The 200 currency units payable in respect of each eligible child is expensed each month as the payments are made. At year-end, the government recognizes a liability of 400,000 currency units for the amounts due and payable for the 2,000 babies who had applications approved before the 10<sup>th</sup> of the month (2,000 x 200). There is no liability recognized for amounts payable beyond the reporting date.

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

- IG 15 Government B has legislation that specifies the eligibility criteria for child benefits. The parents of each eligible child receives 200 currency units at the end of each month from the government if their children meet eligibility criteria. The explicit eligibility criteria are that:
- the child is a resident of the country; and
  - the child is aged 16 years or under.
- IG 16 Entitlement is backdated to the date of a child's birth. However, backdating is only permissible to the beginning of the financial year (i.e 1 January). Payment is either made to a nominated bank account or in person at a government office. Entitlement stops at

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the end of the month that the child ceases to satisfy eligibility criteria (for example, the child reaches 16 years of age or the child ceases to be a resident). Parents are expected to notify the government immediately that eligibility ceases. Once initial eligibility is confirmed there are no further explicit validation checks. Payment is automatically discontinued in the month following that on which a child has reached 16 years of age.

IG 17 At year end, 15,000 children were eligible for child benefit. Benefits had been paid to these in accordance with the governing legislation. A further 1,000 had confirmed their eligibility but payments had not been processed. That average outstanding entitlement for these babies was three months benefit. A further 1,100 babies are expected to be born in the financial year following the reporting period.

IG 18 **Present obligation as a result of a past obligating event** — A present obligation arises when children have met the eligibility criteria and the instalment of benefit is payable. Therefore, at reporting date there is a present obligation for the 1,000 children who have confirmed their eligibility and for which payment is due but who have not received benefit. There is no present obligation in respect of the other 15,000 children for whom all payments due at the reporting date have been paid. There is no present obligation in respect of the 1,100 babies expected to be born in the year following the reporting date.

IG 19 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable in respect of the 1,000 children who have confirmed eligibility, but whose payment has not been made at the reporting date.

IG 20 **Recognition**— A liability is recognized for the amount of unpaid benefit relating to the 1,000 babies whose eligibility has been confirmed but whose payment is outstanding,

IG 21 **Measurement**—The 200 currency units payable in respect of each eligible child is expensed each month as the payments are made. At year end, the government recognizes a liability of

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600,000 currency units for unpaid benefit in respect of the 1,000 babies whose eligibility has been confirmed but whose payment is outstanding.. (1,000\*200\*3).

### **Example 5: Cash Transfer: Unemployment Benefits**

IG 22 A government agency provides support through unemployment benefits to people who are unable to find paid employment. To receive an unemployment benefit, a claimant has to demonstrate that he or she meets the entitlement criteria when making a claim.

IG 23 Unemployment benefit will be paid if the claimant is:

- aged over 18, but under pensionable age for a basic state pension;
- available for work; and
- actively seeking work — the government agency has the discretion to terminate the benefit if an individual rejects more than 3 offers of work. This discretion has been rarely exercised in the past

IG 24 Unemployment benefit is paid to eligible claimants at a two-weekly interval. Individuals have to reassert eligibility for the benefit at the beginning of each month by registering at one of the agency's offices. Entitlement ceases immediately if the criteria are breached.

IG 25 The benefit is 400 currency units per four weeks. The final payment occurs on the reporting date. The benefit is payable from date of approval of an application. As at reporting date, there are 100 individuals whose applications have been approved but whose payments have been delayed because they were not entered into the payment system in time for the December 31 payment. These individuals are owed, on average, one week's benefit.

*Analysis*

- IG 26 **Present obligation as a result of a past obligating event** — A present obligation exists only to those individuals who have satisfied eligibility criteria required to qualify for an unemployment benefit and for whom the resultant transfer is payable but outstanding.
- IG 27 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable.
- IG 28 **Recognition** — 400 currency units is expensed every four weeks as the government credits the recipients' bank accounts. The government records a liability for any amounts due and payable at year-end to individuals who have confirmed eligibility but whose payments have not been processed and are therefore outstanding.
- IG 29 **Measurement** — At year-end, the government would recognize a liability of 10,000 currency units (100 individuals × 100 currency units).

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

- IG 30 On December 10 200X, a massive earthquake struck Country A. On December 14, 200X the national government made a public commitment to participate in a multi-national relief initiative and pledged to provide policing services, by sending 100 officers for a 2 month period, and to also provide specified medical supplies. This commitment was communicated to a major supra-national organization and a number of governments, which have also agreed to assist in the effort. The government made a similar commitment following a disaster in Country B, a neighbour of Country A, two years earlier and honored that commitment. A separate contingency fund exists for such purposes and no further budgetary authorisation is required to allow the government to access these funds. The total cost of the policing component of the commitment, including transportation, is estimated to be 10 million currency units and the cost of the medical supplies is estimated to be 5

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million currency units. At the reporting date of 31 December only 3 million currency units had been spent.

### *Analysis*

- IG 31 **Present obligation as a result of a past obligating event** — Regardless of the public commitment, and its communication to very significant multi-national partner organizations and the previous honouring of similar commitments there is no obligating event giving rise to a present obligation to either the international partners or to the citizens of Country A. A present obligation will arise to police employees in accordance with their employment contracts and to the supplier of the medical supplies as those supplies are delivered to the donor government. This is because that government can realistically avoid any sacrifice of resources until the policing services and medical supplies are delivered.

### **Example 8: Legal Aid**

- IG 32 A government provides legal aid to individuals whose income in the previous financial year was below a specified annual amount. Legal aid is provided by law firms with which the government has long-term contracts rather than the government's own employees. The government's legal aid program is highly detailed and well-documented and legal aid has been consistently provided in conformity with it for over 20 years. All individuals charged with an indictable criminal offence are advised of their right to request legal aid. At the reporting date 1500 individuals had had applications for legal aid approved. Estimates of the cost of legal representation are based on a standard costing model that stratifies offences according to the nature of the offence and likely duration of the trial. Past experience has suggested that the estimates provided by this model are robust. The estimated cost of providing legal services for the 1,500 cases is 5 million currency units.

### *Analysis*

- IG 33 **Present obligation as a result of a past obligating event** — The present obligation arises when the legal aid is provided to

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the individuals who have met all eligibility criteria. The present obligation is to the law firms with which the government has a contractual arrangement. There is no liability to the individual beneficiaries. at the reporting date.

## PROJECTIONS OF FUTURE CASH TRANSFERS FOR MAJOR CASH TRANSFER PROGRAMS: ILLUSTRATIVE EXAMPLE OF REQUIREMENT IN PARAGRAPH 54

### Unemployment Benefit

<i>Present Value of Future Cash Transfers for Current Participants</i>	31 December 20xz  (millions of currency units)	31 December 20xy  (millions of currency units)	31 December 20xx  (millions of currency units)	31 December 20xv  (millions of currency units)	31 December 20xu  (millions of currency units)
Benefit Payments	950	650	420	340	200

### Notes

#### Unemployment Benefit

1. Unemployment benefit is administered under the provisions of the Employment Act 1976 as amended by the Employment Acts of 1992 and 2003. Regulations laid under these Acts provide a number of detailed requirements.
2. Unemployment benefit is payable to all individuals between the ages of 16 and 62, who have been unemployed for a minimum period of two weeks. Eligibility requirements include a stipulation that an individual must be available for work. Individuals are required to register in person at a specified Benefits Office in order to demonstrate that they meet this requirement. As at 31 December 20xz 2,500,000 individuals were in receipt of benefit, compared with 2,200,000 at 31 December 20xy.
3. In making the projections key assumptions in relation to those who are in receipt of benefit are that (figures in brackets indicate where these assumptions have changed since 31 December 20xy)

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- 40% of those in receipt of benefit as at 31.12 20xz will return to work or otherwise cease to be eligible for benefit within one year of the reporting date (42% as at 31.12 20xy);
  - A further 35% will return to work or otherwise cease to be eligible for benefit within three years of the reporting date 31% as at 31.12 20xy);
  - A further 10% will return to work or otherwise cease to be eligible for benefit within five years of the reporting date(12% as at 31.12 20xy);
  - The remaining 15% of current participants will still be claiming benefit after 5 years from the reporting date.
4. It is assumed that unemployment benefit will increase in line with government targets for inflation. Currently this target is 2% a year.
  5. Because of the time value of money cash outflows in years immediately following the reporting date are more onerous than those arising in later years. For this reason projections are discounted. For this purpose a discount rate determined by reference to the yield on government bonds is used. This is a weighted average discount rate that reflects the estimated timing and amount of projected transfer payments. The rate used at the reporting date is 2.2% real. This compared with a rate of 2.1%real at 31.12 20xy.
  6. The estimates future cash transfers are determined on the basis of actuarial estimates made by the Government's in-house actuary

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, the proposed IPSAS XX.*

### **Introduction**

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

BC2 For jurisdictions currently reporting on the full accrual basis the most common practice in respect of accounting for the social benefits provided by government is for resources used in the provision of those benefits to be expensed as goods and services are delivered. Most jurisdictions currently recognize as liabilities only those social benefits that are provided by cash transfer and that are legally overdue for payment. A minority of jurisdictions may also recognize the portion of periodic cash transfers that has accrued since the previous payment. Because of their significance to the financial performance of a large number of public sector entities the IPSASB considers that it is essential to develop well understood, generally agreed methods of accounting for social policy obligations, supported by sound conceptual arguments.

BC3 The IPSASB is aware of the IASB's ED *Proposed Amendments to IAS 37, Provisions Contingent Liabilities and Contingent Assets*, and also of other IASB projects which might have an impact on this IPSASB ED. However, the IPSASB does not consider it appropriate to pre-empt the outcome of IASB due process, and, given the significance of accounting for the social policies of government, does not consider that it would be appropriate to defer issuance of this ED.

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## Conceptual Underpinnings

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

## Scope

BC5 The Steering Committee and the majority of respondents to the ITC were of the view that aged pensions and other benefits to citizens who have reached a pensionable age should be dealt with in an IPSAS dealing with all cash transfers and individual goods and services. However, the IPSASB has at this stage developed a separate ED to deal with non-age related social benefits. This is because of the potential wide variety of arrangements in different jurisdictions. To enable further research on the key aspects of such systems, including the extent to which they might be within the scope of existing national and international standards, pensions were excluded from the scope of this Standard. The IPSASB intends to develop a separate Standard or Standards to deal with aged pensions and similar benefits, including pensions where the benefit payable is flat-rate or is dependent upon contributions and, membership periods. The IPSASB is aware that in some jurisdictions aged pensions are far less significant than other individual goods and services and cash transfers. It is anticipated that focusing on social benefits other than aged pensions will make this Standard more accessible and relevant across all jurisdictions that adopt the accrual basis of financial reporting.

BC6 The IPSASB also considered whether the scope of the proposed standard should include all goods and services provided in non-exchange transactions. This was because it is unlikely that the accounting for goods and services or cash transfers in a non-exchange transaction will be different dependent on whether they are provided as social benefits or not. However, it was decided to limit the scope to social benefits in order to ensure compatibility with IPSAS 19. In paragraph 1(a) of IPSAS 19

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the scope exclusion for non-exchange transactions is limited to those arising from social benefits.

## **Definitions**

BC7 The IPSASB considered whether the term “social benefits” should be defined. It noted the view of the Steering Committee that what constitutes social benefits varies from jurisdiction to jurisdiction and that this makes the adoption of an exhaustive definition problematic. The IPSASB also acknowledged the view of the Steering Committee that if items were not considered as a “social benefit” they would be dealt with under another International Public Sector Accounting Standard and that this reduces the consequences and risks of not defining the term. The IPSASB also noted that, at consultation, responses were almost evenly split as to whether a definition is necessary.

BC8 The IPSASB recognized the attraction of relying on a broad notion of social benefits. However, on balance, it was decided that the term should be defined. In reaching this conclusion the IPSASB felt that a convincing analysis of when a present obligation in relation to different types of social benefit arises would be difficult unless the term is defined and disaggregated. As a starting point, the IPSASB took the definition used in the scope-out in IPSAS 19. The IPSASB agreed that any definition should be generic rather than a detailed list of which benefits fall in which category.

BC9 The IPSASB also noted the current definition of social benefits in statistical reporting bases including the Government Finance Statistics Manual 2001 (GFSM 2001), which itself is consistent with the System of National Accounts (SNA 1993). The IPSASB agreed with the view of the Steering Committee that, whilst this Standard should use terminology consistent with statistical reporting bases wherever possible, the definition of social benefits should be broader than that used in GFSM 2001. In this context, the IPSASB noted that GFSM 2001 explains that “there is no universally accepted definition of the scope of social benefits and the social risks covered are liable to vary from scheme to scheme and from government to government.”

BC10 The IPSASB therefore adopted a three-part definition of social benefits as:

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

BC11 In the ED the short hand terms “collective goods and services”, “individual goods and services” are used. Although the accounting requirements for collective and individual goods and services are the same the distinction between collective goods and services and individual goods and services is so entrenched in statistical accounting circles that the IPSASB concluded that it should be retained. It is also useful for analytical purposes as many programs and arrangements for individual goods and services, unlike collective goods and services have eligibility criteria. This characteristic is shared with cash transfers.

BC12 The IPSASB acknowledged that, whilst the distinction between collective and individual goods and services is valid, there may be circumstances where activities can operate as both collective and individual goods and services. This may occur, for example, in the area of policing services. Whilst the protection which policing services are meant to provide is available to all citizens in a jurisdiction in some cases a citizen does have to take positive action, such as reporting a crime, in order to benefit from such services. This is acknowledged in paragraph 15 of the ED.

BC13 The IPSASB examined the nature of individual goods and services and cash transfers and considered whether the distinctions between them are sufficient to lead to separate accounting requirements. The IPSASB concluded that the distinction is fundamental in one key respect. Whereas for individual goods and services the transferor can stipulate the purposes to which the resources sacrificed must be applied, for cash transfers the recipient has discretion how to use those transferred resources.

BC14 The IPSASB also acknowledged that for individual goods and services there may be cases where the economic benefits are transferred to the recipient in the form of cash. However, such cash transfers are reimbursements. In common with other methods of providing individual goods and services the recipient does not have discretion as to how the

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resources are to be used. The expenditure relating to such reimbursements will often require prior authorization and normally reimbursements will only be made after documented proof that the expenditure for which reimbursement is sought has been for purposes specified by the transferor. Such transactions are therefore in substance different to cash transfers.

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

## **Present Obligations for Social Benefits**

### *General*

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

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the sovereign powers of government to justify a widespread non-recognition of liabilities for legal obligations. The establishment of such a principle would put into question the recognition of liabilities relating to exchange transactions arising from commercial contracts. The IPSASB also considers that there are general and inappropriate risks if accounts-preparers adopt a widespread practice of pre-empting legislative changes.

*Collective and individual goods and services*

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

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

BC19 Second, there may not be a present obligation for financial reporting purposes, whether legal or constructive, to provide such services in the future. Notwithstanding the view of the IPSASB that an assessment of the existence of a present obligation is made in the context

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

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

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

BC22 For both collective and individual goods and services the IPSASB considered whether there may be limited cases where a constructive obligation gives rise to a present obligation prior to the delivery of services even though no legal obligation to deliver these services exists. The IPSASB explored a situation, in the context of disaster relief, where a government has communicated publicly a commitment to a third party, which creates an expectation, and considered the view that the government cannot realistically avoid settlement. The IPSASB concluded that until the delivery of the goods and services it is open to the government to avoid a liability and furthermore that uncertainty about the exact amounts to be contributed can create problems in reliably measuring any potential outflow. For this reason the Standard does not include a rebuttable presumption that a

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present obligation in respect of collective and individual goods and services does not arise prior to the delivery of the services.

*Cash Transfers and Individual Goods and Services*

BC23 The IPSASB considered whether a present obligation may arise for cash transfers when an individual has satisfied all explicit eligibility criteria, although the point at which the payment becomes legally payable and enforceable may be at a point in the future. The IPSASB acknowledged that there are views that present obligations for cash transfers (and some individual goods and services) arise when all eligibility criteria have been satisfied and that this view was put forward by the Steering Committee and accepted by many respondents. IPSASB concluded that a present obligation only arises when explicit eligibility criteria have been satisfied and the date at which the payment becomes legally enforceable. The IPSASB took account of the current position of public sector financial reporting globally in reaching this conclusion. It is possible that the IPSASB might reconsider this conclusion in the future in the light of further experience.

BC24 In this context, the IPSASB noted that the term “due and payable”, which has been used quite widely in financial reporting globally, is open to a variety of interpretations. The IPSASB therefore analyzed the term “due and payable”. The IPSASB concluded that the term has two distinct components - “due” indicates that all explicit eligibility criteria have been satisfied., whereas “payable” indicates the date on which the cash outflow from the transferor is legally enforceable.. Both these components must be satisfied in order for a present obligation in relation to cash transfers to exist.

BC25 Recognizing that many individual goods and services also have eligibility criteria the IPSASB gave particular consideration to the issue of whether the point at which an obligating event arises differs for individual goods and services and cash transfers. The IPSASB concluded that for individual goods and services the obligating event also arises when the goods are provided and/or the services are delivered.. Furthermore that present obligation is to the provider./deliverer of the goods and services rather than the beneficiary of those goods and services. The rationale for this conclusion is demonstrated by examining the example of free medical care. An applicant may have satisfied all the

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eligibility criteria for a program supplying free medical care. However, the individual has still to present themselves at a hospital or other medical facility in order to receive the treatment and it is not until this point that the present obligation arises.

BC26 .The IPSASB considered at length whether “staying alive” might operate as an implicit eligibility criterion for cash transfers and for individual goods and services. The IPSASB concluded that such a mechanism would be an artificial construct and that it would be inappropriate to adopt it as a universal feature of all cash transfer programs. The IPSASB acknowledged that there may be rare cases where “staying alive” or demonstrating “continuing existence” would be an explicit eligibility criterion. There may even be cases where an individual’s eligibility might not be validated until after that individual’s death, such as when an individual’s military service over a specified period gives rise to a cash payment and that program is retrospective. There may also be cases where an individual’s death may itself be the obligating event, such as when the widows or widowers of combatants killed on active duty receive a cash payment.

### **.Presentation and Disclosures**

BC27 The IPSASB considered the appropriate requirements for presentation for social benefits. The IPSASB concluded that the significance of social benefits for many public sector entities justifies the identification of liabilities relating to them as a separate line item on the statement of financial position. Therefore such a requirement has been included at paragraph 52.

BC28 .The Standard requires the disclosure of information on the present value of the projected cost of future cash transfers for current participants in major cash transfer programs. This may involve actuarial assessment of factors such as mortality and emigration, although the IPSASB considered it inappropriate and over-onerous to require the use of actuarially based information. The IPSASB is of the view that this will assist in the analysis of sustainability and act as a bridge to liabilities that might be recognized by those who are of the view that the obligating event for cash transfers occurs before amounts are due and payable. The IPSASB is aware of the approaches to sustainability reporting in some

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jurisdictions but does not consider it appropriate to introduce extensive requirements at present.

### **Transitional Provisions**

BC29 The IPSASB considered whether transitional arrangements are necessary and, if necessary, the appropriate extent of and duration of such arrangements. In evaluating these issues it was noted that, in many jurisdictions that are already reporting on the full accrual basis the Standard's requirements on recognition and measurement are likely to involve very little or no change from current accounting policies. This is particularly the case for collective and individual goods and services, where, under the requirements of the Standard, liabilities will not arise. The requirements in relation to cash transfers are also likely to involve very limited changes to existing practices.

BC30 The IPSASB recognizes that the disclosure requirements in relation to cash transfers may require actuarially based information which may currently be unavailable. However, the disclosures only apply to current participants in a program—that is beneficiaries who have satisfied explicit eligibility criteria. Consequently the key data necessary to make actuarial calculations should be easily available. On balance the IPSASB therefore decided that there is no justification for introducing extensive transitional arrangements in relation to these disclosure requirements.. However, the IPSASB acknowledges that a requirement to disclose actuarially based comparative information for periods prior to the adoption of this Standard would be onerous and inappropriate. Therefore the IPSASB has introduced a limited transitional provision that introduces this requirement on an incremental basis, so that it does not take full effect until the 5<sup>th</sup> year of reporting under this Standard. The IPSASB also does not propose that comparative information for these disclosures should be required for the first year of adoption.