



**INTERNATIONAL FEDERATION
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**Agenda Item
3**

DATE: 18 June 2007
MEMO TO: Members of the IPSASB
FROM: John Stanford
SUBJECT: ED – Social Benefits: Disclosure of Cash Transfers

OBJECTIVE OF THIS SESSION:

To approve the Exposure Draft (ED) on social benefits.

AGENDA MATERIAL

- 3.1 Copy of 9 May Memorandum from Staff
- 3.2 Cut and Paste Summary of Responses
- 3.3 Draft ED 33, “Social Benefits:Disclosure of Cash Transfers” (marked-up)
- 3.4 Draft Consultation Paper (marked-up)

BACKGROUND

On 15 May 2007 a memorandum and a copy of the revised draft ED 33, “Social Benefits: Disclosure: Cash Transfers” were posted on the intranet. The memorandum highlighted a number of issues on which views and confirmation of the Staff approaches were requested. That memorandum is included in these agenda papers as Item 3.1. A response was requested by 3 June 2007. As at 15 June responses had been received from Australia (Response 004), Canada (008), China (005), France (006), New Zealand (001), the United Kingdom (003), the United States (007), the Swiss Public Member (002) and the INTOSAI Observer. The French response was an interim response in advance of the meeting of the working party that considers IPSASB agenda items. Norway did not provide comments but indicated that they would provide comments at the Montreal meeting. Agenda Item 3.2 summarizes these responses. References in this memorandum to those responses are cross-referenced to Agenda Item 3.2. The comments of the INTOSAI Observer are not included in Agenda Item 3.2, but are reflected in the section of this memorandum dealing with the Consultation Paper. Copies of the responses are available from staff on request. Any further comments received prior to the meeting will be tabled. As with all responses, whether external or internal, Staff have exercised judgment in interpreting and presenting the views submitted.

The revised ED and Consultation Paper are marked-up copies reflecting amendments to the versions that were circulated in May. Clean copies are available from Staff on request. References to the changes made to the ED are to the paragraphs in the version circulated in May, unless otherwise stated.

GENERAL POINTS

Whilst there was considerable support for the existing ED from some respondents there were reservations. The US member continues to oppose the current approach and considers that the IPSASB should propose a view on recognition and measurement either outright in an ED of an IPSAS or in a Preliminary Views Paper.

The French response reiterated the view that social security pension arrangements are so significant in many jurisdictions and so complex that they require a separate Standard, as reflected in views put forward to the Strategy Session at Accra. Acknowledging that the majority of the Board had come to a contrary view, the French response emphasized the importance of retaining commentary paragraphs 26-30 on social security pensions in the Definition section as a minimum. The UK response, that also reflected the views of a review group, expressed some concerns over the overall approach, in particular that the required disclosures represent liabilities. The UK also felt that the scope should include collective and individual goods and services on the grounds that this would make the exclusion of measurement and recognition more principled. The UK also argued that this would make better sense in textual terms and would lead more naturally into the project on fiscal sustainability information.

The Netherlands response expressed reservations about proceeding with an ED at this time because of perceived likely changes to accounting for social benefits in the System of National Accounts. The Netherlands feels that it is necessary to review the proposed changes and their implications before issuing an ED. This issue is considered further at Issue

ISSUES

In the discussion below cross-references of responses are to the Cut and Paste Summary at Agenda Item 3.2. Paragraph references are to the version of the ED circulated in May.

(a) Title

A number of respondents commented that the title contained too many colons (Respondents 001 and 004). Respondent 004 proposed: “Disclosure of Certain Social Benefits without Stipulations”.

Staff View and Action

Staff supports the view that the title can be improved and has amended the title to Social Benefits: Disclosure of Cash Transfers. Whilst incorporating the term “stipulations” has advantages it is not a term that has been used in the development of the ED.

Action Requested: Confirm change to title.

(b) Introductory Background

There was general support for the Introductory Background, but suggestions for drafting improvements. Respondent 001 proposed extensive amendments to the third paragraph and Respondent 004 also suggested improvements to this paragraph. Respondent 005 favored moving the Introductory Background to the Basis for Conclusions.

Staff View and Actions

Staff has adopted the change to the third paragraph proposed by Respondent 001. Staff considers that there needs to be an “up-front” statement of the IPSASB’s intentions in issuing the ED and accompanying Consultation Paper. This would not be achieved if the Introductory Background is moved to the Basis for Conclusions. Staff does acknowledge that this means that the format of the ED differs from other IPSASB EDs.

Action requested: Confirm that the “Introductory Background” should be retained and that the revised third paragraph should be adopted.

(c) Scope

Respondent 002 objected to the reference to “other cash transfers and goods and services provided” in paragraph 4. Respondent 004 supported the modifications but considered it inaccurate to refer to “amounts to be transferred to eligible participants for cash transfer programs at the reporting date” because this could be confused with transfers outstanding at that date. Respondent 004 suggested referring to “amounts to be transferred under cash transfer programs to participants who are eligible at the reporting date.” This has consequential effects throughout the document.

Respondent 004 drew attention to paragraph 14(a) of IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” and suggested that readers might view paragraphs 30-34 of IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers)” from the perspective of the transferor (i.e. to determine whether a liability exists) and either conclude that a liability must be recognised for social benefits or simply be confused about the ramifications of IPSAS 23 in this context? Respondent 004 suggested that the first of these consequences would seem to defeat the purpose of this ED’s disclosure-only approach to requirements. Respondent 004 therefore questioned whether the hierarchy in IPSAS 3 needs to be specifically set aside in respect of social benefits.

As indicated above Respondent 003 questioned whether the ED should cover collective and individual goods and services as well as cash transfers and suggested that this would have a number of advantages:

- it would provide a proper disclosure standard for social benefits and would make the exclusion of measurement and recognition more principled;
- it would make better sense in textual terms; and
- it would lead more naturally into the project on fiscal sustainability information.

Respondent 009 was unclear whether goods and services are within the scope of the Standard. This respondent questioned the meaning and clarity of the assertion in the memorandum that collective and individual goods and services are outside the scope of the ED except for the requirement to disclose existing accounting policies for recognition and measurement. Respondent 009 considered that IPSAS 1, “Presentation of Financial Statements” is sufficiently clear on the requirement to disclose accounting policies and saw no need to include goods and services in the scope only for this reason.

Staff View and Actions

Staff agrees with Respondent 002 and has amended the first sentence of paragraph 4. Staff agrees with Respondent 004 on the potential implications of the hierarchy in paragraph 14(a) of IPSAS 3. Rather than disapplying the hierarchy explicitly, the reference to IPSAS 3 in paragraph 3 has been removed.

Staff agrees with much of the analysis of Respondent 003 and has continuing reservations about the exclusion of collective and individual goods and services from the scope. However, it was agreed explicitly at Accra that collective and individual goods and services should be defined, so as to distinguish them from cash transfers, but should not be within the scope. Reinserting collective and individual goods and services within the scope, but then not requiring disclosures, raises questions as to the rationale. Such questions can only be answered by resorting to the recognition and measurement principles, which the current approach is designed to avoid.

Staff agrees with Respondent 009 that paragraph 132(c) of IPSAS 1 is sufficient to require the disclosure of accounting policies for collective and individual goods and services and has therefore removed collective goods and services completely from the scope and from the disclosures. A commentary paragraph has been inserted referring to the potential need to disclose accounting policies for collective and individual goods and services in accordance with IPSAS 1. This will mean that there will no longer be a requirement for entities to disclose any expenses and liabilities recognized for collective and individual goods and services.

<p>Action requested: Confirm that the revisions to the Scope section of the ED are appropriate, in particular removing collective and individual goods and services completely from the scope of the ED.</p>

(d) Definitions

Some respondents agreed with the Staff view that some of the material on pensions is no longer necessary. (Respondents 001, 002,003) Respondent 009 proposed the deletion of paragraph 20 and the revision of paragraphs 16-21. Respondent 009 did not consider that the paragraphs 26-30 on social security pensions are relevant and, furthermore, that the distinction between basic/welfare and general/contributory pensions is not clear and unnecessary.

However, Respondents 004, 005, 006 and 008 favored retaining the existing material. Respondent 006's comments on social security programs have been highlighted in the General Points section above. Respondent 004 suggested moving some of this material to an Appendix.

Respondent 004 proposed moving the terms in paragraph 9 that have been previously defined in other IPSASs into a glossary.

Respondent 008 found the second sentence of paragraph 24 highly misleading.

Staff View and Actions

Staff remains of the view that collective and individual goods and services need to be defined in order to distinguish them from cash transfers. Staff agrees that much of the detailed commentary in paragraphs 16-21 and 26-30 is not necessary in the body of the text. The distinguishing characteristic between cash transfers and goods and services is that cash transfers are

transferred directly to the individual or household in cash, cash equivalents or as tax expenditures and that the individual or household has a wide discretion as to how those resources are used.

Staff thinks that the material in paragraphs 16-21 and 26-30 is useful and therefore has moved much of it into an Appendix entitled Collective and Individual Goods and Services and Social Security Pensions: Key Characteristics.

Staff does not think that the definitions of social security pensions or retirement age in paragraph 10 are necessary and has deleted these terms.

The approach to terms that have been defined in other IPSASs is the same as in other ED; they are defined in a separate paragraph to distinguish them from terms that are defined for the first time. In accordance with the approach when EDs are developed into finalized Standards these terms will be deleted from a final Standard.

Action requested: Approve the revised approach to the commentary on definitions.

(e) Determination of amounts to be transferred to eligible participants of cash transfer programs

Respondents 001, 002, 004 and 008 supported or appeared broadly comfortable with the approach in paragraphs 31-43 of the ED. Respondent 009 expressed reservations because of the likely changes to accounting for social benefits in the System of National Accounts (SNA). This is a more pervasive concern that has also been highlighted in the General Points section above.

Respondent 005 questioned whether the requirement for actuarially-based estimates is unduly onerous.

Respondent 009 questioned whether the estimate of amounts to be transferred is offset by estimates of inflows (contributions, earmarked and general taxation, appropriations and transfers from other levels of government). Respondent 009 does not think that it is clear whether this includes income tax on social security pensions and other cash transfers to be paid by the beneficiary.

Respondent 004 questioned the statement in paragraph 33 that “unless governing legislation or regulations state otherwise the best estimate is not limited to the amount of the next payment following the satisfaction of threshold eligibility criteria.” In Respondent 004’s view this permits legislation to override the provisions of a Standard; if a program is to be terminated this would automatically be taken into account in the estimate.

Staff View and Action

Staff does not think that the ED should be delayed until revisions to SNA have been effected. The likely changes to SNA have been signaled for some time and it seems unlikely that any changes to the accounting of social security pension programs will affect core SNA accounts.

Paragraph 32 makes it clear that the estimate of amounts to be transferred is on a gross basis. Staff has added a sentence that the amounts to be transferred are not offset by income tax

liabilities or other deductions payable by the beneficiary. Staff acknowledges the comments of Respondent 005 that actuarially based estimates may prove onerous, but thinks that actuarial data will be necessary for the disclosures. The implementation arrangements with a three-year lead time are meant to recognize this difficulty.

The statement in paragraph 33 is a continuation of the approach in previous versions of the ED dealing with recognition and measurement. The aim was to avoid the ED becoming rules based. In principle Staff agrees with Respondent 004's view. This paragraph has been retained, but the wording has been changed to reduce the risk that it will be used to minimize the amounts disclosed.

Action requested: Reaffirm the approach to determination of amounts to be transferred to eligible participants.

(f) Disclosures

There was support for most of the disclosures in the draft ED. Respondent 003 highlighted a general view that some of the disclosures may be onerous for entities which already make disclosures in respect of social benefit programs or which need to make disclosures for a number of programs. Whilst some respondents favored a few additional disclosures there does not appear to be a general view that the overall package of disclosures is inadequate.

Unnecessary Disclosures

- Respondent 004 reiterated a previous view that the disclosure at paragraph 44(c) on the number of beneficiaries is unlikely to be particularly helpful and supported its omission. Respondents 005 and 008 also did not agree with this disclosure;
- Respondent 007 favors deletion of paragraph 44(d) on discount rates;
- Respondent 005 favors deleting paragraph 44(e) dealing with the basis on which benefits will be increased in the future.

Additional Disclosures

- Respondent 009 proposes an additional requirement for separate disclosure of directly related income tax and/or other inflows from the beneficiary related to a cash transfer;
- Respondent 005 proposes the addition of a disclosure requirement on “amounts of cash transfer programs that are due and payable within the next reporting period following the reporting date”.

Other Points

- Respondent 005 proposed changing the sequence of paragraphs 44(a) and 44(b);
- Respondent 005 proposed putting requirement 44(h) as a separate paragraph because it involves accounting policies for recognizing expenses and liabilities relating to all social benefits, not just cash transfer programs; and
- Respondent 007 proposed deleting the commentary at paragraph 48 on disclosure of accounting policies for collective and individual goods and services;

Staff View and Actions

Staff has:

- *Removed paragraph 44(c) requiring disclosure of the number of eligible beneficiaries.*
- *Changed the sequence of paragraphs 44(a) and 44(b).*

If the Board endorses the proposal to rely on IPSAS 1 for the disclosure of accounting policies for collective and individual goods and services there will be no need for any black-letter reference to collective and individual goods and services. This will address the issue raised by Respondent 005 on the need for a separate paragraph covering disclosures relating to collective and individual goods and services.

Staff continues to think that the disclosures on discount rates and the basis on which benefits will be increased in the future are useful. These have been retained.

Staff considers that the proposal for a separate disclosure of directly related income tax and/or other inflows from the beneficiary related to a cash transfer is onerous and that the information provided would not justify the cost.

Whilst an additional disclosure requirement for “amounts of cash transfer programs that are due and payable within the next reporting period following the reporting date” might provide useful information it would require an analysis of what constitutes “due and payable”. The Board has explored the term at previous meetings and not come to an agreed conclusion. Furthermore, use of the term would necessitate the use of terminology related to recognition and measurement that the current approach has avoided.

Action requested: Confirm the modifications to the disclosure requirements.

(g) Aggregation of information

There was general support for the approach in paragraph 46 i.e. requiring material programs to be presented on an individual basis and others on an aggregated basis. This is based on the approach of the US Federal Accounting Standards Advisory Board in their Standards on fiduciary activities and earmarked funds. Respondent 004 proposed a cross-reference to IPSAS 1.

Staff View and Action

The approach in the ED for disclosures in relation to programs that are individually not material but may be material in aggregate should be retained. Staff has inserted a cross-reference to IPSAS 1.

Action requested: Approve the approach to aggregation of information for programs that are not individually material but may be material in the aggregate.

(h) Implementation arrangements

There was general support for the implementation arrangements. Respondent 002 advocated a shorter transition period, whilst retaining the relief from the provision of comparative information in the first year of adoption.

Staff View and Action

Mindful of the comments of Respondent 005 on the challenge that the requirements on the determination of amounts to be transferred represents in many jurisdictions Staff favors retaining the current implementation arrangements.

Action requested: **Confirm** the retention of the implementation arrangements.

(i) Specific matters for comment

There was broad support for the 11 Specific Matters for Comments (SMCs) proposed in the ED. However, a number of respondents did not support, or proposed refinements to, particular SMCs as follows:

- Respondent 001 and 003 questioned whether we should ask constituents whether age related social benefits should be dealt with in a separate ED in SMC 1;
- Respondent 004 favors the introduction of a question asking whether commentators agree that the disclosure of future transfers of economic benefits in respect of collective and individual goods and services should not be required;
- Respondent 007 does not support SMCs 9 and 10 on audit implications and relief from comparatives; and
- Respondent 008 supported the retention of SMC 9 but suggested its rewording.

Staff View and Action

Staff agrees with Respondents 001 and 003 that a question on whether to deal with age-related benefits should await an ED proposing requirements for recognition and measurement. Therefore SMC 1 has been deleted. A new SMC has been inserted in accordance with Respondent 004's proposal on collective and individual goods and services. The insertion of SMC 9 on audit implications was due to a direction at Accra. This SMC has been retained but the wording has been modified broadly as suggested by Respondent 008.

Action requested: **Confirm** the changes to the Specific Matters for Comment

Other Issues

Respondent 001 raised three further issues on the ED:

- disclosure of amounts to be transferred to those meeting eligibility criteria for cash transfer programs at the reporting date;
- discount rate to be used to arrive at the present value of the amount to be transferred; and
- rationale for difference between cash transfers and individual goods and services.

1. Disclosure of amounts to be transferred to those meeting eligibility criteria for cash transfer programs at the reporting date

It was noted that the ED specifies the minimum disclosures that the IPSASB expects in respect of cash transfers, i.e. amounts relating to those meeting eligibility criteria at the reporting date.

Respondent 001 also felt that there should be an encouragement for disclosure of what could be considered to be more likely to be the 'real' amount transferred in the future, by taking account of those likely to come in and out of eligibility after reporting date.

Respondent 001 noted that those eligible at the reporting date represent only a subset of the recipients who will receive cash transfers from the Government in the future under any given social program. In this view, it is also this encouraged disclosure that is more likely to be of relevance in a wider fiscal sustainability sense.

Staff View and Action

The Staff interpretation of the outcome of the Accra meeting was that, whilst there was a realization that the disclosures arising from this approach would present only a partial picture of all expected outflows associated with cash transfer programs and none of the expected inflows, there should not be too much emphasis on the importance of sustainability disclosures in the body of the ED. Such references would tend to undermine the rationale for the ED. The Board's commitment to sustainability reporting is highlighted elsewhere in the document. However, Staff has introduced a brief encouragement to entities to make disclosures on sustainability in new paragraph 40.

Action requested: Confirm the additional sentence in (new) paragraph 42.

2. Discount rate to be used to arrive at the present value of the amount to be transferred

The ED requires the discount rate to be used to discount amounts to be transferred to eligible participants at the reporting date for cash transfer programs to be determined by reference to market yields at the reporting date on government bonds. This is a black letter requirement (paragraph 40 of the ED). As noted in paragraph 41, the discount rate reflects the time value of money, but not actuarial or investment risk or entity specific credit risk.

Respondent 001 noted that in ED 31 Employee Benefits it is proposed that the rate used to discount post employment benefit obligations is a risk free rate normally determined by reference to market yields at the reporting date on government bonds.

Respondent 001 questioned why in the discounting of amounts associated with cash transfer programs, there is no reference to the risk free rate.

Staff View

This issue links to the submissions analysis and discussion of discount rates in the Employee Benefits project at Agenda Item 6. Staff considers that the discount rate should not be a completely risk-free rate as, in extremis, governments and many public sector entities are likely to have the option to reduce program liabilities. Such options are likely to be highly limited in the case of beneficiaries who have already satisfied eligibility criteria at the reporting date. This

rationale has been inserted into new paragraph BC22 of the Basis for Conclusions. The SPM on discount rates has been retained.

Action requested: Confirm the approach to discounting.

3. Rationale for difference between cash transfers and individual goods and services

Respondent 001 considered that the differences between cash transfers and individual goods and services have been over-emphasized in the Basis for Conclusions. Overstating differences at this stage may create difficulties for the Board if it later wishes to propose the same or similar disclosure requirements to individual goods and services.

Staff View and Action

Staff agrees, particularly in the light of the insertion of a Specific Matter for Comment on disclosures for collective and individual goods and services and has modified paragraph BC13 of the Basis for Conclusions slightly to reduce the differences.

Action requested: Confirm the change to paragraph BC13 of the Basis for Conclusions

Consultation Paper

There were diverse opinions on the Consultation Paper. Respondents 002, 004, 005 and 008 appeared to be broadly content and supported retention of the section on an Alternative Model. Respondents 001 favored a much higher level paper. This would have finance ministers as its target audience. Similarly Respondent 003 wanted more clarity about the intended audience, which might mean the deletion of some of the more detailed technical material. The INTOSAI Observer also considered that the paper should discuss the strategic direction that the Board is taking. If the Paper is to seek comments, the INTOSAI Observer, expressed significant concerns whether issues are developed sufficiently to provide a reasonable basis for meaningful input. In this regard the discussion of fiscal sustainability was highlighted.

Conversely Respondent 009 favored a paper that discussed all the alternative models and including a model where transactions relating to social benefits are presented in separate statements. Respondent 007 also favored a detailed paper that looked at a number of different approaches to recognition and measurement,

Respondent 003 proposed the following changes I

- Referring to a project on the use of sustainability information, rather than sustainability information itself in order not to make the scope of the project too wide.
- Paragraph 2.6 to provide a more respectable rationale - refer perhaps to the forthcoming Conceptual Framework work and to allow it to take into account the IASB's developing thinking. The motivation for the ED would be to move the debate on and to encourage best practice and the collection of the necessary information.
- Moving paragraph 3.10 the fiscal sustainability section and merged in – this would then enable the comments on usefulness of information to be made more effectively.

Respondent 003 did not favor retention of the material Given the coverage in IPSAS 23 I do not think we should be including the grand executory contract stuff at all.

Staff View

In the light of this division of opinion Staff has made only minor editorial changes to the Consultation Paper and deferred more significant changes until strategic decisions have been made. Staff considers that there is a need for a Consultation Paper as proposed by Respondents 009 and 006. However this will not be the type of high level paper envisioned the Accra meeting and, globally, finance ministers are unlikely to be engaged by a lengthy discussion of what “due and payable” really means.

Action requested: Clarify the purpose of, and the target audience for, the Consultation Paper.



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DATE: 9 May 2007
MEMO TO: Members of the IPSASB
FROM: John Stanford
SUBJECT: Social Benefits

OBJECTIVE OF THIS PRE-MEETING CONSULTATION:

To obtain comments on Exposure Draft (ED) 33, “Social Benefits: Cash Transfers: Disclosures” and the Consultation Paper, “Social Benefits: Issues in Recognition and Measurement”, so that revised versions can be presented at the Montreal meeting. Comments should be sent to johnstanford@ifac.org by **Monday 3 June 2007**.

CIRCULATED MATERIAL

Draft ED 33, “Social Benefits: Cash Transfers: Disclosures

Draft Consultation Paper, “Social Benefits: Issues in Recognition and Measurement”

The draft ED is in clean format. A marked-up version is available from Staff on request,

BACKGROUND

At the Accra meeting the IPSASB affirmed the tentative decision at Norwalk in November 2006 to develop and publish an Exposure Draft of a Standard dealing with disclosure rather than recognition and measurement. Unlike the version considered at Accra the ED would not deal with the disclosure of liabilities and would therefore not use terminology and definitions associated with the recognition and measurement approach in IPSAS 19, such as obligating events and constructive and present obligations. It was also agreed that the ED would:

- Include minimum requirements for the disclosure of amounts to be transferred to those meeting eligibility criteria for cash transfer programs at the reporting date. The minimum amounts disclosed would be actuarially based assessments of the present value of the cash flows to provide benefits to all those who have met threshold eligibility criteria at the reporting date;
- Include definitions of collective goods and services and individual goods and services, but not propose disclosure requirements for these categories of social benefits.
- Not use the term “major” in the context of cash transfer programs;
- Include a short Introduction putting the ED into the context of an ongoing package of work including the conceptual framework and fiscal sustainability; and

- Include a specific matter for comment on whether there are audit implications associated with the proposed disclosures. The revised ED is attached in both marked-up and clean copies.

It was also agreed that a separate Consultation Paper would be developed. This would highlight the background to the project, contentious issues related to recognition and measurement and highlight the relationship with, and approach to, fiscal sustainability.

The current approach to social benefits should therefore be considered as a package comprising:

- ED 33 dealing with amounts to be transferred at the reporting date to eligible participants;
- Consultation Paper further examining key issues in recognition and measurement; and
- Commitment to launch separate project on fiscal sustainability later in 2007.

ISSUES: EXPOSURE DRAFT 33

(a) Title

At the Accra meeting some Members favored the title “Social Benefits: Disclosure”. Others felt that this title is misleading. This is because, although the ED defines collective goods and services and individual goods and services it only provides detailed requirements for cash transfers (see below Scope). The alternative title proposed was “Social Benefits: Cash Transfers: Disclosure”. Staff agrees with this view and has therefore adopted the alternative title.

Action Requested: Confirm that the title should be “Social Benefits: Cash Transfers: Disclosure” or suggest an alternative title.

(b) Introductory Background

A short Introductory Background to the ED has been included after the standard “Introduction to the International Public Sector Accounting Standards” which appears in all Exposure Drafts. This highlights very briefly the background and development of the project and the IPSASB’s intention to launch a project on sustainability reporting.

Action Requested: Confirm that the “Introductory Background to the ED” is appropriate or suggest changes.

(c) Scope

The Scope section has been modified to reflect the new direction of the ED, i.e. the ED no longer deals with the disclosure of liabilities but with the disclosure of “amounts to be transferred to eligible participants at the reporting date”. It also states at paragraph 3 that the ED does not deal with the recognition of expenses and liabilities relating to social benefits provided in non-exchange transactions except for disclosure of the accounting policy determined by the entity in relation to recognition and the amounts recognized as expenses and liabilities in the reporting period.

Collective and individual goods and services are defined but are not within the scope except for the requirement, noted above, to disclose existing accounting policies for the recognition and measurement of liabilities related to social benefits and any amounts recognized. As a result

Staff has deleted some of the commentary in the Scope section of earlier versions of the ED dealing with distinguishing individual goods and services provided in non-exchange transactions from individual goods and services provided in exchange transactions.

Action requested: Confirm that the modifications to the Scope section are appropriate

(d) Definitions

Terms and commentary related to the identification of present obligations and the recognition of liabilities have been deleted –constructive obligation, legal obligation, obligating event, liability. A new term: “an eligible participant” is defined in paragraph 10 as “an individual or household that has met threshold eligibility criteria at the reporting date”.

Staff has repositioned the commentary paragraphs (paragraphs 11-30), so that cash transfers (paragraphs 12-15) are dealt with before collective and individual goods and services (paragraphs 16-21). Staff considers it important to continue to distinguish the different sub-categories of social benefits. However, Staff has some concerns that the amount of commentary on collective and individual goods and services is disproportionate to the very minimal detailed requirements relating to them. Staff also thinks that current balance of the ED is problematic—more than half the ED is on Scope and Definitions.

Action requested: Provide views on whether all or some of the commentary paragraphs on collective and individual goods and services could be deleted.

The definitions of and treatment of social security pensions has been particularly problematic throughout the development of the ED. Although no amendments have been made to previous versions, Staff is not convinced that the definitions of social security pensions and retirement age in paragraph 10 and the related commentary in paragraphs 26-30 are necessary and are aware that they do not sit comfortably with arrangements in some jurisdictions. Staff considers that the reference to social security pensions and other cash transfer programs with retirement age as an eligibility criterion in paragraph 3 and the commentary in paragraph 11 is adequate.

Action requested: Provide views on whether the definitions of social security pensions and retirement and commentary paragraphs 26-30 are necessary.

(e) Determination of Amounts to be Transferred to Eligible Participants of Cash Transfer Programs

In accordance with the decision at Accra that the ED should not deal with the disclosure of liabilities the previous sections dealing with Present Obligations, Liabilities and Measurement of Liabilities have been deleted and replaced with a section on “Determination of Amounts to be Transferred to Eligible Participants of Cash Transfer Programs” (paragraphs 31-43). This requires entities to determine the best estimate of the amount to be transferred to eligible participants at the reporting date and that it should be a gross amount not offset by inflows. The amount is actuarially based and discounted to present value. Commentary at paragraph 32 explains that:

- Unless governing legislation or regulations explicitly state otherwise, the best estimate is not limited to the amount of the next payment following the satisfaction of threshold eligibility criteria: and that
- The estimate is normally based on a principle of continuous entitlement. This means that the estimate is based on an individual continuing to satisfy eligibility criteria for a benefit over a future period without a break in entitlement.

The term “amounts to be transferred to eligible participants at the reporting date” is very cumbersome. At Accra the terms “entitlements” and “commitments” were explored. Both terms seemed to have potential disbenefits and may also create translation difficulties. For some “Entitlements” conveys a sense of a legal obligation, whilst “commitments” is a term associated with budgeting.

Action requested: Provide views on whether section of the ED: “Amounts to be Transferred to Eligible Participants of Cash Transfer Programs” is appropriate and suggest alternative terminology.

(f) Disclosures

The disclosures in paragraph 44 are based on those in the version of the ED presented to the Accra meeting modified to reflect revised terminology. The requirement for the disclosure of trend information covering the reporting period and the previous 4 reporting periods has been deleted in accordance with directions at Accra. The Basis for Conclusions at paragraph BC 22 explains that this is because requirements for trend information may be onerous for preparers and of limited value to users. Staff are also aware that some Members/TAs have questioned the value of disclosures on the number of eligible beneficiaries (paragraph 44 (c)).

Action requested: Provide views on whether the disclosures in paragraph 44 are appropriate. If the disclosures are inadequate please list further disclosures which are necessary, If you think that the disclosures are unduly onerous please indicate those which should be deleted.

(g) Aggregation of Information

At Accra the decision was made to delete the term “major” from “cash transfers”. Many entities, particularly at the whole-of-government level will operate a very large number of cash transfer programs. Judgments will be necessary as to which programs are material and warrant separate disclosure.

There is an issue over the treatment of social benefit programs which are not individually material, but may be material in aggregate. The ED could take a number of positions on this issue:

- Remain silent;
- Require disclosure of information only for those social benefit programs that are individually material, possibly with additional requirements to identify and discuss programs that are not presented individually; or

- Require disclosure of aggregate information for programs that are not individually material but are material in the aggregate

Remaining silent risks inconsistent application, whilst explicitly requiring the disclosure of information for programs that are individually material really goes back to the position in the last version of the ED. In its standards on earmarked funds (SFFAS 27) and fiduciary activities (SFFAS 31) the US Federal Accounting Standards Advisory Board (FASAB) has adopted the last of these positions.. Commentary in paragraph 46 adopts a similar position to that taken by the FASAB. The proposed approach does require entities to accumulate information on all social benefit programs to make the determination about whether individually immaterial activities are material in the aggregate; this analysis may involve additional costs for preparers. Staff acknowledges the assistance of the INTOSAI Observer on this issue.

Action requested: Provide views on whether the approach to the aggregation of data on programs that are not individually material, but are material in the aggregate, are appropriate. If they are not appropriate what requirements for such programs should be included?

(h) Implementation Arrangements

The proposed requirement in paragraph 51 is that the ED becomes effective for reporting periods beginning on or after a date three years after issuance. Paragraph 49 provides relief from providing comparative information in the first year of adoption. Staff acknowledges that the proposed Standard would be an interim pronouncement and that there is a case for quicker implementation. However, the Standard requires actuarially based information and this may prove challenging for entities in some jurisdictions. Staff therefore considers that a number of entities will require the full three year lead-time in order to put systems in place to provide the information necessary to comply with the proposed Standard.

Action requested: Provide views on whether the proposed implementation arrangements including relief from providing comparative information in the first year of adoption are appropriate. If they are not appropriate what should the implementation requirements be?

(i) Specific Matters for Comment

The Specific Matters for Comment (SMC) have been modified to reflect the new approach in the ED i.e. that it no longer deals with present obligations or liabilities, In accordance with the directions at the Accra Meeting a SMC on audit implications has been inserted at SMC 9.

Action requested: Provide views on whether the Specific Matters for Comment (SMCs) in the ED are appropriate. Please identify any SMCs which should be deleted and propose any further SMCs that should be included.

ISSUES: CONSULTATION PAPER

In accordance with direction at the Accra Meeting Staff has developed a separate Consultation Paper. The Consultation Paper is titled “Social Benefits: Issues in Recognition and Measurement” and covers many of the same areas as the Expanded Introduction and the Basis for Conclusions in the version of the ED presented at Accra. The Consultation Paper provides brief background on the Social Benefits project and includes the following substantive sections:

- Present Obligations for Cash Transfers and the Impact of Contributions and Earmarked Taxes;
- Present Obligations for Collective Good and Services and Individual Goods and Services;
- Revalidation as a Recognition Criterion or a Measurement Attribute;
- An Alternative Model: A Grand Executory Contract and Recognition of Liabilities Arising from Legal Obligations; and
- Fiscal sustainability.

Action requested: Provide views on whether the Consultation Paper is in accordance with the directions given at Accra and, in particular, whether the section on an Alternative Models should be retained omitted or further developed.

**Social Benefits: Cash Transfers: Disclosure
Cut and Paste Analysis of Responses**

(a) Title of the ED

001 Greg Schollum

I don't like the double colon. I would prefer a title with just one colon such as "Social benefits: Disclosure of cash transfers"

002. Andreas Bergmann

Technically I can agree with the title as proposed. However, the two colons (:) are a bit cumbersome and I would propose something like: "Social Benefits in the form of Cash Transfers: Disclosure". But I clearly would not refuse to issue the ED if it stayed the way it is.

003 Ian Carruthers

The proposed title does not explain what types of disclosure it covers, and implies that these are all settled in cash. Social Benefits: Disclosure of Cash Transfers would be better, though see comments under Scope.

004 Jim Paul/Peter Batten

AASB staff agrees in principle with the alternative title proposed. However, we think that the title includes too many colons. We suggest "Social Benefits: Disclosure of Cash Transfers".

005 Lou Hong/Hong Xia

I agreed with staff's view that the title should be "Social Benefits: Cash Transfers: Disclosure" because it only provides detailed requirements for cash transfers, although the ED defines collective goods and services and individual goods and services.

007 David Bean

Proposes "Disclosure of Certain Social Benefits without Stipulations"

008 Rick Neville

Agreed

009 Frans von Schaik./ Thomas van Tiel

We agree with change of title.

(b) Introductory Background

001 Greg Schollum I suggest amending the third paragraph to something like: \

"The IPSASB decided at this time to issue an ED that focuses on disclosure but does not address recognition and measurement. The IPSASB considers that the proposed disclosure requirements represent an important step in signalling the significance of governments providing users with relevant information on its social programs within the broader context of fiscal sustainability reporting.

The IPSASB has recently stated its intention to initiate a project on fiscal sustainability later in 2007. The IPSASB's project on development of a public sector conceptual framework will also

consider fiscal sustainability reporting and disclosures in the context of general purpose financial reporting”.

002. Andreas Bergmann

Agree.

003 Ian Carruthers.

No specific observations were made on this in CIPFA’s internal consultation: the Introductory Background is appropriate in the context of the IPSASB’s approach. (However, CIPFA does have some concerns over the overall approach, especially that, despite the care taken in the ED, there is still an implication that these disclosures represent liabilities.)

004 Jim Paul/Peter Batten

The first sentence of the third paragraph of the “Introductory Background to the ED” states “The IPSASB decided to issue an ED that does not address the recognition and measurement and disclosure of liabilities”. We think the preceding paragraph adequately explained the reasons for this ED not addressing the recognition and measurement issues, but the IPSASB reasons for excluding disclosure of liabilities from the ED is not addressed. It could be stated that the IPSASB could not stipulate disclosure requirements for liabilities, without having addressed the related recognition and measurement issues. Reference could then also be made to the Consultation Paper and the future process to be followed.

The Purpose of the Exposure Draft should be updated to reflect that “This Exposure Draft proposes requirements for the disclosure of cash transfers” or using the same words as the objective paragraph (that is, “This Exposure Draft proposes requirements for the disclosure of amounts to be transferred to eligible participants for cash transfer programs”). Currently, it retains references to “present obligations” and “liabilities”.

005 Lou Hong/Hong Xia

I think that the short Introductory Background to the ED included after the standard “Introduction to the International Public Sector Accounting Standards” which appears in all Exposure Drafts may be moved to the Basis for Conclusions, even though it highlights very briefly the background and development of the project and the IPSASB’s intention to launch a project on sustainability reporting. From readers’ point of view, of course, if we still maintain these two paragraphs here, it really does no harm; however, neither will it bring much benefit. Further, it creates a different style from EDs of other standards. Accordingly, my suggestion is that staff move two paragraphs to Basis for Conclusion and can also illustrate in a more detailed ways.

007 David Bean

Minor editorials proposed

008 Rick Neville

Agreed.

009 Frans van Schaik/Thomas van Tiel

The introductory background to the ED is appropriate.

(c) Scope

001 Greg Schollum

I'm comfortable with the revised scope

002. Andreas Bergmann

This is perhaps the main issue that I have with the draft ED. In paragraph 4 it says "...as well as to other cash transfers and goods and services provided..." I do not agree with the part "and goods and services" because we scope out non-cash style social benefits elsewhere, from the title down to the determination of amounts. So I don't understand why it should be included in paragraph 4. Otherwise the section is fine.

003 Ian Carruthers

The Scope is appropriate in the context of the IPSASB's approach. However, reading the draft ED made me wonder whether it shouldn't cover collective and individual goods and services as well. This wouldn't really change the material that we have in the ED, but it would have a number of advantages:

- It would give us a proper disclosure standard for social benefits and would make the exclusion of measurement and recognition more principled;
- It would make better sense in textual terms; and
- Would lead more naturally into our reasons for looking at fiscal sustainability information.

004 Jim Paul/Peter Batten

We support the modifications to the Scope section, except that it is inaccurate to refer to "amounts to be transferred to eligible participants for cash transfer programs at the reporting date" (which sounds like transfers outstanding at that date). Therefore, we suggest referring to "amounts to be transferred under cash transfer programs to participants who are eligible at the reporting date". This affects numerous references throughout the ED.

Our other comment regarding scope is that the reference to IPSAS 3 in paragraph 3 of ED 33 prompts the following question:

If preparers and auditors apply paragraph 14(a) of IPSAS 3, might they analogise to paragraphs 30-34 of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* from the viewpoint of the transferor (i.e., to determine whether a liability exists) and either conclude that a liability must be recognised for social benefits or simply be confused about the ramifications of IPSAS 23 in this context? The first of these consequences would seem to defeat the purpose of this ED's disclosure-only approach to requirements. Does the hierarchy in IPSAS 3 need to be specifically set aside in respect of social benefits?

005 Lou Hong/ Hong Xia

The modifications to the Scope sections are appropriate. I believe that though the ED does not deal with the recognition, measurement and disclosure of collective and individual goods and services, it is necessary to define them, and thus to distinguish from cash transfer with which the ED deals.

007 David Bean

Some editorials proposed.

008 Rick Neville

Agreed.

009 Frans van Schaik/Thomas van Tiel

The pre-meeting consultation memo mentions that collective and individual goods and services are outside the scope of the ED except for the requirement to disclose existing accounting policies for recognition and measurement. We are not sure what this means. In our opinion another IPSAS 1 is sufficiently clear on the requirement to disclose accounting policies. There is no need to include goods and services in the scope only for this reason.

The scope section is not sufficiently clear on whether goods and services are within the scope of this standard, because the scope section refers to cash transfers and not to goods and services (paragraph 2).

However, paragraph 4 states that this Standard applies to social security pension benefits provided in non-exchange transactions, as well as to other cash transfers and *goods and services* provided by governments in non-exchange transactions to individuals where attainment of retirement age is an eligibility criterion

The first sentence of paragraph 4 could erroneously be interpreted as if ED 33 *only* applies to cash transfers and goods and services provided in non-exchange transactions to individuals where *retirement age* is an eligibility criterion.

(d) Definitions

001 Greg Schollum.

I'm generally comfortable with retaining all existing material on collective and individual goods and services. However, I agree we shouldn't retain definitions that are specific to a particular type of cash transfer (e.g. aged pensions).

002. Andreas Bergmann

I would not delete these paragraphs altogether, but am of the view that the current wording is too extensive and therefore draws too much attention to elements that are no longer relevant, due to the more limited scope. However, limited definitions of what is excluded should be maintained. I would recommend maintaining paragraphs 12-15 as they are, reduce paragraph 16 and 17 perhaps to their first sentences, each. Paragraphs 18 to 21 could be deleted.

003 Ian Carruthers.

Text in paragraphs 16-21 should be heavily edited, or even in some case deleted if we retain the narrower scope. No specific observations were made on paragraphs 26-31.

004 Jim Paul/Peter Batten

We suggest that paragraph 9, which outlines the terms that have been defined in other IPSASs (or EDs), should be moved to an Appendix or mentioned as being found in the IPSAS Glossary. We do not think that any of the paragraphs commenting on collective and individual goods and services should be deleted, because they are important for an understanding of the total spectrum of social benefits. However, most of their content could be moved to an Appendix.

005 Lou Hong/Hong Xia

From my point of view, all commentary paragraphs on collective and individual goods and services should be retained as they are currently drafted in the ED. The final standard evolving from the ED is the first product of social benefits project, provisional though. It is worthwhile for this ED to clearly explain what collective and individual goods and services, and cash transfer are. This will lay a good foundation for the rest of the project.

Given the fact that there might be much difference with regards to the definition of social security pensions and retirement age from jurisdiction to jurisdiction, I suggest that definitions to these two terms and accompanying commentary paragraphs 26-30 be deleted, while retaining the reference to social security pensions and other cash transfer programs with retirement age as an eligibility criterion in paragraph 3 and the commentary in paragraph 11

006 J-L Dumont/M-P Cordier

Paragraphs 26-30 included in the ED must be considered as a minimum and should not be deleted.

007 David Bean

Favors deletion of a number of the examples of collective goods and services in paragraph 16 (conduct of international relations, efficient operation of social and economic system, formulation and administration of government policy) and examples of individual goods and services in paragraph 18 (transport and social services)

Other editorials.

008 Rick Neville

I do not believe that we should remove any paragraphs. Editorial note: the second sentence of paragraph 24 is very confusing.

009 Frans van Schaik/Thomas van Tiel

The paragraphs on collective and individual goods and services are only needed to distinguish cash transfer programs from goods and services. For this reason we propose to delete paragraph 20 and to rewrite paragraphs 16-21 to focus more on the purpose of these paragraphs in this standard. The examples of collective goods and services in paragraph 16 are confusing, because e.g. the conduct of international relations is not commonly referred to as social benefits. We

question whether there are any examples of social benefits in the form of collective goods and services.

Paragraphs 26-30 are about social security pensions. The difference between social security pensions and other cash transfer programs is not relevant for the application of this standard. Therefore we propose to delete these paragraphs.

Furthermore, the purpose of the distinction between basic/welfare pensions and general/contributory pensions is not clear. In the rest of the standard these different pensions are not treated differently.

(e) Determination of amounts to be transferred to eligible participants of cash transfer programs

001 Greg Schollum.

I'm broadly comfortable with these paragraphs. I don't think you can shorten the terminology "amounts to be transferred to eligible participants at the reporting date".

002 Andreas Bergmann

Agree (Although I still don't agree that "commitment" is associated with budgeting and could therefore be used here)

003 Ian Carruthers

The wording of paragraph 31 is unclear and incomplete. A clearer wording would be 'An entity shall disclose its best estimate of the present value of amounts to be paid in future periods to all participants eligible at the reporting date under existing social benefit programs relating to payments to individuals'. This makes it more obvious that payments relate to entitlements which may arise in future periods, in respect of existing programs, and for which participants are eligible at the reporting date.

004 Jim Paul/Peter Batten

We do not support using alternative (briefer) terminology to refer to the amounts to be disclosed.

We also recommend a review of whether the principle of continuous entitlement is appropriate now that the objective is no longer to disclose "present obligations" for cash transfer social benefits. In other words, must the trigger for identifying an eligible participant be the same as the measurement ("determination") basis? We think this should be discussed in the Basis for Conclusions. On balance, we tend to agree with the principle of continuous entitlement on the grounds that the participant is not yet eligible for subsequent entitlements that would result arise from re-qualifying. That principle could also be supported as avoiding the possible development of changed systems if present obligations are later defined in terms of the principle.

We are concerned about the open-ended expression in the first sentence of paragraph 33, which says that the best estimate is limited to the amount of the next payment if governing legislation or regulations state that is the case. This seems to permit legislation to override the provisions of an IPSAS. The following sentence in paragraph 33 refers to a program that legislation indicates

will be terminated. Are there other examples you have in mind? It would seem unnecessary to refer to what could be interpreted as a legislative override of an IPSAS provision if that were the only example. This is because the best estimate of a period of entitlement (and therefore of future cash transfers) should automatically be limited to the expected term of the program (not just the circumstances of the eligible participants).

005 Lou Hong/Hong Xia

I am just wondering since the ED does not deal with the recognition and measurement of liabilities in regards to social benefits, at this stage, we are not very sure what measurement bases the future standard dealing with recognition and measurement would be. As a result, for disclosure purpose, is it very realistic and practical to require entities to determine the best estimate of the amount to be transferred to eligible participants at the reporting date on an actuarially base and discounted to present value? We may start with a simpler way by only requiring discounted bases, rather than both on an actuarially based and discounted to present value. For public sector entities, if they can reliably determine amounts to be transferred to all eligible participants for cash transfer program and discounted to present value, this is in itself a substantially big step.

007 David Bean

Editorials

008 Rick Neville

I believe the suggested terminology is the best compromise, under the circumstances. Another suggestion you may wish to consider and research is “Cash Transfer Programs-Eligible amounts owing.”

009 Frans van Schaik/Thomas van Tiel

The requirements regarding social benefits in the System of National Accounts are likely to be changed this year. This change will lead to the accounting amounts to be transferred to current and future eligible participants. The latter will be accounted for in supplementary statements. In our opinion it is necessary to review the proposed changes of SNA and the consequences before issuing an exposure draft. It is important to prevent any unnecessary differences between these systems and IPSAS.

According to paragraph 32 the estimate of amounts to be transferred are not offset by estimates of inflows (contributions, earmarked and general taxation, appropriations and transfers from other levels of government). It is not clear whether this includes income tax on social security pensions (and other cash transfers) to be paid by the beneficiary. For example, an eligible participant of a social security pension program receives a pension of 100 CU and needs to pay 20 CU of income tax on this pension. The wording in paragraph 32 must be clearer on whether the estimate should be based on 100 CU or 80 CU. In our opinion the estimated amount should be disclosed on a gross basis (i.e. 100 CU). In paragraph 44 we propose an additional requirement for separate disclosure of directly related income tax and/or other inflows from the beneficiary regarding a cash transfer.

(f) Disclosures

001 Greg Schollum

Subject to my overall comment on encouraged disclosures referred to earlier in this memo, I'm comfortable with the proposed disclosures.

002 Andreas Bergmann

Agree

003 Ian Carruthers

A number of CIPFA's internal consultees were concerned that these disclosures would be onerous or duplicative for:

- Jurisdictions which already disclose liabilities in respect of social benefit programs; or
- Jurisdictions which need to make disclosures in respect of multiple programs

004 Jim Paul/Peter Batten

We continue to think that disclosure of the number of eligible beneficiaries (paragraph 44(c)) is unlikely to be particularly helpful and therefore would support its omission. Otherwise, we support the proposed disclosures.

In the light of paragraph BC16, we are uncertain whether paragraph 44(h) is restricted to cash transfers or also requires disclosure of the accounting policy for recognizing expenses and liabilities for other forms of social benefits to be provided. Paragraph BC16 refers to "only very limited disclosure requirements for collective and individual goods and services", and we could not identify any other proposed disclosure requirements that could possibly relate to collective and individual goods and services (however, the start of paragraph 44 provides a scope limitation for all of the disclosures to cash transfer programs).

005 Lou Hong/Hong Xia

With respect to paragraph 44, my suggestion would be as follows:

- Relocate (b) to (a), ie.change the sequence of (a) and (b), because normally general description of a cash transfer program will be the first thing to disclose. From the illustrative examples following the ED, the general description has been put on the very beginning of the disclosure in the first place.
- Delete (c) and (e). The number of eligible participants seems not very important, while the basis on which benefits will be increased in the future is neither easy to predict nor very useful.
- Add a disclosure requirement in paragraph 43 on "amounts of cash transfer programs that due and payable within next reporting period from the reporting date". This will assist users to understand how many current liabilities that entities undertake regarding cash transfer programs.
- Put requirement (h) as a separate paragraph because (h) involves accounting policy for recognizing expenses and liabilities relating to social benefits on the whole, not just policies relating to cash transfer programs, while the rest disclosure requirements, ie paragraph 43 (a) to (g), deal with those relating to cash transfer programs.

007 David Bean

Delete paragraph 44(d)-discount rate

Delete paragraph 48-commentary on disclosure of accounting policies for collective and individual goods and services,

008 Rick Neville

Agreed apart from (c) which I do not believe we absolutely need.

009 Frans van Schaik/Thomas van Tiel

As mentioned under (e). we propose an additional requirement for separate disclosure of directly related income tax and/or other inflows from the beneficiary regarding a cash transfer.

(g) Aggregation of information

001 Greg Schollum

I'm comfortable with what is proposed.

002 Andreas Bergmann

I would suggest requiring the disclosure for individually material programs plus discussion of programs undisclosed individually (second bullet). The first option is not adequate, as it might lead to completely useless information being disclosed and thus jeopardizing our mission. The third is not so dangerous, but might be a bit more onerous if there are many small programs. Thus I could also agree with the third bullet, but not with the first one.

003 Ian Carruthers

No specific observations were made on this in CIPFA's internal consultation.

004 Jim Paul/Peter Batten

We support paragraph 46, which is consistent with the FASAB approach.

005 Lou Hong

I agree with the approach adopted in the ED for those social benefits that are individually immaterial but material in the aggregate, ie by disclosing the aggregate information for these programs.

008 Rick Neville

I support the approach of the third option as being the one chosen.

009 Frans van Schaik/Thomas van Tiel

We agree with the proposed approach.

(h) Implementation Arrangements

001 Greg Schollum

I support the three year transition.

002 Andreas Bergmann

I would advocate a shorter transition period (1 or 2 years), but maintaining the relief for comparative information in the first year.

003 Ian Carruthers

No specific observations were made on this in CIPFA's internal consultation

004 Jim Paul/Peter Batten

We support the proposed implementation arrangements.

005 Lou Hong/Hong Xia

For entities that have adopted IPSASs, three year after issuance of this Standard and relief from comparative information on the first year of adoption of this Standard would be very useful and necessary to gather information regarding cash transfer programs within three years time.

008 Rick Neville

I concur with the approach as stated in the draft ED

009 Frans van Schaik/Thomas van Tiel

We agree with the proposed implementation arrangements.

(i) Specific Matters for Comment

001 Greg Schollum

I'm not convinced we should again ask constituents about whether age related social benefits should be dealt with in a separate ED – what if they overwhelmingly say yes!

002 Andreas Bergmann

Agree.

003 Ian Carruthers

Not sure whether we need to ask Question 1 again No specific observations were made on this in CIPFA's internal consultation

004 Jim Paul/Peter Batten

We think these questions are appropriate, with one exception. Question 5 in the previous draft ED asked whether commentators agree that a present obligation to beneficiaries does not arise in respect of collective and individual goods and services. Whilst that question is clearly irrelevant to the current draft ED, it still seems worthwhile to ask whether commentators agree that disclosure of future transfers of economic benefits in respect of collective and individual goods and services should not be required

005 Lou Hong/Hong Xia

I agree with modified SMCs.

007 David Bean

Does not support SMCs 9 and 10 (audit implications and comparative reliefs).

008 Rick Neville

I think SMC 9 should be restated to read as follows:

“The disclosure requirements in paragraph 44 are going to lead to significant audit implications.”
When you read the disclosure requirements, auditors are going to have a lot of work to do before they can sign off.....this is a major change for them.”

009 Frans van Schaik/Thomas van Tiel

We agree with the proposed specific matters for comment.

Other Issues

001 Greg Schollum

1. Disclosure of amounts to be transferred to those meeting eligibility criteria for cash transfer programs at the reporting date

As agreed in Accra, you have specified within the ED the minimum disclosures that the IPSASB expects in respect of cash transfers, i.e. amounts relating to those meeting eligibility criteria at the reporting date.

However, I thought we were also going to encourage disclosure of what could be considered to be more likely to be the ‘real’ amount transferred in the future, by taking account of those likely to come in and out of eligibility after reporting date.

As we discussed in Accra, those eligible at the reporting date represent only a subset of the recipients who will receive cash transfers from the Government in the future under any given social program. In my view, it is also this encouraged disclosure that is more likely to be of relevance in a wider fiscal sustainability sense.

2. Discount rate to be used to arrive at the present value of the amount to be transferred

The ED requires the discount rate (to be used to discount amounts to be transferred to eligible participants at the reporting date for cash transfer programs) to be determined by reference to market yields at the reporting date on government bonds. This is a black letter requirement (para 40 of the ED). As noted in para 41, the discount rate reflects the time value of money, but not actuarial or investment risk or entity specific credit risk.

I note that in ED31 Employee Benefits, we take a more principled approach to discount rate by specifying that “the rate used to discount post employment benefit obligations shall be the risk free rate determined by reference to market yields at the reporting date on government bonds ...”

Is there a particular reason why, in the discounting of amounts associated with cash transfer programs, you haven’t made reference to the risk free rate?

3. Rationale for difference between cash transfers and individual goods and services

The basis for conclusions to the ED (BC 11) explores the three part definition of social benefits as:

- goods and services provided for collective consumption;
- goods and services provided for individual consumption;
- cash transfers;

and then in BC 13 we state the differences between individual goods and services, and cash transfers are so sufficient to merit consideration of separate accounting requirements.

Apart from the fact that I have never really been convinced by the arguments that there are real differences between the two (i.e. individual goods and services require a positive further action on the part of the recipient), I'm not sure that in a 'disclosure only' standard we should be emphasising the differences, to the extent that any exist. For example, I think it is entirely possible that in the future the IPSASB may wish to extend the disclosure requirements proposed in this ED to incorporate individual goods and services. If we have overstated the differences between cash transfers and individual goods and services, and then propose the same accounting requirements (i.e. disclosure of the present value of amounts to be transferred to all eligible participants at the reporting date) it may not be a good look. I would prefer if we toned down the fact that we think the differences will lead to different accounting.

Consultation Paper

001 Greg Schollum

This would have been a difficult one to put together! I think that elevating the discussion above the technical accounting issues might be worthwhile given our target audience (e.g. Ministers of Finance).

I would increase the focus on the relevance and usefulness of information about social programs and the need for Governments to be transparent about the implications of their policy settings and choices.

This would then feed into not only talking about information within the context of historical financial reports, but also in prospective financial reports. This is the rationale for our interest in fiscal sustainability reporting.

In line with this, I'm not sure I would ask too many technical accounting questions in the specific matters for comment section. The key questions in my mind are more about decision usefulness things like:

- Does it make sense to consider recognition of liabilities for social programs as long as the corresponding asset (future tax revenue) is not recognised?
- How is the ongoing business of government (providing social programs) best communicated to users?
- What sort of guidance should be developed in the area of fiscal sustainability disclosures?

I think we need to further debate the exact nature and purpose of the consultation paper.

002 Andreas Bergmann

I agree with the Consultation Paper as it is i.e. including the section on Alternative Models. If the section should be deleted by the majority of the Board members, I would ask to include the "ongoing duty to contribute taxes" argument somewhere else, perhaps in section 4.

003 Ian Carruthers

I think we need to be clearer about the intended audience, which might mean removing some of the more detailed technical material.

Throughout this paper I would suggest referring to a project on the use of sustainability information, rather than sustainability information itself in order not to make the scope of the project too wide.

Para 2.6 needs rewriting to provide a more respectable rationale - refer perhaps to the forthcoming Conceptual Framework work and to allow it to take into account the IASB's developing thinking. The motivation for the ED would be to move the debate on and to encourage best practice and the collection of the necessary information.

I think para 3.10 should be moved to the fiscal sustainability section and merged in – this would then enable the comments on usefulness of information to be made more effectively.

Given the coverage in IPSAS 23 I do not think we should be including the grand executory contract stuff at all.

004 Jim Paul/Peter Batten

- Whilst we think the draft Consultation Paper is of a high quality, it needs a one-page executive summary that summarises the IPSASB's three-pronged approach to developing IPSASs on accounting for, and disclosure of, social benefits (including a mention of the IPSASB's conceptual framework project). An executive summary is vital for providing an overview of the IPSASB's approach to Ministers and senior executives of public sector entities.
- In section 5, we suggest explaining how revalidation would be reflected in a measurement attribute for obligations to beneficiaries.
- The following question could be added to specific matter for comment 6: "If yes, what alternative model(s) should be explored?"
- Specific matters for comment 6 and 7 should ask respondents to state their reasons, similar to specific matters for comment 1 to 5.

005 Lou Hong/Hong Xia

Since this is a consultation paper, it may be useful for the public to have a much broad perspective on the potential issues that may involve in social benefits project. Therefore, I suggest that the "Alternative Model" section be retained for consultation at this stage.

008 Rick Neville

I am of the opinion that the consultation paper is in accordance with the directives given at Accra, and that section 6 should be retained as well as SMC 6.

009 Frans van Schaik/Thomas van Tiel

We propose to include in the consultation paper all known alternative models. A second alternative model is similar to approach that is described in the discussion paper on cultural heritage assets. In this model amounts regarding social benefits (liabilities, assets, gains and losses) are accounted for in separate statements or separate columns in the statements of financial position and performance.

~~EIGHTH-NINTH~~ DRAFT ED

International
Public Sector
Accounting
Standards
Board

International Public Sector Accounting Standards Board

ED 33, Social Benefits: ~~Cash Transfers:~~ Disclosure of
Cash Transfers

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft *Social Benefits: Cash Transfers: Disclosure*, for publication in xx xx xxxx. This proposed International Public Sector Accounting Standard may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by xx xx xxxx. All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Email responses should be sent to: publicsectorpubs@ifac.org

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.

Introductory Background to this ED

The IFAC Public Sector Committee (PSC), the IPSASB's predecessor committee, issued IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" in October 2002. Social benefits provided in non-exchange transactions are outside the scope of IPSAS 19. The PSC issued an Invitation to Comment ~~(ITC)~~, "Accounting for Social Policy Obligations" in January 2004. The Invitation to Comment (TC) was developed by a Steering Committee comprised of both PSC Members and Technical Advisors and others outside the PSC, such as representatives of finance ministries, with an interest in accounting for social benefits under the accrual basis of accounting. The Invitation to Comment ITC proposed that the framework of IPSAS 19 was applicable to accounting for social benefits provided in non-exchange transactions and the PSC accepted this proposal. The IPSASB commenced its own project in April 2005. ~~The title of this project was subsequently changed to "Social Benefits: Cash Transfers: Disclosure."~~

The IPSASB's intention when initiating the project and throughout much of its development was to develop an Exposure Draft ~~(ED) which that~~ proposed requirements for the identification of present obligations and the recognition and measurement of liabilities related to social benefits. The IPSASB deliberations on present obligations and measurement of liabilities and developments in accounting for social benefits since the project was initiated led to a view that it should conduct a further and separate consultation on certain key issues related to recognition and measurement prior to finalizing its views on these issues. The IPSASB has therefore issued a Consultation Paper, "Social Benefits: Issues in Recognition and Measurement" in order to promote a debate on these key issues.

The IPSASB decided at this time to issue an Exposure Draft that focuses on disclosure but does not address recognition and measurement. The IPSASB considers that the proposed disclosure requirements represent an important step in signalling the significance of governments providing users with relevant information on their social programs within the broader context of fiscal sustainability reporting. The IPSASB has recently stated its intention to initiate a project on fiscal sustainability later in 2007. The IPSASB's project on development of a public sector conceptual framework will also consider fiscal sustainability reporting and disclosures in the context of general purpose financial reporting.

~~The IPSASB decided to issue an ED that does not address the recognition and measurement or disclosure of liabilities. The IPSASB acknowledges that a Standard developed from this ED would be provisional. However, it considers that the proposed requirements are useful staging posts in the adoption of approaches for both accrual reporting and sustainability reporting. The IPSASB has recently stated its intention to initiate a project on fiscal sustainability later in 2007. The IPSASB's project on the Conceptual Framework will also consider fiscal sustainability reporting and disclosures in the context of general purpose financial reporting.~~

Due Process

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

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the ~~identification of present obligations in relation to social benefits and disclosure requirements for liabilities arising from those present obligations~~ disclosure of future transfers in relation to cash transfers.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by 30 November 2007. 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 including the Illustrative Disclosures 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~~think that:

~~1. Social security pensions and other social benefits giving rise to non-exchange transactions for which retirement age is an eligibility criterion should be included within the scope of this Exposure Draft (paragraph 4)? If you think that social security pensions and other social benefits for which retirement age is an eligibility criterion should be dealt with in a separate Exposure Draft, please give your reasons.~~

1. This Exposure Draft should not require the disclosure of future transfers of economic benefits in respect of collective and individual goods and services. If you think that such disclosures should be required please state the basis on which such disclosures should be made.
2. Contributory and non-contributory programs giving rise to non-exchange transactions should be within the scope of this Exposure Draft (paragraph 6)? If you think that contributory and non-contributory programs giving rise to non-exchange transactions should be dealt with in a separate Exposure Draft please give your reasons.
3. The definition of social benefits at paragraph 10 is sufficiently clear and comprehensive? If you disagree please explain how this definition should be modified.
4. The definitions of collective goods and services, individual goods and services and cash transfers at paragraph ~~10~~4 are necessary and appropriate? If they are not necessary or appropriate can you explain how they should be modified?
5. The requirements for the determination of amounts to be transferred to ~~eligible~~eligible participants who are eligible at the reporting date are the reporting date are appropriate (paragraphs ~~3126-4338~~)? If you do not think that they are appropriate please indicate what those requirements should be.
6. Where a cash transfer program requires individuals to revalidate their entitlement to benefits, revalidation should be taken into account in the determination of the amount to be ~~transferred~~transferred i.e. the amounts to be transferred should be determined on a basis of on a basis of continuous entitlement (paragraph ~~3328~~)? If you disagree with the approach to revalidation please state your reasons and indicate your preferred alternative approach to revalidation.
7. The rate used to discount amounts to be transferred to eligible participants at the reporting date for cash transfer programs shall be determined by reference to market yields at the reporting date on government bonds (paragraph ~~3541~~)? If you do not think that this is the appropriate discount rate please ~~state your reasons and~~ indicate what rate should be used and state your reasons.
8. The disclosure requirements in paragraph ~~44-39~~ are appropriate? If you think that they are unduly onerous which disclosures should not be required. Conversely, if you think that the disclosures are inadequate what further disclosures would you include? Please state your reasons.

9. The disclosure requirements in paragraph ~~44~~39 ~~do not give rise~~are going to have ~~to~~-significant audit implications? If you think that the disclosure requirements ~~do give rise to~~are going to have -significant audit implications please state what those implications are.
10. The relief from providing comparative information in the first year of adoption in paragraphs ~~49-50~~44-45 is appropriate? If you do not think that this relief is appropriate please state your reasons.
11. The requirement that this proposed Standard takes effect for reporting periods beginning on a date three years after issuance is appropriate (paragraphs ~~51-52~~46-47)?. If you do not think this implementation requirement ~~is~~ appropriate please indicate the implementation requirement that you favor and state your reasons.

International Public Sector Accounting Standard ED 33

Social Benefits: Cash Transfers: Disclosure

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International Public Sector Accounting Standard XX, “Social Benefits: Cash Transfers: Disclosure” (IPSAS XX) is set out in paragraphs 1-~~52~~47. 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 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

IN1. For many governments and public sector entities programs for the provision of social benefits in non-exchange transactions comprise a highly significant part of their operations. The Standard prescribes minimum disclosure requirements for amounts to be transferred under cash transfer programs to participants who are eligible at the reporting date~~of amounts to be transferred to eligible participants at the reporting date for cash transfer programs.~~ An eligible participant is an individual or household that has satisfied all threshold eligibility criteria at the reporting date.

IN2. The Standard defines three categories of social benefits:

- (a) Collective goods and services
- (b) Individual goods and services
- (c) Cash transfers

IN3. The Standard does not include requirements for the recognition or measurement of expenses and liabilities relating to social benefits in the statement of financial performance and the statement of financial position. The Standard does not provide requirements for the determination and disclosure of resources to be transferred to the beneficiaries of collective and individual goods and services.

IN4. The Standard does not deal with cash transfers that are provided as consideration in exchange for service rendered by employees, including where such cash transfers are provided through composite social security programs, which also operate to provide cash transfers in non-exchange transactions. The Standard also does not deal with contracts with employees and third parties for the delivery of social benefits to individuals and households.

IN5. Entities are required to determine the present value of amounts to be transferred under cash transfer programs to participants who have satisfied all threshold eligibility criteria ~~for cash transfer programs~~ at the reporting date, regardless of whether there is a formal legal obligation to transfer resources ~~The discount rate to be applied is based on the yield on government bonds. The rate used to discount amounts to be transferred to eligible participants at the reporting date for cash transfer programs is determined by reference to market yields at the reporting date on government bonds.~~ The amounts determined in this way are disclosed on a program basis. The method by which a program making cash transfers is financed does not affect the method for approach to determining those amounts.

IN6. In determining-estimating the amounts to be disclosed, the reporting entity estimates the variables that will determine the ultimate cost of providing those benefits. These estimates include both demographic and financial assumptions. Where a cash transfer program requires the revalidation of eligibility criteria, those assumptions will also include estimates of the proportion of those eligible at the reporting date who will revalidate their entitlement and the timescale over which revalidation will take place. The amount disclosed is not limited to the amount to which~~that~~ the individual is entitled ~~to~~ from one validation point to the next. ~~Amounts to be transferred are discounted to present value using a discount rate determined by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds, the market yields at the reporting date on high quality corporate bonds are applied.~~

IN7. In addition to the disclosure of amounts to be transferred to eligible participants for cash transfer programs, ancillary disclosures are required for such programs. These include details of the principal legislation and regulations governing the programs, actuarial assumptions and ~~current accounting policies for the recognition and measurement of expenses and liabilities related to social benefits~~changes to those actuarial assumptions since the previous reporting date. Aggregated information is required for programs which are not individually material. The proposed Standard also requires the disclosure of the reporting entity's accounting policy for recognizing expenses and liabilities relating to social benefits cash transfer programs and the aggregate amount of any expenses

recognized in the statement of financial performance and any liabilities recognized in the statement of financial position relating to ~~social benefits~~cash transfer programs.

IN8. The Standard becomes effective for reporting periods beginning on a date three years after its issuance. Earlier adoption is encouraged. Relief is provided from the provision of comparative information in the first year of adoption of the Standard.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

Social Benefits: Cash Transfers: Disclosure

Objective

1. Governments and public sector entities provide constituents with social benefits in the form of cash transfers and goods and services in the pursuit of social policy objectives. The objective of this Standard is to provide requirements for the disclosure of amounts to be transferred to eligible participants for cash transfer programs. The Standard also includes other requirements to disclose details of the assumptions used in determining the amounts to be transferred and the nature of those cash transfer programs.

Scope

2. _____ An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in ~~accounting for the disclosure of~~ disclosing the amounts to be transferred under cash transfer programs to participants who are eligible at the reporting date. ~~to eligible participants for cash transfer programs at the reporting date.~~

3. _____ Social benefits are provided to members of the community in non-exchange transactions. The entity providing these benefits does not receive consideration that is approximately equal to the value of the goods and services provided, directly in return from the recipients of these benefits. Social benefits include health and educational services and cash transfers such as unemployment benefits. This Standard deals with the disclosure of amounts to be transferred ~~to eligible to~~ participants who are eligible at the reporting date for cash transfers provided in non-exchange transactions. It does not deal with the recognition of expenses and liabilities relating to social benefits provided in non-exchange transactions. ~~except for disclosure of the accounting policy selected by the entity in relation to recognition and the amounts recognized as expenses and liabilities in the reporting period. IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.~~

4. _____ This Standard applies to social security pension benefits provided in non-exchange transactions, as well as to other cash transfers ~~and goods and services~~ provided by governments in non-exchange transactions to individuals where attainment of retirement age is an eligibility criterion. In some jurisdictions cash transfers to individuals who have reached retirement age and satisfied other eligibility criteria are made through composite social security programs. Composite social security programs operate to provide benefits in non-exchange transactions and also as post-employment benefit plans. Transactions of composite social security programs as consideration in exchange for service rendered by employees are not within the scope of this Standard (see also paragraph 6).

5. _____ Certain cash transfer programs may also require contributions by or on behalf of individuals. Such programs are within the scope of this Standard provided that the amount of the contributions is not approximately equal to the economic benefits transferred by the government or public sector entity. This Standard does not deal with accounting for , or the disclosure of, such contributions.

6. _____ This Standard does not apply to employee benefits, including post-employment benefits provided to government employees and other employees as consideration in exchange for their services. Requirements in respect of employee benefits should be accounted for in accordance with ED 31, "Employee Benefits". This Standard does also not apply to exchange transactions for the provision of goods and services by third parties.

Government Business Enterprises

7. This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).

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

Definitions

9. The following terms are used in this Standard with the meanings specified. These terms have been defined in other IPSASs (or EDs):

Composite social security programs are established by legislation, and

- (a) operate as multi-employer plans to provide post-employment benefits; as well as to
- (b) provide benefits that are not consideration in exchange for services rendered by employees

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.

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.

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

A **cash transfer** is a social benefit, which is either provided in cash, or is an expense incurred through the tax system, to protect individuals against certain social risks where use of the resources transferred is at the discretion of the individual.

Collective goods and services are social benefits in the form of 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 of the population against certain social risks.

An **eligibility criterion** is a requirement that must be satisfied for entitlement to individual goods and services and cash transfers.

An **eligible participant** is an individual or household that has satisfied threshold eligibility criteria at the reporting date

Individual goods and services are social benefits in the form of goods and services provided for individual consumption to protect an individual or individual household against certain social risks.

~~Retirement age is an age at which an individual will become eligible for social security pensions, subject to the satisfaction of other eligibility criteria.~~

Social benefits are cash transfers and collective and individual goods and services provided by an entity directly to recipients in a non exchange transaction to protect the entire population, or a particular segment of the population in any jurisdiction against certain social risks.

~~A social security pension is a cash transfer payable only to those who have reached retirement 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.

Threshold eligibility criteria are all the criteria that an individual must satisfy when applying for a social benefit for the first time, or when reapplying for a social benefit after a period of ineligibility, in order to be entitled to individual goods and services or cash transfers.

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. Goods and services provided by public sector entities in non-exchange transactions may be provided for collective consumption or for consumption by individuals or individual households. Government and public sector entities also provide social benefits in the form of cash transfers. These goods and services and cash transfers are generally termed social benefits. The definition of social benefits in this Standard requires resources to be transferred directly to the recipients. Therefore the definition does not include transfers from one level of government to another level such as shared tax revenues (for example, where the national government transfers a proportion of certain tax receipts to a provincial government), or from one national government to another national government (for example, resources for disaster relief). This is because such resources are not transferred directly to the recipients.

Cash Transfers

12. In many instances, governments and public sector 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) Social security pensions
- b) Child benefits;
- c) Invalidity and sickness benefits;
- d) Unemployment benefits;
- e) Income supplements; and

f) Housing benefits (where paid to the applicant rather than directly to the landlord).

13. Access to cash transfers requires the satisfaction of eligibility criteria. The characteristic distinguishing cash transfers from individual goods and services is that the purposes for which the cash transferred may be used are completely at the discretion of the recipient (see also paragraph 2024). 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 within the definition of an individual good or service.

14. On occasions, cash transfers are 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 made directly in cash. Such reductions in taxation are expenses paid through the tax system and are within the definition of cash transfers in this Standard. IPSAS 23, "Revenue from Non-Exchange Transactions (Taxes and Transfers)" provides additional commentary on tax expenses and tax expenditures. Tax expenditures are preferential provisions of the tax law that provide certain concessions to taxpayers that are not available to others. Tax expenditures are not within the definition of a cash transfer in this Standard.

15. There may be instances in which a particular program or arrangement providing social benefits includes both cash transfers and individual goods and services. An example is a housing support program in which 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 social housing authority. In such cases resource outflows under the program may be componentized into cash transfers and individual goods and services.

16. Cash transfers include social security programs which operate to provide cash transfers to individuals who have attained the retirement age laid down in governing legislation or regulations, as well as satisfying other eligibility criteria. Further details of some of the characteristics of social security pension programs are provided at Appendix A.

Collective Good and Services

4617. Collective goods and services are made accessible 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 available and consumed by all members of the community, or group of households in the community or section of the community. Access to collective goods and services does not normally require the satisfaction of eligibility criteria. By their nature, collective services cannot normally be sold to individuals in the market place. Goods and services provided for collective consumption vary in different jurisdictions. Examples include:

(a) National defense; and

~~(b) The conduct of international relations;~~

~~(c)(b)~~ 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)(c) 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

~~17~~18. Governments and public sector entities provide a range of goods and services for consumption by individuals or individual households. Unlike collective goods and services, individual goods and services can ~~often~~ generally 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 goods and services provided. Access to individual goods and services normally requires the satisfaction of eligibility criteria. Goods and services provided for individual consumption vary in different jurisdictions. Examples include:

- (a) Health services,
- (b) Education services,
- (c) Housing services,
- (d) Transport services; and
- (e) Social services to the community.

~~18. 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 (see paragraphs 22 and 23).~~

~~19. Individual goods and services can be provided in a number of ways. For example methods to provide free or subsidized health and education goods and services to individuals include:~~

- ~~a) The direct provision of the goods and services. Governments and public sector entities 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 education 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 or part for certain individuals or a government may reimburse individuals with disabilities for the full cost or part cost of certain home services when proof of purchase of those services is provided; and~~
- ~~d) Providing individuals with vouchers that can be redeemed for goods and services. For example, some jurisdictions provide individuals with vouchers that entitle them to free education at one of a selected number of schools. The school then redeems the voucher with the government.~~

~~20. In some instances a service may be provided on both a collective and an individual basis. For example policing and criminal justice services may be 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 satisfy eligibility criteria in order to consume such services. However, there are occasions when an individual does have to satisfy eligibility criteria in order to benefit from policing and criminal justice services. For example, an individual in a witness protection scheme may have to meet eligibility criteria.~~

~~24.19.~~ Individual goods and services can be distinguished from cash transfers because the resources transferred are intended to be used for the service potential embodied in the goods and services specified by the transferor. Therefore they differ from cash transfers to individuals where the individual has a wider discretion over the purposes for which the economic benefits may be used (see above paragraphs 12-15). It may, of course, be possible for a recipient of goods to sell the goods rather than use them for the purposes intended by the transferor. Such a course of action, however, requires a positive further action by the recipient beyond receipt of the economic benefits transferred.

~~20. Individual goods and services may be provided by reimbursements for certain types of expenditure. Under such arrangements, rather than providing free or subsidized goods or services at the point of purchase or consumption, a government or public sector entity requires 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 or part for certain individuals or a government may reimburse individuals with disabilities for the full cost or part cost of certain home services when proof of purchase of those services is provided. Such reimbursements are not within the definition of cash transfers in this proposed Standard. Where the resources embodied in individual goods and services involve the transfer of cash as in paragraph 19(c) this is a specific reimbursement.~~

~~21. Further details of some of the methods of providing individual goods and services are provided at Appendix B.~~

Eligibility Criteria and Threshold Eligibility Criteria

22 The eligibility criteria that an individual or household must satisfy in order to become entitled to cash transfers or individual goods and services are laid down in the legislation and regulations governing the program. Eligibility criteria can differ widely between types of benefits in their number and complexity.

23. Eligibility criteria may need to be revalidated at specified intervals in order for an individual or household to maintain entitlement to social benefits—for example, where unemployment benefit is only available to those with incomes below a specified level individuals may be required to prove that their incomes are below this level on a regular basis.

~~24.~~ The term “threshold eligibility criteria” refers to all the eligibility criteria that an individual or household must satisfy when applying for a social benefit for the first time, or when reapplying for a social benefit after a period of ineligibility, in order to be entitled to cash transfers or individual goods and services. For example, an individual who has been making contributions to a program providing ~~disability~~ benefits to those aged 65 years and over cannot satisfy threshold eligibility criteria until he/she has reached the age of 65 years. At the reporting date and even though that individual below the age of 65 years may have already made sufficient contributions to qualify for benefits when, and if, they reach the age of 65 years. Such an individual has not met threshold eligibility criteria.

~~22.25~~ Some programs'—The eligibility criteria—criteria for some programs may not all have to be satisfied at the same time. An example is a child benefit program, where the child must have reached a specified age but further eligibility criteria related to the child's parents' income and/or asset holdings must be satisfied before an entitlement to benefit exists. In such cases threshold eligibility criteria are not satisfied until those further eligibility criteria have been satisfied.

Social Security Pensions and other Social Benefits where Retirement Age is an Eligibility Criterion

26. ~~As defined in this ED social security pensions operate to provide cash transfers to individuals who have attained the retirement age laid down in governing legislation or regulations, as well as satisfying other eligibility criteria. The retirement age is normally the age at which an individual is no longer expected to be active in the full-time work force and becomes eligible for the social security pension. As well as an eligibility criterion for the social security pension, the retirement age may also be the age at which an individual ceases to be eligible for certain other state benefits for example unemployment benefit. The age varies between jurisdictions and may vary within jurisdictions. For example, in some jurisdictions an individual may work beyond retirement age and not be entitled to the retirement pension while he/she works. Programs for social security pensions vary across jurisdictions and often contain highly detailed and complex provisions. There are two types of social security pensions within the definition of social security pensions in this Standard:~~

- ~~Basic/welfare pensions; and~~
- ~~General/contributory pensions~~

27. ~~Basic/welfare pensions do not require contributions from, or on behalf of, beneficiaries. In some cases basic/welfare pensions operate as “safety nets” for individuals who have not met the eligibility criteria for the general/contributory pension or whose contribution record is insufficient to provide more than a low level of benefits under the general/contributory pension.~~

28. ~~General/contributory pensions require contributions by, or on behalf, of an individual during their working lives or other periods specified in governing legislation or regulations. Benefits may be:~~

- ~~Related to the amount of those contributions but not approximately equal to the value of those contributions: and/or~~
- ~~Linked to a minimum period over which contributions must be made in order for an individual to be eligible.~~

29. ~~General/contributory pensions may be administered as stand-alone programs or together with basic/welfare pensions. In some cases general/contributory pensions and basic/welfare pensions may be administered in composite social security programs that also operate as multi-employer plans in providing post-employment benefits. In such cases, it will be necessary to distinguish benefits provided as consideration for employment services rendered and benefits that are not consideration for employment services rendered. In accordance with paragraphs 4 and 6 only the latter are addressed in this Standard. This Standard does not deal with accounting for the contributions to general/contributory pension programs or the contributions to composite social security programs.~~

30. ~~Many jurisdictions also provide citizens with other cash transfers once they have reached retirement age. The requirements in this Standard apply to all cash transfers provided in non-exchange transactions for which attainment of retirement age is an eligibility criterion.~~

Determination of Amounts to be Transferred under Cash Transfer Programs to Eligible Participants who are Eligible at the Reporting Date of Cash Transfer Programs

~~34~~26. An entity shall determine its best estimate of the present value of amounts to be transferred under cash transfer programs to ~~all eligible~~ participants who are eligible at the reporting date. ~~for cash transfer programs.~~

~~3327.~~ The estimate of the resources to be transferred to participants who are eligible at the reporting date ~~–all eligible participants at the reporting date~~ is on a “gross basis”. In other words, ~~that~~ estimate is not offset by estimates of inflows such as contributions on or behalf of beneficiaries, earmarked taxation, general taxation, appropriations or transfers from other levels of government. Further, the estimate is not offset by income tax or other deductions payable by the beneficiary. The estimate does not include the costs of program administration.

~~3328.~~ Unless a program has been explicitly amended by governing legislation or regulations at the reporting date, ~~so that it is to be terminated in the future, explicitly state otherwise~~ the best estimate is not limited to ~~the amount of the next payment~~ the next payment following the satisfaction of threshold eligibility criteria. ~~This may be the case if, under governing legislation or regulations, the program is to be terminated.~~ The estimate is normally based determined on a principle of continuous entitlement. This means that the estimate is based on an individual continuing to satisfy eligibility criteria for a benefit over a future period without a break in entitlement. For example, in making an estimate of the amounts to be transferred for a program delivering benefits to unemployed individuals the assessment includes estimates of the number of those currently eligible who will revalidate their entitlement so that they are continuously eligible for benefits from the reporting date. The assessment does not make estimates of amounts that will be paid to individuals following re-establishment of their eligibility to entitlements after a period of future ineligibility (for example following a break in entitlement due to a period of paid employment).

~~3429.~~ Some programs may include termination benefits. These are one-off payments arising when an individual who has previously satisfied eligibility criteria for periodic payments ceases to satisfy those eligibility criteria. For example, a child benefit program providing cash transfers for children under the age of 16 years may have a provision whereby a child receives a final lump sum on his/her sixteenth birthday. If programs include provisions for such termination benefits the estimate of the amounts to be transferred takes into account the probability of an eligible participant qualifying for a termination benefit in the future.

~~3530.~~ Actuarial assumptions shall be used in determining the amounts to be transferred under paragraph 3426 and those assumptions shall be unbiased and mutually compatible.

~~3631.~~ In determining the amounts to be transferred, the reporting entity makes estimates of the variables that will determine the ultimate cost of providing those benefits. These variables may vary dependent upon the nature of the cash transfer program. Such estimates are actuarially based and involve both demographic and financial assumptions. Actuarial assumptions include demographic factors such as life expectancy, morbidity, emigration and the extent of periods of unemployment. Financial factors include future benefit levels. Where a cash transfer program requires the revalidation of eligibility criteria actuarial assumptions also include estimates of the proportion of those eligible at the reporting date who will revalidate their entitlement on a continuous basis and the period of time over which revalidation will continue, ~~to take place.~~

~~3732.~~ Actuarial assumptions are unbiased if they are neither imprudent nor conservative. Actuarial assumptions are mutually compatible if they reflect the economic relationships between variables, for example the relationship between inflation and unemployment rates.

~~3833.~~ Actuarial assumptions shall be consistent between cash transfer programs.

~~3934.~~ In determining the amounts to be transferred under paragraph 3426, the actuarial assumptions are consistent between cash transfer programs. For example it would be inappropriate to use different inflation assumptions covering the same period for two cash transfer programs, if transfers under those programs are based on the general rate of inflation.

~~3540.~~ The rate used to discount amounts to be transferred under cash transfer programs to participants who are eligible at the reporting date ~~to eligible participants at the reporting date for cash transfer programs~~ shall be determined by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds, the market yields (at the reporting date) on high

quality corporate bonds should be used. The currency and term of the government bonds or high quality corporate bonds shall be consistent with the currency and estimated term of the obligation related to the cash transfer program.

~~4136.~~ In making an assessment of the present value of future cash transfers, the entity discounts the projected amount of those future cash transfers to their present value. The discount rate selected can have a material effect on the amount of the ~~liability amounts~~ disclosed. The discount rate reflects the time value of money, but not actuarial or investment risk or entity-specific credit risk.

~~4237.~~ The discount rate used reflects the estimated timing of benefit payments and will be related to the yield on government bonds at the reporting date unless there is not a deep market in government bonds in which case a discount rate based on market yields on high quality corporate bonds is applied. In practice, an entity may apply a single weighted average discount rate that reflects the estimated timing and amount of all benefit payments.

~~4338.~~ For some programs, such as social security pensions, there may be no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates at the appropriate term to discount shorter term payments and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Disclosures

~~4439.~~ An entity shall disclose the following information for cash transfer programs for which amounts to be transferred are determined under paragraph ~~3126~~:

(a) A general description of the cash transfer programs, including the principal legislation and regulations governing the programs ~~The amount to be transferred determined in accordance with paragraphs 31-43;~~

(b) ~~A general description of the cash transfer programs, including the principal legislation and regulations governing the programs~~ The amounts to be transferred determined in accordance with paragraphs 26-38,

~~(c) The number of eligible beneficiaries for each cash transfer program at the reporting date;~~

~~(cd)~~ The discount rates used to discount amounts to be transferred to ~~eligible participants~~ participants who are eligible at the reporting date to their present value;

~~(de)~~ The basis on which benefits will be increased in the future;

~~(fe)~~ The principal actuarial assumptions used at the reporting date;

~~(fg)~~ Changes to the principal actuarial assumptions since the last reporting date; and

~~(gh)~~ The entity's accounting policy for recognizing expenses and liabilities relating to ~~social benefits~~ cash transfers ~~and the amount of any expenses recognized in the statement of financial performance and the amount of any liabilities recognized in the statement of financial position relating to social benefits~~ cash transfers in the reporting period on a program basis.

~~4540.~~ The disclosures required by this Standard are disclosures of minimum amounts to be transferred. They exclude projections of cash transfers for future participants, who have not satisfied threshold eligibility criteria at the reporting date, for example individuals who are likely to satisfy eligibility criteria in the next reporting period. They do not include projections of future cash transfers for individuals who have made contributions, or for whom contributions have been made by third parties, sufficient to entitle them to the receipt of benefits at a future date, but

who have not satisfied all threshold eligibility criteria at the reporting date. An entity is encouraged to disclose broader assessments of the projected inflows and outflows associated with particular programs, so as to enhance the ability of users to assess the sustainability of those programs in the future. Where an entity discloses projections of outflows and inflows in relation to programs providing social benefits that exceed the requirements in this Standard the entity is required to identify separately the information required by this Standard.

4641. This Standard requires disclosures to be made on a program basis. Many entities operate a large number of cash transfer programs and judgment is needed ~~as to assess~~ -which programs should be presented on an individual basis and which should be aggregated in applying the concept of materiality in paragraphs 45-47 of IPSAS 1, “Presentation of Financial Statements.” In making this ~~judgment-materiality assessment~~, preparers will consider both quantitative and qualitative factors. Quantitative factors include (but are not limited to) the proportion of the entity’s operating costs that are attributable to a particular program and recent growth in expenditure for particular programs. Qualitative factors include (but are not limited to) the extent to which voluminous disclosures might ~~distort-impair~~ understandability, levels of interest shown in particular programs shown by users and the extent to which the information in the note disclosure is the primary source of financial information to users.

4742. This Standard requires the disclosure of the principal assumptions used to determine amounts to be transferred and any changes to those assumptions since the previous reporting date. This information is useful in facilitating the assessment of the reliability of the measurement methodology. Entities are encouraged but not required to provide information on the sensitivity of projections to particular variables, for example the effect of a percentage point change in the average period of eligibility for unemployment benefit.

4843. In accordance with paragraphs 2 and 3, this ED does not include requirements for the recognition of liabilities and expenses related to social benefits. However, paragraph ~~4439(hg)~~ requires entities to disclose the accounting policies adopted for the recognition of expenses and liabilities related to ~~social benefits~~ cash transfers. Paragraph ~~4439(hg)~~ also requires entities to disclose the amount of any expenses recognized in the statement of financial performance and liabilities recognized in the statement of financial position relating to ~~social benefits~~ cash transfers. This information is disclosed on a program basis. Paragraph 132(c) of IPSAS 1 requires an entity to disclose other accounting policies that are relevant to an understanding of the financial statements. This may include the accounting policies for the recognition of expenses and liabilities related to collective and individual goods and services.

Initial Adoption of this Standard

4944 In the first year of adoption of this Standard an entity is not required to provide comparative information.

4550. Paragraph ~~49-44~~ provides relief to all entities from disclosing comparative information in the first year of adoption of this Standard. An entity is permitted and encouraged to include comparative information where this is available.

Effective Date

5146. This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after MM DD 20IX (three years after issuance). Earlier application is encouraged.

5247. 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.

ILLUSTRATIVE DISCLOSURES

This guidance accompanies, but is not part of, proposed IPSAS XX. In all the examples there is a reporting date of 31 December.

Unemployment Benefit

This disclosure provides an actuarially based estimate of the amounts to be transferred to eligible participants at the reporting date. An eligible participant is an individual who has satisfied all threshold eligibility criteria at the reporting date. The estimate is a gross figure and is not offset by inflows such as taxation, appropriations and transfers from other levels of government.

<i>Present Value of Amounts to be Transferred to All Eligible Participants at Reporting Date</i>	31 December 20x1 (millions of currency units)	31 December 20x2 (millions of currency units)
	855	850

Notes

- 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. The main eligibility criteria are that individuals are:

- Aged over 18, but under retirement age for a basic/welfare social security pension (currently 65 years);
- Have not been in paid employment for a period of 7 days;
- Available for work; and
- Actively seeking work —benefit may be terminated if an individual rejects more than 3 offers of work.

~~2.The volume of annual program expenditure is higher than any other cash transfer program except the social security pension program.~~

~~2.The number of individuals eligible at the reporting date (millions) for the current reporting period and the previous reporting period were:~~

31	31
December	December
20x1	20x2
2.63	2.73

4.2. In making the projections key assumptions in relation to those who receive benefits are that (figures in brackets indicate where these assumptions have changed since 31 December 20x1)

- 40% of those in receipt of benefit as at 31.12 20x2 will return to work or otherwise cease to be eligible for benefit within one year of the reporting date (42% as at 31.12 20x1);
- 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 20x1);
- 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 20x1);
- The remaining 15% of current participants will still be claiming benefit after 5 years from the reporting date.

5.3. It is estimated that 20.3% of those who will cease to be eligible within five years of the reporting date will subsequently re-satisfy eligibility criteria following a break in entitlement. The amount disclosed in paragraph 1 above does not take account of these projected further entitlement periods

6.4. It is assumed that benefits payable under the program will increase in line with Central Bank targets for inflation. Currently this target is 2% a year.

7.5. 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 to their present value. A discount rate determined by reference to the market yield on government bonds at the reporting date is used. The rates used in this reporting period and the previous four reporting periods were:

31	31
December	December
20x1	20x2
2.1%	2.4%

8.6. Currently liabilities and expenses related to unemployment benefit are recognized on a “due and payable” basis. This means that the next payment following the satisfaction of the eligibility criteria listed in paragraph 1 above is expensed when eligibility criteria are satisfied. Any payments that have not been made at the reporting date are recognized as liabilities. During the financial year ended December 31 20x2 an expense of 39.2 million currency units was incurred. At the reporting date a liability of 1.4 -million currency units was recognized.

General/Contributory Pension

This disclosure provides an actuarially based estimate of the amounts to be transferred to eligible participants at the reporting date. An eligible participant is an individual who has satisfied all threshold eligibility criteria at the reporting date. The estimate is a gross figure and is not offset by inflows such as taxation, appropriations and transfers from other levels of government.

<i>Present Value of</i>	31	31
<i>Amounts to be</i>	December	December
<i>Transferred to All</i>	20x1	20x2
<i>Eligible</i>		
<i>Participants at</i>	(millions of	(millions of
<i>Reporting Date</i>	currency	of
	units)	currency
		units)
	850	870

Notes

General/Contributory Pension

1. The general/contributory pension is a contributory program administered under the provisions of the Social Assistance Act 1962 as amended by the Social Assistance Acts of 1990 and 2002. Regulations laid under these Acts provide a number of detailed requirements.

~~2. The general/contributory pension has a volume of annual expenditure higher than any other cash transfer program operated by Government X. Over the past three financial years gross expenditure has risen by 20%.~~

~~3.2.~~ The general/contributory pension is payable to all individuals over the age of 62 years who satisfy the following eligibility criteria:

- Have a record of a minimum of 48 monthly contributions;
- Have been residents within the jurisdiction for a minimum of three years;
- Continue to be residents within the jurisdiction; and
- Have annual incomes not higher than 20,000 currency units per annum and assets no greater than 50,000 currency units at 30 September 20x2.

~~4. The number of individuals eligible at the reporting date (millions) for the current reporting period and the previous reporting period was:~~

31	31
December	December
20x1	20x2
4.1	4.2

~~5.3.~~ In making the projections key assumptions in relation to those who receive the general/contributory pension are that (figures in brackets indicate where these assumptions have changed since 31 December 20x1):

- The average life expectancy for individuals eligible and in receipt of the general/contributory pension is 83 years 2 months for women and 78 years 5 months for men (83 years 1 months for women and 78 years 3 months for men);

- 2.4% of those eligible and receiving the general/contributory pension will cease to satisfy eligibility requirements related to annual income and asset holdings over the 4 years following the reporting date (2.5%); and
- 1.1% of those eligible and receiving the general/contributory pension will cease to maintain resident status within ten years of the reporting date (1.0%).

6.4. It is assumed that the general/contributory pension will increase in line with government targets for inflation plus one percentage point. Currently the inflation target is 2% a year.

7.5. 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 projected cash flows are discounted to their present value. A discount rate determined by reference to the yield on government bonds is used. The rates used in this reporting period and the previous reporting period were:

31	31
December	December
20x1	20x2
2.1%	2.4%

8.6. Currently liabilities and expenses related to the general/contributory pension are recognized when all eligibility criteria have been satisfied. ~~At the year-end an~~ An expense is recognized for benefits relating to the period up to the reporting date. If a payment is outstanding at the reporting date, the proportion of that payment ~~which that~~ relates to the reporting date is recognized as a liability in the statement of financial position. During the financial year ended December 31 20x2 an expense of 62.1 million currency units was incurred. At the reporting date a liability of 3.2 million currency units was recognized.

|

Appendix A: Social Security Pensions and other Social Benefits where Retirement Age is an Eligibility Criterion

Social security pension programs are highly complex types of cash transfer programs of particular significance in a number of jurisdictions. Social security pensions operate to provide cash transfers to individuals who have attained the retirement age laid down in governing legislation or regulations, as well as satisfying other eligibility criteria. The retirement age is normally the age at which an individual is no longer expected to be active in the full-time work-force and becomes eligible for the social security pension. As well as an eligibility criterion for the social security pension, the retirement age may also be the age at which an individual ceases to be eligible for certain other state benefits-for example unemployment benefit. The age varies between jurisdictions and may vary within jurisdictions. For example, in some jurisdictions an individual may work beyond retirement age and not be entitled to the retirement pension while he/she works. Programs for social security pensions vary across jurisdictions and often contain highly detailed and complex provisions. There are two main types of social security pensions:

- Basic/welfare pensions; and
- General/contributory pensions

Basic/welfare pensions do not require contributions from, or on behalf of, beneficiaries. In some cases basic/welfare pensions operate as “safety nets” for individuals who have not met the eligibility criteria for the general/contributory pension or whose contribution record is insufficient to provide more than a low level of benefits under the general/contributory pension.

General/contributory pensions require contributions by, or on behalf, of an individual during their working lives or other periods specified in governing legislation or regulations. Benefits may be:

- Related to the amount of those contributions but not approximately equal to the value of those contributions: and/or
- Linked to a minimum period over which contributions must be made in order for an individual to be eligible.

General/contributory pensions may be administered as stand-alone programs or together with basic/welfare pensions. In some cases general/contributory pensions and basic/welfare pensions may be administered in composite social security programs that also operate as multi-employer plans in providing post-employment benefits. In such cases, it will be necessary to distinguish benefits provided as consideration for employment services rendered and benefits that are not consideration for employment services rendered. In accordance with paragraphs 4 and 6 only the latter are addressed in this Standard. This Standard does not deal with accounting for the contributions to general/contributory pension programs or the contributions to composite social security programs.

Many jurisdictions also provide citizens with other cash transfers once they have reached retirement age. The requirements in this Standard apply to all cash transfers provided in non-exchange transactions for which attainment of retirement age is an eligibility criterion.

Appendix B: Key Characteristics of Individual Goods and Services

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.

Individual goods and services can be provided in a number of ways. For example methods to provide free or subsidized health and education goods and services to individuals include:

- a) The direct provision of the goods and services. Governments and public sector entities 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 education 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 or part for certain individuals or a government may reimburse individuals with disabilities for the full cost or part cost of certain home services when proof of purchase of those services is provided; and
- d) Providing individuals with vouchers that can be redeemed for goods and services. For example, some jurisdictions provide individuals with vouchers that entitle them to free education at one of a selected number of schools. The school then redeems the voucher with the government.

In some instances a service may be provided on both a collective and an individual basis. For example policing and criminal justice services may be 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 satisfy eligibility criteria in order to consume such services. However, there are occasions when an individual does have to satisfy eligibility criteria in order to benefit from policing and criminal justice services. For example, an individual in a witness protection scheme may have to meet eligibility criteria.

4.

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 ~~XX33~~, "Social Benefits: Disclosure of ~~e-~~Cash Transfers". Individual members of the IPSASB gave greater weight to some factors than to others.

BC2. IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" was issued in October 2002 by the IFAC Public Sector Committee (PSC) ~~the IPSASB's predecessor~~. 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 received strong support from respondents to the ITC.

BC3. The IPSASB's intention when initiating this project and throughout much of its development was to develop a proposed Standard with requirements for the identification of present obligations and the recognition and measurement of liabilities related to social benefits. The IPSASB's deliberations on present obligations and the recognition and measurement of liabilities, and global developments in accounting for social benefits after the project was initiated, led to a view that it should conduct a further and separate consultation on certain key issues related to recognition and measurement prior to finalizing its views on these issues. The IPSASB has therefore issued a Consultation Paper, "Social Benefits: Issues in Recognition and Measurement" in order to promote a debate on these key issues at the same time as this ED. The IPSASB has also decided to initiate a project on fiscal sustainability reporting later in 2007 and to consider reporting of long-term fiscal sustainability ~~reporting of social benefit programs~~ in the context of general-purpose financial reporting in its project on the conceptual framework.

BC4. For the above reasons the proposed Standard does not address the recognition and measurement or disclosure of expenses and -liabilities related to social benefits. It ~~only~~ deals only with the disclosure of amounts to be transferred under cash transfer programs to participants who are eligible at the reporting date ~~to eligible participants of cash transfer programs at the reporting date~~. The IPSASB acknowledges that ~~the proposed~~ Standard will be provisional. However, it considers that the proposed requirements are highly useful staging posts in the adoption of approaches for both accrual reporting and sustainability reporting and that the information provided will be worthwhile to the users of general purpose financial statements. ~~The proposed requirements are also a bridge between accrual-based reporting and sustainability reporting.~~

Scope

BC5. The IPSASB considered whether the ED should have within its scope all cash transfers including social security pensions and other benefits to citizens who have reached a specified retirement age. The IPSASB recognized the views of those who argue that social security pensions are so significant to the operations and financial position of many governments and public sector entities that they should be addressed in a separate Standard.

BC6. The IPSASB concluded that, because the requirements for social security pensions do not differ from other cash transfer programs, social security pensions should be dealt with in the same proposed Standard. The IPSASB saw little merit in developing a separate Standard, which would largely mirror the requirements and guidance for social benefits where attainment of retirement age is not an eligibility criterion.

BC7. The IPSASB also considered whether the ED should have within its scope cash transfer programs financed by contributions and/or earmarked taxation as well as those financed by general taxation. In the context of recognition and measurement the IPSASB acknowledges the view that the payment of contributions by, or on behalf of, an individual may give necessitate requirements different ~~to~~ from those for programs financed from general

taxation. The IPSASB concluded that the financing or funding of a program should not have an impact on the requirements of this proposed Standard and that therefore cash transfer programs financed by contributions and /or earmarked taxation, should be within the scope.

Definitions

BC8. 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. At consultation on the ITC, responses were almost evenly split as to whether a definition is necessary.

BC9. There is an attraction in relying on a general notion of social benefits. However, on balance, it was decided that, in order to facilitate a full analysis of potential ~~accounting~~ requirements, the term should be defined. 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 benefits and programs falling into particular categories.

BC10. The IPSASB also noted the definition used in the scope-out to IPSAS 19 and 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 proposed 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.”

BC11. The IPSASB adopted a three-part definition of social benefits as:

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

• ~~Cash transfers~~

BC12. In the proposed Standard the short hand terms “collective goods and services” and “individual goods and services” are used. The distinction between collective goods and services and individual goods and services is so entrenched in statistical accounting literature 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 have eligibility criteria, unlike collective goods and services. This characteristic is shared with cash transfers.

BC13. The IPSASB examined the nature of individual goods and services and cash transfers and considered ~~whether the differences between them are sufficient to merit consideration of separate accounting requirements~~. The IPSASB ~~concluded identified that there is~~ one important distinction. 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 full discretion how to use those transferred resources. The IPSASB acknowledged that in cases in which the transfer of economic benefits is in the form of goods it may be possible for the recipient to sell those goods rather than use them for the purposes specified by the transferor. However, this requires a positive further action on the part of the recipient.

BC14. There may be cases in which beneficiaries are provided with cash for the purchase of specific goods and services. The IPSASB is of the view that such transfers are reimbursements and meet the definition of individual goods and services. In common with other methods of providing individual goods and services the recipient does not have full discretion as to how the resources are to be used. The expenditure relating to such reimbursements will often require prior authorization and normally reimbursements will only be made after documented proof that the

expenditure for which reimbursement is sought has been for purposes specified by the transferor. Such transactions are therefore different in substance from cash transfers.

BC15. In some cases cash transfers will be made to beneficiaries as reductions in the amount of income tax for which they are liable. The IPSASB concluded that, if such transactions are available to individuals regardless of whether they pay taxes they are expenses paid through the tax system and, in order to enhance consistency and comparability between reporting entities, should be within the definition of a cash transfer in this proposed Standard. However, if allowances are only available to individuals who incur tax liabilities they are tax expenditures-(that is 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 IPSAS 23, “Revenue from Non-exchange Transactions (Taxes and Transfers)” 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 48 and 49 of IPSAS 1, “Presentation of Financial Statements (revised 2006)”.

Extent of Amounts to be Transferred

BC16. Having decided that the ED should not deal with recognition and measurement and should ~~have only very limited~~not require disclosures ~~requirements~~ for collective and individual goods and services the IPSASB considered whether the determination of amounts to be transferred at the reporting date should be restricted to those satisfying threshold eligibility criteria at the reporting date--defined as eligible participants--or whether it should include other cohorts, such as those expected to become eligible over a pre-determined timeframe, or, for contributory programs, those currently making contributions.

BC17. The IPSASB concluded that the determination of the best estimate of the amount to be transferred should be limited to eligible participants at the reporting date and that it should be a gross amount not offset by inflows. This is because the IPSASB wishes to facilitate adoption of this Standard by as many entities as possible and therefore considers that the requirements should be straightforward. The IPSASB acknowledges that the estimate is a minimum amount and that entities in some jurisdictions may wish to make a more extensive disclosure that goes beyond the requirements in this proposed Standard. In such cases the Standard ~~requires~~specifies that the amounts it ~~require~~ed to be disclosed ~~by this Standard~~ are identified separately from other amounts disclosed.

Treatment of Revalidation Requirements

BC18. A number of cash transfer programs require eligible participants (those who have currently satisfied eligibility criteria) to revalidate their eligibility at a future date. Requirements for revalidation are normally laid down in the legislation or regulations governing the program. The IPSASB considered how revalidation requirements should be addressed in the ED.

BC19. The IPSASB explored 3 options:

- (a). That the best estimate of the amount to be transferred should be limited to amounts to be transferred to eligible participants up until the next revalidation point;
- (b). That the best estimate of the amount to be transferred should take into account the extent to which eligible participants would revalidate eligibility requirements on a continuous basis; or
- (c). That the best estimate of the amount to be transferred should take into account the extent to which eligible participants would subsequently re-satisfy threshold eligibility criteria in the future after a period of ineligibility.

BC20. The IPSASB considered that adoption of option (a) would provide limited information to users. This is because the amounts disclosed would depend completely upon the timing of eligibility revalidation requirements. Thus different amounts would be disclosed for two programs with identical benefits and eligibility requirements, dependent upon the proximity of the date of revalidation to the reporting date. The IPSASB does not consider that this would enhance the ~~consistency and~~ comparability of reporting.

BC21. The IPSASB acknowledged the advantages of option (c), but concluded that, for a number of programs, entities would have the option to modify benefits after a period of ineligibility and that amounts disclosed on this basis might therefore be misleading. The IPSASB therefore concluded that option (b) is the best approach and that

the amount to be transferred should take into account an estimate of the extent to which eligible participants would revalidate eligibility requirements on a continuous basis. The IPSASB uses the term “continuous eligibility” to describe this approach.

Discount Rate

BC22. In considering the discount rate that should be used to discount amounts to be transferred under cash transfer programs to participants who are eligible at the reporting date the IPSASB considered whether it should require explicitly the application of a risk-free rate. In extreme fiscal conditions governments and other public sector entities have the option to modify the terms of existing conditions for programs providing social benefits. The extent of this option will depend upon constitutional arrangements and other local circumstances. In practice such discretion is likely to be highly limited in respect of individuals and households that have already satisfied threshold eligibility criteria. For this reason the IPSASB decided to require the use of a discount rate that is close to a risk-free rate, but carries a very small premium to reflect the option to modify a program.

Disclosures

BC ~~22~~23. The IPSASB considered whether it should require trend information: information covering the current reporting period and the four previous reporting periods- for certain disclosures. The IPSASB concluded that requirements for trend information may be onerous for preparers and of limited value to users.

Arrangements for Implementation

BC~~24~~3. The IPSASB considered how the requirements in this ED should be implemented. The IPSASB acknowledged that the disclosures require actuarially based data and that some entities may not have the systems in place to provide the necessary information. However, the Standard is an initial measure and a very extensive implementation period is likely to delay further developments in this area. Therefore, the IPSASB decided that the proposed Standard should take effect for reporting periods beginning on a date three years after its issuance. Because of the relatively short implementation period the IPSASB proposes to provide relief from providing comparative information in the first year of adoption.

Consultation Paper

July 2007

Comments are requested by November 30, 2007

Social Benefits: Issues in Recognition and Measurement



**International Federation
of Accountants**

COMMENTING ON THIS CONSULTATION PAPER

The International Public Sector Accounting Standards Board (IPSASB) is an independent standard-setting body within the International Federation of Accountants (IFAC). It approved this Consultation Paper, *Social Benefits: Issues in Recognition and Measurement* for publication in July 2007.

The IPSASB welcomes comments on the proposals in this Consultation Paper.

Please submit your comments, preferably by email, so that they will be received by **November 30, 2007**. All comments will be considered a matter of public record.

Comments should be addressed to:

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Email responses should be sent to: publicsectorpubs@ifac.org

Copies of this consultation paper may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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Foreword

International Public Sector Accounting Standards (IPSASs)

International Public Sector Accounting Standards (IPSASs) deal with issues related to the presentation of annual general purpose financial statements (GPFs) of public sector reporting entities other than government business enterprises (GBEs). GBEs apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board.

GPFs are those financial statements intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of GPFs include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. The objectives of GPFs are to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it.

As at June 30, 2007, twenty four accrual basis IPSASs and a comprehensive cash basis IPSAS had been issued. The issuance of these IPSASs establishes a core set of financial reporting standards for those public sector entities to which the standards apply. The majority of accrual basis IPSASs issued as at June 30, 2007 are based on IFRSs on issue as at December 31, 2003 to the extent that the IFRS requirements are applicable to the public sector. They also deal with public sector specific financial reporting issues not dealt with by IFRSs.

The International Public Sector Accounting Standards Board's (IPSASB's) current work program reflects the following strategic priorities:

- Development of a public sector specific conceptual framework;
- Development of public sector specific projects including convergence with statistical bases where appropriate;
- Convergence with International Financial Reporting Standards; and
- Promotion and communication.

All strategic priorities have equal status. The issue of this Consultation Paper is in pursuit of the second of these strategic priorities.

I encourage you to read this Consultation Paper and to provide comments by November 30 2007. Your input will help the IPSASB's further consideration of the topic of social benefits.

Mike Hathorn
Chairman, IPSASB

Specific Matters for Comment

The IPSASB welcomes comments on any of the issues addressed in this Consultation Paper. In particular, the IPSASB has highlighted a number of specific matters, which are central to the development of approaches to accounting for social benefits. These specific matters for comment are highlighted in boxed text after the relevant section of the Consultation Paper and are listed below. The IPSASB would particularly value comments on these issues.

1. Do you think that a present obligation in respect of cash transfers that are financed from general taxation arises when all eligibility criteria have been satisfied? If you think that a present obligation occurs at an earlier point please indicate at what point a present obligation ~~occurs~~ arises and give your reasons.
2. Do you think that a present obligation in respect of cash transfers that are financed from contributions and earmarked taxes arises when all eligibility criteria have been satisfied? If you think that a present obligation occurs at an earlier point please indicate at what point a present obligation ~~occurs~~ arises and give your reasons.
3. Do you think that a present obligation to beneficiaries in respect of collective goods and services arises at any time? If you think that a present obligation does arise please indicate when ~~;~~ and to whom. Please state your reasons.
4. Do you think that a present obligation to beneficiaries for individual goods and services arises at any time? If you think that a present obligation does arise please indicate when and ~~;~~ to whom. Please state your reasons.
5. Where a cash transfer program requires individuals to revalidate their entitlement to benefits ~~;~~ do you think that revalidation is a measurement attribute that should be taken into account in the measurement of the liability or a recognition criterion? Please state your reasons.
6. In its further consideration of social benefits do you think that the IPSASB should explore alternative models to the IPSAS 19 ~~f~~principles~~framework~~, such as the grand executory contract model briefly outlined in Section 6 of this Consultation Paper?
7. Do you agree with the IPSASB's decision to launch a project on the long-term fiscal sustainability of social benefit programs in 2007?

Social Benefits: Issues in Recognition and Measurement

1.0 Purpose of this Paper

1.1 The purpose of this paper is to:

- provide a brief background to the development of the ~~International Public Sector Accounting Standards Board's~~ (IPSASB's) project on accounting for social benefits provided by governments and public sector entities;
- explore some key issues in the recognition and measurement of expenses and liabilities related to social benefits:
 - present obligations for cash transfers and the impact of contributions and earmarked taxes;
 - present obligations for individual goods and services; and
 - revalidation of eligibility criteria as a recognition criterion or measurement attribute;
- highlight the importance of fiscal sustainability reporting and indicate the future intentions of the IPSASB in addressing fiscal sustainability and further developing the project on social benefits

2.0 Background

- 2.1 The IFAC Public Sector Committee (PSC), the IPSASB's predecessor body, issued ~~International Public Sector Accounting Standard~~ (IPSAS) 19, "Provisions, Contingent Liabilities and Contingent Assets" in October 2002. IPSAS 19 is drawn primarily from International Accounting Standard (IAS) 37, "Provisions, Contingent Liabilities and Contingent Assets". Social benefits provided in non-exchange transactions are outside the scope of IPSAS 19.
- 2.2 The PSC issued an Invitation to Comment (ITC), "Accounting for Social Policies of Governments" in January 2004. The ITC is still available on the IFAC website at www.ifac.org/PublicSector. The ITC was developed by a Steering Committee comprised of both PSC Members and Technical Advisors and others outside the PSC, including the representatives of finance ministries with an interest in accounting for social benefits under the accrual basis of accounting and those with a background in statistical accounting. The ITC proposed that the framework of IPSAS 19 was applicable to accounting for social benefits provided in non-exchange transactions. In accordance with this proposal, the IPSASB commenced development of a project on "~~A~~ccounting for ~~S~~social ~~P~~olicy Obligations" in April 2005. The IPSASB has now adopted the term "social benefits" rather than "social policy obligations".
- 2.3 At an early stage of its project the IPSASB distinguished three types of social benefits:

- cash transfers;
- goods and services provided for collective consumption (collective goods and services);and
- goods and services provided for individual consumption (individual goods and services);; and
- ~~cash transfers.~~

2.4. These terms were used in the ITC. They are similar to the definitions used in statistical accounting, although not synonymous with those definitions. As much of the project has involved ascertaining when present obligations arise for each of these types of social benefit current explanatory definitions are provided below:

Social benefits are cash transfers and collective and individual goods and services provided by an entity directly to recipients in a non exchange transaction to protect the entire population, or a particular segment of the population in any jurisdiction against certain social risks.

A cash transfer is a social benefit, which is either provided in cash, or is an expense incurred through the tax system, to protect individuals against certain social risks where use of the resources transferred is at the discretion of the individual (for example, social security pensions and unemployment benefits). Access to cash transfers requires the satisfaction of eligibility criteria by beneficiaries.

Collective goods and services are social benefits in the form of 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 of the population against certain social risks (for example, national defense and the criminal justice system). Access to collective goods and services does not normally require the satisfaction of eligibility criteria by beneficiaries.

Individual goods and services are social benefits in the form of goods and services provided for individual consumption to protect an individual or individual household against certain social risks (for example, healthcare and education). Access to individual goods and services normally requires the satisfaction of eligibility criteria by beneficiaries.

~~A cash transfer is a social benefit, which is either provided in cash, or is an expense incurred through the tax system, to protect individuals against certain social risks where use of the resources transferred is at the discretion of the individual (for example, social security pensions and unemployment benefits).~~

~~Access to cash transfers requires the satisfaction of eligibility criteria by beneficiaries.~~

2.5 The International Accounting Standards Board's (IASB) Liabilities project is considering fundamental changes to IAS 37. These changes include a modification of the probability recognition criterion in that Standard and the elimination of the definition of, and requirements for, contingent liabilities. Such modifications, if ultimately effected, would have an impact on IPSAS 19 and therefore potentially on approaches to the recognition and measurement of expenses and liabilities related to social benefits, which are based on the IPSAS 19 ~~framework~~principles. IPSASB is aware of the IASB's deliberations, but does not consider it appropriate to pre-empt the outcome of the IASB's due process. Given the significance of accounting for the social benefits of governments and public sector entities, IPSASB has taken the view that it would be inappropriate to defer its project on accounting for social benefits.

2.6 The IPSASB has recently ~~rowed-drawn~~ back from an intention to deal with recognition and measurement of expenses and liabilities related to social benefit programs and has decided to deal initially with the disclosure of amounts to be transferred ~~to-eligible~~ participants who are eligible at the reporting date. This decision reflects the difficulties in reaching conclusions on the key issues in recognition and measurement explored in this paper before work progresses on the elements of financial statements in the IPSASB's conceptual framework project. The IPSASB is also mindful that~~It is also because~~ the immediate recognition of large expenses and liabilities related to social programs ~~is unrealistic~~would be a major change in practice given the current accounting policies of entities that are reporting under the accrual basis of financial reporting globally. Where liabilities related to social programs are recognized currently this tends to be for cash transfers only and on what is known as a "due and payable" basis; at a maximum liabilities are limited to amounts payable until the next revalidation point..

2.7 In accordance with the above approach. The IPSASB has issued ED 33, "Social Benefits: Cash Transfers: Disclosure" at the same time as this consultation paper.

3.0 Present Obligations for Cash Transfers and the Impact of Contributions and Earmarked Taxes

3.1 The first substantive issue is when a present obligation to beneficiaries arises in respect of cash transfers. A further related issue is whether the point at which a present obligation to beneficiaries for contributory programs, or programs financed through earmarked taxation, first arises differs from that for programs financed from general taxation.

3.2 In the context of cash transfers generally, the ITC acknowledged views that an obligating event creating a constructive obligation might arise at a number of points prior to the satisfaction of all eligibility criteria by beneficiaries. Such

- points include birth, entry into the workforce, and attainment of a legally specified retirement age. The ITC referred to these points as “key participatory events”.
- 3.3 The ITC concluded that, practically, there is difficulty in identifying the point at which the government or public sector entity has no realistic alternative but to provide benefits. This position was supported by the majority of respondents at consultation. The IPSASB accepted this view and, for its own project, adopted the principle that a present obligation for cash transfers arises when all eligibility criteria have been satisfied by beneficiaries, regardless of whether a legal obligation exists at this point. This principle has been retained throughout the project’s life in dealing with non-contributory cash transfer programs financed from general taxation.
- 3.4 The ITC did not deal with contributory programs or those financed by earmarked taxes in detail. Some consider that the payment of contributions by, or on behalf of, an individual may give rise to a present obligation at a point prior to the satisfaction of all eligibility criteria. According to this view, the payment of a specified number, or amount, of contributions is an obligating event that creates a valid expectation, or reinforces an existing expectation, that an individual will receive benefits on the basis of a formula under the existing legal provisions governing the program. Allied to such an expectation it is unrealistic for the government or public sector entity to avoid settlement of that obligation, even though the point at which resource outflows are required to settle may be many years in the future.
- 3.5 The view that the payment of contributions gives rise to an obligating event prior to the satisfaction of all eligibility criteria has recently been put forward by the proponents of the majority view in the Preliminary Views Paper, “Accounting for Social Insurance (Revised)” issued by the US Federal Accounting Standards Advisory Board (FASAB) in October 2006. The majority view in that Preliminary Views Paper argues that, in the context of major components of the US Social Security and Medicare programs, a present obligation arises when an individual achieves “fully insured” status. “Fully insured” status is the point at which an individual becomes eligible for benefits without making further contributions, providing that they satisfy all other eligibility criteria in the future; for the US Social Security program this point is after an individual has been in 40 quarters of “covered” employment i.e. employment for which contributions are paid on behalf of an individual.
- 3.6 If it is accepted that the payment of contributions leads to an obligating event prior to the satisfaction of all eligibility criteria, the point at which that obligating event occurs is contestable. It can be argued that an obligating event occurs when a contribution is first made by or on behalf of a beneficiary. Certainly, a proportion of those making contributions, or having contributions made on their behalf, will not subsequently achieve “fully insured” status and therefore will not

- become eligible for benefits. However, arguably, this is a variable to be taken into account in the measurement of the liability rather than a recognition issue.
- 3.7 Those who argue that a present obligation does not arise until all eligibility criteria have been satisfied rather than at an earlier point, regardless of whether a program is contributory or financed by earmarked taxes, rely on both conceptual and practical arguments. First, on a practical basis, in developing requirements that are applicable globally it is questionable whether an obligating event arises at the same point, even for programs which superficially have very similar characteristics. Determining that a present obligation arises, under the existing legal framework, at the point where an entitlement to benefits in the future has been established without further contributions, has the major advantage of providing a precise point at which an obligating event occurs. Such an approach therefore addresses one of the practical problems highlighted in the ITC: identification of the precise point prior to satisfaction of all eligibility criteria where the obligating event occurs. However, it is not clear that this point will necessarily be the same for all programs globally that involve contributions.
- 3.8 Second, from a conceptual perspective it is questionable whether the payment of contributions or earmarked taxes will always be obligating events giving rise to constructive obligations that leave governments and public sector entities no realistic alternative but to settle. A government's ability to avoid settlement may vary across time and may depend upon a range of volatile factors such as the bargaining electoral position of particular socio-economic or demographic groups in a jurisdiction. In some jurisdictions contributions may be viewed as, in substance, a form of general taxation. Furthermore, even where a program is non-contributory, individuals may have strong expectations of receiving benefits on the grounds that they are contributing indirectly through general taxation. Dependent upon local circumstances these expectations may be as strong as if the individuals had made separate contributions and governments may find it equally unrealistic to avoid providing benefits.
- 3.9 Third, there are disadvantages in linking the funding or financing of a program to its accounting treatment. Worldwide, it is possible to point to instances where confusing and opaque accounting treatments have developed from attempts to relate recognition and measurement to funding and financing arrangements; for example, the failure to recognize liabilities for post-employment benefits on the basis that pension plans are unfunded.
- 3.10 There is one further practical consideration. The recognition of very large expenses and liabilities related to social benefits on the face of the statement of financial performance and the statement of financial position would give rise to very large ~~annual and~~ accumulated deficits and to heavily negative net assets/equity positions for many public sector entities. In this context there is currently ~~an general global~~ acceptance, amongst those standard-setters that have considered the issue, that ~~the sovereigna government's~~ right to tax does not give

rise to an intangible asset, which might counter-balance a large liability (see below paragraph 7.2 for a further discussion of this issue). Such a presentation, in which expenses and liabilities related to social benefits dwarf most of the other ~~figures on the face of~~ amounts in the ~~primary~~ financial statements, may not be readily understandable to users and the relevance of the information presented is for some questionable ~~for some~~.

Specific Matter for Comment 1

Do you think that a present obligation in respect of cash transfers that are financed from general taxation arises when all eligibility criteria have been satisfied? If you think that a present obligation occurs at an earlier point please indicate at what point a present obligation occurs and give your reasons.

Specific Matter for Comment 2

Do you think that a present obligation in respect of cash transfers that are financed from contributions and earmarked taxes arises when all eligibility criteria have been satisfied? If you think that a present obligation occurs at an earlier point please indicate at what point a present obligation occurs and give your reasons.

4.0 Present Obligations for Collective Good and Services and Individual Goods and Services

- 4.1 This section of the Consultation Paper explores whether present obligations occur for collective and individual goods and services. The view that governments and public sector entities do not have a present obligation to provide goods and services for collective or individual consumption is because such present obligations would result in entities recognizing expenses and liabilities for the ongoing activities of government. The existence of present obligations would lead to the recognition of expenses and liabilities where delivery of the goods or services to settle the obligation occurs in subsequent reporting periods. Such an approach would be analogous to an entity engaged in manufacturing recognizing the production costs that will be incurred in future reporting periods.
- 4.2 The assertion that a present obligation to beneficiaries does not exist for programs delivering individual goods and services is contestable. Programs for the delivery of collective goods and services do not normally involve eligibility criteria. However, like cash transfer programs access to individual goods and services is dependent upon the satisfaction of eligibility criteria. It is questionable whether the method by which resources are transferred should dictate accounting treatments. Under the argument outlined in paragraph 4.1 liabilities ~~would~~ not be recognized for individuals who have confirmed eligibility for benefits under programs where resources are delivered other than in cash, for example programs providing medical benefits where the individual is treated by a third party medical provider under a contractual arrangement with a government agency and the agency pays the medical provider directly.
- 4.3 ~~An acceptance of~~ Accepting the view that a present obligation exists for individual goods and services would raises the issue of the extent of that obligation. The obligation might be narrow or very broad, dependent upon the legal framework governing a program and whether a particular stipulation is deemed to operate as an eligibility criterion. For instance, in jurisdictions where free or subsidized education or health care is universally available to all citizens, there is an issue whether the present obligation is for education or health care services throughout an individual's life or is more narrowly dependent on whether an individual had met the eligibility criteria of specific reporting entities, perhaps school boards and hospitals: for example, admittance to a school roll or acceptance onto a hospital

waiting list. The answer may depend on whether the focus is on the individual entity or the economic entity such as the whole-of-government level.

- 4.4 Further, the line between cash transfers and individual goods and services is fine and can be blurred: for example, individuals may be authorized to purchase specified goods or services and be reimbursed for the expenditure incurred. Some programs may operate to provide both cash transfers and individual goods and services: for example, where a housing support program includes both cash payments to beneficiaries and the provision of accommodation to beneficiaries by third party landlords under contractual arrangements with a government agency.

Specific Matter for Comment 3

Do you think that a present obligation to beneficiaries for collective goods and services arises at any time? If you think that a present obligation does arise please indicate when and to whom. Please state your reasons.

Specific Matter for Comment 4

Do you think that a present obligation to beneficiaries for individual goods and services arises at any time? If you think that a present obligation does arise please indicate ~~when~~ when and to whom. Please state your reasons.

5.0 Revalidation as a Recognition Criterion or a Measurement Attribute

- 5.1 Many programs delivering social benefits require eligible participants (those who have satisfied threshold eligibility criteria) to revalidate their eligibility at a future date in order to maintain an entitlement to benefits. Requirements for revalidation are normally laid down in the legislation or regulations governing the program. The key issue is whether revalidation is a recognition criterion or a measurement attribute. This decision is highly significant because it dictates the extent of the present obligation and, assuming that recognition criteria are met, the measurement of the resultant liability.

- 5.2 The ITC asserted that revalidation was a recognition criterion and that the extent of a present obligation could not exceed the maximum amount that an individual is entitled to receive from one validation point to the next. This is based on the assumption that an entity can avoid a further sacrifice of resources beyond the next revalidation date. Some who perceive revalidation as a recognition criterion would go further than this and use a device termed as “staying alive” or “demonstrating continuing existence” as an implicit eligibility criterion for all cash transfer programs. “Staying alive” operates to limit the obligation to the reporting date even where an individual has satisfied all eligibility criteria explicitly laid down in governing legislation or regulations. ~~It is therefore a method of justifying adopting it as an eligibility criterion results in~~ the matching of expenses and liabilities to funding and financing in the reporting period. In as far as it has a conceptual underpinning from an assets and liabilities perspective, it is

- based on a presumption that an entity can avoid a sacrifice of resources beyond the reporting date if an individual were to die. There might be ~~eases-of~~ programs under which ~~where~~ “staying alive” is an explicit eligibility criterion and governing legislation or regulations make it clear that, in the event of death, ~~the~~ government or ~~other~~ public sector entity can recover any resources related to the period beyond the time of death..
- 5.3 Apart from the conceptual arguments, there are two further practical problems in treating revalidation as a recognition criterion. First, treating validation points as key parameters in the determination of obligations and liabilities is not conducive to financial reporting that enhances comparisons between different governments and other public sector entities. It leads to the recognition of different liabilities, dependent completely upon the timing (especially frequency) of eligibility revalidation requirements. Thus different liabilities will be reflected for two programs with identical benefits and eligibility requirements, dependent upon the date of revalidation.
- 5.4 This can be illustrated starkly by considering two social security pension programs. One program has no revalidation requirement after eligibility criteria have been met; the other has an annual requirement that those receiving benefits complete and return a pro-forma form confirming the beneficiary’s address and that he/she is still alive-- benefits are withheld if the form is not returned by a specified date. The obligation for the second program will extend only to the date of revalidation, which may be a matter of a few days or weeks after the reporting date, whilst the obligation for the first program will extend to the end of a beneficiary’s life. It is intuitively problematic that a difference in revalidation requirements should give rise to potentially a vast difference in the amount of the liability recognized.
- 5.5 Second, restricting the extent of the present obligation to the maximum amount between validation points gives rise to the possibility of gaming. Expenses and liabilities can be artificially limited by instituting revalidation points shortly after the reporting date. These arguments militate towards treating revalidation as a measurement attribute.

Specific Matter for Comment 5

Where a cash transfer program requires individuals to revalidate their entitlement to benefits, do you think that revalidation is a measurement attribute that should be taken into account in the measurement of the liability or a recognition criterion? Please state your reasons.

6.0 An Alternative Model: A Grand Executory Contract and Recognition of Liabilities Arising from Legal Obligations

- 6.1 The previous sections of this paper have highlighted some of the challenges in adopting an approach to the recognition and measurement of expenses and liabilities related to social programs based on the IPSAS 19 ~~framework~~principles. These difficulties ~~beg~~pose the question whether there is a feasible alternative model.
- 6.2 One alternative model is to view obligations to provide social benefits by governments and public sector entities as quasi-contractual so that the overall arrangement is analogous to a ~~grand~~giant executory contract. Under this model both governmental obligations to provide goods, services and cash transfers to beneficiaries and the rights of ~~citizens~~community members to receive those benefits are acknowledged. However, those governmental obligations are effectively offset by the ongoing duty of ~~the citizens~~community members to contribute taxes and other sources of finance. Such obligations therefore would not give rise to liabilities until legal entitlements have been established.
- 6.3 Aspects of this model are undoubtedly problematic. The model rests on the notion of a “social contract” which, whilst a prominent feature of the thinking of many political philosophers, is a nebulous concept to deploy in an accounting scenario. It can therefore be seen as a device to impose an exchange transaction approach on the provision of social benefits and taxation, both of which are pre-eminent examples of non-exchange arrangements. In this way the model conveniently allows ~~us~~one to step around the minefield of the ~~sovereign~~government's right to ~~taxation~~. It may also not be straightforward to operate at sub-national levels of government.
- 6.4 Acknowledging these defects there are some advantages of the approach. First and foremost it avoids consideration of constructive obligations. The concept of a constructive obligation is extremely difficult to operate consistently in a public sector context. By adopting the approach that only legal obligations give rise to liabilities the grand executory contract model avoids consideration of constructive obligations altogether in the context of social ~~-~~benefits,

Specific Matter for Comment 6

In its further consideration of social benefits do you think that the IPSASB should explore alternative models to the IPSAS 19 ~~framework~~principles, such as the grand executory contract model briefly outlined in this Consultation Paper?

7.0 Fiscal sustainability

- 7.1 Regardless of the approach that is adopted the IPSASB thinks that it is clear that accrual-based financial statements can only partially satisfy the information needs of users to enable them to assess the viability of key social programs. This is the case regardless of whether a narrow approach to the recognition of expenses and liabilities is adopted, as in the majority of jurisdictions that have migrated to the accrual basis, or a more expansive approach, such as that taken by the majority view in the FASAB Preliminary Views Paper.

- 7.2 The conventions that underpin accrual-based statements militate against the presentation of a full picture. Crucial here is the definition of an asset. The IPSASB has modified the IASB's asset definition to acknowledge that assets can be used in the delivery of goods and services rather than just to generate net cash inflows; hence the notion that assets can embody "service potential" as well as providing access to future cash flows. However, even stretching an interpretation of the definition, it is ~~hard to classify the sovereign~~debatable whether a government's right to tax ~~is~~ "a resource controlled by an entity as result of past events" and therefore ~~difficult to conclude other than that the right to tax does not meet~~meets the current ~~asset~~definition of an asset. This means that an expansive approach to the recognition of expenses and liabilities provides very one-sided information; huge expenses and liabilities and expanding accumulated deficits, which, in the absence of demographic or fiscal projections, can be difficult to interpret. In isolation, accrual-based reporting cannot provide users with all the information users need to evaluate the viability of social programs.
- 7.3 For this reason the IPSASB acknowledges the importance of fiscal sustainability reporting and disclosures in providing users with key information on the future viability of social programs. Sustainability reporting is more versatile accountability tool than accrual –based historical statements, allowing projections of inflows as well as outflows. Already a number of jurisdictions have made impressive strides in developing reports on long-term fiscal sustainability ~~reports~~ as key aspects of financial accountability. The conceptual framework project which has been initiated by the IPSASB ~~and in collaboration with~~ a number of national standards-setters is already considering this issue in the context of the scope of public sector financial reporting. The IPSASB has also decided to launch a project on long-term fiscal sustainability of social benefit programs later in 2007.

Specific Matter for Comment 7

Do you agree with the IPSASB's decision to launch a project on the long-term fiscal sustainability of social benefit programs in 2007?

8.0 Conclusion

- 8.1 Accounting for social benefits is a developing area. The IPSASB acknowledges that the publication of ED 33 and this Consultation Paper are early steps in a journey to global acceptance of consistent practices for accounting for social benefits. It hopes that this Consultation Paper will stimulate debate on the major issues and looks forward to receiving comments from interested parties.