



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: (212) 286-9344
Fax: (212) 286-9570

**Agenda Item
6**

DATE: 5 November 2007
MEMO TO: Members of the IPSASB
FROM: John Stanford
SUBJECT: Social Benefits

OBJECTIVE OF THIS SESSION:

To approve Exposure Draft (ED) 34, “Social Benefits: Disclosure of Cash Transfers to Individuals and Households” and the Consultation Paper, “Social Benefits: Issues in Recognition and Measurement”, for issuance.

AGENDA MATERIAL

- 6.1 Copy of memorandum circulated on 16 August 2007
- 6.2 Cut and paste of respondents’ comments to 16 August 2007 memorandum
- 6.3 Draft ED 34, “Social Benefits: Disclosure of Cash Transfers to Individuals and Households 12th Version Mark-Up
- 6.4 Further Version of Draft Consultation Paper, “Social Benefits: Issues in Recognition and Measurement: Clean”

BACKGROUND

ED 34 is a marked-up version that reflects changes from the version posted on the leadership intranet on 23rd August 2007. A clean copy is available from Staff on request. The Consultation Paper is a clean version. A marked-up version that reflects changes from the version posted on the leadership intranet on 23rd August 2007 is available from Staff on request. It is intended to issue the ED and the Consultation Paper with the project brief for long-term fiscal sustainability reporting, which will be considered as Agenda Item 5 at the Beijing meeting. A draft of the project brief will be issued in the final distribution for the meeting.

ISSUES: EXPOSURE DRAFT 34, “SOCIAL BENEFITS: DISCLOSURE OF CASH TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS”

As at 29th October 8 responses had been received. In addition a further response did not provide detailed comments on the ED, but did propose that the section on Strategic Approach should be restructured and should be the same as that in the Consultation Paper. The detailed comments of respondents are provided in Agenda Item 6.2. Full copies of responses are available from Staff on request.

There was continuing majority support for issuance of ED 34. However two respondents expressed dissenting views. Respondent 008 continues to oppose the approach. Respondent 005 accepted that the draft seems to be in line with the directives from the Montreal meeting.

However, Respondent 005 also expressed strong reservations about the value to users of the information provided by the proposed requirements in ED 34 and also reiterated his preference for an ED dealing with the recognition and measurement of obligations related to social benefits. In particular, Respondent 005 did not think that the disclosure should be limited to those who have satisfied eligibility criteria at the reporting date.

Respondent 006 supported the ED as an interim measure whilst the Board continues its research on the appropriate approach to recognition.

Staff View

Staff shares some of the misgivings of Respondents 005 and 008. Unfortunately the Board has shifted its view on when a present obligation occurs for cash transfers to individuals and households in the course of the project, so producing an ED dealing with recognition and measurement is not straightforward. Staff agrees with Respondent 006 that the ED is very much an interim measure.

(a) Title

There was majority agreement to the revised Title. Respondent 005 preferred the simpler “Disclosure of Cash Transfers”, whilst Respondent 008 proposed the title “Social Benefits Disclosure of Individual Benefits”. Related to this proposal Respondent 008 was critical of the fact that the term “a cash transfer” is used differently in ED 34 than in IPSAS 23, “Revenue from Non-exchange Transactions (Taxes and Transfers)” and therefore claimed that the phrase “terms defined 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” in paragraph 10 is not actually true.

Staff View and Action

Staff recognizes the advantages of making the title as terse as possible. However, the scope of the draft ED only encompasses benefits payable in the form of cash transfers, not those in goods and services. The suffix “to Individuals and Households” was introduced at Montreal to indicate to readers at the outset that the ED does not deal with transfers between different levels of government Staff therefore considers that the title proposed by Respondent 008 is misleading and would prefer to retain the title “Social Benefits: Disclosure of Cash Transfers to Individuals and Householders”.

*The term “a cash transfer” is not defined in IPSAS 23. The term “transfers” is defined in IPSAS 23 as “inflows of future economic benefits or service potential from non-exchange transactions other than taxes.” However, in order to meet the substance of the point raised by Respondent 005 the term “cash transfers” has been amended to “cash transfers to individuals and households”. A consequential change is that the definition of “social benefits” has been amended to “Social benefits are cash transfers **to individuals and households** and collective and individual goods and services provided by an entity 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. (nb new words in black letter for purposes of clarity in memorandum).*

Action Requested: **Reaffirm** that the title should be “Social Benefits: Disclosure of Cash Transfers to Individuals and Households”. **Confirm** the revised definitions of “cash transfers to individuals and households” and of “social benefits”.

(b) Strategic Approach

Respondent 007 favored omission of the term “Strategic” in the short section entitled “The Strategic Approach to Accounting for Social Benefits and Fiscal Sustainability Information” on the grounds that it did not really address strategic issues. Respondent 006 favored strengthening of the third paragraph. Respondent 008 favored the deletion of the phrase “and Fiscal Sustainability Information”. Respondent 008 objected to the reference to the IPSASB’s own project in the first sentence of the second paragraph and also felt that the interim nature of the project should be emphasized. Respondent 009 proposed that the section on Strategic Approach should be the same as that in the Consultation Paper

Staff View and Action.

Staff has included the same section –the IPSASB Strategy- as in the revised Consultation Paper. Staff thinks that this change more clearly states the Board’s strategic position and therefore addresses the point raised by Respondent 007. The term “a further stage of its project” has been used rather than “its own project”.

Action Requested: **Confirm** that the revised section entitled “The IPSASB Strategy” is appropriate or suggest changes.

(c) Commentary on the Determination of Amounts to be Transferred where a Program is to be Terminated

There was majority support for the proposals. Respondent 001 sought clarification of the term “enactment”. Respondent 005 considered that the commentary in explanation in paragraph 32 is not easy to understand since it excludes those that have not met eligibility criteria at the reporting date. This led Respondent 005 to question the relevance of the information to users, as indicated above.

Respondent 008 considered that the word “transferred” infers recognition and is concerned that this will bias the development of future standards dealing with recognition. He proposed use of the term “amounts to be disclosed”.

Respondent 006 suggested that the flow of the commentary would improve if paragraphs 32 and 33 were switched so that the principle of “continuous entitlement” is addressed before the approach to programs that are to be terminated.

Staff View and Action

The term “enacted” means that the measure has completed all stages of the legislative process and is incorporated into law. Respondent 001 appeared to be reassured by this explanation. Staff notes that the term “enacted” has been used elsewhere in the IPSASB literature: for example in IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets”.

*Staff does not think that the term “transferred” carries recognition connotations and therefore has not revised the wording at present. Its replacement by “disclosed” would not alter the substance of the requirements proposed in the ED although it would alter the flow of some sentences in the ED; for example in paragraph 2 the black letter paragraph currently reads “**An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in disclosing the amounts to be transferred under cash transfer programs to eligible participants.**”*

Staff acknowledges the view of Respondent 005. However, the direction at Montreal was that the determination of the amounts to be transferred was to be based on those who had met threshold eligibility criteria at the reporting date. Staff also has doubts whether making the determination and disclosure more extensive by, for example, including those who will meet threshold eligibility criteria in the following reporting period, will necessarily enhance the relevance of the information to users. Nevertheless, the ED prescribes minimum requirements, so it does not stop entities from making more extensive disclosures provided that they identify the minimum items required by this ED.

Staff agrees with the comments of Respondent 006 on the sequence of paragraphs 32 and 33 and has switched the position of these paragraphs as suggested.

Action requested: Reaffirm the use of the terms “enacted” and “amounts to be transferred” and **reaffirm** that the wording in commentary paragraph 32 is appropriate.

(d) Discount Rate

There was majority support for the approach. Respondent 003 questioned whether the wording “or other instrument” would include the use of a synthetic instrument, for example a synthetic created by the combination of a borrowing with appropriate term in a deep and liquid market in another currency in conjunction with a cross currency swap to the domestic currency in which the obligation would be settled. He suggested that it would be helpful to include a comment about this, at a minimum in the basis for conclusion. The same point was raised in relation to the Employee Benefits project (see Agenda Item 9).

Respondent 008 questioned the rationale for the approach to the discount rate in the Basis for Conclusions, although he does not want to re-deliberate the issue (see Basis for Conclusions below).

Staff View

In general Staff doubts whether in most jurisdictions complex derivatives will provide the best basis for determining a discount rate that reflects the time value of money. However, Staff does not think that a detailed discussion of methods for determining the discount rate that best reflects the time value of money is appropriate, as this will depend upon local circumstance.

Action requested: Confirm that the requirement and commentary in paragraphs 40-44 are appropriate.

(e) Disclosures

Respondents 002 and 003 reiterated reservations about the requirement in paragraph 45(c) to disclose the number of beneficiaries by program. Respondent 005 proposed a disclosure of taxes payable by individuals and households on cash transfers on a gross basis.

Respondent 006 proposed the following new disclosures:

- Transfers split between short-term, medium-term and long-term (similar to the classification, of leases in IPSAS13, “Leases”: less than 1 year, between 1 and 5 years, over 5 years);
- Whether an actuary is used; and
- The disclosure of any plans terminated after year end.

Respondent 008 expressed reservations whether users would learn much from the disclosure at paragraph 45(d) of the reason for the use of the discount rate selected.

Respondent 008 also expressed reservations on cost-benefit grounds about the requirement in paragraph 45(i) to disclose 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 cash transfers in the reporting period on a program basis.

Respondent 008 also questioned the use of the phrase “minimum amounts” in the opening sentence of paragraph 46- “The disclosures required by this Standard are disclosures of minimum amounts to be transferred”- because this introduces bias.

Staff View and Action

The requirement to disclose the number of beneficiaries by program has been discussed at the last two meetings and its current inclusion reflects Staff’s sense of the general view that such a disclosure is helpful to users. This disclosure requirement has therefore been retained in paragraph 45(c). The need for a requirement for disclosure of taxes payable by individuals and households on cash transfers was discussed briefly at Montreal and doubts were expressed as to how useful such a disclosure might be. A disclosure requirement has not been added.

Staff agrees that a disclosure on the termination of plans after the reporting date would be in accordance with IPSAS 14, “Events after the Reporting Date”. Staff also thinks that a disclosure on whether an actuary has been used would be useful. Requirements for such disclosures have therefore been added in paragraphs 45(g) and 45(h). The new requirement at paragraph 45(h) has necessitated a consequential change to paragraph 39. Staff thinks that adding a disclosure requirement that splits amounts to be transferred between short term, medium term and long term amounts on a basis similar to that for minimum lease payments in IPSAS 13, “Leases” would be onerous.

Staff agrees that the requirement in paragraph 45(d) to explain the reason for the use of the discount rate selected is otiose give the ED's proposed rationale that the discount rate should reflect the time value of money. The phrase "and the reason for the use of this discount rate" has therefore been deleted.

As 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 cash transfers in the reporting period will already have been determined, Staff does not think that the disclosure proposed in paragraph 45(i) is unduly onerous .

The sentence "The disclosures required by this Standard are disclosures of minimum amounts to be transferred" in paragraph 46 was inserted to indicate that there is no intention to discourage entities from making more extensive disclosures. This approach is consistent with the interim nature of the ED. It is not intended to bias any future consideration of recognition and measurement.

Action requested: Confirm the disclosure requirements in paragraph 45.

(f) Illustrative Disclosures

There was general support for the Illustrative Disclosures. Respondent 008 questioned the need for the second sentence of paragraph 3 of both Illustrative Examples: "The estimate is a gross figure and is not offset by inflows such as taxation, appropriations and transfers from other levels of government." Respondent 008 also felt that final sentence of paragraph 2: "It does not take account of possible income tax or other deductions payable by eligible participants." in both Illustrative Examples provides too much detail for a knowledgeable reader."

Staff View

These two sentences address issues that have been raised in the course of this project. On balance Staff thinks that these two sentences do provide useful information and have retained them.

Action requested: Confirm that the Illustrative Disclosures are appropriate.

(g) Basis for Conclusions

There was general support for the Basis for Conclusions. Respondent 008 had reservations that, in paragraph BC21, the rationale for the continuous entitlement principle that underpins the determination of amounts to be transferred to individuals and households is insufficiently clear.

Respondent 008 also questioned the assertion in paragraph BC 22 that the rationale for rejecting the use of the expected long-term rate of return to discount liabilities was the unfeasibility of such an approach. He argued that a government would use either the long-term rate of return of resources that have been set aside to pay those benefits when they become due or use the long-term rate of return of their current operating funds, as such funds would be used to pay for those benefits when they become due. Whilst disagreeing with the Board's conclusion, Respondent 008 did not want to redeliberate this issue. Whilst he acknowledged that there may be other valid reasons to reject this approach, he did not consider that "feasibility" is one of those reasons and therefore advocated amendment of the Basis for Conclusions.

Staff View and Action

Staff considers that paragraphs BC19, BC20 and BC 21 explain adequately the rationale for dealing with revalidation requirements in the determination of amounts to be transferred to individuals and households. Staff has not therefore modified these paragraphs.

Staff accepts that the wording of paragraph BC22 needs to be modified to reflect the point that the principal reasons for rejecting the application of a discount rate based on the long-term rate of return of assets held to make expected payments is that this will not be feasible in all jurisdictions.

Action requested: Provide views on whether the changes to the Basis for Conclusions are appropriate.

(h) Other Issues

This section of the memorandum deals with issues raised by respondents in areas not identified by Staff.

(i) Title and Position of “Introduction”

Respondent 008 expressed reservations about the position and title of the Introduction. He felt that the title should be “Summary” and that this section should be positioned before the Table of Contents

Staff View and Action

Staff agrees with the view of Respondent 008 and thinks that the term “Summary” is a better indicator of the nature and purpose of this section as it was drafted in the version of the ED circulated in August. Staff has therefore split the Introduction into two sections “Reasons for Issuing this IPSAS” and “Main Features of the Standard.”

Action requested: Confirm the use of the heading “Introduction” and the insertion of sub-headings into this section.

(ii) Consistency of Terminology

Respondent 008 highlighted the need for consistency in use of the terms “proposal” and “proposed Standard” are both used. Respondent 008 suggested that these terms should only be used in the Introduction and other front matter and not in the Standard, Illustrative Examples or Basis for Conclusions.

Respondent 006 suggested that in the commentary on Eligibility Criteria and Threshold Eligibility Criteria in paragraphs 26 to 28 the reference to individuals or households should be consistent.

Staff View and Action

Staff agrees with the views of Respondent 008 on the use of the term “proposed Standard” and uses the term “Standard” throughout the ED except for the material before the Table of Contents.

Action requested: Confirm the use of the term “Standard” rather than proposed Standard in the body of the ED and Basis for Conclusions

The comment by respondent 006 has prompted Staff to review the use of the term “eligible participants”, which has been used interchangeably with the term “eligible individuals and/or households”. Staff considers that the use of the terms in this way may be confusing for readers and has therefore adopted the standardized term “eligible individuals or households”. This means that term “eligible individuals or households” is now defined in paragraph 10 rather than the term “eligible participants”.

Confirm the definition of, and use of, the term “eligible individuals or households” rather than “eligible participants”

(iii) Reference to Individual Goods and Services in Commentary on Eligibility Criteria and Threshold Eligibility Criteria

Respondent 006 and 008 questioned the need for a reference to individual goods and services in the commentary in paragraph 26.

Staff View and Action

Although access to individual goods and services requires the satisfaction of eligibility criteria Staff agrees that, because of the scope of the ED, references to individual goods and services are superfluous and potentially misleading. Such references have therefore been deleted from paragraphs 26 and 28. Staff also do not think that there is any need for a reference to “individual goods and services” in the definition of “eligibility criteria” in paragraph 10 and have deleted the term.

Confirm the deletion of the term “individual goods and services” from the commentary in paragraphs 26 and 28 and from the definition of “eligibility criteria” in paragraph 10

(iv) Definition of “social benefits”

Respondent 006 noted that the current definition of social benefits refers to social benefits being provided directly to recipients. Respondent 006 considered it arguable whether collective goods and services such as defense are provided directly to recipients and suggested removing the word “directly”.

Staff View and Action

Staff agrees with this analysis and has therefore deleted the word “directly” from the definition of social benefits. The word “directly” is retained in the definition of “cash transfers to individuals or households” thereby ensuring that inter-governmental and intra-governmental transfers are not within the scope of the ED. A minor consequential change has been made to paragraph 12.

Confirm the deletion of the word “directly” from the definition of “social benefits” in paragraph 10.

(v) Sequence of commentary on definitions of cash transfers, collective goods and services and individual goods and services

Respondent 006 proposed that the commentary on collective goods and services and individual goods and services should precede the commentary on cash transfers to individuals or households.

Staff View

The current positioning reflects the fact that the ED provides requirements for cash transfers and that it is therefore appropriate to address this category of social benefits first. The current sequencing of commentary paragraphs 16 to 29 has therefore been retained.

CONSULTATION PAPER: “ISSUES IN RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS”

General Comments

As at October 10 responses had been received. Most respondents were broadly supportive of the revised draft, although some respondents identified structural issues and another highlighted the technical nature and dryness of the Paper. Three respondents were not supportive of the Paper. Respondent 005 considered that the discussion was still not balanced and that the analysis was loaded against arguments for recognition before all eligibility criteria are met. Conversely, Respondent 009 appeared to suggest that the use of terms like “restrictive” and “narrower” in the context of the recognition of liabilities was biased against those supporting the recognition of liabilities only after the satisfaction of all eligibility criteria. Respondent 009 also suggested that the purpose of the paper should be clarified and that it needed to better inform readers of the competing views on each issue. Respondent 008 also considered that the Paper needed drastic restructuring with the advantages and disadvantages of positions more clearly brought out.

Although he found the Consultation Paper useful and valid Respondent 003 considered that there is still a need for a high level short communication piece to help raise awareness of the issues. Respondent 007 welcomed the Paper but felt that it should cover measurement in more depth. Respondent 006 provided detailed comments that identified a number of structural issues.

The remainder of this memorandum highlights the main issues that Staff thinks have been brought out by respondents. The detailed comments are provided in Agenda Item 6.2. and full copies of responses are available from Staff on request.

(a) Structure

There was some tension between those who seemed broadly content with the scope and size of the document and those who advocated a much larger document. As indicated above Respondents 008 and 009 considered that the Paper needs expanding and drastic restructuring so that readers are adequately informed as to the underlying basis for the competing views on each issue.

Respondent 010 proposed a restructuring which would clearly distinguish the component highlighting the Strategic Approach from the component dealing with Key Issues for Consultation. Respondent 010 also suggested detailed wording. Respondent 006 also proposed radical restructuring and, in particular, considered that, because the main purpose of the Consultation Paper is to obtain views on when obligating events occur for different social benefits the definitions of obligating events, legal and constructive obligations should be set out. Respondent 006 also felt that the balance between Issue 1: Obligating Events for Non-contributory Programs and Issue 2: Obligating Events for Contributory Programs needed to be modified because much of the material in Issue 2 was relevant to Issue 1. (note that these Issues are numbered 4 and 5 in the revised agenda item at 6.4)

Staff View and Action

The Consultation Paper has been significantly restructured as a result of comments. The Paper is now in two distinct parts- “The IPSASB Strategy” and “Issues in Recognition and

Measurement” The IPSASB Strategy component is the same as that in ED 34, subject to changes necessary to set it in context. The other main features of the restructuring are:

- *The sequence in which Issues are considered has been changed so that collective goods and services are explored before individual goods and services and non-contributory and contributory cash transfer programs;*
- *In paragraph 16 definitions are provided of key terms such as obligating event, legal obligation, constructive obligation and liability;*
- *It has been made clear that much of the analysis in the section dealing with non-contributory programs is also relevant to contributory programs; and*
- *In response to views that the drafting still reflects bias an attempt has been made to ensure that all arguments are balanced by a countervailing view.*

Action requested: Provide views on whether the Consultation Paper is appropriate. Identify any areas where the Consultation Paper needs modification and suggest alternative wording.

(b) Alternative model not based on principles in IPSAS 19

Respondent 008 favored deletion of the section on Issue 5: An Alternative Model: A Giant Executory Contract. Conversely Respondent 003 supported its retention on the grounds that it should be acknowledged that the concept of non-exchange transactions may not work well in the public sector.

Staff View and Action

Staff considers that this section should be retained. It acknowledges that the application of principles from IPSAS 19 has proved difficult and suggests that the IPSASB is ready to consider other approaches.

Action requested: Confirm that “Issue 5: An Alternative Model: A Giant Executory Contract” should be retained

(c) Large liabilities, accumulated deficits and negative net assets/equity positions

Paragraph 39 (in the revised version) highlights that one consequence of an obligating event occurring before the satisfaction of all eligibility criteria is that it might lead to:

- 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;
- very large accumulated deficits; and
- heavily negative net assets/equity positions.

Respondent 008 advocated deletion of this paragraph. Respondent 004 thought that this discussion should be framed in terms of representational faithfulness.

Staff View and Action

Staff agrees that as previously drafted this paragraph lacked a conceptual focus and has redrafted it to reflect Respondent 004's point. It is important to raise this issue, because for the non-technical but informed reader, it highlights the most obvious consequence of adoption of the principle that obligating events occur before all eligibility criteria have been satisfied. A discussion of programs administered on a fund basis, where benefits are legally limited to the amount of the fund that is accumulated, in paragraph 45 has also been introduced and considered from the perspective of representational faithfulness.

Action requested: Confirm the approach in paragraphs 39 and 45. Issue 5:

(d) Specific Matters for Comments

Respondent 009 suggested reducing the Specific Matters for Comment (SMC) to broader open-ended questions in order to obtain details of additional issues and supporting arguments and aspects of social benefit programs and changes to social insurance programs. Respondent 010 proposed an additional SMC on whether respondents agree with the revised strategic approach.

Staff View and Action

Staff has concerns that broader open-ended questions may be difficult for readers to respond to and may deter some respondents. They may also make it difficult to classify submissions when analyzing and evaluating them. In order to meet Respondent 009's point a new general paragraph has been inserted at the end of the Specific Matters for Comment (SMC) section. This invites respondents to provide details of current policies for the recognition and measurement of liabilities for programs operating to deliver social benefits in their jurisdictions.

A new SMC on whether respondents agree with the revised strategic approach has been inserted as SMC 1.

Action requested: Confirm the Specific Matters for Comment (SMC), including the new SMC on the strategic approach and the additional open-ended paragraph inviting respondents to provide details of current policies for the recognition and measurement of liabilities for programs operating to deliver social benefits in their jurisdictions.

(e) Stating an IPSASB View

Currently the Paper does not include Board views. Respondent 010 suggested that it would be helpful for readers if the Board expressed a view on each of the Issues or gave reasons why it was unable to come to a consensus on a particular issue.

Staff View

Staff considers that the inclusion of IPSASB views would be useful in guiding readers and might also enhance the credibility of the project. However, the direction at Montreal was to modify the Consultation Paper, so that it adopts a neutral tone and the insertion of majority and minority views may not be consistent with that direction. There is also a "rules of the road" issue as to whether IPSASB documents should reflect competing views. Including an IPSASB view for collective goods and services might be straightforward. However, Staff has reservations whether summarizing a range of views on the occurrence of obligating events for cash transfers would be

easy. Staff has therefore not included views in the Paper as presently drafted, but awaits discussion of this issue at the Beijing meeting.

Action requested: Provide a direction on whether Board views should be shown and, if so, indicate those views.



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545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: (212) 286-9344
Fax: (212) 286-9570

DATE: 23 August 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) 34, “Social Benefits: Disclosure of Cash Transfers to Individuals and Households” and the Consultation Paper, “Social Benefits: Issues in Recognition and Measurement”, so that revised versions can be presented for approval at the Beijing meeting. Comments should be sent to john.stanford@cipfa.org by **Monday 24th September 2007**.

CIRCULATED MATERIAL

- Draft ED 34, “Social Benefits::Disclosure of Cash Transfers to Individuals and Households 11th Version Mark-Up
- Draft ED 33 Social Benefits::Disclosure of Cash Transfers to Individuals and Households 10th Version Mark-Up
- Further Version of Draft Consultation Paper, “Social Benefits: Issues in Recognition and Measurement: Clean”

There are two versions of the ED circulated with this memorandum. The 11th Version is a mark-up of changes from the marked up version tabled and considered on the last day of the Montreal meeting. That version (10th Version) is also included for information as requested by some Members and Technical Advisors. Clean versions are available from Staff on request. Members are asked to note that the number of the ED has changed to ED 34. The further version of the draft Consultation Paper is a clean version: a marked-up version is available from Staff on request.

BACKGROUND

At the Montreal meeting the IPSASB confirmed the decision at Accra in March 2007 to develop and publish an Exposure Draft of a Standard dealing with disclosure of amounts to be transferred to eligible participants at the reporting date. This will be part of a package that will also include a Consultation Paper on issues in the recognition and measurement of obligations arising from social benefits and the project brief on fiscal sustainability. The IPSASB agreed that:

- the ED should have the title, “Social Benefits: Disclosure of Cash Transfers to Individuals and Households”;

- the ED should contain a section outlining the IPSASB’s strategic approach to accounting for social benefits;
- the number of Specific Matters for Comment (SMCs) should be reduced, so that, in general, one SMC should be asked about each of the main sections of the ED with a further question on whether the reliability of information in disclosures gives rise to onerous and impracticable audit implications;
- it should be clarified that, although they are defined, the ED does not require disclosures for collective goods and services and individual goods and services;
- entities operating composite social security programs should consider whether they can distinguish the component providing benefits in non-exchange transactions from the component dealing with non-exchange transactions, and, if able to make such a distinction, estimate amounts to be transferred to eligible participants in respect of the component dealing with non-exchange transactions;
- in developing the commentary on the determination of amounts to be transferred where a program is to be terminated to consider the approach in IAS 12, “Income Taxes”;
- the ED should not use the term “actuarial” in providing requirements and commentary on the assumptions necessary for determination of amounts to be transferred to eligible participants;
- the discount rate used to discount amounts to be transferred to eligible participants should be a rate that reflects the time value of money and the rationale for this approach should be explained in more detail in the Basis for Conclusions;
- a requirement for disclosure of the number of participants for each cash transfer program should be reinserted and a requirement for the financial effects of changes in principal assumptions since the last reporting date should be introduced with rationales in the Basis for Conclusions;
- the Illustrative Disclosures should reflect the fact that they are minimum disclosures; and
- the material in Appendices highlighting some of the characteristics of individual goods and services and social security programs should be deleted.

Many of these directions were actioned in the 10th version considered on the last day at Montreal. The section of this Memorandum on Issues only considers significant changes from the 10th version.

ISSUES: EXPOSURE DRAFT 34, “SOCIAL BENEFITS: DISCLOSURE OF CASH TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS”

(a) Title

The title has been changed to Social Benefits: Disclosure of Cash Transfers to Individuals and Households”

Action Requested: Confirm that the title should be “Social Benefits: Disclosure of Cash Transfers to Individuals and Households”.
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(b) Strategic Approach

A short four paragraph statement entitled “The Strategic Approach to Accounting for Social Benefits” is only slightly modified from the version considered at Montreal

Action Requested: Confirm that the section entitled “The Strategic Approach to Accounting for Social Benefits” is appropriate or suggest changes.

(c) Commentary on the Determination of Amounts to be Transferred where a Program is to be Terminated

At the Montreal meeting Staff was directed to consider the approach in IAS 12, “Income Taxes” in developing the commentary on the determination of amounts to be transferred where a program is to be terminated. Currently paragraph 32 of ED 30 states that “The best estimate is not limited to the next payment or a fixed number of payments following the satisfaction of threshold eligibility criteria, unless legislation has been enacted at the reporting date to terminate a program. If such legislation has been enacted the estimate reflects the remaining term of the program.”

Paragraph 48 of IAS 12 provides commentary on the measurement of current and deferred tax assets and liabilities. It states that such assets and liabilities “are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In those circumstances, tax assets and liabilities are measured using the announced tax rate a (and tax laws)”

IAS 12 provides a more permissive approach to the measurement of tax assets and liabilities than ED 34 does to the determination of amounts to be transferred to eligible participants. Staff is loath to modify the existing commentary paragraph 32 of ED 34 as such a change will increase the risk of entities reducing their estimates of amounts to be transferred on the basis of vague policy pronouncements.

Action requested: Confirm that the wording in commentary paragraph 32 is appropriate.

(d) Discount Rate

Black letter paragraph 40 includes the requirement that the discount rate reflects the time value of money. Commentary paragraphs 41 and 42 have been modified to reflect this change. The sequence of these two paragraphs has also been reversed to provide a more logical flow.

Action requested: Confirm that the revised approach to the discount rate and the commentary paragraphs are appropriate.

(e) Disclosures

At paragraph 45(d) a requirement has been inserted to disclose the reason for the use of the discount rate selected. At paragraph 45(f) there is a requirement, in providing the financial effects of changes in assumptions, to distinguish the effects of changes in the discount rate and changes in other principal assumptions.

Action requested: Confirm that the modifications to the disclosure requirements are appropriate.

(f) Illustrative Disclosures

The Illustrative Disclosures on Minimum Items Required by this Standard have been modified to include disclosure of the number of eligible participants, which was reinserted as paragraph 45 (c) at the Montreal meeting, the rationale for the use of the discount rate and the financial effects of changes in the discount rate and other changes in assumptions. The italicized wording under the heading has been strengthened to emphasize that the guidance is purely illustrative and non-prescriptive.

Action requested: Confirm that the modifications to the Illustrative Disclosures are appropriate.

(g) Basis for Conclusions

The Basis for Conclusions has been modified to:

- provide a deeper rationale of the requirements for discounting; and
- give more information on the reason for certain disclosures.

Action requested: Provide views on whether the changes to the Basis for Conclusions are appropriate.

CONSULTATION PAPER

In accordance with directions at Montreal Staff has further developed the Consultation Paper, “Social Benefits: Issues in Recognition and Measurement”. The Consultation Paper includes an Introductory section and a section outlining the background to the social benefits project and the IPSASB’s strategic approach. It also includes sections on terminology and a brief discussion acknowledging the existence and potential impact of the IASB’s Liabilities project. The Consultation Paper addresses the following issues in substantive sections:

- Issue 1: When do Present Obligations for Cash Transfers Occur for Programs Financed through General Taxation?
- Issue 2: Do Present Obligations for Cash Transfers Financed by Contributions and Earmarked Taxes Occur At a Different Point than for Programs Financed by General Taxation?
- Issue 3: Do Present Obligations to Beneficiaries for Collective Good and Services and Individual Goods and Services Occur?
- Issue 4: Is the Revalidation of Eligibility Criteria a Recognition Criterion or a Measurement Attribute?
- Issue 5: An Alternative Model: A Giant Executory Contract and Recognition of Liabilities Arising from Legal Obligations

The Consultation Paper concludes with a section on fiscal sustainability. A new paragraph 38 has been included to provide some brief introductory background for those who are not familiar with fiscal sustainability information or reporting.

The main changes are stylistic rather than substantive. In accordance with directions at Montreal the revised draft uses the paper on the Objectives of Financial Reporting developed by the Technical Director of the United Kingdom Accounting Standards Board as a model. However, it adopts a neutral tone and does not include preliminary staff views.

Action requested: Provide views on whether the Consultation Paper is in accordance with the directions given at Montreal. Identify any areas where the Consultation Paper needs modification and suggest alternative wording

Social Benefits

Cut and Paste Analysis of Responses to Issues raised in Memorandum of 23 August 2007

ED 34

General

001 Andreas Bergmann

Thank you for updating the documents in respect of Social Benefits. I agree/confirm all issues as suggested, with one exception (See below (c))

002 Rick Neville

It was a good idea circulating both versions of the ED (i.e. ED 33 and ED 34). It allowed me to see the previous changes, as well as, the new proposed changes. Overall, I am satisfied with the new version. It reads extremely well.

003 Peter Batten

I support the Exposure Draft as currently developed.

005 Harald Brandsaas

The latest draft seems to be in line with the directives from our meeting in Montreal. I do not have many technical comments.

I feel that the draft is going all too short and the information required add little value to the existing reporting. I basically mean that the ED should require recognition of social benefits obligations. And since it does not, at least require information on what I mean is the minimum obligation at the reporting date, and in our view it can not be limited to those that have met the eligibility criteria on the balance sheet date.

The ED covers information on those that have met the criteria for their remaining period on receiving the benefits, which could be a number of years, but do not include those that meet the criteria the day after the balance sheet day, also for the same number of years. The disclosed amount gives in my view very limited relevant information to the users. I therefore see limited need for a standard on these bases, even if we include the Consultation Paper.

006 Erna Swart/Jeannine Poggiolini

While we believe that the appropriate accounting treatment for cash transfers is full recognition in the statement of financial position, we support the concept of requiring disclosures as an interim measure while the IPSASB continues its research on appropriate recognition and measurement of all types of social benefits.

In reviewing these drafts, we were unsure to what extent users would fully understand the reasons for initially requiring disclosure as well as issuing a consultation paper concurrently. We have proposed some wording in this regard which is included in our comments on ED 34.

007 Lou Hong/Li Hongxia

In regards to ED 34, except that we would prefer the section plainly entitled “The Accounting for Social Benefits”, deleting “strategic”, we agreed with the rest of changes.

009 Ian Carruthers

Section on Strategic Approach should be expanded, restructured and the same as the section on Strategic Approach in the Consultation Paper.

(a) Title

001 Andreas Bergmann

Agree

002 Rick Neville

Agreed

003 Peter Batten

Agree title

004 Greg Schollum

I confirm the title is appropriate given the contents of the ED.

005 Harald Brandsaas

I believe that we should simplify the title and delete “to individuals and households”,

006 Erna Swart/Jeannine Poggiolini

We concur with the proposed title, but propose that the concept of transfers to households then be included in the definition of a cash transfer. Currently the definition of a cash transfer only refers to individuals. The title also needs to be amended on the ‘request for comments’ page – it still refers to the old title.

007 Lou Hong/Li Hongxia

Agree

008 David Bean

Proposes “Social Benefits: Disclosure of Individual Benefits”.

(b) Strategic Approach

001 Andreas Bergmann

Agree

002 Rick Neville

Agreed....however, it refers to a project brief and welcomes comments....but there is no "project brief ".

(Staff Note: Project brief for “fiscal sustainability” project to be issue in agenda papers for Beijing))

003 Peter Batten

Confirm the strategic approach is appropriate

004 Greg Schollum

I concur with the approach that you have taken in paragraph 3.2.

005 Harald Brandsaas

I agree with the proposal.

006 Erna Swart/Jeannine Poggiolini

The third paragraph of the strategic approach document could be strengthened. Proposed wording is as follows:

Due to the additional work to be carried out by the IPSASB regarding the identification, recognition and measurement of liabilities relating to social benefits, a decision was taken to:

- Develop a proposed Standard that dealt with disclosure requirements in relation to amounts to be transferred to eligible participants in terms of cash transfer programs only. The purpose for requiring these disclosures is to provide useful information to users of the financial statements about what financial commitments exist in relation to these programs and the extent to which they are sustainable in future reporting periods.
- Issue a Consultation Paper dealing with specific recognition and measurement issues relating to social benefits provided in cash as well as in kind (i.e. through the provision of goods or the rendering of services).
- Due to the questions posed in the Consultation Paper regarding recognition and measurement of social benefits provided by way of goods and services, no disclosure is required in ED 34.

007 Lou Hong/Li Hongxia

We would prefer the section plainly entitled “The Accounting for Social Benefits”, deleting “strategic”, we agreed with the rest of changes. This is because even though we deal with social policy obligation issue in phase, it is still an accounting issue, not involving strategic issues.

008 David Bean

I have commented on this before, but I have always viewed the transition from the PSC to the IPSASB as a name change. Why are we distancing ourselves from the PSC by referring to “our own project”.

It (the ED) may be important, but it is also an interim step. It is mentioned in the Basis for Conclusions but please consider mentioning it here.

009 Mike Hathorn/Ian Carruthers

Consider that this section should be replaced by the revised Strategic section in the Consultation Paper.

(c) Commentary on the Determination of Amounts to be Transferred where a Program is to be Terminated

001 Andreas Bergmann

I'm not quite sure if I agree with the proposed wording. I certainly dismiss the idea in IAS 12 relying on mere "announcements". If we look at the legislative process we have in most countries the following main stages:

1. Announcement of a new/changed law (i.e. in the media)
2. Formal proposal to the legislative body (i.e. parliament)
3. (Final) decision by the legislative body
4. Effective date of the new/changed law being set

5. Effective date passed/law in place

I've avoided the word used in Para 32 "enacted", because I'm not sure to which stage this applies. While I think stage 1 is insufficient, I think from stage 4 (perhaps even stage 3) the new law should be considered in the judgement of the preparer of financial statement. I.e. if the preparer knows for sure that after a specific moment in time the cash transfers will differ from before, this should be reflected, even if this moment has not yet been reached.

(**Staff Note:** Staff suggested in subsequent correspondence that enactment probably corresponds to Stage 3 of Andreas' classification)

002 Rick Neville

I concur with the wording in paragraph 32 of ED 34.

003 Peter Batten

Confirm that paragraph 32 is appropriate. I share the staff concern about the mis-use of policy pronouncements. Presumably if the entity believes that they are committed by the pronouncement and that the required disclosure is misleading they can include additional disclosures with

004 Greg Schollum

I concur with the approach that you have taken in paragraph 32.

005 Harald Brandsaas

I support that the estimate is not offset by taxes etc. information on taxes on the future cash transfers is useful information to the users and should not be more difficult to estimate than the estimation of the social benefits. I would propose to add information requirement for taxes on a gross bases.

The explanation in para 33 is not easy to understand since it excludes those that have not reached the eligibility criteria. Those that are 65 at the end of the financial year are included for their payments for many years, but none of the payments for those that meet the criteria the day after the year-end even if they stay alive for the same period. It is hard to say that the estimated amount under this ED is relevant to the users.

In para 41 it is said: "It does not reflect actuarial risk, investment risk, entity-specific credit risk or other risks such as the risk that future experience may differ from actuarial assumptions."

I am not sure what "It" refers to. If it is the discount rate I agree. If it is the assessment of present value, I disagree.

In para. 42 I am not sure that I agree with the use of corporate bonds.

006 Erna Swart/Jeannine Poggiolini

We agree with the proposed text in paragraph 32 as this principle is consistent with other standards such as IFRS 5 and IPSAS 19 i.e. no action is taken if an announcement is made after year end. We do not believe that the principle proposed for income taxes is appropriate for a liability of this nature.

007 Lou Hong/Li Hongxia

Agree

008 David Bean

Still have a problem with the use of the term “transferred”. Transfers to me infer recognition- a carryover from the previous attempt to issue an ED. Concerned that this will bias future recognition standards. Proposes use of word “disclosed” rather than “transferred”.

(d) Discount Rate

001 Andreas Bergmann

Agree

002 Rick Neville

Agreed.....however.....paragraph 42 should have the words "....high quality corporate bonds...." added in the first sentence after...."....government bonds,..." as is the case in IN 7. (Introductory Paragraph 7).

003 Peter Batten

Confirm that the revised approach to the discount rate is appropriate. I have one question. Does staff agree that "or other instrument" would include the use of a synthetic instrument, for example a synthetic created by the combination of a borrowing with appropriate term in a deep and liquid market in another currency in conjunction with a cross currency swap to the domestic currency in which the obligation would be settled? If so, it would be helpful to include a comment about this, at a minimum in the basis for conclusion.

004 Greg Schollum

I am comfortable with the paragraphs relating to the discount rate.

005 Harald Brandsaas

OK.

006 Erna Swart/Jeannine Poggiolini

We agree with the amendments.

007 Lou Hong/Li Hongxia

Agree

008 David Bean

See comments in Basis for Conclusions

(e) Disclosures

001 Andreas Bergmann

Agree

002 Rick Neville

I concur but I still think item (c) of paragraph 45 - " Number of eligible participants " is superfluous.....just my point of view....it need not go further.

003 Peter Batten

Accept the disclosures are appropriate, although I still wonder about the benefit of the number of eligible participants.

004 Greg Schollum

I am comfortable with the disclosure requirements.

005 Harald Brandsaas

Considers that information on taxes on the future cash transfers is useful information to the users and should not be more difficult to estimate than the estimation of the social benefits. I would propose to add information requirement for taxes on a gross bases.

006 Erna Swart/Jeannine Poggiolini

We agree with these amendments. Additional disclosure requirements are included below.

The following additional disclosures should be considered for inclusion:

- The transfers should be split between those that relate to the short term, medium term and long term (similar to lease classification, less than 1 year, between 1 and 5 years, over 5 years)
- If an actuary used that fact should be stated.
- Where any plans terminated after year end, that fact should be disclosed (reference to IPSAS 14).

007 Lou Hong/Li Hongxia

Agree.

008 David Bean

Will be interesting to see what the readers really learn about the (discount) rate. Based on reading of the Illustrations, my conclusion is not much.

Unfortunately this (disclosure of amount of any expenses recognized in the statement of financial performance and amount of any liabilities recognized in the statement of financial position relating to cash transfers in the reporting period on a program basis) will cause the government to run the numbers up three times to meet this requirement. A cost-benefit issue.

Introduces bias by referring to “minimum amounts” in paragraph 46.

(f) Illustrative Disclosures

001 Andreas Bergmann

Agree

002 Rick Neville

Agreed.....but see (e) above

003 Peter Batten

Agree the changes to Illustrative Disclosures to emphasise that they are non-prescriptive

004 Greg Schollum

The illustrative disclosures look reasonable.

006 Erna Swart/Jeannine Poggiolini

We agree with the amendments. Some minor comments are provided.

007 Lou Hong/Li Hongxia

Agree

008 David Bean

On second sentence –the estimate is not offset by inflows such as taxation, appropriations and transfers from other levels of government-could say this about most amounts disclosed in the notes.

Questions need for final sentence in paragraph 2. Too much detail for a knowledgeable reader.

Does not consider that disclosure of discount rates provides any insight to reader.

(g) Basis for Conclusions

001 Andreas Bergmann

Agree

002 Rick Neville

Agreed...except for BC 22 which should be changed as per (d) above to be consistent with the revised paragraph 42 and IN 7.

003 Peter Batten

Am comfortable with the Basis for Conclusions.

004 Greg Schollum

I am comfortable with the revised Basis for Conclusions, subject to my comments below:

- Page 36 – Basis for Conclusions (BC2)
I think we need to explain as part of the third sentence that we issued an ITC otherwise reference to ITC on the last line of the paragraph is a little odd. (If you look at para. 2 of the consultation paper you have used a fuller explanation).
- Page 37 – Basis for Conclusions (BC4)
I suggest we add “long term fiscal” or “fiscal” in front of “sustainability reporting” on the last line as sustainability reporting has another meaning.
- Page 37 – Basis for Conclusions (BC6)
I suggest we could also add into this paragraph that aged pensions are not always the largest cash transfer programme (as we know from Erna in the case of South Africa).

006 Erna Swart/Jeannine Poggiolini

We agree with the amendments. Some minor comments are provided.

007 Lou Hong/Li Hongxia

Agree

008 David Bean

At paragraph BC21: We say that there are advantages but we don’t articulate them. Therefore the reader is not in the position of determining if they agree or disagree with that assessment.

On discussion of discount rate at paragraph 22: Would respectfully disagree with the “feasibility” rational for rejecting the use of expected long-term rate of return to discount liabilities. A government would use either the long-term rate of return of resources that have been set aside for these benefits or use the long-term rate of return of their current operating funds—which would be used to pay for those benefits when they become due. It is feasible, because this method is currently being used in the United States. Although I disagree with the Board’s conclusion, the reason for bring this up is not to redeliberate this issue. My only point is that there may be other valid reasons to reject this approach, but in my opinion “feasibility” is not one of those reasons.

Other Comments

006 Erna Swart/Jeannine Poggiolini

2.1 Purpose of exposure draft

The paragraph currently states: ‘This ED proposes requirements for the disclosure of future transfers in relation to cash transfers.’ Reference to ‘future’ may make users believe that a future and not a present obligation exists. Consider rewording this to ‘transfers required to be made to eligible participants under the current terms and conditions of governmental cash transfer programs.’

2.2 Introduction

- IN2(a) – Transfers should be with a lower case ‘t’;
- IN4 – add the words ‘...because these are deemed to be exchange transactions’ at the end of the last sentence.
- IN5 – Reference is made to disclosures being made on a program basis. Paragraph 47 allows the aggregation of programs. Either IN5 should take cognisance of this, or the reference should be made to ‘generally disclosed on a program basis’.
- IN7 – To be consistent with the remainder of the document, reference should be made to a ‘risk free rate that represents the time value of money’ rather than a ‘non-risk adjusted rate’.
- IN8 – First sentence should read: ‘...transferred to eligible participants ~~for~~ of cash transfer programs’. Third sentence should read ‘....Aggregated information...but are material in aggregate.’

1.3 Scope

- Paragraph 5, exchange versus non-exchange transactions: Insurance - In the discussion of exchange versus non-exchange transactions, it is important to explain the difference between insurance (an exchange transaction) and a non-exchange transaction, as some social benefits may in substance be insurance rather than non-exchange transactions.
- Paragraph 5 – The non-exchange revenue standard includes discussions about what approximately equal value might be, and specifically includes reference to using judgement in this regard.

1.4 Definitions

Cash transfer – The definition of a cash transfer should be amended for the following:

- Seeing as the amended title refers to cash transfers to households and individuals, both should be reflected in the definition.
- The definition refers to ‘an expense incurred through the tax system’ while non-exchange revenue and paragraph 15 refers to tax expenses paid through the tax system.

Social benefits – the current definition of social benefits refers to benefits being provided directly to recipients. It is arguable whether or not collective goods and services such as defence are provided directly to recipients. Consider removing the word ‘directly’?

Threshold eligibility criteria – The definition of eligibility criteria refers to ‘all the criteria’ being satisfied, yet IN5 makes reference to the fact that all eligibility criteria may have been satisfied but a legal obligation does not exist. It is unclear what threshold eligibility criteria do not fall within the ambit of a ‘legal obligation’. See our earlier comment on this issue.

The definition only refers to individuals – in line with the amended title it should refer to households and individuals.

1.5 Cash transfers and goods and services encompassed by social benefits

Restructuring of the ED – We propose that the discussions dealing with individual and collective and services be placed before the discussion on cash transfers, because paragraphs 26 onwards deal with the disclosures of cash transfers.

Terminology – We propose that the term ‘participants’ or ‘individuals and households’ be used consistently throughout the document. Reference is made to ‘recipients’ from time to time (e.g. paragraph 12).

Paragraph 13 – Insert a semi-colon after a) social security programs.

Paragraph 15 – This paragraph refers to tax expenses and tax expenditures. Non-exchange revenue uses the terminology tax expenses and expenses paid through the tax expenses. In order for the terminology to be consistent across standards, we propose that the wording from IPSAS 23 be used.

Paragraph 18 – Replace the comma at the end of the second last sentence with a full stop.

1.6 Eligibility criteria and threshold eligibility criteria

It is unclear why paragraph 26 & 28 refer to individual goods and services. The discussion about eligibility criteria relates directly to the determination of disclosures for cash transfer programs. Reference to eligibility criteria for individual goods and services in this ED with an open ended question in the consultation paper could be confusing (the consultation paper merely asks whether or not a present obligation exists at any point for individual goods and services).

Paragraph 27 – reference should be made to individuals and households consistently.

1.7 Determination of amounts to be transferred to under cash transfer programs

Swap paragraphs 32 and 33 around. As a result of moving these paragraphs, paragraph 34 should be amended as follows: ‘Termination benefits are one off.....’

Paragraph 33 should be specific about the fact that the continuous entitlement is calculated from the point at which participants satisfy all threshold eligibility criteria.

Paragraph 36 – Redraft the second last sentence as follows: ‘Financial factors include those factors that impact on future benefit levels’.

Paragraph 40 – A full stop should be added to the end of the sentence.

None of the paragraphs in this section deal with the fact that the amount to be transferred should be determined in accordance with legislation, regulations or terms governing the plan.

2.8 Disclosures

It is unclear from paragraph 45 whether or not all of the disclosures are required on an individual program basis (only (c) is specific, and it is alluded to in paragraph 47).

The following additional disclosures should be considered for inclusion:

- The transfers should be split between those that relate to the short term, medium term and long term (similar to lease classification, less than 1 year, between 1 and 5 years, over 5 years).
- If an actuary used that fact should be stated.
- Where any plans terminated after year end, that fact should be disclosed (reference to IPSAS 14).

2.9 Illustrative disclosures

Page 29, Paragraph 6 – The first sentence does not read well – why does the fact that the first years cash flows are onerous impact on whether or not and at what rate they are discounted?

Page 31 – General/contributory pension – why is this title still referred to? It is not referred to elsewhere?

Page 33, paragraph 6 – Reflection is spelt incorrectly in the second last sentence.

2.10 Basis for conclusions

BC4 and BC5 – these paragraphs refer to ED and Standard interchangeably. The terminology should be consistent. (BC 12 & 24 are other examples).

BC15 – Use the explanations from IPSAS 23 in relation to tax expenses and expenses paid through the tax system. The first sentence is misleading as it refers to individuals that pay tax in relation to expenses paid through the tax system. It is not a requirement for such individuals to be taxpayers.

BC22 – Last sentence, the errant ‘be’ should be deleted after ‘...this will not ~~be~~ always be...’

BC27 – Delete the errant semi colon from the first sentence.

BC 28 – Delete the 4 after 28.

008 David Bean

Structure and Terminology

We should have a discussion on the structure of the ED. How we communication is just as important as the Rules of the Road.

- a. Placement of the Introduction (which I believe should be called a summary). What is presented in the introduction section is a summary of the proposal, not an introduction to the issue. If it is a summary, I believe that this discussion should be presented before the table of contents.
 - b. Use of the terms “proposal” or “proposed.” I would like to propose to the IPSAB that these terms should only be used in the summary and other front matter and not in the standard, illustrations, or BFC sections
2. Governments are public sector entities. Therefore, I would suggest deleting governments or at a minimum inserting “other” before public sector entities in paragraphs 1 and 13.

Definition of Cash Transfers

I strongly believe that we need a term other than “cash transfers” to describe these programs. We would not define the term “assets” differently from one standard to another, so why are we using “cash transfers” differently? I realize that we are trying use an easy reference term, but we really do need to find another one. If we called the benefits within the scope of the document “social benefits,” people would object. So why are we proposing an even broader term to describe this set of transactions?

I would suggest to we refer to these transactions as “individual benefits.” They clearly are benefits and even household benefits are for the use of individuals. It is different enough from individual goods and services as not to confuse anyone. Any baggage that it would bring would be much less than that brought by the use of cash transfers.

If the Board accepts my proposal, then we could continue to use the same definition of cash transfers that we used in IPSAS 23 in all IPSASB documents.

010 Ian Carruthers

Proposes a drastically modified and expanded section on Strategic Approach, which mirrors that in Consultation Paper (see comments under Consultation Paper)

CONSULTATION PAPER

001 Andreas Bergmann

Agree

002 Rick Neville

The "Consultation Paper" is, in my opinion, in line with the directions provided in Montreal.

003 Peter Batten

With reference to your email of 24 August 2007, this email is in response to the draft Social Benefits Consultation Paper. Thank you for your efforts.

Firstly, I think that the paper is useful and has validity, and I support its release. Please also see the minor comments below.

However, I still think that there is also a need for a high level, one or two page communication piece to help raise awareness of this issue with people in senior roles who are not technical accountants. This would in effect become a third paper.

I strongly support further consideration of the "alternative model" in issue 5. To be honest, while the concept of non-exchange transactions is OK in the context of public benefit enterprises such as charities, I'm not so sure that it really works well in the context of government and public sector, especially where grants between different levels of or parts of government are involved. In other words I don't think a notion fails just because it doesn't fit the concept of a non-exchange transaction.

To take another approach, if people think that the non-exchange transaction approach really works well, then I think that they need to accept that it doesn't create recognisable obligations, just a non enforceable promise or commitment.

The paper is very technical and dry. I think a few more examples would help people to read and understand it.

Do we need to discuss what we mean by a legal obligation, as referred to in paragraph 12? I believe that it should be restricted to an obligation that can be enforced through a court or a tribunal. I don't think that a legislated intention has the same effect unless it is one of those rare commitments that don't need a parliamentary appropriation. An example of the latter in some jurisdictions is judicial salaries and pensions, which anyway are exchange transactions.

In paragraph 13 and other places the paper refers to the "reporting date".

This is a term which I have always thought was potentially confusing, and given the recent changes to IAS 1, I suggest referring to the "end of the [reporting] period". This would also apply to the exposure draft, although I didn't comment on it in my separate email on the ED.

The forward refers to convergence with IFRS. I know that's our strategy, which I support, but I wonder if we should consider adding "to the extent appropriate"?

In Specific Matters for Comment, questions 1 and 2, insert "only" after "occurs" in the second line.

Question 1 is somewhat biased towards the recognition of an obligation. I suggest adding "Do you think that there are further restrictions other than eligibility criteria on the recognition of a present obligation? If so, please describe and give your reasons."

Page 4. I suggest that the second last sentence in paragraph 3 be reworded as follows " This decision reflects the difficulties in reaching conclusions on the key issues in recognition and measurement explored in this paper in advance of progress in the IPSASB's conceptual framework project on the elements of financial statements."

Paragraph 4. Insert "(see paragraph 5 below)" at the end of the first sentence.

Paragraph 5. At the end of the first sentence after "welcomes comments" insert a web reference link to the project brief.

Paragraph 24. I think insertion of "in the current reporting period" after "recognition...." and "recognizing" in the fourth last and second last lines would make this paragraph easier to understand.

Paragraphs 38 to 41 discuss fiscal sustainability. Is it worth asking whether respondents think this is a useful project, or some other question to justify why they have read these paragraphs? Also I suggest again including a reference to where the project paper can be found.

004 Greg Schollum

Overall, I think the consultation paper is broadly in line with our discussions in Montreal and should provide a good basis for discussion in Beijing. I would however prefer if we could broaden the discussion in para 23 to discuss whether it actually makes sense (and will therefore be useful for users) to recognise large liabilities and not the tax asset that will fund the liability. In other words, does it make sense that the liability meets the recognition criteria and the asset doesn't (i.e. representation faithfulness)?

I also have the following comments on the draft consultation paper:

- page 1
The approval date referred to in the first paragraph should be November 2007 not 2008.
- page 4 – para 4
I suggest we add "long term fiscal" or "fiscal" in front of "sustainability reporting" on the third line.

005 Harald Brandsaas

I am sorry to say that, like my comment in Montreal, this paper is in my view, still not a balanced paper. The reason for that feeling could very well be that I have a quite different view on whether the social benefits obligations should be recognized or not. I have much sympathy with the conclusions in the FASAB paper.

It is not only that the number of paragraphs advocating for recognition is much less than the opposite, but also the arguments in the text. For example in para 14 it is argued that variability in key participatory events could result in different accounting treatments. In my view, that is what accounting is about. Different transactions are not assumed to be accounted for in the same way since they are different.

I still feel that it is argued that conceptual reasons indicate no recognition, which I hardly could be the case. The framework is the reason for recognition, even if we do not like the result.

I therefore consider that it is difficult to comment on the various paragraphs, and will not do that at this stage.

006 Erna Swart/Jeanne Poggiolini

1. Background and strategic approach

Paragraph 4, page 5 – Third sentence refers to what ED 34 does not deal with i.e. the identification of present obligations and the recognition or disclosure of liabilities. This may be confusing for readers because we are proposing disclosures of ‘the best estimates of amounts to be transferred to eligible participants’ which would be similar to a liability. We propose to delete these words and explain that ED 34 does not deal with identification of present obligations, or the recognition and measurement of liabilities. See later comments under ED 34 on the strategic approach.

Paragraph 6, page 5 – Insert the words ‘referred to as.....’ in the brackets to both individual and collective goods and services.

Paragraph 8, page 6 – Insert the words ‘for example’ before ‘social security pensions, child benefits....’, as this list is not all encompassing.

2. Issue 1

As an opening to this discussion, it would be useful to set out the definition of a liability and present obligation from IPSAS 19 as these definitions are the centre of discussion in this section.

Paragraph 12 makes reference to legal obligations normally being incurred when all eligibility criteria have been satisfied. The paragraph goes on to state that a legal obligation may not occur until some time after the satisfaction of all eligibility criteria. Can legal entitlement be viewed as an implicit eligibility criteria? Is it right for us to say that we want to recognise liabilities based on participants meeting all eligibility criteria, but that legal entitlement is not an eligibility criteria? If this is the case it needs to be explained in the “Specific Matter for Comment 1”, and illustrated with an example (maybe the US social security scheme is a good example?). This also needs to be more explicit in the ED if this is the principle we propose.

Our preference would be that the heading and basis for the discussion in issue 1 is focused more on when a present obligation exists (which seems to be the crux of the issue) rather than the funding by way of general taxation (which we only refer to very briefly). We would propose that the heading be amended to ‘When do present obligations arise for cash transfers?’

Paragraph 13 could refer to issue 5, and insert a sentence in the same paragraph that refers readers to the specific funding discussion in issue 2.

It seems that much of the rationale related to when present or constructive obligations may arise has been included in the section dealing with issue 2. We propose that discussions such as those in paragraph 18, 19, 20 and 23 rather be included under issue 1 rather than issue 2. These paragraphs would go a long way to supporting the arguments currently in paragraphs 11 and 12.

3. Issue 2

In line with our suggestion in 2.3, we propose that the heading be amended by deleting the words ‘...than for programs financed by general taxation’.

Paragraph 18 – Despite the fact that our previous comments propose that paragraph 18 be relocated to issue 1, the current drafting is unclear. The second sentence of that paragraph states: ‘Conceptually they challenge the view that a government has no viable alternative but to settle prior to eligibility criteria being satisfied.’ The next sentence starts ‘Governments have the ability

to amend legislation...’. The second sentence does not make sense in the context of the remainder of the paragraph. Perhaps from the third sentence on should be a new paragraph.

Paragraphs 18 and 22 are examples of where reference is made to ‘settling’ transactions while in other paragraphs (such as paragraph 11) reference is made to providing benefits. We propose that terminology be used consistently, and in the context of the discussion we would propose that ‘providing benefits’ is more appropriate.

Specific Matter for Comment 2 – Our view on this issue as follows:

- To the extent that contributions are exchange transactions, there may very well be a liability (similar to employee benefits). The extent to which a present obligation exists may depend on the terms of the plan/scheme e.g. it may stipulate that at a minimum, contributions will be returned to the contributor. An obligation is more likely to exist under an exchange transaction because both parties are usually required to perform (this requirement is usually absent from a non-exchange transaction).
- To the extent that these transactions are deemed to be non-exchange transactions, a very strong argument could be made that these are merely earmarked taxes, and as a result would not affect when a present obligation exists.

In drafting the specific matter for comment, it would be important to establish whether the contributions to these plans are exchange or non-exchange in nature, as well as when respondents believe a present obligation exists.

4. Issue 3

We agree in principle with the proposal in issue 3 as the questions have been phrased very broadly. We would propose that to the extent that eligibility criteria have been satisfied for individual goods and services, it may be appropriate to consider whether or not the entity in fact has a commitment to provide these services in future and should be disclosed in the financial statements. Disclosure of these commitments would provide users of the financial statements with information on what future resources are already committed to certain social benefits.

5. Fiscal sustainability

Cash transfers’ have been omitted from the first sentence of paragraph 38. Fiscal sustainability should cover both goods & services as well as cash transfers.

007 Lou Hong/Li Hongxia

In regards to the Consultation paper, it is really a very positive stimulator in terms of introducing extensive debate in this area.

Nonetheless, we have a feeling that the Paper more focuses on when the present obligation arises, and therefore, when public sector entities should recognize the obligation. There are only few contents dealing with measurement of the obligation, which is not only a similarly important issue to recognition, but also a barrier for most public entities to face with this measurement challenge. As a consequence, if we can address measurement issue in more detail, it would be of great help.

008 David Bean

Strongly believe that the paper should be restructured and expanded.

- The alternatives are identified; however, the discussion of each of the alternatives (especially in Issue 1) is cursory at best. This comment is not intended to be a criticism of staff, because I do not believe the Board provided adequate time to develop a discussion of the alternatives. Unfortunately, the result is a discussion of a few paragraphs at the most and a word (for

example, “birth”) at the least. A reader would need to have a thorough understanding of the ITC to be in the position to respond knowledgeably to this document and even then the ITC does not address the all of the alternatives. The discussion improves in later Issues; however, to answer the first question the reader really needs to consider the issues addressed in Issues 2—5, with Issue 4 relating more to the application of the alternatives rather than a separate alternative.

- As you know, it all comes down to “what is the most appropriate obligating event” to base the recognition of these transactions. The document identifies at least nine potential obligating events (which is likely an over simplification on my part and all of the events would not necessarily apply to every program).
- Birth
- Entry into the workforce (with could also be school for other programs)
- Attainment of legally specified retirement age (or any other age based on the specific age)
- Satisfaction of all eligibility criteria
- Legal entitlement
- Satisfaction of all eligibility criteria with an accompanying appropriation of resources
- Attainment of “fully insured” or initial qualifying status
- Contributions
- Satisfaction of threshold eligibility criteria

The questions then are:

- Have all the potentially viable obligations events been identified?
- If so, how can they be presented in a manor that the reader will understand the implications (both pro and con) of each of the alternatives (or basic approach)?

If I had to reorder them along a spectrum, starting with birth, the following is my ordering of the criteria:

- Birth
- Entry into the workforce (with could also be school for other programs)
- Contribution
- Attainment of “fully insured” or initial qualifying status
- Attainment of legally specified retirement age (or any other age based on the specific age)
- Satisfaction of threshold eligibility criteria
- Satisfaction of all eligibility criteria
- Legal entitlement
- Satisfaction of all eligibility criteria with an accompanying appropriation of resources

To help keep the document from becoming to redundant, I would suggest dividing the alternatives into two categories:

- Constructive obligations
- Legal obligations

The first six alternatives could be classified in “constructive” category with the remaining three classified in the “legal” category. After introducing the two categories, I would suggest presenting a discussion of each of the alternatives within each categories (constructive obligations first) with enough detail so that the readers will be able to understand the implications. To do

this, I believe that some of the ITC discussion should either be inserted as written or slightly modified for inclusion and examples also should be incorporated. I recognize that the goal is to have a conceptual discussion, but without context the only audience that we will have are the accounting technicians that we have previously heard from.

After the alternatives of a category have been properly introduced, I would suggest presenting an overall pros and cons discussion. This section could be presented before the alternatives are introduced; however, the disadvantage to that approach is the context that the details would provide. This section would then be followed by the specific advantages and disadvantages of the each alternative that would not repeat the overall discussion.

To illustrate this proposal, the following is an outline for the constructive obligations section.

- I. Constructive obligations
 - a. Detailed discussion of the six alternatives
 - i. Birth
 - ii. Entry into the workforce (with could also be school for other programs)
 - iii. Contribution
 - iv. Attainment of “fully insured” or initial qualifying status
 - v. Attainment of legally specified retirement age (or any other age based on the specific age)
 - vi. Satisfaction of threshold eligibility criteria
 - b. Pros and cons of constructive obligation approach
- Advantages and disadvantages of specific constructive obligation alternatives.

I realize that I am asking for a significant amount of work to be done before the Board mailing; therefore, I would volunteer my services and the GASB non-exchange transaction staff to assist in this effort. I (like all of you) believe that it is important for this document to present the IPSASB in the best light. I just think that the document needs some work to do this.

009 Bob Dacey

I would like to provide the following comments on the draft consultation paper. Overall, I suggest that the purpose of the paper be clarified. Specifically, in addition to the two stated purposes, a third purpose should be to solicit information that will better assist the board as it deliberates the finalization of ED 34 and the conceptual framework and fiscal sustainability projects. To achieve that objective, the nature of the matters for comment should be refined to better obtain the desired information.

As drafted, it appears that the implicit third purpose is to request “bottom line” conclusions on the appropriate obligating event for the recognition of a liability for social benefits. Some of this information was already requested in the ITC. As discussed in Accra, the project on recognition and measurement of social benefits is not scheduled to begin for some period of time. The Board’s deliberations on the conceptual framework and fiscal sustainability projects, along with the comments and finalization of ED 34 will undoubtedly result in a better foundation for developing a document that seeks comments directly on the recognition and measurement of social benefits. For example, the conceptual framework project should yield a common framework for recognition and measurement of all liabilities and ensure that social benefits are consistent with that framework. Also, it will assist the Board in clarifying the desired attributes of the “income statement.” The discussion of fiscal sustainability will assist in understanding the context and complex interrelationships that can exist between social insurance and other

programs. Also, the implementation of the disclosure of social benefits for cash transfers, proposed in ED34, can identify issues related to the measurement of those disclosures and the application of the criteria to various national social benefit programs.

If the Board still seeks to obtain bottom line conclusions on recognition and measurement, I believe that the document should be greatly expanded so that readers are adequately informed as to the underlying basis for the competing views on each issue and so that properly informed judgments are made by commentators.

Consequently, I suggest that the Board consider making the following revisions to the paper:

- Further clarify the purpose/background of the consultation paper in the introductory section. For example, consider the following modifications to the first five paragraphs:
 1. The purpose of this Consultation Paper is to:
 - provide a brief background to the development of the IPSASB's project on accounting for social benefits provided by governments and public sector entities and to highlight the IPSASB's strategic approach to accounting for social benefits and fiscal sustainability reporting;
 - explore some key issues in the recognition and measurement of expenses and liabilities related to social benefits; and
 - seek comments on additional issues that the IPSASB should consider and on unique aspects of various countries' social insurance programs

This Consultation Paper is part of an integrated package together with ED 34, "Social Benefits: Disclosure of Cash Transfers to Individuals and Households" and a project brief on sustainability reporting.

Background and Strategic Approach to Accounting for Social Benefits

2. 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, "Accounting for Social Policy Obligations" in January 2004. The Invitation to Comment (ITC) 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 ITC proposed that the principles in IPSASs were applicable to accounting for social benefits provided in non-exchange transactions and the PSC accepted this proposal.
3. The IPSASB commenced its own project in April 2005. The IPSASB's intention when initiating the project and throughout much of its development was to develop an Exposure Draft of an IPSAS that proposed requirements for the identification of present obligations and the recognition and measurement of liabilities related to all social benefits. The IPSASB deliberations on present obligations and the measurement of liabilities and developments in accounting for social benefits since the project was initiated led to a view that it should carry

out further work on certain key issues related to recognition and measurement prior to finalizing its views.

4. Consequently, ED 34 provides requirements on the disclosure of amounts to be transferred under cash transfer programs to eligible participants. It does not address the identification of present obligations and the recognition or disclosure of liabilities. The IPSASB considers that the proposed disclosure requirements in ED 34 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 and by acting as a bridge between the accrual basis of financial reporting and fiscal sustainability reporting. This decision reflects the difficulties in reaching conclusions on the key issues in recognition and measurement explored in this paper before work progresses in the IPSASB's current conceptual framework project and the proposed project on fiscal sustainability reporting. For example, the conceptual framework project will consider the broad concepts of recognition and measurement, both for social benefits and other programs.
5. Also, the IPSASB has recently stated its intention to initiate a project on fiscal sustainability and has issued a project brief on which it welcomes comments. 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 significance of fiscal sustainability reporting is considered further in paragraphs 38-41.
 - Reduce the matters for comment to several broad issues, such as the following:
 - Please identify and describe any additional issues and/or supporting arguments that the IPSASB should consider in the recognition and measurement of social benefits.
 - Please identify and describe any unique aspects of your country's social benefit programs that the IPSASB should be aware of?
 - To provide information to assist the Board in understanding how to best reflect the impact of changes in social insurance programs, please identify the nature of any substantive reforms (e.g., increase in dedicated taxes, decrease in benefit levels) that materially affected the sustainability of your country's social benefit programs, including the different demographic groups affected.
 - Please identify and describe each of the material social benefit programs in your country involving cash transfer and individual goods and services, including the following information:
 - a. Type of program (e.g., cash transfer, individual goods and services) and nature of benefit. Is participation in the program mandatory or elective?
 - b. Current basis for recognizing a liability (e.g., when all eligibility requirements are met, when a benefit is legally payable, when contributions/taxes begin to be paid)
 - c. At what point is there a legal liability?
 - d. Any limits on the amount of benefit (e.g., limited to amounts collected)
 - e. General method of funding (e.g., contributions, earmarked taxes, general revenues) and the relative magnitude of each source of funding in relation to the total funding
 - f. Whether long term cash flows of the program are currently calculated.
 - g. Other information that might assist the Board in its deliberations.

Introduction

Para 9 – Please clarify the meaning/context of the phrase “which are based on IPSAS 19 principles”. Did we mean “if such recognition and measurement and recognition were to be based on IPSAS 19 principles”

Issue 1

The discussions of each point could be more balanced by providing all of the relevant points (pro and con) for each view. This could also eliminate the need for the use of terms like “narrower” and “more restrictive,” which might be misunderstood.

Para 10 – provide a description/context for the concept of “satisfaction of all eligibility criteria” as discussed in the ITC

Para 11 – provide a description/context for the concept of “realistic alternative to providing benefits”

Para 12 – clarify that those persons favoring this view believe that the unique nature of all non-exchange transactions in a government environment necessitates different recognition considerations than for exchange transactions.

Para 12 – clarify that a benefit of using a legal obligation criteria is that it could be objectively determinable and would reflect the degree of commitment that the government has to make the payment.

- Para 12 – what is the context for the use of the term “narrower”?
- Para 13 - what is the context for the use of the term “more restrictive”?

Issue 1 – there are a number of additional sub-issues that should be included in the document. For example,

- whether there is a substantive difference between the government’s commitments for social benefits and for other government programs, such as defense, housing, education, law enforcement, etc. Many respondents to the FASAB Preliminary Views document on Social Insurance argued that the government’s commitment to future scheduled social insurance benefits were no different than other programs.
- In addition to the discussion of the balance sheet, the paper should discuss the conceptual underpinnings of the **operating statement**. For example, what should be reflected in the **annual operating costs**? FASAB’s SFFAC 1 established the principle that, since government had little earned revenue and no profit motive, but had instead the goal of providing services that are collectively chosen to improve the well-being of citizens, Government costs should represent the cost of providing services during the year. Thus, cost could be matched with program delivery, and analyzed in relation to outputs, outcomes, and other relevant performance measures. These measures would improve resource allocation and program management, improving the effectiveness and efficiency with which services are delivered and permitting accountability to citizens for service delivery. Consistent with that concept, FASAB standards recognize the full estimated cost of post retirement and veterans benefits, so that the cost of this “deferred compensation” is recognized in the period in which the

related employment is performed in support of providing government services. This is another area of the conceptual framework that can inform the Board when it deliberates recognition and measurement of social benefits. Further, the GASB recognizes in its conceptual framework the concept of deferred inflows and outflows, so that they are appropriately reflected in a future reporting period.

- Where a government's fiscal path is not sustainable, social benefits scheduled to be paid under current law do not represent a likely expectation of the amounts that will be paid in the future, as such scheduled benefits are unlikely to be paid in full. One credit reporting agency noted that it is highly unlikely that governments will allow debt and deficit burdens to spiral out of control. Once government's are confronted with unsustainably rising debt burdens they do react, however reluctantly, by tightening the fiscal stance and/or reforming expenditure programs."¹ However, it is difficult to determine the probable amount of benefits that will be paid as it would require insight into the public policy changes that the government would make, which is seldom objectively determinable. Also, recognizing only a liability does not provide context for the affordability of the program, and it does not illustrate the magnitude or nature of public policy decisions that would be required to arrive at fiscal sustainability. Government makes decisions about the allocation of its resources among the various programs it undertakes, including programs such as national defense, education, housing, social benefits, and other programs. In addition, it determines how much revenue it should derive through taxation and other revenues and how much it is willing to borrow to finance current expenditures. Consequently, general taxation revenues and non-social benefit programs "competing" for general tax revenues are important to understand the underlying economic substance.

Issue 2

Suggest that this section be expanded to recognize that there are many variations in programs that are financed by contributions and earmarked taxes, which may or may not affect the Board's deliberations. Consequently, the consideration of programs financed with contributions and earmarked taxes is not as straightforward as it may seem. Generally, the underlying economic substance of the programs should be considered. For example, in the United States, for Social Security and Medicare Part A, the net present value of long-term future cost of these programs to the government is zero, as the benefit payments are limited to the amount of funds that have been collected. Therefore, when the funds are depleted in the future, as is projected, the benefit payments will be limited to related revenues received during the period. In the case of Medicare Parts B and D, participants elect whether to participate and must pay a monthly premium (a small percentage of the anticipated costs), beginning when they meet initial eligibility criteria and enroll in the program. If the premium payments are ceased, their coverage under the program will be terminated. Also, the primary financing of these programs is from general revenues, which the government must determine how to allocate among its various programs. In the U.S., general revenue financed programs include national defense, education, housing and justice. Certainly, there are more variants of contributory programs in other countries.

Para 15 – clarify the meaning of "valid expectation" and consider whether additional considerations should be added to the paragraph. For example, if the public is informed that social benefit programs are not sustainable as currently structured, can there be a valid expectation that scheduled benefits will be paid. In the US, Social Security participants are informed that, as the program is currently structured, there will not be sufficient funds to pay

¹ "Global Graying Country Report: United States Of America," Standard & Poor's, June 5, 2007.

scheduled benefits in the future. The US government's financial statements also make similar clear statements for Social Security and Medicare –Part A. Also, the public has valid expectations about defense, housing, and education.

Para 15 – revise the phrase “it is likely that an obligating event occurs at an earlier point for such programs” to be stated as a view rather than as a conclusion.

Para 16 – Clarify how the material in this paragraph differentiates a contributory plan from a non-contributory plan. Also, simplify the concept discussed and determine where it is best presented. For example, some believe that an obligating event occurs when an individual becomes eligible for benefits without taking further action, providing that they satisfy all other eligibility criteria in the future. Also, suggest deletion of the reference to FASAB PV paper, as much has transpired since the document was prepared and none of the issues in this paper require attribution.

Para 22 – can this paragraph be made more neutral in tone?

Para 23 – In addition, a number of people have stated that, since the scheduled benefit payments are large and unsustainable, that recognition of a liability is a way to attract attention to and to pressure government action to address the problem. Similar to the arguments in this paragraph, such intentions to impact public policy should not drive accounting treatment.

Para 23 – In addition to the discussion presented here, some have suggested that calling it a liability may, in fact, reduce the possibility that the programs can be reformed.

Para 23 – The tone of the final sentence seems argumentative in tone and potentially misleading. I don't believe that the argument that there could be a liability that overwhelms the balance sheet is based on avoiding being in a poor light as much as it is avoiding misleading financial statements that do not reflect the economic substance of the issue. Also, if a social benefit program is sustainable, recording only a liability and no related assets for future taxes can result in a large negative equity, thus showing it in a “poor light” even though it is fiscally sound. Also, the effect of significant changes in funding and/or benefits may not be fully reflected without consideration of related revenues and future participants.

Issue 4

Suggest that the relationship between legal rights and periodic verification procedures be clarified. For example, in some programs, revalidation may be a legal eligibility requirement to receive a benefit. In other cases, revalidation may represent merely an administrative procedure to periodically determine whether a beneficiary has been, in fact, meeting eligibility requirements, thus entitling them to benefits. In such instances, a recipient would still be required to meet all eligibility criteria to legally receive each benefit payment.

Suggest deleting “staying alive”, as this does not seem to relate directly to revalidation, but rather to eligibility requirements. Also, it seems inflammatory. Simply stated, for many programs, if a person does not meet all eligibility requirements for a payment, the government does not have an obligation to pay them.

Long-term sustainability

Suggest clarifying the definition of fiscal sustainability reporting, based on the language that appears in the project brief.

Suggest adding that the assessment of long-term sustainability of public finances is currently being analyzed and reported by several countries, as part of the regular EU budgetary surveillance, and by ratings agencies. Also, that there is general consistency in the types of fiscal sustainability measures and analysis performed, and that they include future revenues and expenses for all government programs. For example, annually the European Commission reports information on and an assessment of long-term fiscal sustainability (quantitative and qualitative) for all EU countries. In addition, a number of countries/governments are or are in the process of regular public reporting of fiscal sustainability information. Such analysis includes the effects of individual government's efforts to improve their fiscal positions. In addition, one ratings agency reported that while they take a large number of factors into consideration when deriving credit ratings, in the very long term, "prolonged fiscal imbalances tend to become the dominant factor."² In their analysis of fiscal sustainability, they refer to fiscal sustainability as "a simulation that highlights the importance of age-related spending trends as a factor in the evolution of sovereign creditworthiness

Add here or in the project brief that fiscal sustainability reporting could be prepared by a cash-basis entity.

010 Ian Carruthers

Structure

Proposes that Consultation Paper is split into 2 distinct components:

- **The IPSASB Strategy; and**
- **Key Issues for Consultation**

Board Views

Proposes that the Paper includes Board view on the key issues or the reason why the Board view is split.

² "In The Long Run, We Are All Debt: Aging Societies and Sovereign Ratings" Standard & Poor's, June 28, 2005.

International Public Sector Accounting Standards Board

ED 34, Social Benefits: Disclosure of Cash Transfers to Individuals and Households

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: ~~Disclosure~~Disclosure of Cash Transfers to Individuals and Households: Disclosure*, for publication in ~~xx-xx-xxxx~~November 2007. 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.

The IPSASB Strategy

Purpose of this Exposure Draft

1. The purpose of this Exposure Draft is to:

- provide requirements for the disclosure of transfers required to be made to individuals and households that have met threshold eligibility criteria at the reporting date under the current terms and conditions of cash transfer programs.

..

Background

2. 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 were excluded from the scope of IPSAS 19 and the PSC issued an Invitation to Comment, "Accounting for Social Policy Obligations" in January 2004. The Invitation to Comment (ITC) was developed by a Steering Committee comprised of PSC Members/Technical Advisors and experts from outside the PSC, such as representatives of finance ministries with an interest in accounting for social benefits under the accrual basis of accounting. The ITC proposed that the principles in IPSASs were applicable to accounting for social benefits provided in non-exchange transactions. Comments from constituents were generally supportive of this proposal and the PSC accepted the proposal.

3. The IPSASB commenced its project in April 2005 with the intention of developing an Exposure Draft of an IPSAS that proposed requirements for the identification of present obligations and the recognition and measurement of liabilities related to all social benefits.

Strategic Approach to Addressing Social Benefits Accounting Issues

4. IPSASB deliberations have, however, led to the view that:

- the proposed disclosure requirements in ED 34 represent an important first step in signalling the

importance of governments providing users with relevant information on their social programs.

- further consultation should be carried out on certain key issues relating to recognition and measurement as a prelude to the development of further guidance, and
- a project should be initiated to assess whether long-term fiscal sustainability reporting might enhance the reporting of the impact of such programs by adding to the information reported in the general purpose financial statements

Conceptual Framework and other relevant projects

5. The IPSASB's Conceptual Framework project was initiated by the IPSASB in collaboration with a number of national standards-setters in March 2006. The project has already considered broadening Objectives to include *accountability* and Scope to include *financial reporting*, not just financial statements. The project has also recognized long-term fiscal sustainability of social benefit programs as an aspect of *financial reporting* which could be significant to accountability in the public sector.
6. The IASB is developing its own Conceptual Framework at the same time as reviewing its standard IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". Developments in thinking as a result of both these IASB projects and the development of IPSASB's new Conceptual Framework are likely to influence the development of further approaches to the recognition and measurement of liabilities related to all social benefits.

Long-term fiscal sustainability reporting

7. The IPSASB stated its intention in its 2007-2009 Strategy to initiate a project on long-term sustainability reporting and has issued with this Consultation Paper, a project brief on which it welcomes comments.

8. Regardless of the approach adopted for the recognition and measurement of liabilities relating to social benefits, the IPSASB has questioned whether accrual-based financial statements alone can satisfy the information needs of users and enable them to assess the viability of programs delivering social benefits. This is because the financial statements focus on past events, although it is acknowledged that they use estimation techniques that measure the quantitative impacts of past events into the future.
9. At a very high level, fiscal sustainability involves an assessment of the extent to which governmental obligations under existing legal frameworks can be met in the future. The analysis of fiscal sustainability therefore takes account of both current and future participants, regardless of whether present obligations to them exist at the reporting date. Fiscal sustainability is sometimes coupled with the concept of inter-generational equity, which evaluates the extent to which future generations of taxpayers will have to deal with the fiscal consequences of policies delivering goods and services to those currently receiving benefits.
10. For this reason the IPSASB acknowledges the possible importance of long-term sustainability reporting in providing users with key information on the future viability of social programs. Fiscal sustainability reporting may be a 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 as key aspects of financial accountability, even though there is no universally agreed framework for preparing such reports.

Conclusion

11. This ED is one of three documents published together as an integrated package, the other two being a Consultation Paper < “Social Benefits: Issue in Recognition and Measurement” and a project brief on long-term sustainability reporting.

12. The IPSASB looks forward to receiving comments from interested parties on ED 34, the long-term sustainability reporting project brief and the key issues relating to recognition and measurement of liabilities related to all social benefits.

The Strategic Approach to Accounting for Social Benefits

~~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, "Accounting for Social Policy Obligations" in January 2004. The Invitation to Comment (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 proposed that the principles in IPSASs were 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 IPSASB's intention when initiating the project and throughout much of its development was to develop an Exposure Draft that proposed requirements for the identification of present obligations and the recognition and measurement of liabilities related to all social benefits. The IPSASB deliberations on present obligations and the measurement of liabilities and developments in accounting for social benefits since the project was initiated led to a view that it should carry out further work on certain key issues related to recognition and measurement prior to finalizing its views.~~

~~The IPSASB decided at this time to issue an Exposure Draft that focuses on disclosure of amounts to be transferred under cash transfer programs to eligible participants. This Exposure Draft does not address recognition and measurement. The IPSASB considers that the proposed disclosure requirements represent an important but interim step in signalling the significance of governments providing users with relevant information on their social programs within the broader context of fiscal sustainability reporting.~~

~~In order to inform the Board's discussions on key aspects of recognition and measurement the IPSASB has issued a Consultation Paper, "Social Benefits: Issues in Recognition and Measurement" in conjunction with the Exposure Draft. The IPSASB has recently stated its intention to initiate a project on fiscal sustainability and has issued a project brief on which it welcomes comments. 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.~~

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 disclosure of ~~future transfers in relation to cash transfer~~transfers required to be made to eligible participants individuals and households under the current terms and conditions of cash transfer programs.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by ~~31 May~~0-April 2008. 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 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 that:

1. The scope of this Exposure Draft is appropriate (paragraphs 2-8). If you do not think that the scope is appropriate please detail how you would modify the scope. Please state your reasons
2. The new definitions in this Exposure Draft at paragraph 10 are sufficiently clear and comprehensive? If you disagree please indicate how these definitions should be modified and any new definitions which should be introduced. Please state your reasons.
3. The requirements for the determination of amounts to be transferred to eligible ~~participants~~ individuals and households are appropriate (paragraphs 30-44)? If you do not think that they are appropriate please indicate what those requirements should be. Please state your reasons
4. The disclosure requirements in paragraph 45 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.
5. The disclosure requirements in paragraph 45 are not going to have onerous and impractical audit implications related to the reliability of information? If you think that the disclosure requirements are going to have onerous and impractical audit implications please identify the specific disclosures and state what those implications are.
6. The implementation arrangements are appropriate (paragraphs 50-53). If the implementation arrangements are inappropriate please specify how you would change them. Please state your reasons.

International Public Sector Accounting Standard ED 34

Social Benefits: Disclosure of Cash Transfers to Individuals and Households

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International Public Sector Accounting Standard XX, “Social Benefits: Disclosure of Cash Transfers” (IPSAS XX) is set out in paragraphs 1-53. 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”.

Introduction

Reasons for Issuing the IPSAS

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. As an interim measure the IPSASB considered that the provision of information on the amounts to be transferred to individuals and households that have met threshold eligibility criteria at the reporting date would be useful.

Main Features of the IPSAS

IN2. The Standard prescribes minimum disclosure requirements for amounts to be transferred under cash transfer programs to ~~participants individuals or households who are eligible at the reporting date. An eligible participant is an individual or household that has~~ satisfied all threshold eligibility criteria at the reporting date (eligible individuals and households).

IN32. The Standard defines three categories of social benefits:

- (a) Cash ~~t~~ransfers
- (b) Collective goods and services
- (c) Individual goods and services

IN43. This Standard provides requirements for disclosures related to cash transfers to individuals and/or households. Collective goods and services and individual goods and services are outside the scope of this Standard. The Standard does not include requirements for the recognition or measurement of expenses and liabilities relating to cash transfers in the statement of financial performance and the statement of financial position.

IN54. The Standard does not deal with cash transfers to individuals or households 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. Where an entity operates a composite social security program it considers

whether it can distinguish the component of the program providing benefits in non-exchange transactions from the component of the program providing benefits in exchange transactions. If it can make this distinction ~~it-the entity~~ estimates amounts to be transferred to eligible ~~participants-individuals and households~~ in respect of the component dealing with 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, as these give rise to exchange transactions.-

IN~~65~~. Entities are required to determine the present value of amounts to be transferred under cash transfer programs to eligible ~~participants-individuals and households~~, regardless of whether there is a formal legal obligation to transfer resources. ~~The amounts determined in this way are disclosed on a program basis; for example, such as when where a legal payment becomes due, under the terms of governing legislation or regulation, after the date on which threshold eligibility criteria have been satisfied.-~~ The method by which a program making cash transfers is financed does not affect the approach to determining those amounts.

IN~~76~~. In determining 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 eligible ~~participants who~~ individuals and households that will revalidate their entitlement and the timescale over which revalidation will take place. Unless legislation has been enacted to terminate a program the amount disclosed is not limited to the amount of the next payment or a fixed number of payments. If such legislation has been enacted the estimate reflects the remaining term of the program.

IN~~87~~. Amounts to be transferred are discounted to present value using a ~~non-risk adjusted~~ discount rate that reflects the time-value of money. This may be determined by reference to market yields at the reporting date on government bonds, high quality corporate bonds or another financial instrument.

IN98. In addition to the disclosure of amounts to be transferred to the eligible participants—individuals and households for—of cash transfer programs, ancillary disclosures are required for such programs. These include details of the principal legislation and regulations governing the programs, principal assumptions and changes to those assumptions since the previous reporting date and the financial effect of those changes. Aggregated information is required for programs which are not individually material, but ~~if~~ are material in aggregate. The ~~proposed~~ Standard also requires the disclosure of the reporting entity's accounting policy for recognizing expenses and liabilities relating to cash transfers to eligible individuals and households in non-exchange on a—cash transfer program basis 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 cash transfer programs—on a program basis.~~

IN109. The Standard becomes effective for reporting periods beginning on a date two 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: Disclosure of Cash Transfers to Individuals and Households

Objective

1. ~~Governments and p~~Public sector entities provide ~~constituents~~ members of the community 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~~ individuals and households 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 disclosing the amounts to be transferred under cash transfer programs to eligible participants.**

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 cash transfers and 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 participants who are eligible at the reporting date for cash transfers provided in non-exchange transactions. It ~~does~~ not include requirements for social benefits provided in the form of goods and services. It does

not include requirements for the recognition of expenses and liabilities relating to cash transfers provided in non-exchange transactions.

4. This Standard applies to social security pension benefits provided in non-exchange transactions, as well as to other cash transfers 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 and paragraphs 18-19).

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. IPSAS 23 provides guidance on distinguishing exchange and non-exchange transactions.

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 draft ~~ED-34~~IPSAS 26, “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 draft IPSASs-EDs) (they will be omitted from the finalized Standard):

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 to an individual or household is a social benefit, which is either provided directly in cash, or is an expense ~~incurred-paid~~ through the tax system, to protect individuals and households against certain social risks where use of the resources transferred is at the discretion of the individual or household.

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 individual or household 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.

Social benefits are cash transfers to individuals —and households 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 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 **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 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.

Cash Transfers to Individuals or Households and 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 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.

12. The definition of ~~social benefits~~cash transfers in this Standard requires resources to be transferred directly to ~~the recipients~~individuals and/or households. 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 individuals and households.~~

Cash Transfers to Individuals or Households

13. In many instances, governments and public sector entities will provide social benefits in the form of cash transfers to individuals and/or households 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).

14. Access to cash transfers to individuals and-or households requires the satisfaction of eligibility criteria. The characteristic distinguishing cash transfers to individuals and-or households from individual goods and services is that the purposes for which the cash transferred may be used are at the discretion of the recipient (see also paragraph 23). 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, is within the definition of individual goods -and services and is therefore outside the scope of this Standard.

15. On occasions, cash transfers are made to beneficiaries individuals 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 and expenses paid through the tax system. 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.

16. 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 social 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.

17. Cash transfers include social security programs which operate to provide ~~cash transfers~~ benefits to individuals who have attained the retirement age laid down in governing legislation or regulations, as well as satisfying other eligibility criteria.

Composite Social Security Programs

18. Composite social security programs are highly complex types of cash transfer programs of particular significance in a number of jurisdictions. Such programs operate to provide cash transfers in non-exchange transactions to individuals who have satisfied the eligibility criteria laid down in governing legislation or regulations.⁵ Such eligibility criteria may include specification of a retirement age. They also operate as multi-employer plans to provide post-employment benefits in exchange transactions.

19. Where an entity operates such a program it considers whether it can identify as separate components non-exchange transactions and exchange transactions. If it is able to identify the transactions separately the requirements of this Standard relate only to the non-exchange transactions. If it is not able to identify such transactions separately it makes a judgment as to whether the program operates predominantly to provide benefits in the form of exchange or non-exchange transactions. If it operates mainly to provide economic benefits in non-exchange transactions the disclosures in paragraph 45 are made.

Collective Good and Services

20. 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) Public order and safety (including police services, fire protection services, law courts and prisons).

21. This Standard does not require disclosures related to collective goods and services.

Individual Goods and Services

22. Governments and public sector entities provide a range of goods and services for consumption by individuals or households. Unlike collective goods and services, individual goods and services can 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.

23. 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 or households where the individual or household has a wider discretion over the purposes for which the economic benefits may be used (see above paragraphs 13-16). 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 following receipt of the resources transferred.

24. 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 and households 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 Standard.

25. This Standard does not require disclosures related to individual goods and services.

Eligibility Criteria and Threshold Eligibility Criteria

26. Programs for cash transfers ~~and individual goods and services~~ require individuals and-or households to meet certain conditions. Such conditions are known as eligibility criteria. The eligibility criteria for entitlement 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.

27. 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 individuals~~ with incomes below a specified level, individuals may be required to prove that their incomes are below this level on a regular basis.

28. The term “threshold eligibility criteria” refers to all the eligibility criteria that an individual or household must satisfy when applying for a ~~social benefit~~cash transfer for the first time, or when reapplying for a ~~social benefit~~cash transfer -after a period of ineligibility, in order to be entitled to ~~cash transfers or individual goods and services~~a transfer of resources. For example, an individual who has been making contributions to a program providing 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 an 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.

29. The eligibility 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 income and/or asset holdings of the child's parents must be satisfied before an entitlement to ~~benefit~~a cash transfer exists. In such cases threshold eligibility criteria are not satisfied until those further eligibility criteria have been satisfied.

Determination of Amounts to be Transferred under Cash Transfer Programs to Eligible Participants

30. An entity shall determine its best estimate of the present value of amounts to be transferred under cash transfer programs to eligible ~~participants~~individuals and households.

31. The estimate of amounts to be transferred is in accordance with the legislation and terms governing the program at the reporting date.

The estimate of the ~~resources~~ amounts to be transferred to participants who are eligible 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, individuals and households~~ 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.

32. ~~The best estimate is not limited to the next payment or a fixed number of payments following the satisfaction of threshold eligibility criteria, unless legislation has been enacted at the reporting date to terminate a program. If such legislation has been enacted the estimate reflects the remaining term of the program.~~

33. —The —estimate is determined on ~~a principle~~ the basis —of continuous entitlement. This means that the estimate is based on an individual or household continuing to satisfy eligibility criteria for a benefit over a future period without a break in entitlement from the point at which threshold eligibility criteria are initially satisfied. —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).

33. The estimate is not limited to the next payment or a fixed number of payments following the satisfaction of threshold eligibility criteria, unless legislation has been enacted at the reporting date to terminate a program. If such legislation has been enacted the estimate reflects the remaining term of the program.

34. ~~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 in accordance with paragraph 30 takes into account the probability of an eligible participant qualifying for a termination benefit in the future.

35. Assumptions used in determining the amounts to be transferred under paragraph 30 shall be complete, unbiased and mutually compatible. Assumptions shall be consistent between cash transfer programs.

36. In determining the amounts to be transferred, the reporting entity makes estimates of the material 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 involve both demographic and financial assumptions. Demographic factors may include life expectancy, morbidity, emigration and the extent of periods of unemployment. Financial factors include projections of future benefit levels. Where a cash transfer program requires the revalidation of eligibility criteria, 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.

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

38. In determining the amounts to be transferred under paragraph 30, the 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.

39. For many programs assumptions may require actuarial calculations. This Standard does not require such assumptions to be made by members of the actuarial profession. However, entities are ~~encouraged-required~~ to disclose ~~the basis on which assumptions have been made~~, whether qualified actuaries have been used to make some or all of those assumptions and, if so, whether internal or external actuaries have been consulted.

40. The rate used to discount amounts to be transferred under cash transfer programs to eligible participants shall reflect the time value of money.

41. 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 amounts disclosed. The discount rate reflects the time value of money. ~~The discount rate~~ ~~It~~ does not reflect actuarial risk, investment risk, entity-specific credit risk or other risks such as the risk that future experience may differ from actuarial assumptions. Where existing legislation gives an entity options to reduce the amounts to be transferred it reflects such options in its estimation of the cash flows rather than by adjusting the discount rate.

42. An entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds or by another financial instrument. For example, where there is no deep market in government bonds, the market yields (at the reporting date) on high quality corporate bonds in a deep and liquid market might be used. The currency and term of the government bonds, high quality corporate bonds or other instrument are consistent with the currency and estimated term of the obligation related to the cash transfer program.

43. The discount rate used reflects the estimated timing of benefit payments and will be related to the yield on the instrument that provides the best reflection of the time value of money. In practice, an entity may apply a single weighted average discount rate that reflects the estimated timing and amount of all benefit payments.

44. For some programs, such as social security pensions, there may be no market in the instrument selected 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

45. An entity shall disclose the following information for cash transfer programs for which amounts to be transferred are determined under paragraph 30:

(a) A general description of the cash transfer programs, including the principal legislation and regulations governing the programs;

(b) The amounts to be transferred determined in accordance with paragraphs 30-44;

(c) The number of eligible ~~participants—individuals and households~~ for each cash transfer program at the reporting date;

(d) The principal assumptions used at the reporting date, including the discount rate used to discount amounts to be transferred to ~~participants—individuals and households that~~~~who~~ are eligible at the reporting date to their present value and a description of the source of ~~the discount rate and the reason for the use of this discount rate;~~

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

(f) Changes to the principal assumptions since the last reporting date and the financial effects of such changes, distinguishing the financial effects of changes in the discount rate and the financial effects of other changes in principal assumptions;

(g) Whether a qualified actuary has been used in the determination of the principal assumptions and, if so, whether that actuary is an employee of the reporting entity or an external engagement;

(h) Programs for which amounts to be transferred to individuals and households have been determined ~~which~~ that have terminated after the reporting date; and

(g) The entity's accounting policy for recognizing expenses and liabilities relating to 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 cash transfers in the reporting period on a program basis.

46. 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.

47. 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 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 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 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.

48. This Standard requires the disclosure of the principal assumptions used to determine amounts to be transferred, any changes to those assumptions since the previous reporting date and the financial effects of the changes in assumptions. ~~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.

49. 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 45(~~ig~~) requires entities to disclose the accounting policies adopted for the recognition of expenses and liabilities related to cash transfers to individuals and households. Paragraph 45(~~gi~~) 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 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

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

51. Paragraph 50 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

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

53. 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 OF MINIMUM ITEMS REQUIRED BY THIS STANDARD

This guidance is for illustrative purposes only and is not meant to be prescriptive. The guidance accompanies, but is not part of, ~~proposed~~ IPSAS XX. In all the examples there is a reporting date of 31 December.

Unemployment Benefit

1. Unemployment benefit is administered under the provisions of the Employment Act 1976 as amended by the Employment Acts of 1992 and 2003. Regulations laid under these Acts provide a number of detailed requirements. 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. This disclosure provides an estimate of the amounts to be transferred to participants who have satisfied 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. It does not take account of possible income tax or other deductions payable by eligible participants.

<i>Present Value</i>	31 December 20x1	31 December 20x2
<i>of Amounts to</i>		
<i>be Transferred</i>	(millions of currency)	(millions of currency)

<i>to All Eligible</i>	units)	units)
<i>Participants at</i>		
<i>Reporting Date</i>		
	855	850

3. The number of eligible participants at the reporting date were:

31 December 20x1	31 December 20x2
(000s)	(000s)
1,123	1,015

4. 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. 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.

- 6 ~~Because of the~~The time value of money recognizes that 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 using a discount rate that is not adjusted for risk. A discount rate determined by reference to the market yield on government bonds at the reporting date is used. Such a rate is considered to be the best reflection of the time value of money. The rates used in this reporting period and the previous reporting period were:

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

7. The financial effect of the changes in assumptions is (millions of currency units):

Decrease in expense due to change in discount rate	101
Increase in expense due to changes in other assumptions	58

8. An external actuary was consulted on the assumptions used in determining these projections.
9. 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 (38.9 million currency units for the financial year ended December 31 20x1). At the reporting date a liability of 1.4 million currency units was recognized (1.37 million currency units as at December 31 20x1)

General/~~Contributory~~Social Security Pension

1. The ~~general/contributory~~social security 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. The ~~general/contributory~~social security 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.

2. This disclosure provides an estimate of the amounts to be transferred to ~~participants~~individuals who have satisfied all 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 or by income tax or other deductions payable by eligible participants.

⌈
⌈

<i>Present Value of</i>	31	31
<i>Amounts to be</i>	December	December
<i>Transferred to</i>	20x1	20x2
<i>Eligible</i>		
<i>Participants at</i>	(millions of	(millions
	currency	of

<i>Reporting Date</i>	units)	currency units)
	850	870

3. The number of eligible ~~participants~~ individuals at the reporting date ~~were~~ was;

31 December 20x1	31 December 20x2
<u> </u> (000s)	<u> </u> (000s)
2,134	2,153

4. In making the projections key assumptions in relation to those who receive the ~~general/contributory~~ social security 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%).

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

6. 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 at the reporting date is used. Such a rate is considered to be the best reflection of the time value of money. The rates used in this reporting period and the previous reporting period were:

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

7. The financial effect of the changes in assumptions is (millions of currency units):
- | | |
|---|----|
| Decrease in expense due to change in discount rate | 98 |
| Increase in expense due to changes in other assumptions | 45 |

8. An ~~actuary~~ directly employed ~~actuary by the entity~~ was consulted on the assumptions used in determining these projections.

9. Currently liabilities and expenses related to the ~~general/contributory~~ social security pension are recognized when all eligibility criteria have been satisfied. 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 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.

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 34, "Social Benefits: Disclosure of Cash Transfers to Individuals and Households". 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 IPSASs could be applied in determining when obligations arise from social policies in a non-exchange context. This approach was reflected in the Invitation to Comment (ITC), "Accounting for the Social Policies of Government" published in January 2004. The IPSASB also noted that ~~†~~ This approach received strong support from respondents to the ITC.

BC3. The IPSASB's intention when initiating this component of the 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 together with~~ 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" at the same time as this ED in order to promote a debate on these key issues. The IPSASB has also initiated a project on fiscal sustainability reporting in 2007 and ~~is~~ examining the reporting of ~~the~~ long-term fiscal sustainability 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 deals only with the disclosure of amounts to be transferred under cash transfer programs to individuals and households who have met threshold eligibility criteria at the reporting date. Such individuals and households are defined as “eligible participants individuals or households”. The IPSASB acknowledges that the proposed Standard will be provisional an interim pronouncement. However, it considers that the proposed requirements are highly useful staging posts in the adoption of approaches towards accounting for social benefits 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 long-term fiscal sustainability reporting.

Scope

BC5. The IPSASB considered whether the ~~proposed Standard~~ 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. The IPSASB also acknowledged that, whilst they are of great fiscal significance in many jurisdictions, social security pensions are not the largest cash transfer program in many developing jurisdictions.

BC7. The IPSASB also considered whether the ~~proposed Standard~~ 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 rise to requirements different 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 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 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 **therefore** 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

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 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 the differences between them. The IPSASB identified one ~~important-significant~~ 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 and is likely to be at a distressed value.

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 government uses the tax system as a

convenient method of paying benefits to taxpayers, which would otherwise be paid using another method such as transactions reductions 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 paid through the tax system. They are therefore outside the scope of this proposed 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 not require disclosures 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 eligible participants individuals or households--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 individuals or households at the reporting date and that it should be a gross amount not offset by inflows or by income tax or other deductions payable by beneficiaries. 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 proposed Standard specifies that the amounts it requires to be disclosed are identified separately from other amounts disclosed.

Treatment of Revalidation Requirements

BC18. A number of cash transfer programs require eligible ~~participants~~individuals or households 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 ~~participant~~individuals or households 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~~individuals or households 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~~individuals or households 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 comparability of reporting.

BC21. The IPSASB acknowledged the advantages of option (c), but concluded that, for a number of programs, entities ~~would~~might 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~~individuals or households 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 eligible participants the IPSASB considered whether it should require explicitly rate based on yields on government bonds, high quality corporate bonds or another instrument. The IPSASB also acknowledged the view that the discount rate might be based on the expected long-term rate of return of the assets held to meet expected payments. The IPSASB acknowledges that there are jurisdictions where such an approach has been implemented. However, ~~t~~The IPSASB considered that such an approach is not feasible globally because, in most instances, there will not be assets held to meet the expected payments. The IPSASB concluded that the requirement should be principles-based and that the discount rate should reflect the time-value of money. In many jurisdictions government bonds will best reflect the time value of money. However, the IPSASB concluded that, globally, this will not ~~be~~ always be the case and that it should be left to the professional judgement of preparers to determine which -rateinstrument provides a rate that best re~~best re~~ reflects the time-value of money.

BC23. In extreme fiscal conditions governments and other public sector entities may 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. The IPSASB concluded that such options should be reflected in the forecasting of cash flows rather than by the inclusion of a premium for risk in the discount rate.

Other Assumptions

BC24. The IPSASB considered whether there should be a requirement for the assumptions necessary to meet the requirements of this proposed Standard to be determined by qualified actuaries. The IPSASB concluded that, in many cases, it will be necessary for an actuary to be consulted, but that this should be left to the judgement of preparers. Entities are encouraged-required to disclose whether qualified actuaries

have been consulted, and, if so, whether they are internal employees or external to the entity.

Other Disclosures

BC-25. 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.

BC-26 The IPSASB considered whether there should be a disclosure requirement for the number of eligible ~~participants~~individuals or households. The IPSASB acknowledged the view that many programs delivering cash transfers are complex and subject to regular modification and therefore that such a disclosure might not provide relevant information. On balance the IPSASB concluded that information on the number of eligible participants is useful in putting the financial disclosures into context and that it should be required.

BC27. Whilst this proposed Standard does not deal~~;~~ with the recognition and measurement of expenses and obligations related to cash transfer programs the IPSASB considers that information on the accounting policy for the recognition and measurement of expenses and liabilities related to cash transfer programs and the amounts of expenses and liabilities recognized ~~—~~is relevant for users. Paragraph 45(~~gi~~) therefore includes such a disclosure requirement.

Arrangements for Implementation

BC28. The IPSASB considered how the requirements in this proposed Standard should be implemented. The IPSASB acknowledged that some entities may not have the systems in place to provide the necessary information to meet the requirements. However, the Standard is an ~~initial~~interim measure and a very extensive implementation period is likely to delay further developments in ~~this area~~accounting for social benefits. Therefore, the IPSASB decided that the ~~proposed~~ Standard should take effect for reporting periods beginning on a date two years after its issuance. Because of the relatively short implementation period the IPSASB ~~proposes~~concluded that it was appropriate to provide include relief from providing comparative information in the first year of adoption.

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 November 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 **May 31, 2008**. 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 November 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 December 31, 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 May 31 2008. 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 agree with the IPSASB's new strategy for developing approaches to addressing the issues involved in accounting for social benefits? If not, please explain your concerns.
2. Do you think that a present obligation to beneficiaries in respect of collective goods and services occurs at any time? If you think that a present obligation does occur please indicate when and to whom. Please state your reasons.
3. Do you think that a present obligation to beneficiaries for individual goods and services occurs at any time? If you think that a present obligation does occur please indicate when and to whom. Please state your reasons.
4. Do you think that a present obligation in respect of cash transfers for non-contributory programs occurs when all eligibility criteria have been satisfied? If you think that a present obligation occurs at an earlier point please indicate that point and give your reasons.
5. Do you think that a present obligation in respect of cash transfers for contributory programs occurs when all eligibility criteria have been satisfied? If you think that a present obligation occurs at an earlier point please indicate that point and give your reasons.
6. Where a cash transfer program requires individuals to revalidate their entitlement to benefits do you think that revalidation is an attribute that should be taken into account in the measurement of the liability or a recognition criterion? Please state your reasons.
7. In its further consideration of accounting for social benefits do you think that the IPSASB should explore alternative models to the IPSAS 19 principles, such as the giant executory contract model briefly outlined in Key Issue 6? Please indicate potential alternative models and state your reasons.

Consultees are further asked to provide details of current policies for the recognition and measurement of liabilities for programs operating to deliver social benefits in their jurisdictions.

Social Benefits: Issues in Recognition and Measurement

The IPSASB Strategy

1. The purpose of this Consultation Paper is to:
 - explain the IPSASB's new strategy for developing approaches to address the issues involved in accounting for social benefits including a project to assess the inclusion of long-term fiscal sustainability reporting;
 - explore some key issues in the recognition and measurement of expenses and liabilities related to social benefits; and
 - stimulate knowledge, and discussion of, current approaches to the recognition and measurement of expense and liabilities for different types of programs delivering social benefits in particular jurisdictions.

Background

2. 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 were excluded from the scope of IPSAS 19. The PSC issued an Invitation to Comment, "Accounting for Social Policy Obligations" in January 2004. The Invitation to Comment (ITC) was developed by a Steering Committee comprised of PSC Members/Technical Advisors and experts from outside the PSC, such as representatives of finance ministries with an interest in accounting for social benefits under the accrual basis of accounting. The ITC proposed that the principles in IPSASs were applicable to accounting for social benefits provided in non-exchange transactions. Comments from constituents were generally supportive of this proposal and the PSC accepted the proposal.
3. The IPSASB commenced a further stage of its project in April 2005 with the intention of developing an Exposure Draft of an IPSAS that proposed requirements for the identification of present obligations and the recognition and measurement of liabilities related to all social benefits.

Strategic Approach to Addressing Social Benefits Accounting Issues

4. IPSASB deliberations have, however, led to the view that:
 - the proposed disclosure requirements in ED 34 represent an important first step in signaling the importance of governments providing users with relevant information on their social programs,

- further consultation should be carried out on certain key issues relating to recognition and measurement as a prelude to the development of further guidance, and
- a project should be initiated to assess whether long-term fiscal sustainability reporting might enhance the reporting of the impact of such programs by complementing the information reported in the general purpose financial statements

Specific Matter for Comment 1

Do you agree with the IPSASB's new strategy for developing approaches to addressing the issues involved in accounting for social benefits? If not, please explain your concerns.

- Conceptual Framework and other relevant projects*
5. The IPSASB's Conceptual Framework project was initiated by the IPSASB in collaboration with a number of national standards-setters in March 2006. The project has already considered broadening Objectives to include *accountability* and Scope to include *general-purpose financial reporting*, not just *general-purpose financial statements*. The project has also recognized long-term fiscal sustainability of social benefit programs as an aspect of financial reporting which could be significant to accountability in the public sector.
 6. The IASB is developing its own Conceptual Framework and is also conducting a fundamental review of its standard IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". Developments in thinking as a result of both projects are likely to influence the development of further approaches to the recognition and measurement of liabilities related to all social benefits.

- Long-term fiscal sustainability reporting*
7. The IPSASB stated its intention in its 2007-2009 Strategy to initiate a project on long-term sustainability reporting and has issued with this Consultation Paper, a project brief on which it welcomes comments.
 8. Regardless of the approach adopted for the recognition and measurement of liabilities relating to social benefits, the IPSASB has questioned whether accrual-based financial statements alone can satisfy the information needs of users and enable them to assess the viability of programs delivering social benefits. This is because, although they use estimation techniques to determine liabilities that will not be settled until future reporting periods, the financial statements focus on past events.
 9. At a very high level, fiscal sustainability involves an assessment of the extent to which governmental obligations under existing legal frameworks can be met in the future. The analysis of fiscal sustainability therefore takes account of both current and future participants, regardless of whether present obligations to them

exist at the reporting date. Fiscal sustainability is sometimes coupled with the concept of inter-generational equity, which evaluates the extent to which future generations of taxpayers will have to deal with the fiscal consequences of policies delivering goods and services to those currently receiving benefits.

10. For this reason the IPSASB acknowledges the possible importance of long-term sustainability reporting in providing users with key information on the future viability of social programs. Fiscal sustainability reporting may be a 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 as key aspects of financial accountability, even though there is no universally agreed framework for preparing such reports.

Conclusion

11. This ED is one of three documents published together as an integrated package, the other two being an Exposure Draft, ED 34, “Disclosure of Cash Transfers to Individuals and Households” and a project brief on long-term sustainability reporting.
12. The IPSASB looks forward to receiving comments from interested parties on ED 34, the long-term sustainability reporting project brief and the key issues relating to recognition and measurement of liabilities related to all social benefits identified in this Consultation Paper.

Social Benefits: Issues in Recognition and Measurement

Key Issues for Consultation

13. The IPSASB defines *social benefits* as cash transfers to individuals or households and collective and individual goods and services provided by an entity 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.

14. It distinguishes three types of social benefits:

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. Collective goods and services include national defense and most aspects of the criminal justice system.

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

A cash transfer to an individual or household is a social benefit, which is either provided directly in cash, or is an expense paid through the tax system, to protect individuals and households against certain social risks where use of the resources transferred is at the discretion of the individual or household. Cash transfers include social security pensions, child benefits and unemployment benefits.

15. These terms were used in the ITC, although they have been modified slightly during the course of the project. They are similar to, although not synonymous with, the definitions used in statistical accounting. Access to cash transfers and individual goods and services requires the satisfaction of eligibility criteria by beneficiaries. Eligibility criteria are requirements that must be satisfied for entitlement to individual goods and services and cash transfers. Conversely, collective goods and services are automatically consumed by all or part of the population and are not normally subject to the satisfaction of eligibility criteria.
16. Consistent with the view that the principles in IPSASs were applicable to the recognition and measurement of social benefits provided in non-exchange transactions the IPSASB has considered how definitions and requirements in IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" can be applied, in a non-exchange environment, to different types of social benefits. The

core of the project has been to determine when obligating events occur for different types of social benefits. It is therefore important to set out the definitions of obligating events, constructive obligations, legal obligations and liabilities that are central to this discussion.

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

A legal obligation is an obligation that derives from:

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

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

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

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

17. The majority of this Consultation Paper considers whether and, if so, when obligating events occur and therefore, subject to the satisfaction of recognition criteria, liabilities arise for:
 - Collective goods and services;
 - Individual goods and services;
 - Cash transfers for programs that are not contributory; and
 - Cash transfers for programs that are contributory.
18. The Consultation Paper also considers whether requirements to revalidate eligibility criteria are recognition or measurement attributes. This is important because it affects the amount of liabilities recognized. The Consultation Paper concludes with a brief section asking whether models should be explored that are not based on IPSAS 19 principles.

19. The Consultation Paper only considers non-exchange transactions. It does not consider exchange transactions, such when present obligations arise to the suppliers of good and services under contractual arrangements; for example a private sector entity providing home care services to aged persons under a contractual agreement with a government agency. Throughout the Paper the term government is used. The term is meant to encompass all public sector entities.

Key Issue 1; Do present obligations to beneficiaries for collective good and services occur?

20. As highlighted above collective goods and services are automatically consumed by all or part of the population and are not normally subject to the satisfaction of eligibility criteria. Whilst the future existence of governments is dependent on providing collective goods and services such as defense and criminal justice at some minimum level in the future many argue that there is no present obligation to beneficiaries for the delivery of collective goods and services. They accept that government publish pronouncements on future policy intentions, but do not think that such pronouncements are sufficiently specific to give rise to constructive obligations. They also accept that current legal frameworks will require a certain level of provision in the future but consider that it is important to distinguish present obligations and future obligations. The general-purpose financial statements are only concerned with present obligations.
21. Furthermore 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 on the grounds that it needs to incur such costs in order to remain a going concern.
22. Others argue that it is possible for governments to have present obligations for collective goods and services. They consider that governments have indicated through past practice and through pronouncements such as budget reports, policy statements and electoral manifestos that they will continue to provide such goods and services, that citizens have valid expectations that such goods and services will be provided and that it is not realistic for governments to avoid incurring expenditure on such activities. The extent of the obligation will be dependent upon the specificity of the policy pronouncement.

Specific Matter for Comment 2

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

Key Issue 2: Do present obligations to beneficiaries for individual goods and services occur?

24. This section of the Consultation Paper explores whether present obligations occur for individual goods and services. Those who take the view that governments and public sector entities do not have a present obligation to provide goods and services for individual or household consumption rely on the same argument as outlined above for collective good and services.
25. Others challenge the assertion that a present obligation to beneficiaries does not exist for programs delivering individual goods and services. They put forward similar arguments as for collective goods and services above. Additionally, they emphasize that like cash transfer programs, access to individual goods and services is dependent upon the satisfaction of eligibility criteria. According to this view it is questionable whether the method by which resources are transferred should dictate accounting treatments for programs that are otherwise similar. Furthermore, it is considered inconsistent to recognize liabilities for individuals and households that have met eligibility criteria under programs where benefits are delivered in cash, but not where those benefits are delivered in the form of goods and services; 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.
26. Furthermore they note that the demarcation line between cash transfers and individual goods and services is sometimes 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, a housing support program may have a cash transfer component and another component in which accommodation is provided to beneficiaries by third party landlords under contractual arrangements with a government agency. If it is deemed that a present obligation does not arise to beneficiaries for individual goods and services, an entity might recognize a liability to eligible participants of the cash transfer component but not for the component in which the government agency pays the third party landlord directly.
27. Accepting the view that a present obligation exists for individual goods and services 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 or an administrative requirement. 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. This may depend on whether the focus is on the individual entity or the economic entity such as the whole-of-government level.

28. As previously indicated this Consultation Paper does not discuss present obligations and liabilities arising from contracts with employees and third parties for the delivery of goods and services to individuals and households. The accounting treatment of such contracts is likely to be the same as for any other executory contract. However, there is a view that the existence of contracts for the supply of goods and services for periods beyond the reporting date implies that there is an implied commitment to provide benefits beyond the reporting date and potentially a present obligation to beneficiaries. Others reject such a link and consider that the accounting treatment of such executory contracts is remote from, and has no relevance to, the analysis of whether and when present obligations arise to beneficiaries in a non-exchange context.

Specific Matter for Comment 3

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

Key Issue 3: When do obligating events occur for cash transfers for non-contributory programs?

29. The third key issue is when an obligating event to individuals or households occurs for cash transfers for non-contributory programs; that is programs that do not require contributions for or on behalf of individuals or households in order for there to be an entitlement to resources. There are a number of views as to when constructive and legal obligations might arise.
30. A common view is that an obligating event occurs when, and only when, all eligibility criteria have been satisfied, regardless of whether a legal obligation exists at this point. Those holding this view may accept that some citizens have expectations that benefits will be paid in the future and they may also accept that past practice indicates that the government or public sector entity will accept a responsibility to provide benefits. However, they consider that until the point at which all eligibility criteria have been satisfied a government or public sector entity does have a realistic alternative to providing benefits, by for example, modifying governing legislation. The consequence of this view is that any liability recognized in the financial statements is limited to amounts that are due to be paid to individuals or households that have satisfied all eligibility criteria at the reporting date. Globally this has become known as the “due and payable” approach.
31. In most cases it is likely a legal obligation will occur when all eligibility criteria have been satisfied. However, there may be cases when a legal obligation does

- not occur until after all eligibility criteria have been satisfied: for example where eligibility criteria have to be satisfied on 1 March, but payment is not legally required until 1 April. Some take the view that a present obligation can only arise as a result of a legal obligation. Under this view a liability does not arise until the date on which a government is legally required to make a payment even though all eligibility criteria have been satisfied previously-in the above example this would be 1 April not 1 March. Up until the point that an individual or household has a legal entitlement the entity has the ability to avoid a transfer of resources.
32. Some would go further than the argument above and contend that the present obligation does not extend beyond the reporting date. This is because, although legislation for a program is in place, funding of benefits under that program is dependent upon annual appropriations. Until the appropriation has been made it is not legal for the cash transfer to take place and therefore the government is unable to pay benefits even though all eligibility criteria have been satisfied.
33. The IPSASB also acknowledges the view that an obligating event creating a constructive obligation might occur at a number of points prior to the satisfaction of all eligibility criteria by beneficiaries. These points have been referred to as “key participatory events”. There are a range of potential key participatory events and not all of these events are relevant to every program.
34. In order to explain the term “key participatory events” the Paper considers the simplified example of a social security pension program paying benefits to individuals who are 65 years of age. There are no other eligibility criteria. Potential key participatory events for such a program include:
- Birth
 - Attaining school age
 - Entry in to the workforce
 - A point between entry into the workforce and 65 years of age
35. The rationale for maintaining that an obligating event occurs, for example, on entry into the workforce is that the government or public sector entity has:
- indicated through a pattern of past practice, published policies or a sufficiently specific current statement, that it will accept the responsibility of paying benefits to individuals who have reached the age of 65 years;
 - created a valid expectation for citizens that it will discharge those responsibilities and that expectation crystallizes when an individual enters the workforce; and
 - no realistic alternative to paying benefits once an individual has reached the age where he/she enters the workforce even though the age at which benefits will be paid is many years in the future.

36. This would mean that, provided recognition criteria are met, the government would recognize an expense and liability in respect of the social security pension for individuals at the point at which they enter the workforce. This expense and liability would be actuarially determined and would be reassessed at each reporting date. Practically it would lead to the recognition of much higher liabilities than a policy that recognizes liabilities only when all eligibility criteria have been satisfied.
37. Some accept that, in principle, an obligating event may occur prior to the satisfaction of all eligibility criteria but highlight practical difficulties in identifying that point. Key participatory events may vary between jurisdictions and even between programs within jurisdictions. They may also vary between reporting periods of the same entity for a program as citizen expectations change. For example, in a number of jurisdictions survey evidence shows that younger age cohorts have lower expectations of a viable social security pension on retirement than older age cohorts and that those expectations are diminishing. Some consider that this variability would make consistent financial reporting difficult and undermine comparisons between governments. They would therefore prefer to identify the same point at which an obligating event occurs for all programs and in all jurisdictions.
38. However, others are less concerned with the fact that the point at which an obligating event occurs may vary between programs and between different entities. They argue that this is consistent with the principle that different transactions should not be accounted for in the same way. They consider that the term “key participatory event” should be defined as the point prior to the satisfaction of all eligibility criteria at which an obligating event occurs. Preparers can then determine when that event occurs on a program-by-program basis. It is accepted that it may be at a different point for similar programs in different jurisdictions and that this point may fluctuate over time.
39. Those with reservations about the recognition of expenses and liabilities prior to the satisfaction of all eligibility criteria may also question whether such an approach reflects a faithful representation of an entity’s financial performance and financial position. 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 accumulated deficits and to heavily negative net assets/equity positions for many governments. In this context there is currently an acceptance, amongst those standard-setters that have considered the issue, that a government’s right to tax does not give rise to an intangible asset, which would counter-balance the large liability. The rejoinder to this argument is that if transactions meet currently accepted recognition and measurement criteria, such items should be recognized; disregarding them because they show an entity’s unhealthy financial condition is conceptually flimsy and leads to a selective presentation of elements dependent upon whether they show an entity in a sound financial light.

Specific Matter for Comment 4

Do you think that a present obligation in respect of cash transfers for non-contributory programs occurs when all eligibility criteria have been satisfied? If you think that a present obligation occurs at an earlier point please indicate that point and give your reasons.

Issue 4: Do present obligations for cash transfers financed by contributions occur at a different point than for non-contributory programs

40. Some consider that whether a program is contributory affects the point at which an obligating event occurs. Contributory programs are sometimes known as “social insurance programs”. According to this view, whilst the same conceptual approach as for Issue 3 can be applied, contributory programs should be considered separately from non-contributory programs. This is because it is suggested that an obligating event occurs at an earlier point for contributory programs. An obligating event occurs earlier because the payment of a specified number, or amount, of contributions 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. Such expectations are stronger than for non-contributory programs primarily funded from general taxation. Allied to such expectations it is considered unrealistic for the government to avoid paying benefits, even though the point at which payment is required may be many years in the future. This expectation of receiving benefits may be strengthened by other factors such as:

- individuals receiving personalized statements providing details of estimated future benefits on an annual or other periodic basis;
- individuals being able to access personalized details of estimated future benefits on-line; or
- the program operating on a notional or actual trust fund basis, so that fund assets can only be used for the legally specified purposes of the program and cannot be diverted for other governmental objectives.

41. Some argue that an obligating event occurs for a contributory program when an individual has recorded sufficient contributions to become eligible for benefits at a specified future date without taking further action. For example, 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. A modification of this view is to acknowledge that an obligating event occurs before all eligibility criteria has been satisfied but that until the satisfaction of all eligibility criteria the amount of any entitlement cannot exceed the amount of an individual’s contributions rather than an actuarially based estimate of future entitlements.

42. A different argument, but one that also considers that an obligating event occurs before all eligibility criteria have been satisfied is that contributory programs give rise to quasi-exchange transactions. In this view obligations under such programs should be recognized and measured in a similar manner to post-employment benefit obligations under IPSAS 25, "Employee Benefits", which is based on IAS 19. Therefore an obligating event occurs when a contribution is first made by or on behalf of a beneficiary. Whilst a proportion of those making contributions, or having contributions made on their behalf, will not build contribution record sufficient to achieve any entitlement to future benefits, this is a variable to be taken into account in the measurement of the liability rather than a recognition issue.
43. Those who argue that a present obligation does not arise until all eligibility criteria have been satisfied challenge the view that a government has no viable alternative but pay benefits at an earlier point. They emphasize that governments have the ability to amend or repeal legislation, a sovereign attribute that distinguishes them from private sector entities. They may acknowledge that individuals receive personalized information on the benefits that they are likely to receive, but note that such communications are often accompanied by caveats or riders. It is therefore doubtful whether expectations can be valid.
44. Contributory programs vary widely in nature and may also depend partially on general taxation for their funding. Some therefore challenge whether citizen expectations of receiving benefits in the future for contributory programs are more valid than for non-contributory programs, providing education and housing. 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. Such considerations militate towards treating contributory programs in the same manner as non-contributory programs.
45. In some instances fiscal projections suggest that existing benefit levels are unsustainable and that, assuming that corporate and personal taxation levels and debt levels are viable in a global environment, the government will have little choice but to take action such as raising contributions, reducing benefit levels or deferring the age at which benefits are first received. In cases where programs are administered on a fund basis, benefits may be legally limited to the amount of the fund that is accumulated, so, under the current legal framework, at a future point payments of benefits will not be legally possible unless benefit entitlements or contributions are modified. Therefore recognizing liabilities under programs which are unaffordable and unsustainable is misleading and cannot represent faithfully the financial position of a government.

46. Some have strong reservations about the views identified above. Whilst accepting that governments have the ability to make legislative changes to existing programs, and that on rare occasions, governments have enacted retrospective legislation that repudiates existing liabilities, they are distrustful of a reliance on a government's ability to change legal frameworks when determining the extent of present obligations. They contend that analysis of a present obligation should be in the context of the current legal framework. Taken to an extreme they consider that reliance on a government's ability to enact legislative change might be used to repudiate a number of obligations, including those that have arisen through exchange transactions. If a government does modify the legal framework then the impact of that change should be reflected in the financial statements for the period in which the change is enacted and not before. Preparers should not prejudge the decisions of governments. Furthermore, although they acknowledge the tension between different legal requirements, they do not consider that the future sustainability of a program is a rationale for not recognizing obligations under that current legal framework.

Specific Matter for Comment 5

Do you think that a present obligation in respect of cash transfers for contributory programs occurs when all eligibility criteria have been satisfied? If you think that a present obligation occurs at an earlier point please indicate that point and give your reasons.

Key Issue 5: Is the Revalidation of Eligibility Criteria a Recognition Criterion or a Measurement Attribute

47. 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 significant because it dictates the extent of the present obligation and, provided that recognition criteria are met, the measurement of the resultant liability.
48. Some consider that revalidation is a recognition criterion and that the extent of a present obligation cannot exceed the maximum amount that an individual is entitled to receive from one validation point to the next. This view is based on the assumption that an entity can avoid further payments beyond the next revalidation date. Some who perceive revalidation as a recognition criterion would go further and argue that "continuing existence" is an implicit eligibility criterion for all cash transfer programs. "Continuing existence" 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. Such an approach results in the matching of expenses and liabilities to funding and financing in the reporting period. Its conceptual underpinning, from an assets and liabilities

perspective, is based on a presumption that an entity will not have to make further payments beyond the reporting date if an individual were to die. There might be programs under which “continuing existence” 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.

49. Those with reservations about the treatment of revalidation as a recognition criterion highlight practical problems. 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. It leads to the recognition of different liabilities, dependent completely upon the timing and 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.
50. This can be illustrated 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 form confirming the beneficiary’s address and that he/she is still alive—this is not just an administrative procedure and benefits are withheld if the form is not returned by a specified date. Assuming that the entity adopts a policy of recognition when all eligibility criteria have been satisfied 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. Some argue that it is problematic that a difference in revalidation requirements should give rise to potentially a large difference in the amount of the liability recognized.
51. Second, they argue that restricting the extent of the present obligation to the maximum amount between validation points can give incentives to gaming. Expenses and liabilities can be artificially limited by instituting revalidation points shortly after the reporting date. In the view of their proponents these arguments militate towards treating revalidation as a measurement attribute.

Specific Matter for Comment 6

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.

Key Issue 6: An Alternative Model: A Giant Executory Contract and Recognition of Liabilities Arising from Legal Obligations

53. 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 principles in IPSAS 19. These difficulties invite the question whether there is a feasible alternative model.

54. One alternative model is to view obligations to provide social benefits by governments as quasi-contractual in nature, so that the overall arrangement is analogous to a giant executory contract. Executory contracts are contracts where neither party has performed any of its obligations or where both parties have partially performed their obligations to an equal extent. Under this model both governmental obligations to provide goods, services and cash transfers to beneficiaries and the rights of community members to receive those benefits are acknowledged. However, those governmental obligations are effectively offset by the ongoing duty of community members to contribute taxes and other sources of finance. Liabilities would not arise until legal entitlements have been established. The advantage of a legal obligation is that it is objectively determinable and therefore not subject to the ambiguity that some associate with constructive obligations. Longer-term fiscal sustainability reporting would provide a fuller picture of a program's future viability.
55. One aspect of such an approach would be that it leads to the matching of costs to annual service delivery. This appeals to those who consider that matching is relevant in the public sector because governments have little earned revenue and no profit motive and are different from profit-oriented entities. It is claimed that matching costs to annual service delivery facilitates the analysis of outputs, outcomes and other performance measures, enhances accountability to citizens and inter-governmental comparability. It is obviously less acceptable to those who favor a strict assets and liabilities approach.
56. Aspects of this model are undoubtedly problematic. The model rests on the notion of a "social contract" which is vague and difficult to deploy in an accounting context. It can be criticized as a method of imposing an exchange transaction approach on the provision of social benefits and taxation, both of which are pre-eminent examples of public-sector specific non-exchange arrangements. It might also be difficult to contend that constructive obligations do not arise in respect of social benefits, but do arise in areas such as accounting for post-employment benefit obligations. The model can also be seen as a device which avoids dealing with the government's right to tax.

Specific Matter for Comment 7

In its further consideration of accounting for social benefits do you think that the IPSASB should explore alternative models to the IPSAS 19 principles, such as the giant executory contract model briefly outlined in Issue 6? Please state your reasons.

Conclusion

57. Accounting for social benefits is a developing area. The IPSASB acknowledges that the publication of ED 34 and this Consultation Paper are early steps in a

journey to global acceptance of consistent practices for accounting for social benefits. The IPSASB hopes that this Consultation Paper will stimulate debate on the major issues in recognition and measurement and looks forward to receiving comments from interested parties.