

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: September 16-19, 2013

Agenda Item 6

For:

☒ Approval

☐ Discussion

☐ Information

Social Benefits

Objective(s) of Agenda Item

1. The objective of the session is to **approve** the project brief on Accounting for Social Benefits.

Material(s) Presented

Agenda Item 6.1 Draft Project Brief, *Accounting for Social Benefits*

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Accounting for Social Benefits

- 1.1 This project will develop requirements and guidance on accounting for social benefits.
- 1.2 Existing IPSASs do not address accounting for social benefits. Social benefits¹ are excluded from the scope of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.
- 1.3 The Public Sector Committee (PSC), the predecessor of IPSASB, and the IPSASB carried out extensive work on accounting for social benefits in the 2002-2008 period. In March 2002 the PSC initiated a project on accounting for social policy obligations. Together with the project on non-exchange revenue which culminated in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, this was the IPSASB's first major public sector specific project.
- 1.4 The PSC established Steering Committees, which included non-PSC members from national governments, international organizations and regional bodies, to provide experience and expertise to inform both projects. The work of the Steering Committee culminated in the publication of an Invitation to Comment (ITC), *Accounting for Social Policies of Government*, in January 2004. The ITC sub-categorized social policy obligations as (i) goods and services provided for collective consumption such as national defense and police and fire services (collective goods and services); (ii) goods and services provided for individual consumption such as health care, education and housing (individual goods and services); and (iii) cash transfers including child benefits, invalid and sickness benefits, unemployment benefits and housing benefits. Disaster relief was considered in a separate chapter and, because of its significance, old age pension—a type of cash transfer program—was allocated a separate chapter.
- 1.5 The ITC proposed that there is no present obligation for collective or individual goods and services prior to the delivery or provision of the good or service. For cash transfers the ITC proposed that a present obligation for the payment of future cash transfers does not arise until an individual has satisfied all eligibility criteria. This was a minor variant on the 'due and payable;' approach that the large majority of the governments on the accrual basis at the time had adopted as the accounting policy for cash transfer programs.² For aged pension benefits the Steering Committee did not reach a consensus with a minority view that a present obligation arises on entry of an individual into the workforce rather than when eligibility criteria are satisfied.
- 1.6 Responses to the ITC supported the development of an IPSAS on social benefits and an approach based on IPSAS 19. The theoretical apparatus outlined in the ITC governed the IPSASB's approach to social benefits over the next few years. An Exposure Draft (ED) was developed during

¹ In IPSAS 19 social benefits refer to goods, services and other benefits provided in the pursuit of the social policy objectives of a government. Paragraphs 7(a) and 7(b) of IPSAS 19 provide examples of social benefits.

² It differed from 'due and payable' because it included as a liability benefits payable in a subsequent reporting period for which eligibility criteria had been satisfied at the reporting date rather than just benefits for which eligibility criteria had been satisfied at the reporting date for which payment was due by the reporting date.

2005 and 2006 largely based on the views of the Steering Committee in the ITC. However, in November 2006 the IPSASB changed course. This was primarily because;

- There was no consensus on when a present obligation arises especially for contributory cash transfer programs; and
- A Preliminary Views Paper from the US Federal Accounting Standards Advisory Board challenged the appropriateness of the 'due and payable' approach.

- 1.6 During its deliberations the IPSASB also started to form a view that the financial statements cannot satisfy all the needs of users in assessing the future viability of programs providing social benefits. The IPSASB took this view regardless of the point(s) at which a present obligation(s) occur(s) for different types of social benefits, the extent of those present obligations and the amount of the resultant liabilities. A view started to crystallize that information presented in the financial statements may need to be complemented by the presentation of other information about the long-term fiscal sustainability of those programs, including their financing.
- 1.7 Following the November 2006 meeting the IPSASB decided to develop an ED dealing just with disclosure. It was decided to address recognition and measurement through development of a Consultation Paper.
- 1.8 A package of documents was issued in March 2008:
- Exposure Draft (ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*;
 - Consultation Paper, (CP) *Social Benefits: Issues in Recognition and Measurement*; and
 - Project Brief, *Long-Term Fiscal Sustainability*.
- 1.9 The scope of ED 34 was restricted to cash transfer programs. ED 34 proposed minimum requirements for the disclosure of the present value of amounts expected to be transferred to those meeting threshold eligibility criteria³ at the reporting date. The amounts were not limited to the amount of the next installment of benefits payable. ED 34 proposed the use of a risk-free rate in order to discount to fair value.
- 1.10 The CP analyzed if, and when, present obligations arise for the different categories of social benefits. In particular the CP considered whether present obligations arise at an earlier point for contributory cash transfer programs than for non-contributory programs. The CP also considered whether the revalidation of eligibility criteria is a measurement attribute or recognition criterion and further noted the view that "continued existence or staying alive" is an implicit eligibility criterion for cash transfer programs, including aged pensions. Finally the CP briefly explored the view that the provision of social benefits to constituents is quasi-contractual in nature and that executory contract accounting might be appropriate. Under this approach liabilities for social benefits would be limited to legal obligations.
- 1.11 The majority of respondents opposed the approach in ED 34 for a variety of reasons, including that the proposed disclosures would not provide information that enables users to assess whether programs are sustainable and a risk that the proposed approach pre-empted recognition and

³ 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.

measurement decisions on social benefits. Respondents also suggested that the cost of gathering data and preparing projections would likely outweigh the benefits of disclosing such information

1.12 Some of the main points to emerge from responses to the CP were that:

- Most respondents did not think that present obligations arise for collective goods and services;
- Most respondents considered that present obligations and liabilities for both individual goods and services and cash transfers do not arise before all eligibility criteria are satisfied or when legal obligations exist;
- There was significant support for the 'due and payable' approach;
- Most respondents did not think that a present obligation for contributory programs arises at an earlier point than non-contributory programs. However, a minority expressed a view that the payment of contributions may give rise to constructive or legal obligations at a point prior to the satisfaction of all eligibility criteria; and
- A majority of respondents favored carrying out further work on the executory contract accounting model. However, a number of respondents expressed reservations about this model and felt that, if the objective of developing the model is to restrict present obligations and liabilities, that objective might be better achieved by modifying the definition of a liability.

1.13 There was considerable support for the view that that the financial statements cannot convey sufficient information about the financial condition of governmental programs providing social benefits. However, there were some reservations about expanding the boundary of general purpose financial reporting to include prospective information.

1.14 Following deliberations in late 2008 the IPSASB decided not to develop ED 34 into an IPSAS. The IPSASB also recognized the linkages between the Conceptual Framework and social benefits, in particular the development of the definition of a liability in the Elements phase. The IPSASB therefore decided to defer further work on accounting for social benefits until the Conceptual Framework had been further developed. The IPSASB initiated a project on the long-term sustainability of the public finances in 2008. This ultimately led to the publication of Recommended Practice Guideline 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, in July 2013.

1.15 The IPSASB considered a project brief on Social Benefits in mid-2011, although no decision was taken to reactivate the project. At the September 2011 meeting the IPSASB conducted an education session on social benefits. This session outlined the history of the project and the major issues. It also considered the approach to social benefits in statistical accounting and a developing approach in New Zealand involving the application of insurance accounting to provide information on certain programs with the characteristics of insurance schemes such as accident compensation; at the time this approach had been used for management accounting rather than for the financial statements. A further education session on the approach to social benefits in France was held in March 2012.

2. Project Rationale and Objectives

2.1 The delivery of social benefits to constituents is the main objective of many governments and public sector entities. Therefore spending on social benefits programs accounts for a significant proportion of the expenditure of many governments and public sector entities. As acknowledged in *The Preface to the Conceptual Framework*⁴ it is also one of the main areas that distinguish the public sector from the for-profit private sector. The lack of an IPSAS on accounting for social benefits is a highly significant gap in the IPSASB's literature. Earlier this year the absence of an IPSAS on social benefits was identified as a weakness in the Eurostat Report on the suitability of IPSAS adoption for European Union member states.

(a) Issues identified

2.2 There are a number of issues that will need to be considered in this project. These issues include:

- To provide definitions of social benefits and sub-categories of social benefits;
- To determine when expenses and liabilities arise for these sub-categories;
- To determine how to measure liabilities that arise in respect of these sub-categories; and
- To identify appropriate disclosure requirements.

(b) Objectives to be achieved

2.4 The ultimate objective of the project is to publish an IPSAS that defines social benefits and sub-categories of social benefits and specifies requirements for the financial reporting of social benefits.

2.5 The intermediate objective is to produce a further CP and ED. The CP will identify the main types of social benefits programs and viable approaches to the recognition and measurement of liabilities and disclosure requirements. As the introduction to the project brief has made clear the IPSASB (and PSC) has carried out considerable work on social benefits. It may be questionable whether a further CP is necessary in light of the ITC issued in 2003, the CP issued in 2008 and the Phase 2 Conceptual Framework Consultation Paper and ED which addressed the key issue of the enforceability of obligations in a non-exchange context. This project brief assumes that the significance of this issue for the public sector and that fact that the last CP was issued in 2008 necessitate the development and publication of a further CP. A further CP will also permit new approaches such as insurance accounting to be explored.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

2.6 One of the IPSASB's continuing strategic priorities for the period 2012–2014 is public sector critical projects. These include both public sector specific and IFRS convergence projects. The proposed project is a public sector specific project.

ii. Link to IFAC Strategic Plan

2.7 The IFAC Strategic Plan for 2011–2014 includes two strategies that are relevant. The first is IFAC's commitment to the development, adoption and implementation of international standards, including

⁴ Made available as a Preliminary Board View in July 2013

those for the public sector. The second is an enhanced focus on public sector financial reporting. Developing requirements and guidance for social benefits supports both strategies.

3. Outline of the Project

(a) Project Scope

3.1 The scope of this project is to determine the appropriate accounting treatment for social benefits

(b) Major Problems and Key Issues that should be Addressed

Key Issue #1—How should the IPSASB approach this project?

3.2 A key issue will be to determine how the IPSASB should approach this project in particular the level of preliminary research that should be carried out. While it is important to bring out the main features of programs to deliver social benefits any IPSAS will be principles-based. It is therefore important that the main high-level features of programs are identified rather than the minutiae.

Key Issue #2—What is the appropriate scope of the project?

3.3 A key issue will be to determine the appropriate scope of the project. ED 34 defined social benefits and used a classification approach derived from the 2004 ITC. This classification approach distinguished collective goods and services, individual goods and services and cash transfers and defined these terms. The purpose of these sub-categorizations and definitions was to facilitate an analysis of when present obligations arise for different types of social benefit. In considering the response to the 2008 Consultation Paper the Board questioned whether collective goods and services should be a defined term and a sub-category of social benefits. The Board noted that goods and services within this definition were not considered social benefits under statistical bases of accounting and that virtually all respondents to the CP agreed that present obligations do not arise to beneficiaries for collective goods and services. Shortly before the project was deactivated it was tentatively decided that collective good and services should be removed from the scope. A decision will need to be made whether to reaffirm that decision.

Key Issue #3—When do present obligations arise for the different categories of social benefits?

3.4 A fundamental issue is to determine when present obligations arise for each sub-category of social benefit. For programs that require the satisfaction of eligibility criteria is this at the point where all eligibility criteria have been satisfied or at an earlier point?

Key Issue #4(a)—In determining when present obligations arise should contributory programs be distinguished from non-contributory programs?

3.5 Some have a view that programs that require a specified level of contributions from beneficiaries in order to qualify for benefits are different in character from those that are non-contributory. Although such contributory programs do not give rise to exchange transactions, because the value of benefits received by beneficiaries may not be approximately equal to the value of contributions made, such programs are quasi-contractual in nature. This characteristic leads to different expectations on the part of beneficiaries than for non-contributory programs and means that a government's ability to realistically avoid the obligation is more constrained than for non-contributory programs.

Key Issue #4(b)—*What is the appropriate accounting treatment for programs that operate to provide both contributory benefits (known as social insurance programs in statistical accounting) and non-contributory benefits (known as social assistance programs in statistical accounting)*

- 3.6 A further layer of complexity is introduced by the existence of highly significant programs that operate to provide contributory benefits, but also provide benefits to those who have not made the specified level of contributions; the latter mechanism is sometimes known as provision of a social minimum. If it is decided that present obligations arise at an earlier point for contributory programs than for non-contributory programs the accounting treatment of these complex programs becomes problematic and leads to the question whether bifurcation between contributory and non-contributory components is conceptually appropriate and, if so, practical.

Key Issue #5— *Where a program requires individuals or households to revalidate their entitlement to benefits, is revalidation is an attribute that should be taken into account in the measurement of the liability or a recognition criterion?*

- 3.7 Most social programs have eligibility conditions, which vary in number and complexity. The issue of whether the revalidation of eligibility conditions is a recognition criterion or a measurement attribute is fundamental in determining the amount of any liability. Adopting the position that revalidation is a recognition criterion limits the extent of any liability to the amount due until revalidation of eligibility conditions is next required. Conversely, treating revalidation as a measurement attribute means that the probability of continued revalidation of eligibility conditions is just one factor that is taken into account in the measurement of a liability and therefore potentially leads to the recognition of much bigger amounts.

Key Issue#6—What are the appropriate disclosure requirements for social benefits?

- 3.8 A key issue will be to determine what disclosures are required, ensuring that such disclosures reflect the qualitative characteristics of financial reporting while acknowledging the constraints on financial reporting in Chapter 3 of the Conceptual Framework.

Key Issue#7—Should the theoretical framework be provided by IPSAS 19 for all social benefits or are there alternative frameworks

- 3.9 As indicated above, throughout the various stages of the project the theoretical framework has been provided by IPSAS 19. The primary issue has been to identify the point at which present obligations arise for the sub-categories of social benefits. .

- 3.10 Alternative frameworks may be viable. As indicated above the 2008 CP tentatively explored an alternative approach to accounting for social benefits by considering the view that social benefits are provided as part of a 'grand' executory contract between citizens and government. Under this model, both (a) governmental obligations to provide goods services and cash transfers to individuals or households and (b) the rights of individuals or households to receive those benefits, are acknowledged as commitments. However, such governmental obligations are effectively offset by the ongoing duty of individuals or households to contribute taxes and other sources of finance. Under this approach, liabilities would not arise until legal entitlements have been established.

- 3.11 The Education Session in September 2011 discussed insurance accounting as a potential approach for contributory programs which have characteristics of insurance schemes. In this view government has a stand-ready obligation to meet benefits that are payable if one or more future actions outside the control of government take place.

- 3.12 A further option is that contributory aged pensions are similar to pots-employment retirement plans and should be accounted for similarly using an approach similar drawn from IPSAS 25, *Employee Benefits*.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 The IASB does not have an IFRS on social benefits, which is a public sector issue. The subject is not on either the IASB's active or research agenda. IPSAS 19, which has governed approaches to the identification of present obligations related to social benefits is primarily drawn from IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. If the IPSASB decides to explore approaches to social insurance schemes based on insurance accounting IFRS 4, *Insurance Contracts*, will be relevant, because the IPSASB does not have an IPSAS on insurance accounting. Although it was published in 2004 IFRS 4 is an interim standard. IASB has a project to further develop insurance accounting and is currently redeliberating issues following the issue of an ED in September 2013. It is intended that a new IFRS will replace IFRS 4.

(b) Relationship to Other Standards, Projects in Process or Planned

- 4.2 The main linkage is with the IPSASB's Conceptual Framework project, in particular the definition of a liability in Phase 2: Elements. As the project develops, potential implications for other IPSASs may also be identified.

(c) Other—Government Finance Statistics

- 4.3 The IPSASB has recently reaffirmed the importance of reducing differences with the statistical basis of reporting where appropriate with the publication of a Consultation Paper, *IPSAS and Government Finance Statistics Reporting Guidelines*. This project will consider requirements and guidance on accounting for social benefits under the statistical basis of reporting. In particular it will consider whether it is appropriate to adopt the same or similar terminology and definitions as those the Government Finance Statistics Manual (GFSM). In particular, the GFSM distinguishes social insurance schemes that are contributory and social assistance schemes that are non-contributory.

5. Development Process, Project Timetable and Project Output

(a) Development Process

- 5.1 The development of outputs will be subject to the IPSASB's formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm that the proposed path in the project timetable remains the most appropriate.

(b) Project timetable

Major Project Milestones	Expected Completion
Present draft Project Brief	September 2013
Undertake further research (October 2013-February 2014)	
Discussion of issues and development of a Consultation Paper (CP) (March 2014–September 2014)	
Approve CP (6 month comment period)	September 2014
Review of responses to CP and development of an Exposure Draft (April 2015–March 2016)	
Approve ED (4 month comment period)	March 2016
Review of responses to ED and development of a IPSAS	
Approve Final IPSAS	Late 2016/Early 2017

(c) Project output

- 5.2 The initial output will be a CP. Following analysis of the responses to the CP an ED will be developed. The ultimate output will be an IPSAS.

6. Resources Required

(a) Task Based Group

- 6.1 A Task Based Group will oversee the project.

(b) Staff

- 6.2 It is envisaged that 0.5 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

- 6.3 Factors that might add to the complexity and length of the project include:
- 6.3.1 The wide range of social benefit programs.
 - 6.3.2 The complexity of social insurance programs;
 - 6.3.3 The complexity of certain social security systems, which operate as both social assistance and as group pension plans covering significant proportions of the population; and
 - 6.3.4 The complexity of insurance accounting.

7. Important Sources of Information

- 7.1 Sources of information on social benefits include:
- 7.1.1 The Invitation to Comment, *Accounting for Social Policies of Governments*⁵
 - 7.1.2 Consultation Paper, *Social Benefits: Issues in Recognition and Measurement*⁶

⁵ Available from Staff on request

- 7.1.3 ED 34, Social Benefits: *Disclosure of Cash Transfers to Individuals or Households* (proposed defined terms only)⁷
- 7.1.4 *Pension Systems and Retirement Incomes across OECD Countries* (edited by Richard Disney and Paul Johnson)
- 7.1.5 Consolidated financial statements of national governments
- 7.1.6 The Government Finance Statistics Manual (2001) (revised 2012).
- 7.1.7 The System of National Accounts (SNA) 2008.
- 7.1.8 European System of Accounts

⁶ Available on website via Social Benefits: Disclosure of Cash Transfers to Individuals or Households link

⁷ Available on website: issued March 2008