

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: March 11-14, 2014

Agenda Item 7

For:

☐ Approval

☒ Discussion

☐ Information

Social Benefits

Objective of Agenda Item

1. The objective of the session is to **consider** the Issues Paper on Social Benefits and **provide** directions for the development of a future Consultation Paper.

Material Presented

Agenda Item 7.1 Issues Paper-Social Benefits

Action Requested

2. The IPSASB is asked to consider the Issues Paper and to provide directions on how the issues identified in the paper, and any further issues identified by Members, should be addressed in a future Consultation Paper. In particular, Members are asked to confirm that the Issues Paper has identified all the frameworks/approaches that should be included in the Consultation Paper.

DRAFT ISSUES PAPER, *SOCIAL BENEFITS*

Objective of Issues Paper

The objective of the session is to:

- **Consider** this Issues Paper on Social Benefits; and
- **Provide** directions for the development of a future Consultation Paper.

Background

History of Social Benefits Project

1. Existing IPSASs do not address accounting for social benefits. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* excludes social benefits¹ from its scope. The delivery of social benefits to the public is the main objective of many governments. Therefore spending on social benefits programs accounts for a sizeable proportion of their expenditure. *The Preface to the Conceptual Framework*² notes social benefits as a distinguishing feature between the public and the private sectors. The lack of an IPSAS on accounting for social benefits is a highly significant gap in the IPSASB's literature. In 2013, the European Commission report on the suitability of IPSAS adoption for European Union member states³ listed this omission as a significant weakness.
2. Between 2002 and 2008 the IPSASB and its predecessor, the Public Sector Committee (PSC), carried out extensive work on accounting for social benefits. In March 2002, the PSC initiated a project on accounting for social policy obligations. Together with the project on non-exchange revenue which led to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, this was the IPSASB's first major public sector specific project.
3. The PSC established Steering Committees, involving 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.
4. Responses to the ITC supported the development of an IPSAS on social benefits and an approach based on IPSAS 19. The theoretical model outlined in the ITC governed the IPSASB's approach to social benefits over the next few years. The IPSASB developed an Exposure Draft (ED) during 2005 and 2006 largely based on the views set out 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

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 Made available as a Preliminary Board View in July 2013

³ *Towards implementing harmonised public sector accounting standards in Member States: The suitability of IPSAS for the Member States*, available at http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/1_EN_ACT_part1_v5.pdf

- A Preliminary Views Paper from the US Federal Accounting Standards Advisory Board (FASAB) challenged the appropriateness of the 'due and payable' approach⁴ (although the FASAB has since agreed to maintain the 'due and payable' approach, whilst requiring additional disclosures)⁵.
5. 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. 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.
 6. Following the November 2006 meeting, the IPSASB decided to develop an ED dealing just with disclosure. The IPSASB decided to address recognition and measurement through development of a Consultation Paper.
 7. March 2008 saw the following package of documents issued:
 - 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*.
 8. 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 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
 9. There was considerable support for the view 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.
 10. 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 and Recognition phase will influence the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic 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 led to the publication of Recommended Practice Guideline 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, in July 2013.

⁴ The 'due and payable' approach includes amounts for which all the eligibility criteria have been met, but payment has not been made at the reporting date.

⁵ Statement of Federal Financial Accounting Standards 17: *Accounting for Social Insurance* (SFFAS 17) applies to the following programs: Old-Age, Survivors, and Disability Insurance (OASDI or "Social Security"), Medicare Hospital Insurance (HI), Medicare Supplementary Medical Insurance (SMI), Railroad Retirement benefits, Black Lung benefits, and Unemployment Insurance (UI) for the general public.

11. The IPSASB considered a project brief on Social Benefits in mid-2011, although it decided not to reactivate the project at that time. 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. The session explained a developing approach in New Zealand involving the application of insurance accounting to provide information on certain programs. These were programs with the characteristics of insurance schemes such as accident compensation. At that 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 took place in March 2012.
12. The IPSASB considered a revised project brief on Social Benefits at the September 2013 meeting. Members approved the project brief. Members considered whether, in light of the considerable work carried out in this area by the IPSASB, a further Consultation Paper was required. Members agreed that a Consultation Paper was required, to allow the IPSASB to consider developments since early 2008. This will also allow the IPSASB to discuss complex issues such as social security systems that operate as both social assistance and social insurance schemes.
13. In addition, a number of programs exist that provide both occupational pensions and social assistance benefits. This was highlighted in the education session in March 2012.

Approach

14. A significant amount of information exists in this area. The IPSASB's approach to developing a Consultation Paper will determine the level of both staff and Members resource required. The key factor will be the level of preliminary research that the IPSASB asks staff to conduct, for example on the following items:
 - A sample of national practices;
 - A sample of national (accrual-based) standards;
 - Discussion papers and concepts from other standards setters (such as the FASAB paper referred to above); and
 - Supra-national standards including European Union Accounting Rule 3: Expenses and Payables.
15. It is important to bring out the main features of programs to deliver social benefits. However, any IPSAS will be principles-based. The approach taken should identify the main high-level features of programs rather than the minutiae.

Matter for Consideration

1. The IPSASB is asked to indicate what preliminary research staff should undertake.

16. The Consultation Paper will need to address the following items identified in the project brief:

Key Issue #1—What is the appropriate scope of the project?

Key Issue#2—Should the theoretical framework be provided by IPSAS 19 for all social benefits or are there alternative frameworks?

Key Issue#3—*What are the appropriate disclosure requirements for social benefits?*

Key Issue #4—*When do present obligations arise for the different categories of social benefits?*

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

Key Issue #6(a)—*In determining when present obligations arise should contributory programs be distinguished from non-contributory programs?*

Key Issue #6(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)?*

17. Members may notice that the issues are not listed in the order they were raised in the project brief. This is because discussions on the framework issue will affect the discussions on other issues, for example, when present obligations arise for the different categories of social benefit. Key issues #4, #5, #6(a) and #6(b) are considered separately for each of the frameworks identified under key issue #2.

Consideration of Key Issues—General

Key Issue #1—*What is the appropriate scope of the project?*

18. The 2004 ITC focused on accounting for those social benefits specifically excluded from the scope of IPSAS 19. The scope of IPSAS 19 is set out below:

1. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:
 - (a) Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits;
 - (b) [Deleted]
 - (c) Those resulting from executory contracts, other than where the contract is onerous, subject to other provisions of this paragraph;
 - (d) Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;
 - (e) Those covered by another IPSAS;
 - (f) Those arising in relation to income taxes or income tax equivalents; and
 - (g) Those arising from employee benefits, except employee termination benefits that arise as a result of a restructuring, as dealt with in this Standard.

19. Further details on the exclusion of social benefits from the scope of IPSAS 19 in paragraph 1 (a) are provided in paragraphs 7 and 8 of IPSAS 19:

7. For the purposes of this Standard, “social benefits” refer to goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:

 - (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
 - (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.

8. In many cases, obligations to provide social benefits arise as a consequence of a government’s commitment to undertake particular activities on an ongoing basis over the long term in order to provide particular goods and services to the community. The need for, and nature and supply of, goods and services to meet social policy obligations will often depend on a range of demographic and social conditions, and are difficult to predict. These benefits generally fall within the social protection, education, and health classifications under the International Monetary Fund’s Government Finance Statistics framework, and often require an actuarial assessment to determine the amount of any liability arising in respect of them.
20. The examples given in paragraph 7 of IPSAS 19 reflect two categories of social benefit:
- Goods and services provided to individuals or households (individual goods and services); and
 - Cash transfers to individuals or households (cash transfers).
21. The 2004 ITC noted that these were examples only, and that ‘social benefits could also be provided under other categories of government activity (for example, Defense, Public Order and Safety and Community Amenities).’ These examples represent goods and services provided to the entire population or to a particular segment of the population in any jurisdiction. The ITC adopted the term collective goods and services to categorize social benefits of this type.
22. ED 34 and the 2008 CP defined social benefits as including collective goods and services, individual goods and services and cash transfers. This approach followed the classification adopted in the ITC.
23. Most respondents to the CP did not consider that present obligations arise for collective goods and services. In many cases, this was because respondents thought that policy commitments in respect of collective goods and services were insufficiently precise to give rise to a liability. Governments make such policy commitments to the population as a whole, not to individuals. They therefore cannot be enforced. They are also subject to change for policy or funding reasons, and respondents do not see them as existing independently of an entity’s future actions. Some respondents thought recognition of a liability in these circumstances to be akin to recognizing a liability for future operating expenses in a commercial context.

24. IPSAS 19 acknowledges that an obligation may be owed to the public at large. The equivalent wording in the IPSASB's Conceptual Framework Exposure Draft (CF-ED2) *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* does not include this acknowledgement. Staff considers this reflects the different level of detail required at standards level compared to framework level. The IPSASB is asked to confirm that this is correct. The table below compares the wording from IPSAS 19 and CF-ED2 (with the relevant wording in IPSAS 19 emphasized).

IPSAS 19:

28. An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed – **indeed the obligation may be to the public at large**. Because an obligation always involves a commitment to another party, it follows that a decision by an entity's management, governing body, or controlling entity does not give rise to a constructive obligation at the reporting date, unless the decision has been communicated before the reporting date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

CF-ED2:

- 3.4 Binding obligations can be legal or non-legal and arise from both exchange and non-exchange transactions. An obligation must be to an external party in order to give rise to a liability. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Identification of the external party to which the obligation is owed is an indication of the existence of an obligation giving rise to a liability. However, it is not essential to know the identity of the external party before the time of settlement in order for a present obligation and liability to exist.

25. Respondents also noted that public sector entities enter into contracts for the delivery of collective goods and services. These contracts may be to a third party to deliver the goods or services, or contracts with employees where the entity provides the goods or services directly. Such contracts will be executory contracts, with liabilities only being recognized as the other parties perform their obligations under the contracts.
26. There was less consensus regarding individual goods and services and cash transfers. The majority of respondents considered that a liability could arise in some circumstances, although views as to what those circumstances were differed. 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 also significant support for the 'due and payable' approach. However, other respondents considered that present obligations and liabilities arise before this point.
27. At the September 2013 meeting, the IPSASB agreed that the definition of social benefits should not include collective goods and services. Staff recommends that the rationale for this decision is included in the future Consultation Paper. The proposed rationale is:

- That the commitments are insufficiently precise to give rise to a liability;
- That they are ongoing commitments, so analogous to a profit-seeking entity in say manufacturing recognizing a liability for future production costs; and
- That the benefits will be provided through executory contracts.

Matters for Consideration

2. The IPSASB is asked to confirm that the scope of the future Consultation Paper on social benefits should exclude collective goods and services, and that this decision should be explained in the Consultation Paper. If this is agreed, the scope of the project would be:
 - Goods and services provided to individuals or households (individual goods and services), whether provided directly or by transfers; and
 - Cash transfers to individuals or households (cash transfers).
3. The IPSASB is asked to confirm that the change in wording between IPSAS 19 and CF-ED 2 reflects the different level of detail required at standards level compared to framework level.

Key Issue #2—*Should the theoretical framework be provided by IPSAS 19 for all social benefits or are there alternative frameworks?*

28. Throughout its various stages to date, IPSAS 19 has provided the theoretical framework for the project. Alternative frameworks may be viable, and the future Consultation Paper will need to consider these. In its previous work on social benefits, the IPSASB has considered the following frameworks that staff considers relevant to the Consultation Paper:
 - IPSAS 19 framework (including, as a variation, the use of IPSAS 25, *Employee Benefits* to measure contributory aged pensions)
 - 'Grand' executory contract
 - Insurance accounting model

IPSAS 19 framework (including, as a variation, the use of IPSAS 25, Employee Benefits to measure contributory aged pensions)

29. Most consideration has been given to the IPSAS 19 framework approach to social benefits. The primary issue has been to identify the point at which present obligations arise for the sub-categories of social benefits. This framework also provides the rationale for the exclusion of collective goods and services from the scope of the current project.
30. The completion of the Elements chapter of the Conceptual Framework may result in some changes to the theoretical framework provided by IPSAS 19. This might include the definition of a liability. Should this be the case, Members will need to review the work undertaken in previous stages of the social benefits project, and any conclusions reached.
31. Staff does not expect the definition of a liability in the Framework to differ significantly from the definition of a liability used in IPSAS 19.
32. Staff considers that the IPSAS 19 framework (subject to any revisions introduced by the completion of the Elements and Recognition in Financial Statements chapter of the Conceptual Framework) should be included in the future Consultation Paper. The IPSASB agreed the definition of a liability

at its December 2013 meeting. This definition, which does not restrict liabilities to legal obligations, is shown below.

A liability is a present obligation of an entity for an outflow of resources that results from a past event.

33. One variation to the IPSAS 19 framework uses an approach drawn from IPSAS 25, *Employee Benefits* to measure contributory aged pensions. This variation views contributory aged pensions as similar to post-employment retirement plans and therefore considers that similar accounting would be appropriate.
34. This variation views contributory aged pensions as quasi-contractual, with contributions made giving a right to future payments. It would give rise to an actuarially based assessment of the liability. Countries currently use other measurement approaches such as the 'due and payable' approach. Payment of the contributions gives rise to a present obligation to make future payments to the contributor, the past event being the making of the contributions. This mirrors the accounting arrangements for a post-employment retirement plan where the provision of services (plus any contributions required) creates an entitlement to future benefits.
35. Staff considers that the measurement approach in IPSAS 25 should be included as a variation to the IPSAS 19 framework in the Consultation Paper.

'Grand' executory contract

36. The 2008 CP tentatively explored an alternative approach to accounting for social benefits. This approach viewed social benefits as being provided as part of a 'grand' executory contract between citizens and government.
37. This model acknowledges, as commitments, 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.
38. However, the ongoing duty of individuals or households to contribute taxes and other sources of finance effectively offsets such obligations.
39. This model considers rights and obligations at a global level, not the level of individuals or households. Under this model, liabilities arise from the performance of the population as a whole in contributing taxes and other revenue to the public sector. Liabilities do not arise from individuals satisfying certain benefits' eligibility criteria.
40. Liabilities would only arise once legal entitlements were established. The advantage of recognizing legal obligations only is that the point at which they arise is more objectively identifiable. It is therefore subject to less ambiguity than the point at which constructive obligations arise. Long-term fiscal sustainability reporting could complement executory contract accounting by providing a fuller picture of a program's future viability.

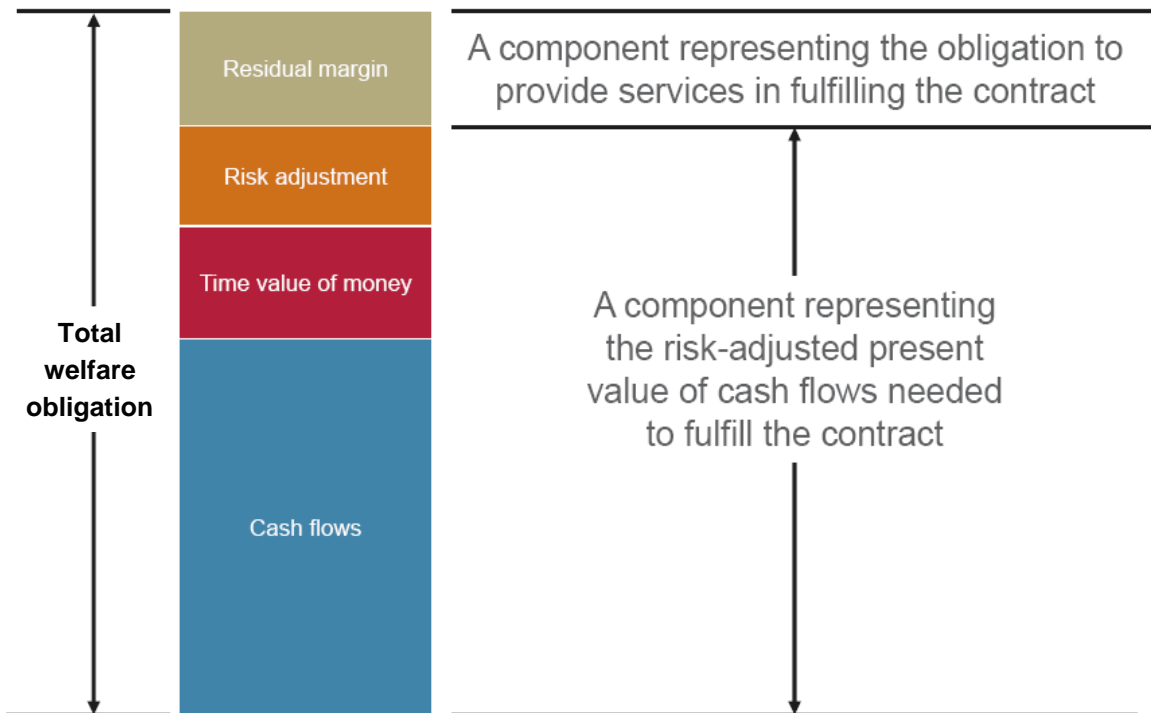
41. The 2008 CP noted that this approach is consistent with the concept of 'inter-period equity' developed by the US Governmental Accounting Standards Board⁶. It measures whether revenues in a particular reporting period are sufficient to pay for the goods and services provided in that period. The concept has strong links to accountability.
42. Should the IPSASB agree that this approach should be included in the future Consultation Paper, the following issues will need to be considered:
- Is an approach that restricts liabilities to legal obligations consistent with the IPSASB's Conceptual Framework? If so, is this limited to particular circumstances?
 - Is it appropriate to use what is essentially an exchange transaction approach (with modifications) for non-exchange transactions?
 - If so, should this approach be used for all non-exchange transactions?
 - Is it realistic to argue that constructive obligations (referred to as non-legal binding obligations in CF-ED2) arise in the case of post-employment benefits (an exchange transaction), but not in the case of (non-exchange) social benefits?
 - In its comments on this model, the 2008 CP stated 'The model can also be seen as a device that avoids dealing with the conceptual issue of the government's right to tax.' The Consultation Paper would need to address this concern.
43. Staff considers that the future Consultation Paper should consider the 'grand' executory contract model as a possible framework.

Insurance accounting model

44. The Education Session in September 2011 discussed insurance accounting as a potential approach for contributory programs that have characteristics of insurance schemes. In this view government has a stand-ready obligation⁷ to meet benefits that are payable if one or more future actions outside the control of government take place.
45. Under the insurance accounting model, obligations are measured at the present value of the net expected cash flows, subject to an onerousness test.
46. The following diagram (taken from the slides presented at the Education Session) shows how the value of the scheme would be included on the statement of financial position:

⁶ The 2008 CP did not comment on whether other frameworks were consistent with the 'inter-period equity' concept. This concept could be explored further in the Consultation Paper.

⁷ A stand-ready obligation is an obligation that is dependent upon future conditions outside the control of the reporting entity.



47. This approach aligned with the proposals contained in the IASB's 2010 Exposure Draft on Insurance Contracts (ED/2010/8). The presentation suggested that the recognition point should be when the coverage period begins, subject to a prior onerous test. This also followed the IASB's proposals.
48. Since the presentation, the IASB has issued a revised Exposure Draft on Insurance Contracts (ED/2013/7). This Exposure Draft revises the proposals for recognizing an insurance contract:

12. An entity shall recognise an insurance contract that it issues from the earliest of the following:
- (a) the beginning of the coverage period;
 - (b) the date on which the first payment from the policyholder becomes due; and
 - (c) if applicable, the date on which the portfolio of insurance contracts to which the contract will belong is onerous.

49. The future Conceptual Paper could consider this approach as a basis for measuring social benefit liabilities in one of two ways. The first option would be to use the approach to measure contributory programs that have characteristics of insurance schemes. Subject to the IASB continuing with its proposals as presented in ED/2013/7, it is likely that such schemes could be accounted for using the insurance contracts approach with minimal variation. However, the risk adjustment and the residual margin (now referred to as the contractual service margin) may not be relevant to social benefits. This assumes that the IPSASB wishes maintain consistency with the IASB's Insurance Contracts requirements rather than developing an alternative approach.

50. The second option would be to use the approach to measure a wider range of social benefits (particularly cash transfers). The IPSASB would need to decide whether to develop its own proposals on recognition. Under the IASB's proposals, non-contributory social benefit programs could be viewed as onerous as the sum of the fulfilment cash flows would be greater than zero. This would also apply to subsidized contributory social benefit programs. An entity would recognize an expense at the point that it was determined that the obligation is onerous.
51. Staff considers that future Consultation Paper should consider the insurance model as a possible framework. The analysis of this model later in this paper considers the impact of applying the model to contributory programs that have characteristics of insurance schemes. The paper also considers the impact of applying the model to wider cash transfers. Following this analysis, the IPSASB is asked for its views as to whether the coverage in the future Consultation Paper should be:
- Limited to contributory programs which have characteristics of insurance schemes; or
 - Extended to cover cash transfers more generally.

Matter for Consideration

4. The IPSASB is asked to indicate which theoretical frameworks should be included in the future Consultation Paper.

Key Issue#3—*What are the appropriate disclosure requirements for social benefits?*

52. 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.
53. The nature and the level of detail of the disclosures will depend on a number of factors, including:
- The framework used to determine the accounting for social benefits;
 - The recognition point; and
 - Whether financial statement disclosures should include prospective information on commitments to pay social benefits. This question has greater significance where social benefits are recognized only when legal entitlements have been established (the due and payable approach). The answer to this question may also depend on whether the entity reports long-term fiscal sustainability information under Recommended Practice Guideline 1. There may less need for a disclosure on prospective entitlements under an actuarial-based measurement approach.
54. Staff considers that the future Consultation Paper should raise issues of principle regarding the appropriate disclosures for social benefits without setting out any detailed requirements. After the IPSASB had reached a decision on key issues such as the framework and recognition point, the Exposure Draft stage would develop detailed disclosures.

Matter for Consideration

5. The IPSASB is asked to indicate whether it agrees that the future Consultation Paper should raise issues of principle only in respect of the appropriate disclosures for social benefits.

Consideration of Key Issues under the IPSAS 19 Framework

Key Issue #4—*When do present obligations arise for the different categories of social benefits?*

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

55. This paper discusses these two issues together as both require consideration of what amounts to a present obligation and what constitutes a past event. The previous analysis referred to below relied on an IPSAS 19 framework.
56. The future Consultation Paper will need to discuss the fundamental question of when present obligations arise for each class of social benefit. Should a present obligation arise only where legal obligations have arisen? Or can a present obligation arise from a constructive obligation?
57. 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 (i.e. a past event giving rise to a present obligation); or
 - A measurement attribute
- is fundamental to determining the amount of any liability.
58. The 2004 ITC included three options as to when a present obligation arose, and whether revalidation was a recognition criterion or a measurement factor. These options are summarized below.

Constructive Obligation – broad approaches

Option 1 – Satisfy all eligibility criteria

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

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

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

Option 2 – Satisfy threshold eligibility criteria

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

Option 3 – Key participatory events

In the absence of a legal obligation, a past event, or series of past events, giving rise to a present obligation occurs prior to the point at which an individual meets threshold eligibility

criteria (where threshold criteria are applicable).

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

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

59. The 2004 ITC set out the Steering Committee's view that option 1 was the correct option to use in accounting for cash transfers. The Steering Committee concluded that where an entity meets its social policy objectives by providing individual goods or services, there is no present obligation prior to the provision of the good or service. The ITC also noted that the Steering Committee did not have a unanimous view regarding old age pension benefits. The majority of the Steering Committee supported option 1 but a minority supported option 3. The ITC noted that old age pension benefits were cash transfers. However, the ITC considered them separately for two reasons:
- Their significance in some jurisdictions; and
 - The reluctance of many governments to reduce such pension benefits for individuals who have achieved, or are nearing, pensionable age.
60. The future Consultation Paper will need to consider whether the most apt accounting treatment is dependent on the nature of the social benefits provided.
61. The options set out above address the concept of a constructive obligation under IPSAS 19. In this context, it is worth noting the approach in France, as explained in the Education Session at the March 2012 meeting. France takes the view that an obligation only arises where the beneficiary's right is enforceable. This means that the legal framework and all eligibility criteria have been fulfilled at the reporting date. In France, the financial statements provide additional information on prospective benefits to supplement this 'pay as you go' approach.
62. Some programs consider revalidation to be additional eligibility requirement that must be met to continue to receive benefits. This is in addition to other eligibility criteria that also must be met between revalidations.
63. These options raise the question as to whether, where a liability is not recognized, IPSAS 19 would require the disclosure of a contingent liability. As an example, consider an old age pension benefit where revalidation (i.e. confirmation that the beneficiary is still alive) is required annually. Under the first option identified in the 2004 ITC, a liability would only be recognized in respect of amounts payable until the next revalidation event. Should the entity disclose a contingent liability for future periods where beneficiaries are expected to remain be alive? This would be an uncertain future event not wholly within the control of the entity. Alternatively, does the ability of the public sector entity to alter the benefits it provides mean that there is no contingent liability? The future Consultation Paper will need to consider this issue fully.
64. Staff has not identified any further approaches that need to be included in the future Consultation Paper under an IPSAS 19 framework.

Key Issue #6(a)—*In determining when present obligations arise should contributory programs be distinguished from non-contributory programs?*

65. The 2008 CP discussed a number of views regarding the impact of contributions on present obligations. The following paragraphs summarize the discussion.
66. Some consider that whether a program is contributory affects the point at which an obligating event occurs. Under this view, an obligating event occurs earlier because the payment of a specified number, or amount, of contributions creates a valid expectation (or reinforces an existing one) that an individual or household will receive benefits based on the existing legal provisions. Such expectations are stronger than for non-contributory programs that are primarily funded from general taxation. Allied to such expectations is the argument that it is unrealistic for the government to avoid paying benefits. This is the case 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 or accessing personal details of estimated future benefits on a periodic or real-time basis; or
 - The program operating on a 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.
67. 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.
68. A variant of this view accepts that an obligating event occurs before all eligibility criteria have been satisfied. However, until all the criteria are satisfied, the amount of any entitlement cannot exceed the amount of an individual's contributions. Actuarially based estimates are used once all the criteria have been satisfied.
69. Some have a view that programs that require specified contributions from beneficiaries in order to qualify for benefits differ in nature from those that are non-contributory. They view such programs as quasi-contractual in nature, giving rise to different expectations on the part of beneficiaries than for non-contributory programs. This nature may also mean that a government's ability to realistically avoid the obligation is more limited than for non-contributory programs.
70. Others challenge the view that there is an earlier point at which a government has no viable alternative but to pay benefits. They emphasize that governments have the ability to amend or repeal legislation, an attribute that distinguishes them from private sector entities. They may acknowledge that individuals receive personal information on the benefits that they are likely to receive. However, they note that such communications are often accompanied by caveats or other qualifications. An example of a qualification would be that the payment of projected benefits depends on the future viability of the fund from which those benefits are paid. Therefore, they argue that the validity of those expectations is doubtful.
71. Contributory programs vary widely in nature and may depend partially on general taxation for their funding. Some therefore challenge whether citizens' expectations of receiving benefits in the future for contributory programs are more valid than for non-contributory programs. Even when a program is non-contributory, individuals may have strong expectations of receiving benefits on the grounds

that they are contributing indirectly through general taxation. Those who emphasize the above factors conclude that accounting for contributory programs should not differ from that for non-contributory programs. They consider that the obligating events occur at the same point, which might be when all eligibility criteria have been satisfied.

72. Finally, some do not trust a reliance on a government's ability to change legislation when determining the existence and extent of present obligations. They contend that present obligations should be determined in the context of the current legislation affecting social benefit programs. They consider that reliance on a government's ability to enact legislative change might be used to disregard a number of obligations. This could include those that have arisen through exchange transactions. They argue that if a government does modify the legislation affecting social benefit programs, the impact of that change should be recognized at that point. In other words, reflected in the financial statements for the period in which the change is enacted, and not before. That is, preparers should not prejudice possible changes in legislation.

Key Issue #6(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)

73. Some highly significant programs operate to provide contributory benefits, but also provide benefits to those who have not made the specified level of contributions. This adds a further layer of complexity. The latter mechanism is sometimes known as provision of a social minimum. In some countries, these programs provide both contributory occupational pensions (where contributions may be made by the employee, employer or both) and social assistance benefits. If present obligations arise at an earlier point for contributory programs than for non-contributory programs, accounting for these complex programs will become problematic.
74. The IPSASB may conclude that the recognition and/or measurement criteria for contributory and non-contributory benefits were different. In these circumstances, consideration would need to be given to whether separating the contributory and non-contributory components is conceptually appropriate and, if so, practical. If not, the IPSASB would need to develop a methodology for accounting for programs that combined both contributory and non-contributory elements. This assumes that the contributory and the non-contributory components are both material. It is possible that an actuarial approach would be helpful, but this will require further work to be undertaken.

Matter for Consideration

6. The IPSASB is asked to indicate whether it agrees that the issues identified in respect of the IPSAS 19 framework should be included in the future Consultation Paper; and if not to indicate what changes are required.

Consideration of Key Issues under the 'Grand' Executory Contract Framework

Key Issue #4—When do present obligations arise for the different categories of social benefits?

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

Key Issue #6(a)—In determining when present obligations arise should contributory programs be distinguished from non-contributory programs?

Key Issue #6(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).*

75. Under this framework, expenses on social benefits provided to the population as a whole will only be recognized to the extent that the population as a whole has met its obligation to provide taxes and other revenues. This effectively means that entities recognize social benefits on a due and payable basis. The 'due and payable' approach includes amounts for which all the eligibility criteria have been met, but payment has not been made at the reporting date.

76. Consequently, questions about:

- present obligations;
- revalidations; and
- whether benefits are contributory, non-contributory or a mixture of both

will be considered in determining whether the eligibility criteria have been met. An exception would be if contributory programs were to be treated as exchange transactions, in which case they would be excluded from the 'grand' executory contract framework.

Matter for Consideration

7. The IPSASB is asked to indicate whether it is in agreement that the issues identified in respect of the 'Grand' Executory Contract framework should be included in the future Consultation Paper; and if not to indicate what changes are required.

Consideration of Key Issues under the Insurance Contract Framework

Key Issue #4—*When do present obligations arise for the different categories of social benefits?*

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

77. In its revised Exposure Draft on Insurance Contracts ED/2013/7, the IASB proposed the recognition of insurance contracts at the earliest of:

- (a) The beginning of the coverage period;
- (b) The date on which the first payment from the policyholder becomes due; and
- (c) If applicable, the date on which the portfolio of insurance contracts to which the contract will belong is onerous.

78. For contributory programs with the characteristics of insurance schemes, it is likely that entities could apply these recognition criteria with minimal amendment. In these circumstances, questions about:

- Whether a present (constructive) obligation that gives rise to a liability exists; and
- Whether revalidation requirements are part of the recognition criteria or a measurement issue will generally not be relevant.

79. Instead, the future Consultation Paper will need to consider the nature of the program, and how this corresponds to an insurance contract. Some benefits are only available to those who have contributed. Here, the beginning of the coverage period will be no earlier than the date on which the first payment becomes due. Identifying the beginning of the coverage period and the date on which the first payment becomes due will be more difficult where payments are imputed.
80. Further complications may arise when benefits are not expected to be continuous. Take, for example, a contributory unemployment benefit program. A typical pattern would be for an individual to work for a period, contributing; then to be out of work and receiving benefits before returning to work. This pattern of periods of employment followed by periods of unemployment might repeat throughout an individual's working life. A question under the insurance contract framework is whether such a pattern should be treated as one continuous 'contract', or whether each period of employment marks the start of a new 'contract.' This may be dependent on the nature or rules governing the individual program.
81. Another issue that will need to be considered is how the third recognition criteria, that of an onerous portfolio, should be reflected. There may be social benefit programs where contributions are compulsory, but where these contributions are not intended to cover the full cost of the benefits. Such a program is likely to meet the definition of an onerous contract under the IASB's proposals. The question that will then arise is 'when does the public sector entity become bound by the program?' This could be when the first contribution is made, or the coverage period begins. Alternatively, (if entry to the program is open to the whole population) could an earlier participatory event (or series of events) effectively bind the entity? Take the unemployment benefit example above. If entry to the program is mandatory when an individual enters the workforce, an earlier participatory event such as starting school could be seen as a first step to employment. Would this be the equivalent of the entity being bound by a contract? The range of options to be considered is likely to mirror the options for a constructive obligation discussed under the IPSAS 19 framework above. However, the focus will be on when the entity becomes bound by the program.
82. So far we have considered contributory programs which have characteristics of insurance schemes. Further complications will arise if the IPSASB extends the insurance contracts framework to other social benefits. Assuming the IPSASB was to adopt recognition criteria similar to those proposed by the IASB, the Consultation Paper will need to address the following issues:
- Where a social benefit program is non-contributory, the program will automatically be classed as onerous. A program could be considered analogous to a portfolio, with an individual's entitlement being considered analogous to a contract. For each program, the point at which the public benefit entity was considered to be bound to accept an individual onto the program would need to be identified. As discussed above, there are a range of options that will need to be considered.
 - Where no contributions are made, it may be more difficult to determine the beginning of the coverage period. Take for example an old age pension benefit program. If entitlement to the benefits is based on a minimum number of years in work, does the coverage period begin at retirement age, when the individual has achieved the minimum number of years in work, when the individual starts work, or at some earlier point (such as starting school)? Again, this issue is likely to involve discussions of a similar range of options to those identified in the 2004 ITC.

- Where benefits are to be paid on a continuous basis (as with old age pension benefits), the measurement of the liability will be based on the fulfillment cash flows, i.e. all benefits to be provided to the individual in future periods.

Key Issue #6(a)—*In determining when present obligations arise should contributory programs be distinguished from non-contributory programs?*

83. As discussed earlier, applying the insurance contract framework to social benefit programs that are non-contributory raises particular issues; the framework is simpler to apply to contributory programs. In addition, the issues relate to the when an entity is considered to be bound by the terms of a program rather than to present obligations.

Key Issue #6(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)*

84. Under the insurance contract framework, consideration would need to be given to whether a program that provided both contributory and non-contributory benefits could be separated into components. If the program could be separated, each component would be accounted for separately, using the principles discussed above.
85. If separating the program is not possible, then it is highly likely that the program as a whole would be classed as onerous. Again, the implications of classifying a program as onerous are discussed above.

Matters for Consideration

8. The IPSASB is asked to indicate whether it agrees that the issues identified in respect of the Insurance Contract framework should be included in the future Consultation Paper; and if not to indicate what changes are required.
9. The IPSASB is asked to indicate whether the future Consultation Paper should consider the application of the Insurance Contract framework only to contributory programs that have characteristics of insurance schemes or to cash transfers more generally.

Other Issue – Alignment with Statistical Basis of Reporting

Introduction

86. The IPSASB has recently reaffirmed the importance of reducing differences with the statistical basis of reporting where appropriate. This has been shown with the publication of the policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*.⁸
87. The remainder of this issues paper discusses some aspects of statistical reporting for social benefits. The IPSASB may wish to consider these in determining the approach that the Consultation Paper should take.

Classification under the System on National Accounts

88. There are differences in the definitions used and the approaches taken by the SNA and the IPSASB Conceptual Framework. These may give rise to differences between IPSASs (and the

⁸ <http://www.ifac.org/sites/default/files/publications/files/IPSASB-GFS-Policy-Paper.pdf>

IPSASB's line of travel in the Conceptual Framework) and the System of National Accounts (SNA). As an example consider the definition of a social insurance benefit in SNA 2008 is as follows:

8.65 Social insurance benefits may be provided in cash or in kind. They become payable when certain events occur, or certain circumstances exist, that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or reducing their incomes. The contingencies covered are liable to vary from scheme to scheme. However, the identification of certain receivables as social insurance benefits depends not just on the contingencies covered but also the way in which coverage is provided.

89. The definition requires that the circumstances for which benefits are paid are those that may adversely affect the welfare of the households concerned. The purpose of a payment would not be a factor in determining whether a liability existed under the Conceptual Framework. In many cases, the circumstances that fall within the definition of a social benefit in SNA 2008 would be the same as those within the scope of this project. However, the difference in definitions opens the possibility of divergences between the SNA and the IPSASB coverage of social benefits. Similarly, the way in which coverage is provided can affect the classification under the SNA. This may not affect the treatment of the item under an IPSAS.
90. The SNA distinguishes social insurance schemes (i.e., schemes that are contributory) and social assistance schemes (i.e., schemes that are non-contributory). SNA 2008 includes sub categories of social benefit (other than social transfers in kind) as shown below:

8.107 Taking the foregoing considerations into account, social benefits recorded in the secondary distribution of income account are structured as follows:

Social benefits other than social transfers in kind
 Social security benefits in cash
 Social security pension benefits
 Social security non-pension benefits in cash
 Other social insurance benefits
 Other social insurance pension benefits
 Other social insurance non-pension benefits
 Social assistance benefits in cash.

91. Other social insurance benefits will be those provided by employers, social security being the term used for social insurance benefits provided by the state. For public sector entities, this leaves a threefold classification:
- Pension benefits under social security (contributory) programs;
 - Non-pension benefits under social security (contributory) programs; and
 - Social assistance (non-contributory) programs.
92. Under the SNA, pensions are not limited to old age pensions but include pensions (or benefits) such as permanent disability—those benefits awarded for life.

93. The distinction between pension and non-pension programs underpins the approach taken in the 2004 ITC. The ITC considered old age pensions separately from other social benefits.
94. Public sector entities may also pay social benefits in kind. When social benefits are payable in kind, the household has no discretion over the use of the benefit; the benefits simply relieve the household from having to meet these expenses out of income from other sources. Social benefits in kind are the individual services provided by government to households either free or at prices that are not economically significant, including those where the government reimburses some or all of the expense that a household has incurred for benefits. These are referred to as social transfers in kind.
95. All social transfers in kind provided by government are treated in the same way. No attempt is made to separate these into social security and social assistance.⁹
96. The Classification of Functions of Government (COFOG) provides a further breakdown of expenditure. Appendix A to this paper indicates which items within the COFOG classification staff considers to be within the scope of this project.

Matter for Consideration

10. The IPSASB is asked to indicate to what extent the definitions and classifications used within SNA 2008 should be reflected in the Consultation Paper.

Recognition of Liabilities

97. Within the SNA, a government's liabilities for entitlements accruing under social benefit programs are not normally included. The following extract from SNA 2008 explains this:

17.191 In recognition of the fact that social security is normally financed on a pay-as-you-go basis, entitlements accruing under social security (both pensions and other social benefits) are not normally shown in the SNA. If all countries had similar benefits provided under social security and under private schemes, international comparisons would be relatively straightforward. However, as pointed out at the beginning of this part, this is far from being the case and national perceptions of exactly what is covered by social security vary considerably.

17.192 There are two problems with simply suggesting that entitlements from social security should be shown in the SNA. The first is that reliable estimates of the entitlements may not be readily available whereas it is increasingly the case that such estimates exist for private schemes. Secondly, there is an argument that such estimates are of limited usefulness where government has the possibility of changing the basis on which entitlements are determined in order to keep the entitlements within the bounds of what is budgetarily feasible. However, the consequence of simply accepting that entitlements for private schemes are shown and for social security are not is that some countries would include the greater part of pension entitlements in the accounts and some would show almost none.

⁹ See SNA 2008, paragraphs 8.103–8.106

17.193 In recognition of this dilemma, some flexibility regarding the recording of pension entitlements of unfunded pension schemes sponsored by government for all employees (whether private sector employees or government's own employees) is provided. Given the different institutional arrangements in countries, only some of these pension entitlements may be recorded within the main sequence of accounts (here referred to as the "core accounts"). In addition, however, a further table is to be presented that provides information disclosing the proportion of pension provision covered in the core accounts with some approximate estimates for the remaining schemes. It is a requirement, though, that a set of criteria be provided to explain the distinction between those schemes carried forward to the core accounts and those recorded only in the supplementary table.

98. The IPSASB may conclude that liabilities do arise for entitlements under social benefit programs in some circumstances. If so, this may lead to a difference between IPSAS and GFS.

Matter for Consideration

11. The IPSASB is asked to indicate how any possible recognition differences between IPSASs (and the IPSASB's line of travel in the Conceptual Framework) and GFS should be addressed in the Consultation Paper.

APPENDIX A

CLASSIFICATION OF FUNCTIONS OF GOVERNMENT (COFOG)

Sequence	Description	Project Scope
1	General public services	Outside the scope
1.1	Executive and legislative organs, financial and fiscal affairs, external affairs	Outside the scope
1.2	Foreign economic aid	Outside the scope
1.3	General services	Outside the scope
1.4	Basic research	Outside the scope
1.5	R&D General public services	Outside the scope
1.6	General public services n.e.c. ¹⁰	Outside the scope
1.7	Public debt transactions	Outside the scope
1.8	Transfers of a general character between different levels of government	Outside the scope
2	Defence	Outside the scope
2.1	Military defence	Outside the scope
2.2	Civil defence	Outside the scope
2.3	Foreign military aid	Outside the scope
2.4	R&D Defence	Outside the scope
2.5	Defence n.e.c.	Outside the scope
3	Public order and safety	Outside the scope
3.1	Police services	Outside the scope
3.2	Fire-protection services	Outside the scope
3.3	Law courts	Outside the scope
3.4	Prisons	Outside the scope
3.5	R&D Public order and safety	Outside the scope
3.6	Public order and safety n.e.c.	Outside the scope
4	Economic affairs	Outside the scope
4.1	General economic, commercial and labour affairs	Outside the scope
4.2	Agriculture, forestry, fishing and hunting	Outside the scope
4.3	Fuel and energy	Outside the scope
4.4	Mining, manufacturing and construction	Outside the scope
4.5	Transport	Outside the scope
4.6	Communication	Outside the scope
4.7	Other industries	Outside the scope
4.8	R&D Economic affairs	Outside the scope
4.9	Economic affairs n.e.c.	Outside the scope

¹⁰ n.e.c = not elsewhere classified

Sequence	Description	Project Scope
5	Environmental protection	Outside the scope
5.1	Waste management	Outside the scope
5.2	Waste water management	Outside the scope
5.3	Pollution abatement	Outside the scope
5.4	Protection of biodiversity and landscape	Outside the scope
5.5	R&D Environmental protection	Outside the scope
5.6	Environmental protection n.e.c.	Outside the scope
6	Housing and community amenities	Outside the scope
6.1	Housing development	Outside the scope
6.2	Community development	Outside the scope
6.3	Water supply	Outside the scope
6.4	Street lighting	Outside the scope
6.5	R&D Housing and community amenities	Outside the scope
6.6	Housing and community amenities n.e.c.	Outside the scope
7	Health	Within the scope
7.1	Medical products, appliances and equipment	Within the scope
7.2	Outpatient services	Within the scope
7.3	Hospital services	Within the scope
7.4	Public health services	Within the scope
7.5	R&D Health	Within the scope
7.6	Health n.e.c.	Within the scope
8	Recreation, culture and religion	Outside the scope
8.1	Recreational and sporting services	Outside the scope
8.2	Cultural services	Outside the scope
8.3	Broadcasting and publishing services	Outside the scope
8.4	Religious and other community services	Outside the scope
8.5	R&D Recreation, culture and religion	Outside the scope
8.6	Recreation, culture and religion n.e.c.	Outside the scope
9	Education	Within the scope
9.1	Pre-primary and primary education	Within the scope
9.2	Secondary education	Within the scope
9.3	Post-secondary non-tertiary education	Within the scope
9.4	Tertiary education	Within the scope
9.5	Education not definable by level	Within the scope
9.6	Subsidiary services to education	Within the scope
9.7	R&D Education	Within the scope
9.8	Education n.e.c.	Within the scope

Sequence	Description	Project Scope
10	Social protection	Within the scope
10.1	Sickness and disability	Within the scope
10.2	Old age	Within the scope
10.3	Survivors	Within the scope
10.4	Family and children	Within the scope
10.5	Unemployment	Within the scope
10.6	Housing	Within the scope
10.7	Social exclusion n.e.c.	Within the scope
10.8	R&D Social protection	Within the scope
10.9	Social protection n.e.c.	Within the scope