

Meeting: International Public Sector Accounting
Standards Board

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Agenda Item 10

For:

☐ Approval

☒ Discussion

☐ Information

Social Benefits

Objective(s) of Agenda Item

1. The objective of this session is to **review** an Issues Paper and a draft Consultation Paper (CP) on Social Benefits; and to **provide directions** for further development.

Material(s) Presented

Agenda Item 10.1 Issues Paper, *Social Benefits*

Agenda Item 10.2 Draft Consultation Paper, *Social Benefits*

2. The draft Consultation Paper included as part of this agenda item is a clean copy. A mark-up version, showing the changes to the chapters previously considered by the IPSASB is available from staff on request.

Action(s) Requested

3. The IPSASB is asked to:
 - (a) Review the Issues Paper and to provide directions on how the Matters for Consideration identified in the paper should be addressed in the Consultation Paper; and
 - (b) Review the draft Consultation Paper and provide directions for staff on the amendments that should be made.

Issues Paper, *Social Benefits***Objective of the Issues Paper**

1. The objective of this session is to **review** this Issues Paper and a draft Consultation Paper (CP) on Social Benefits; and to **provide directions** for further development.

Background

2. The IPSASB agreed to restart its project on Social Benefits and approved the project brief at the September 2013 meeting. An initial Issues Paper was discussed at the March 2014 meeting.
3. At its June 2014 meeting, the IPSASB discussed draft chapters of the CP covering the introduction; scope and definitions; identification of approaches and Option 1. The IPSASB agreed to restructure the CP. The IPSASB also agreed that any decision to split the project into two phases would be a project management decision and that the draft CP should not include a Preliminary View (PV) on this matter.
4. The IPSASB provided directions to staff regarding the further development of the chapters of CP discussed at the meeting.
5. A complete draft of the CP (minus the Executive Summary, which will be prepared once the IPSASB has agreed the content of the CP) is included as agenda item 10.2. Relocation of chapters or sections considered at the June 2014 meeting is indicated by a staff comment. New material is indicated by a staff comment.
6. This Issues Paper seeks the IPSASB's views on the key issues that staff has identified in developing the CP.

Key Issues**Chapter 1 – Introduction**

7. As requested by the IPSASB at its June 2014 meeting, a new section has been added to the Introduction, setting out the implications of the Conceptual Framework for the project. The CP highlights two main ways in which the Conceptual Framework will impact the Social Benefits project:
 - Updated definitions of a liability and related terms will influence the discussion as to whether liabilities should be recognized in respect of social benefits, and if so, how these should be measured; and
 - The objectives of financial reporting and the qualitative characteristics (QCs) provide a framework against which the options identified in the CP can be assessed.
8. The CP proposes to use the Conceptual Framework definition of a liability rather than the definition in IPSAS 19. It also proposes to use the definition of a present obligation, a term not previously defined by the IPSASB. The CP notes that the IPSAS 19 definition of an obligating event is not wholly consistent with the Conceptual Framework definition of a present obligation. The CP proposes that a revised definition of an obligating event is used in this project. This defines an obligating event as “an

event that creates a present obligation". Incorporating the definition of a present obligation, an obligating event is defined as "an event that creates a legal or other binding requirement which an entity has little or no realistic alternative to avoid."

9. Staff notes that much of the material relating to the objectives of financial reporting and the QCs is repeated in Appendix B. The IPSASB is asked to decide whether to retain the descriptions in Chapter 1 or to replace these descriptions with a list in the interests of conciseness.

Matter(s) for Consideration

1. The IPSASB is asked to indicate:
 - (a) Whether it considers that the new section adequately describes the implications of the Conceptual Framework for the project;
 - (b) Whether to retain the descriptions of the objectives of financial reporting and the QCs; and
 - (c) What additional redrafting of Chapter 1 is required.

Chapter 2 – Social Benefit Programs and Appendix A – Examples of Social Benefit Programs

10. The material in both Chapter 2 and in Appendix A is being considered by the IPSASB for the first time at this meeting.
11. Chapter 2 sets out in generic terms the categories of social benefits that may be provided by the public sector; the main administrative arrangements that are used; and the main funding mechanisms that are applied.
12. Appendix A seeks to illustrate these in more detail by describing a number of specific examples. Appendix A also seeks to explain how the approaches discussed in the CP could be applied in accounting for these examples. This approach is intended to help respondents understand how the approaches could be applied to real world examples. There is a risk that respondents will focus on examples from their jurisdictions rather than the principles set out in the CP. An alternative approach to mitigate this risk would be to include a section on the application of the approaches in the CP in general at the end of Appendix A.

Matter(s) for Consideration

2. The IPSASB is asked to provide directions to staff regarding any redrafting of Chapter 2 and Appendix A that is required, in particular:
 - (a) Whether Chapter 2 describes the main categories of social benefit and administrative arrangements; and
 - (b) Whether the approach in Appendix A of describing the application of the CP to each specific example is helpful, or whether another approach would be preferable.

Chapter 3 – Scope and Definitions

13. Chapter 3 was considered by the IPSASB at its June 2014 meeting. The Chapter was then numbered Chapter 2 but has been relocated after the description of social benefit programs as directed by the IPSASB.
14. A number of drafting changes have been made to this chapter to reflect the decisions made by the IPSASB at its June 2014 meeting. The principal changes are discussed below.

15. The diagram illustrating the SNA classification of social benefits has been revised to highlight social insurance programs. The second diagram (which illustrated the project phases in which each classification of benefits would be addressed) has been removed following the IPSASB's decision not to seek respondents' views on whether there should be one or two phases to the project.
16. Most of the discussion about whether there should be one or two phases has been removed. The CP now notes that the IPSASB will consider whether different factors will need to be considered in determining the accounting arrangements for cash transfers and transfers in kind. The CP notes that if this is the case, it will consider whether to proceed with one or two phases to the project. A Specific Matter for Comment (SMC) seeking respondents' views as to whether the concepts discussed in the CP are equally applicable to cash transfers and social transfers in kind has been added. The SMC also requests examples of any factors which affect the accounting arrangements for either cash transfers or transfers in kind, but not both.
17. As agreed at the June 2014 meeting, a definition of social insurance has been added. The definition is as follows:

Social insurance programs are programs providing social benefits where the benefits received are conditional on participation in the program, usually evidenced by way of actual or imputed contributions made by or on behalf of the recipient.
18. As agreed at the June 2014 meeting, the definition of social transfers in kind has been amended to remove the reference to non-exchange transactions. Staff has added a reference to social transfers in kind being provided as social benefits. Without this addition, staff considers there is a risk that practitioners could consider that all exchange transactions between a public sector entity and an individual or household would meet the definition of a social transfer in kind. The revised definition is as follows:

Social transfers in kind are goods and services provided as social benefits to individuals and households by a public sector entity. Social transfers in kind include reimbursements.
19. Minor changes have been made to the definitions of social security programs and social assistance programs. These definitions now refer to participation evidenced by contributions.

Matter(s) for Consideration

3. The IPSASB is asked to indicate whether the revisions to this chapter address the issues raised by the IPSASB at the June 2014 meeting; and if not, to indicate what additional redrafting is required.

Chapter 4 – Identification of Approaches

20. Previously, this Chapter listed the objectives of financial reporting and the QCs that are included in the Conceptual Framework. As agreed by the IPSASB at the June 2014 meeting, a section describing the impact of the Conceptual Framework on the project has been added to Chapter 1. Consequently, the list in this chapter has been removed.
21. The chapter now refers to Option 1 as the “obligating event perspective” rather than the “IPSAS 19 approach.”
22. The Specific Matter for Comment has been extended to ask whether the three approaches identified in this chapter are viable approaches for financial reporting. The SMC also asks if respondents are

aware of other suitable approaches, and seeks respondents' views as to which approach or approaches should be developed in a future IPSAS.

Matter(s) for Consideration

4. The IPSASB is asked to indicate whether the revisions to this chapter address the issues raised by the IPSASB at the June 2014 meeting; and if not, to indicate what additional redrafting is required.

Chapter 5 – Option 1: Obligating Event Perspective

23. As agreed at the June 2014 meeting, this chapter now covers both the recognition and measurement discussion for Option 1. As noted above, this option is now referred to the obligating event perspective.
24. References to the IPSAS 19 definition of an obligating event have been replaced with the revised definition of an obligating event proposed in Chapter 1 (see paragraph 8 above). References to “no alternative but to settle”, taken from IPSAS 19, have been replaced by references to “little or no realistic alternative to avoid”, based on the Conceptual Framework’s definition of a present obligation.
25. The definitions used are based on those included in the draft minutes of the June 2014 meeting, and will be revised should the IPSASB agree to amend these definitions.
26. Additional paragraphs have been added that discuss issues raised by the IPSASB at the June 2014 meeting. The discussions include:
 - Whether the point at which a valid expectation arises is different for a program fully financed by contributions and a program that is only partially financed by contributions.
 - The nature of exchange under an insurance arrangement.
 - Whether program assets and liabilities should be reported net or gross.

Matter(s) for Consideration

5. The IPSASB is asked to indicate whether the revisions to this chapter address the issues raised by the IPSASB at the June 2014 meeting; and if not, to indicate what additional redrafting is required.

Chapter 6 – Option 2: Social Contract Perspective

27. The material in Chapter 6 is being considered by the IPSASB for the first time at this meeting.
28. The chapter describes the second option, referred to as the social contract perspective. This option applies executory contract accounting by analogy to social benefits. Liabilities are recognized only where there is a legal obligation.
29. The chapter discusses the nature of the executory contract. This includes discussion of the following items:
 - Other party: the chapter discusses who the other party to the arrangement is, and concludes that the other party is society as a whole.

- Obligations to be performed: the chapter discusses the nature of the obligations to be performed and concludes that the public sector entity provides social benefits in return for society as a whole contributing taxes and other sources of funding.
30. The chapter describes the proposed accounting treatment under the social contract perspective, where an entity only recognizes a liability for a social benefit where a legal obligation has arisen. This liability would be recognized at the cost of fulfillment.

Matter(s) for Consideration

6. The IPSASB is asked to provide directions to staff regarding any redrafting of Chapter 6 that is required.

Chapter 7 – Option 3: Social Insurance Perspective

31. The material in Chapter 7 is being considered by the IPSASB for the first time at this meeting.
32. The chapter describes the third option, referred to as the social insurance perspective. This option applies insurance contract accounting by analogy to social benefits.
33. The chapter describes the principles of insurance accounting, taking as its starting point the IASB Exposure Draft ED/2013/7 *Insurance Contracts*. The chapter notes that insurance contracts are measured using the net present value of the expected cash flows (both premiums received and claims and benefits paid).
34. The chapter discusses the application of the social insurance perspective to social assistance programs (i.e., programs that do not involve the payment of contributions). It concludes that the lack of contributions means that the social insurance perspective is unlikely to be an appropriate basis of accounting for social assistance programs.
35. The chapter discusses the amount to be recognized in respect of a social benefit program at initial recognition, and how an expected surplus or deficit should be treated. A key issue in this discussion is how the deficit that arises on a program that is only partially financed by contributions should be treated. The chapter seeks respondents' views on this matter.
36. The chapter also discusses other key issues, including:
- The circumstances in which a risk adjustment should be applied. If no risk adjustment is applied, the measurement basis will be the cost of fulfillment. If a risk adjustment is applied, the measurement basis will be the assumption price.
 - How the coverage period (i.e., the period over which cash flows should be estimated) should be determined.
 - The nature of the contribution. The chapter seeks respondents' views on whether it is appropriate to consider the social insurance perspective if a program is financed by levies; the program provides benefits to non-participants; or contributions are considered to be part of general taxation.
 - The discount rate to be used.
 - Subsequent measurement.

Matter(s) for Consideration

7. The IPSASB is asked whether it agrees with the approach taken in the CO in relation to the following issues:
- (a) Social assistance programs;
 - (b) Initial recognition;
 - (c) Risk adjustment;
 - (d) Coverage period;
 - (e) Nature of the contribution;
 - (f) Discount rate; and
 - (g) Subsequent measurement
- and to provide directions to staff regarding any redrafting of Chapter 7 that is required.

Chapter 8 – Presentation

37. The material in Chapter 8 is being considered by the IPSASB for the first time at this meeting.
38. The chapter discusses at a high level the information to be presented in accordance with a future IPSAS. The chapter does not discuss specific disclosure requirements. Specific issues that are discussed include:
- Accounting policies;
 - Significant judgment and key sources of estimation uncertainty;
 - Details of revenues, expenses, assets and liabilities; and
 - Prospective information.
39. The chapter also discusses information presented outside the financial statement, and makes reference to RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances*.
40. The inclusion in the CP of a chapter discussing presentation was agreed by the IPSASB at its June 2014 meeting. The chapter is inevitably high level as a detailed discussion of presentation issues will only be possible once decisions have been taken regarding the recognition and measurement approach to be adopted. The IPSASB is asked to consider whether the chapter should be removed in the interests of conciseness, or retained to provide respondents' views as to the information about social benefits that users require.

Matter(s) for Consideration

8. The IPSASB is asked to:
- (a) Indicate whether the chapter should be retained; and
 - (b) If so, provide directions to staff regarding any redrafting of Chapter 8 that is required.

Chapter 9 – Social Security Funds, Composite Programs and Other Issues

41. The material in Chapter 9 is being considered by the IPSASB for the first time at this meeting.

42. This chapter discusses how the approaches discussed in earlier chapters of the CP can be applied to a variety of more complex arrangements, including social security funds and composite social security programs.
43. The chapter proposes that social security funds would apply any future IPSAS in the same manner as any other entity. The chapter notes that there are specific factors that will need to be taken into account for these entities, for example:
- A social security fund operating outside the different levels of government may find it difficult to apply the social contract perspective.
 - A social security fund applying the social insurance perspective may need to include in the estimated cash flows any amounts receivable from a public sector entity under a guarantee.
44. The chapter discusses composite social security programs. It proposes that where it is not possible to separate the employee benefit element and the social benefit element, the entity will select an accounting policy that most closely reflects the overall nature of the program.
45. The IPSASB is asked to note that staff has not identified any examples of composite social security programs. Members are asked to provide any examples they may be aware of. If no examples can be identified, this may indicate that the reference in IPSAS 25 to composite social security programs may need to be reviewed.
46. The chapter also discusses the following situations:
- A public sector entity has given a guarantee to a social security fund
 - A public sector entity has control, joint control or significant influence over a social security fund.

Matter(s) for Consideration

9. The IPSASB is asked to provide directions to staff regarding any redrafting of Chapter 9 that is required.

Appendix B - Evaluation of Options against the Objectives of Financial Reporting and the QCs

47. The material in Appendix B is being considered by the IPSASB for the first time at this meeting.
48. Appendix B evaluates each of the options considered in the CP against the objectives of financial reporting and the QCs. The IPSASB is asked if it agrees with this evaluation.

Matter(s) for Consideration

10. The IPSASB is asked to:
- (a) Indicate whether it agrees with the evaluation of the options in Appendix B; and
 - (b) Provide directions to staff regarding any redrafting that is required.

Appendix C – Implications for Existing IPSASs

49. The material in Appendix C is being considered by the IPSASB for the first time at this meeting.
50. Appendix C identifies provisions within existing IPSASs that may require amendment as a result of an IPSAS on social benefits being issued.

51. The CP proposes definitions of a liability, present obligation and obligating event that are based on the Conceptual Framework. These differ in some respects from the equivalent definitions in IPSAS 19. This highlights a need to review existing standards for consistency with the Conceptual Framework once this is issued.

Matter(s) for Consideration

11. The IPSASB is asked to provide directions to staff regarding any redrafting of Appendix C that is required.

SOCIAL BENEFITS

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1 Introduction

- 1.1 The delivery of social benefits to the public is a primary objective for many governments and accounts for a sizeable proportion of their expenditure. The Preface to *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) identifies the provision of social benefits as a distinguishing feature of the public sector.
- 1.2 IPSASs do not provide guidance on how to account for social benefits. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* excludes provisions related to social benefits in non-exchange transactions from its scope¹. Entities applying accrual-based IPSASs may use inconsistent or inappropriate reporting for social benefits in their financial statements. As a result, users may not be able to find the information they need to assess social benefit programs. The lack of an IPSAS on accounting for social benefits is, therefore, a significant gap in the IPSASB's literature.
- 1.3 This Consultation Paper (CP) is an important step in determining the appropriate reporting of social benefits. This builds on the previous work of the IPSASB in this area. The CP considers the approaches to, and issues arising in, accounting for social benefits. Its objective is to initiate a debate about matters such as:
- The definition and classification of social benefits;
 - Approaches to the recognition and measurement of social benefits; and
 - Presentation of information about social benefits.

History of the Project

- 1.4 Between 2002 and 2008 the IPSASB and its predecessor (the Public Sector Committee (the PSC)) carried out extensive work on accounting for social benefits. In March 2002, the PSC initiated its first project on this subject. This was one of the first major public sector specific projects.
- 1.5 The PSC established a Steering Committee to support the project. The Steering Committee included non-PSC members from national and local governments, international organizations and regional bodies to provide experience and expertise. The Steering Committee developed an Invitation to Comment (ITC), *Accounting for Social Policies of Government*. This was published in January 2004.
- 1.6 Responses to the ITC supported the development of an IPSAS on social benefits. The preferred approach was based on IPSAS 19. The theoretical model outlined in the ITC governed the IPSASB's approach to social benefits over the next few years. 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
 - Other standard setters were researching alternative approaches to accounting for social benefit programs at this time.
- 1.7 The IPSASB also came to a view that the financial statements cannot satisfy all a user's information needs regarding social benefits. Further information about the long-term fiscal sustainability of those programs, is required.

¹ Further details can be found in Chapter 3

- 1.8 The IPSASB then developed an ED dealing solely with disclosure. Issues relating to recognition and measurement were addressed in a Consultation Paper.
- 1.9 In March 2008 the IPSASB 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*.
- 1.10 The majority of respondents opposed the approach in ED 34. They did not consider that disclosures in the financial statements could convey sufficient information about social benefits and that the approach to determining the amount of disclosures would pre-judge approaches to recognition and measurement. The approach taken in the project brief *Long-term Fiscal Sustainability* was supported.
- 1.11 The IPSASB decided not to develop ED 34 into an IPSAS. The IPSASB also recognized the linkages between the Conceptual Framework and social benefits. The Elements and Recognition phase would define a liability. This definition would influence the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic. The IPSASB initiated a project on the long-term sustainability of the public finances in 2008, based on the project brief. Recommended Practice Guideline 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, was published in July 2013.

Conceptual Framework [Staff Note – New Section]

Staff Comment: References to the Conceptual Framework in this section are based on the papers presented and decisions taken at the June 2014 meeting, and some terminology changes incorporated into the papers for the September 2014 meeting. These will be updated as required once the Framework has been approved.

- 1.12 The complete Conceptual Framework was published in **October 2014**. This development will influence this project in two ways:
- The objectives of financial reporting and the qualitative characteristics provide a framework against which the options identified in this CP can be assessed; and
 - Updated definitions of a liability and related terminology will influence the discussion as to whether liabilities should be recognized in respect of social benefits, and if so, how these should be measured.

Definition of a liability and related terminology

- 1.13 The Conceptual Framework defines a liability as “a present obligation of the entity for an outflow of resources that results from a past event.”²

² Reference to be added

- 1.14 The Conceptual Framework defines a present obligation as “a legally binding or non-legally binding requirement which an entity has little or no realistic alternative to avoid.”³ Until the publication of the Conceptual Framework, this term was not defined in IPSAS.
- 1.15 There are two key factors to be considered in determining when a liability arises for a social benefit:
- What is the past event (or events) that gives rise to a present obligation?
 - When does an entity have little or no realistic alternative to avoid settling the obligation?
- 1.16 IPSAS 19 brings these two factors together in its definition of a past obligating event as “an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.”⁴
- 1.17 This definition is now inconsistent with the Conceptual Framework. This CP therefore adopts an updated definition of an obligating event as “an event that creates a present obligation.” This definition refers to “a legally binding or non-legally binding requirement” rather than a “legal or constructive obligation.” It also considers whether an entity has “little or no realistic alternative to avoid” the requirement. IPSAS 19 considers whether an entity has “no realistic alternative to settling” the obligation.
- 1.18 These updated definitions are used to update the IPSASB’s previous discussions as to whether an obligating event in respect of social benefits arises, and if so when.

Objectives of financial reporting and qualitative characteristics

- 1.19 The objectives of financial reporting are set out in paragraph 2.1 of the Conceptual Framework.

“The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).”

- 1.20 In assessing the options identified in this CP, the IPSASB will consider how well those options satisfy the objectives of financial reporting.
- 1.21 When developing an Exposure Draft on social benefits, the IPSASB will consider the extent to which each of the options satisfies the qualitative characteristics (QCs) set out in the Conceptual Framework. For ease of reference, the descriptions of each QC are set out below.
- 1.22 “Financial and non-financial information is **relevant** if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.”⁵
- 1.23 “To be useful in financial reporting, information must be a **faithful representation** of the economic and other phenomena that it purports to represent. Faithful representation is attained when the

³ Reference to be added

⁴ IPSAS 19, paragraph 18

⁵ Conceptual Framework, paragraph 3.6

depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.”⁶

- 1.24 “**Understandability** is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. ...

However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.”⁷

- 1.25 “**Timeliness** means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.”⁸

- 1.26 “**Comparability** is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.”⁹

- 1.27 “**Verifiability** is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent....”¹⁰

- 1.28 In developing IPSASs, the IPSASB recognizes that there are pervasive constraints on the information included in general purpose financial reports. The descriptions are set out below.

- 1.29 “Information is **material** if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity’s GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.”¹¹

- 1.30 “Financial reporting imposes **costs**. The **benefits** of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs.”¹²

- 1.31 It is unlikely that a single approach will fully satisfy all the QCs. A future IPSAS will need to find an appropriate **balance between the QCs**.

⁶ Conceptual Framework, paragraph 3.10

⁷ Conceptual Framework, paragraphs 3.17 and 3.18

⁸ Conceptual Framework, paragraph 3.19

⁹ Conceptual Framework, paragraph 3.21

¹⁰ Conceptual Framework, paragraph 3.26

¹¹ Conceptual Framework, paragraph 3.32

¹² Conceptual Framework, paragraph 3.35

Approach taken in this CP

- 1.32 This CP draws on the Conceptual Framework to update the IPSASB's previous work on this subject. The CP also considers other developments since 2008.
- 1.33 This CP adopts a definition of social benefits that is consistent with Government Financial Statistics (GFS). This excludes collective goods and services such as defense and public order. The CP also adopts a classification of social benefits that is consistent with GFS. The reasons underlying this approach are set out in Chapter 3.
- 1.34 The CP identifies three options for accounting for social benefits. These options are:
- Obligating event approach (an update of the approach used in the 2004 ITC)
 - Social contract approach (the alternative approach identified in the 2008 CP)
 - Social insurance approach (a new approach based on insurance accounting)
- 1.35 The options identified are explored in Chapters 5–7. The CP evaluates these options against the objectives of financial reporting and the qualitative characteristics set out in the Conceptual Framework. This evaluation is shown in Appendix B.
- 1.36 Appendix C provides information on the provisions within existing IPSASs that may require revision following the publication of an IPSAS on social benefits.

2 Social Benefit Programs¹³ [Staff Note – New Chapter]

- 2.1 There is a wide variety of social benefit programs provided by public sector entities globally. Programs vary in the benefits provided, their administration and the funding mechanisms used to provide the benefits.
- 2.2 This Chapter of the CP discusses the types of benefit provided; the main administration arrangements; and some of the funding mechanisms. This discussion is intended to highlight the complexity that can arise in the design of social benefit programs. It does not seek to provide a comprehensive list of the types of benefits, administration arrangements or funding mechanisms that may be used.
- 2.3 This Chapter of the CP does not discuss specific examples of social benefit programs. Appendix A includes six examples of social benefit programs, and discusses how the approach set out in the remainder of this CP could be applied to those specific examples.

Categories of Social Benefit

- 2.4 The categories of social benefit provided by public sector entities or by third parties on their behalf include:
- Health;
 - Education; and
 - Social Protection.
- 2.5 Health services include:
- Hospital services;
 - Outpatient services; and
 - Medical products (including drugs), appliances and equipment.
- 2.6 Education services include primary and pre-primary education; secondary education; and tertiary education.
- 2.7 Social protection benefits are often (but not always) provided as a cash transfer to an individual or household. Social protection is provided to ensure an individual or household has sufficient income to live. Programs are usually targeted at specific sections of the community, as can be seen from the following classes of social protection program:
- Sickness and disability;
 - Old age;
 - Survivors;
 - Family and children;
 - Unemployment;
 - Housing; and

¹³ This CP discusses complex issues such as social security systems that operate as both social assistance and social insurance programs. The IPSASB acknowledges that these examples may not be relevant to some jurisdictions.

- Social exclusion arising for other reasons

Service Delivery and Administrative Arrangements

- 2.8 Public sector entities may provide services directly, may pay a third party to deliver the services, or may use a mixture of both approaches. In some cases the third party will be another public sector entity; in others it will be a private sector profit-seeking entity or a not-for-profit organization.
- 2.9 Administrative arrangements can be grouped into two categories.
- 2.10 In the first category, social benefits are provided by public sector entities that are part of the different levels of government (central government, state government and local government). In the second category, social benefits are provided by related public sector entities such as social security funds that are not considered to be part of the different levels of government.
- 2.11 Social benefits may be the responsibility of one or more public sector entities. There may be a degree of overlap between the programs provided by the different entities. In the first category, the entities may be in different levels of government.
- 2.12 Public sector entities may provide composite social security programs¹⁴. In these programs, the benefits provided include both social benefits provided by the state and employee benefits. The management of the entities providing these benefits may involve employer and employee representatives.

Funding Mechanisms

- 2.13 Two main types of funding mechanism are used to fund social benefits – general taxation and specific contributions. These mechanisms are not exclusive, and some social benefit programs will be funded by a combination of general taxation and specific contributions.
- 2.14 Variations of these approaches may also be used. Some programs may be funded through a hypothecated tax¹⁵ rather than general taxation. Contributions may be made on behalf of an individual or household (for example, by an employer). Alternatively, a public sector entity may impute contributions to an individual or household. Imputed contributions may arise, for example, during a period of unemployment or when a parent stays at home to raise the children. The public sector entity may record contributions in respect of an unemployed individual's pension as having been received even though no payments were made.
- 2.15 The distinction between taxation and contributions may not be obvious. Some contributory programs may operate segregated funds (such as trust funds in US social security program and Medicare) into which contributions are paid and which can only be used for specified purposes. In other programs contributions may simply be treated as general revenues. The eligibility criteria for some social benefit programs may require a specified level of contributions. Conversely, some social benefit programs are funded by levies on income or purchases. These levies include aspects of both taxation and contributions.

¹⁴ Composite social security programs are defined in paragraph 10 of IPSAS 25. Paragraphs 47–49 of IPSAS 25 provides more details on these programs.

¹⁵ A hypothecated tax is a tax where the revenue raised is allocated for a specific purpose. Hypothecation may be a requirement of the enacting legislation.

3 Scope and Definitions

- 3.1 This section of the CP addresses the scope of a future IPSAS on social benefits. It also discusses the definitions (if any) that should be included in a future IPSAS.
- 3.2 The 2004 ITC noted that what constitutes social benefits may vary between jurisdictions. It also stated that what constitutes social benefits in any jurisdiction will be generally understood. Existing IPSASs do not define social benefits. A description is given in IPSAS 19. This description provides a wide scope of social benefits, and consequently the 2004 ITC covered a wide range of non-exchange social benefits. Social benefits provided through exchange transactions are addressed in existing IPSASs. IPSAS 25 *Employee Benefits* includes guidance on accounting for programs such as occupational pensions.

Consistency with Government Finance Statistics

- 3.3 The IPSASB considers it important to reduce differences with the statistical basis of reporting where appropriate. This led the IPSASB to publish the policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs* in February 2014.¹⁶
- 3.4 The Government Finance Statistics (GFS) framework describes social benefits. This is based on the *System of National Accounts 2008 (SNA)*. The SNA uses a narrower definition of social benefits than that previously developed by the IPSASB.
- 3.5 The IPSASB reviewed the SNA classification of social benefits to determine whether this classification would assist in the development of an IPSAS. The IPSASB concluded that the classification and definitions used within the SNA would assist the development of an IPSAS. Consequently, the scope, classification and definitions proposed within this CP are intended to be consistent with the descriptions given in the SNA as far as possible.
- 3.6 In restarting this project, the IPSASB agreed that this CP would not consider “collective goods and services.” Collective goods and services might be addressed in a later project on non-exchange expenses. The IPSASB published its Strategy and Work Plan Consultation in March 2014¹⁷. The Consultation included non-exchange expenses as a possible project. The IPSASB agreed that this project [complete after December 2014 meeting decision].
- 3.7 Excluding collective goods and services narrows the scope of this project compared to the IPSASB's previous work on this topic. It also more closely aligns the scope of this project with the scope of social benefits in the SNA. The SNA definition of social benefits does, however, encompass exchange transactions. The IPSASB's previous work on this topic has been confined to non-exchange transactions.

Existing IPSASs

- 3.8 As noted in paragraph 1.2, existing IPSASs do not address accounting for non-exchange social benefits. IPSAS 19 excludes from its scope “those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately

¹⁶ <http://www.ifac.org/sites/default/files/publications/files/IPSASB-GFS-Policy-Paper.pdf>

¹⁷ http://www.ifac.org/sites/default/files/publications/files/IPSASB-Strategy-Consultation-2015-2019_0.pdf

equal to the value of goods and services provided, directly in return from the recipients of those benefits.”¹⁸

3.9 IPSAS 19 describes social benefits as relating 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.”¹⁹

3.10 The social benefits excluded from the scope of IPSAS 19 are commonly referred to as non-exchange social benefits. IPSAS 9 *Revenue from Exchange Transactions* defines non-exchange transactions:

“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.”²⁰

3.11 The examples of social benefits included in IPSAS 19 are often referred to as “cash transfers” and “individual goods and services.” In the 2004 ITC, the Steering Committee noted that “Social benefits could also be provided under other categories of government activity (for example, Defense, Public Order and Safety and Community Amenities).” These are often referred to as “collective goods and services.”

3.12 Social benefits may also be provided through exchange transactions. The most common examples are employer programs such as occupational pensions. IPSAS 25 provides guidance on accounting for employer programs. Some social benefits may be provided through financial instruments, for example concessionary loans. Guidance on these arrangements is provided in IPSASs 28-30. IPSAS 19 provides guidance on accounting for other social benefits arising from exchange transactions.

Government Finance Statistics

3.13 The overarching framework for GFS is provided by the SNA. The SNA describes social benefits using four related concepts²¹:

- Social insurance;
- Social security;
- Social assistance; and
- Social transfers in kind.

¹⁸ IPSAS 19, paragraph 1 (a)

¹⁹ IPSAS 19, paragraph 7

²⁰ IPSAS 9, paragraph 11

²¹ See Chapter 8 of SNA 2008 for further details.

Social Insurance

- 3.14 Social insurance programs are programs in which recipients are enrolled or participate to secure entitlement to current or future benefits. In almost all cases, recipients either contribute to the program or have contributions made on their behalf. Contributions may be paid on behalf of the recipient by their employer or a family member. The SNA divides social insurance payments into two types – pension and non-pension benefits. Pension benefits are wider than old age benefits. They include, for example, ongoing payments to persons with permanent disabilities. Benefits in respect of temporary ill health or temporary unemployment are classed as non-pension benefits. Pension benefits are always paid in cash; non-pension benefits may be paid in cash or in kind.

Social Security

- 3.15 The SNA defines two categories of social insurance programs. The first category is social security. Social security programs are imposed, controlled and financed by a government. They provide social benefits to the community as a whole, or to particular sections of the community. These programs provide benefits such as old age pensions and unemployment benefits. As social insurance programs, social security programs are generally contributory programs. In some cases, the government itself will make or impute contributions on behalf of a recipient. This may happen, for example, during a period of unemployment. The SNA notes that the contributory nature of social security programs means they are quasi-contractual. The legal form varies from country to country. In some countries, retrospective changes to entitlements are permissible; in other countries this is not the case.
- 3.16 The second category of social insurance is other employment-related social insurance programs. The terms of these programs are determined by the employer, sometimes in conjunction with the employees. These programs provide benefits such as occupational pensions and health benefits.

Social Assistance

- 3.17 Social assistance programs provide similar benefits to social insurance programs. However, eligibility to benefits under a social assistance program is not dependent on participation evidenced by contributions having been paid. Social assistance programs often include an assessment of income (sometimes referred to as a “means test”). Benefits are only payable where the income of the household is below a threshold.
- 3.18 The SNA notes that the extent of household income provided by social assistance programs varies significantly from country to country. A few countries provide all income to meet social needs without contributions. However, this is rarely the case.

Social Transfers in Kind

- 3.19 Social insurance programs and social assistance programs provide income for households in the form of cash payments. This income can be used indistinguishably from income from other sources. This is not the case for social transfers in kind, where the public sector provides services directly or reimburses households or individuals for those services.
- 3.20 When social benefits are payable in kind, the household generally 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. In some cases, the government provides the benefits directly. An

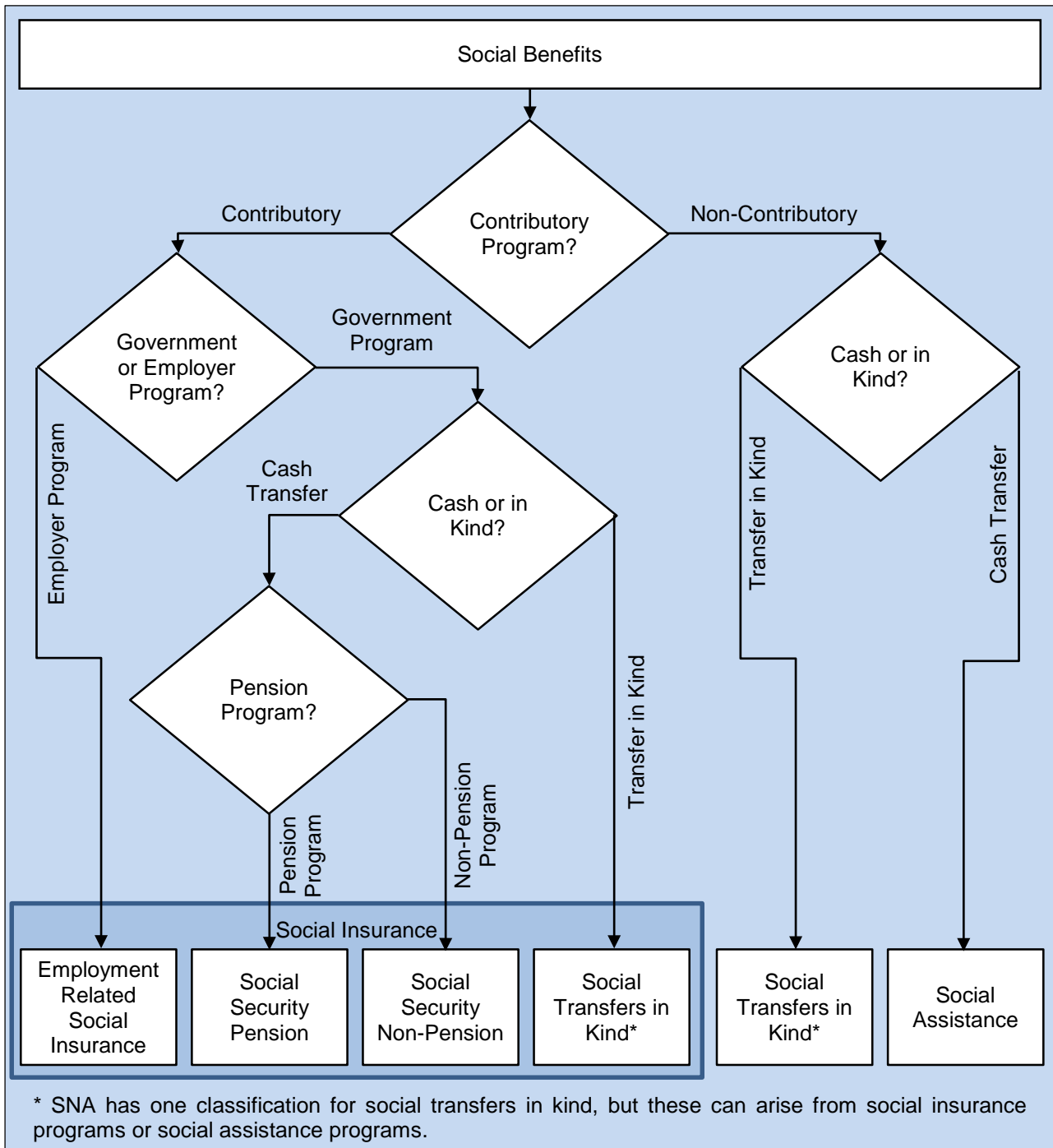
example of this is where a government directly funds and runs a hospital to provide medical benefits. Alternatively, the government may pay cash to the household to reimburse them for expenditure incurred. An example would be where a household pays a private hospital for medical benefits, and the government reimburses the household for some or all of the expenditure. Under the SNA, reimbursements are classified as social transfers in kind, not cash transfers.

- 3.21 The SNA only uses this classification for programs funded by the government. Employer related social insurance programs are treated as cash transfers even where the employer provides benefits directly. This is a consequence of how consumption is accounted for in the SNA.

Summary of the SNA Classification of Social Benefits

- 3.22 The classification of social benefits in the SNA is summarized in Figure 1 below.

Figure 1: The SNA Classification of Social Benefits



3.23 This classification does not include collective goods and services. The SNA describes these collective goods and services as “public” goods whereas social benefits are described as “private” goods. Collective goods and services have the following characteristics:

- They are delivered simultaneously to each member of the community or section of the community;

- Individuals cannot be excluded from the benefits of collective goods and services; and
- The provision of a collective service to one individual does not reduce the amount available to others.

3.24 Collective goods and services are “public” goods. They cover most of the services provided by the public sector. Conversely, social benefits as defined by the SNA are “private” goods.

3.25 In this context, goods are “private” where they are consumed by individuals or households. Acquisition of these goods by one individual or household precludes their acquisition by other individuals or households. Goods are “public” where they delivered simultaneously to every member of the community and there is no rivalry in their acquisition.

Scope of the Social Benefits Project

Exclusion of Collective Goods and Services

3.26 As mentioned in paragraph 3.6, the IPSASB agreed that collective goods and services are outside the scope of this CP. This is consistent with the description of social benefits used within the SNA.

3.27 This CP considers there are other reasons why collective goods and services should not be within the scope of this project.

3.28 This CP considers that the issues to be considered in determining if and when to recognize an expense will be different for collective goods and services and social benefits. Social benefits have eligibility criteria against which they can be assessed. This is not the case for collective goods and services. The factors that need to be taken into account in determining whether a present obligation exists are likely to be different for social benefits and collective goods and services.

3.29 Measurement of any resulting liability is also likely to be different for social benefits and collective goods and services. If a liability exists for a social benefit, it can be assessed by reference to an individual or household. The period over which the benefit will be paid is therefore time limited. Conversely, if a liability exists for collective goods and services, this cannot be assessed by reference to an individual or household. It is arguable that the benefit is not time limited in the same way as for a social benefit.

3.30 The 2004 ITC regarded collective goods and services as an ongoing activity of government. No provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future. The 2004 ITC concluded that there is no present obligation prior to the delivery of collective goods and services. Input costs associated with exchange transactions that a government enters into to deliver those services are accounted for in accordance with generally accepted accounting practice for those costs. Respondents to the IPSASB's previous consultations on this topic have either supported this view or expressed the view that present obligations for collective goods and services did not arise at all.

3.31 Because of these differences, this CP considers it more appropriate to address the issues relating to collective goods and services in a separate project dealing with non-exchange expenses.

Cash Transfers and Transfers in Kind

3.32 Social benefits includes both cash transfers and transfers in kind. Both are expected to raise similar issues regarding the recognition and measurement of liabilities and expenses. However, the IPSASB

considers it possible that complicating factors may arise in the recognition and measurement of transfers in kind that do not arise with cash transfers. Similarly, some complicating factors may arise with cash transfers that do not arise with transfers in kind. This CP asks respondents to provide information on any examples in their jurisdictions. Respondents are also asked whether the concepts discussed in this CP apply equally to cash transfers and transfers in kind.

- 3.33 This CP notes that, at the boundary, it might be difficult to distinguish between cash transfers and social transfers in kind. Examples includes the Universal Credit benefit being introduced in the United Kingdom which is intended to include both cash transfers and reimbursements.
- 3.34 Once it has considered responses to this CP, the IPSASB may conclude that the accounting treatment of cash transfers and transfers in kind will require consideration of different issues. Should this be the case, the IPSASB will consider whether it is appropriate to proceed with the project as a single project or as two separate phases.

Specific Matter for Comment 1

Are you aware of any complicating factors that affect the recognition and measurement of either cash transfers or transfers in kind, but not both?

In your view, are the concepts discussed in this CP equally applicable to cash transfers and transfers in kind?

Please explain the reasons for your views.

Employment Related Social Insurance and Financial Instruments

- 3.35 Within the SNA, social benefits includes employment related social insurance programs. Such programs are provided by the employer, and provide benefits such as occupational pensions and medical benefits. Governments may provide employment related social insurance programs in their role as an employer. These programs are outside the scope of this project. Guidance on accounting for employment related social insurance programs can be found in IPSAS 25. In some jurisdictions, this distinction may be more difficult to establish, for example where combined programs provide both social security and occupational pensions. These programs are considered in Chapter 9.
- 3.36 This project also excludes transactions such as student loans, which may be considered to be social benefits in some jurisdictions. These transactions are financial instruments. Guidance on accounting for these transactions is provided in IPSAS 29, *Financial Instruments: Recognition and Measurement*.

Definitions

- 3.37 The 2004 ITC did not define the term “social benefits”. At that time, the term was considered to be sufficiently well understood in each jurisdiction so that no definition was required. The following definition of social benefits was included in the 2008 CP:

“The IPSASB defines social benefits as;

- (a) Cash transfers; and
- (b) Collective and individual goods and services

that are provided by an entity to individuals or households in non-exchange transactions to protect the entire population, or a particular segment of the population, against certain social risks.”

- 3.38 This CP considers that revised definitions are now required to ensure that the scope of the project is clear. This follows the proposals to exclude collective goods and services from the scope of the project.
- 3.39 As discussed above, these definitions are intended to be consistent with the descriptions given in the SNA as far as possible. The definition of social benefits therefore includes exchange transactions, unlike the definition in the 2008 CP.
- 3.40 For the purposes of this CP, **Social Benefits** are defined as follows:
- “Benefits payable to individuals and households, in cash or in kind, to mitigate the effect of circumstances that may adversely affect the welfare of the individuals or households concerned. Social benefits do not include collective goods and services.”
- 3.41 **Collective Goods and Services** are defined as follows:
- “Goods and services that are delivered simultaneously to every member of the community. The provision of a collective service to one individual does not reduce the amount available to others in the same community or section of the community.”
- 3.42 **Cash Transfers** are defined as follows:
- “Social benefits paid in cash that allow individuals and households to use this cash indistinguishably from income from other sources. Cash transfers do not include reimbursements.”
- 3.43 **Social Transfers in Kind** are defined as follows:
- “Goods and services provided as social benefits to individuals and households by a public sector entity. Social transfers in kind include reimbursements.”
- 3.44 **Reimbursements** are defined as follows:
- “Cash payments made by a public sector entity to compensate an individual or household for all or part of the expense incurred or to be incurred by that individual or household in accessing specific services.”
- 3.45 **Social Insurance Programs** are defined as follows:
- “Programs providing social benefits where the benefits received are conditional on participation in the program, usually evidenced by way of actual or imputed contributions made by or on behalf of the recipient.”
- 3.46 **Social Security Programs** are defined as follows:
- “Programs providing cash transfers, operated by or on behalf of a public sector entity, where the benefits received are conditional on participation in the program, usually evidenced by way of actual or imputed contributions made by or on behalf of the recipient.”
- 3.47 **Social Assistance Programs** are defined as follows:
- “Programs providing cash transfers, operated by or on behalf of a public sector entity, where the benefits received are not conditional on participation in the program, evidenced by way of contributions.”

3.48 **Pension Benefits** are defined as follows:

“Cash transfers that, once the eligibility criteria have been satisfied, continue to be payable until the death of the recipient. Pension benefits include, where relevant, amounts payable to surviving family members and dependents that become payable only on the death of the recipient.”

3.49 **Non-Pension Benefits** are defined as follows:

“Cash transfers that are not pension benefits.”

3.50 The SNA draws the distinction between pension benefits and non-pension benefits for social security programs only. This distinction may be useful when determining the measurement requirements for a program, irrespective of whether that program is a social security program or a social assistance program. Consequently, the definitions of pension benefits and non-pension benefits apply equally to social security and social assistance programs.

3.51 As discussed in paragraph 3.14 above, the definition of pension benefits is wider than old age benefits and includes for example, ongoing payments to persons with permanent disabilities. The definition may exclude some old age benefits. For example, old age benefits might be subject to ongoing means testing such that the benefit might be withdrawn. These benefits would not meet the definition of pension benefits in this CP.

3.52 This CP does not propose a definition of employment related social insurance programs. Such programs are outside the scope of the social benefits project. The CP considers that excluding employee benefits, as defined in IPSAS 25²², from the scope of this project will achieve this objective.

Preliminary View 1

Social Benefits are benefits payable to individuals and households, in cash or in kind, to mitigate the effect of circumstances that may adversely affect the welfare of the individuals or households concerned. Social benefits do not include collective goods and services.

The key definitions are as follows:

- (a) **Cash Transfers** are social benefits paid in cash that allow individuals and households to use this cash indistinguishably from income from other sources. Cash transfers do not include reimbursements.
- (b) **Collective Goods and Services** are goods and services that are delivered simultaneously to every member of the community. The provision of a collective service to one individual does not reduce the amount available to others in the same community or section of the community.
- (c) **Social Transfers in Kind** are goods and services provided as social benefits to individuals and households by a public sector entity. Social transfers in kind include reimbursements.
- (d) **Reimbursements** are cash payments made by a public sector entity to compensate an individual or household for all or part of the expense incurred or to be incurred by that individual or household in accessing specific services.

²² IPSAS 25, paragraph 10 provides the following definition: Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

- (e) **Social Insurance Programs** are programs providing social benefits where the benefits received are conditional on participation in the program, usually evidenced by way of actual or imputed contributions made by or on behalf of the recipient.
- (f) **Social Security Programs** are programs providing cash transfers, operated by or on behalf of a public sector entity, where the benefits received are conditional on participation in the program, usually evidenced by way of actual or imputed contributions made by or on behalf of the recipient.
- (g) **Social Assistance Programs** are programs providing cash transfers, operated by or on behalf of a public sector entity, where the benefits received are not conditional on participation in the program, evidenced by way of contributions.
- (h) **Pension Benefits** are cash transfers that, once the eligibility criteria have been satisfied, continue to be payable until the death of the recipient. Pension benefits include, where relevant, amounts payable to surviving family members and dependents that become payable only on the death of the recipient.
- (i) **Non-Pension Benefits** are cash transfers that are not pension benefits.

Specific Matter for Comment 2

In your view:

- (a) Is the scope of this CP appropriate?
- (b) Are the definitions in Preliminary View 1 appropriate?

4 Identification of Approaches

- 4.1 The IPSASB has generally considered the main attributes of social benefit programs in Chapter 2 of this CP.

Staff Comment –the discussion of the objectives of financial reporting and the QCs is now included in Chapter 1

- 4.2 Following these considerations, the IPSASB identified three broad approaches to accounting for social benefits. These approaches are developed in detail in later chapters of the CP. The approaches can be summarized as follows:

- Option 1: The obligating event approach. This approach considers social benefit programs by reference to the definitions of a liability in the Conceptual Framework. The obligating event approach updates the theoretical model outlined in the 2004 ITC, which informed the IPSASB's approach to social benefits until 2006. Under this approach, obligations to pay social benefits are seen as no different (in principle) than other obligations. Under this approach, the key debate is about when a present obligation arises.
- Option 2: social contract approach. This approach was briefly outlined in the 2008 Consultation Paper where it was referred to as the executory contract accounting model. This approach acknowledges, as commitments, both:
 - (a) Public sector obligations to provide goods, services and cash transfers to individuals or households; and
 - (b) The rights of individuals or households to receive those benefits.

The approach also acknowledges that the ongoing duty of individuals or households to contribute taxes and other sources of finance effectively offsets such obligations. There is a social contract between the state and the citizens such that citizens agree to pay taxes to enable the state to provide social benefits. This is analogous to an executory contract, where an entity would not recognize a liability until the counterparty to a contract had performed their obligations. Under this approach, present obligations only arise once legal entitlements are established. Using the executory contract analogy, this can be viewed as the state recognizing present obligations as legal entitlements are established, while citizens' performance is achieved through recognizing their obligations to contribute taxes and other sources of finance as taxable and other obligating events occur.

- Option 3: social insurance approach. This approach considers that at least some social benefit programs are similar in practice to insurance contracts. As such, it may be appropriate to use an insurance accounting model when accounting for these programs. The IPSASB is not aware of any governments currently using this approach in their financial statements. One government uses the approach in their management accounts for some social insurance programs. The social insurance approach is most suited to contributory programs, where future contributions are compared to future payments to recipients and the net present value of the program is shown in the statement of financial position. This approach recognizes a present obligation to pay benefits at the point that coverage begins. The approach also recognizes a right to future receipts resulting from the provision of that coverage.
- 4.3 The IPSASB has not identified any other approaches to accounting for social benefits.

Specific Matter for Comment 3

Do you consider that:

- (a) The obligating event approach;
- (b) The social contract approach; and
- (c) The social insurance approach

are viable approaches for financial reporting?

Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS?

In your view, which approach or approaches should the IPSASB develop into a future IPSAS?

Please explain your reasons for your views.

5 Option 1: Obligating Event Approach

Staff Comment: References to the Conceptual Framework in the following chapters are based on the papers presented and decisions taken at the June 2014 meeting. These will be updated once the Framework has been approved.

Introduction

- 5.1 This option is based on the theoretical model outlined in the 2004 ITC, which informed the IPSASB's approach to social benefits until 2006. It also formed the main option discussed in the 2008 CP.
- 5.2 The 2004 ITC considered the definitions relating to liabilities, and in particular the definition of a constructive obligation, in IPSAS 19. The ITC sought to apply these definitions to social benefits. Since the publication of the ITC and the 2008 CP, the IPSASB has finalized its Conceptual Framework. This includes updated definitions relating to liabilities. This chapter of the current CP uses these updated definitions to refine the model used in the 2004 ITC and 2008 CP.

Definitions relating to Liabilities

- 5.3 Chapter Five of the Conceptual Framework includes the following definitions:

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

A Present Obligation

3.2 A present obligation is a legally binding or non-legally binding requirement which an entity has little or no realistic alternative to avoid."

- 5.4 There are two key factors to be considered in determining when a liability arises for a social benefit:
- What is the past event (or events) that gives rise to a present obligation?
 - When does an entity have little or no realistic alternative to avoid settling the obligation?
- 5.5 These two factors are brought together in the revised definition of an obligating event proposed in paragraph 1.17:

"An obligating event is an event that creates a present obligation."

- 5.6 In other words, an obligating event is an event that creates a legally binding or non-legally binding requirement which an entity has little or no realistic alternative to avoid.
- 5.7 The IPSASB's previous work on social benefits has shown that the difficulty in applying this approach has been the identification of an obligating event. The point at which an obligating event arises will determine the recognition of a liability. It may also affect the measurement of that liability. For obligations that accumulate over time, the earlier in the process the obligating event the greater the liability is likely to be. Views on what constitutes an obligating event differ. This chapter of the CP will explore those different views.
- 5.8 The main focus of this chapter is on cash transfers. However social transfers in kind are discussed where this helps clarify an issue. In many cases the issues that arise in identifying when an obligating event takes place will be the same for cash transfers and social transfers in kind.

Factors to be Considered

- 5.9 An obligating event can give rise to a legally binding obligation. It may also give rise to a non-legally binding obligation.
- 5.10 Where there are legal requirements for a social benefit, the obligating event is the event that gives rise to the legally binding obligation. When considering social benefits, this is the point at which an individual or household could take legal action to enforce their entitlement to a benefit. An obligating event that gives rise to a legally binding obligation can usually be clearly identified.
- 5.11 For example, the only eligibility criterion for an old age pension may be that an individual has passed their 65th birthday. Until that time, individuals are unable to enforce their entitlement. Beyond that time, they can enforce payment for amounts due. The obligating event will be their 65th birthday²³.
- 5.12 Identifying the obligating event that may give rise to a non-legally binding obligation is often more difficult. In order for a non-legally binding obligation to give rise to a liability there must be:
- An indication to others that the entity will accept certain responsibilities;
 - The creation of a valid expectation; and
 - Little or no realistic alternative to avoid the obligation.

These are discussed below.

Indication to others that the entity will accept certain responsibilities

- 5.13 The definition of a non-legally binding obligation requires that an entity indicate acceptance of certain responsibilities to others. The Conceptual Framework²⁴ considers what actions might provide such an indication. It gives the examples of past practice, published policies and sufficiently specific current statements. In the public sector environment, published policies and specific statements could refer to:
- Policies incorporated in legislation;
 - Policies included in documents such as election manifestos;
 - Policies announced at the time a draft budget is released;
 - Inclusion of funding for policies in published budgets; or
 - The approval of budgets by legislative or governing bodies.
- 5.14 The Conceptual Framework notes that announcements made in the early stages of implementing a policy are unlikely to give rise to non-legally binding obligations. This includes a number of the examples in the previous paragraph. This is because of the other factors that need to be considered.

²³ In some jurisdictions, the legal obligation may not arise until the point at which the first payment becomes due. This may be later than the individual's 65th birthday.

²⁴ Chapter 5, paragraph 3.11

Creation of a valid expectation

- 5.15 The definition of a non-legally binding obligation not only requires an entity to have engaged in various actions. It requires those actions to have created a valid expectation in the other parties that it will discharge the responsibilities accepted.
- 5.16 For a valid expectation to be created, announcements that an entity will accept certain responsibilities need to be sufficiently precise and certain. Policies included in election manifestos are unlikely to create a valid expectation as they are rarely sufficiently precise and certain. Policies that are enshrined in legislation are more likely to create a valid expectation prior to an individual satisfying the entitlement requirements.
- 5.17 A non-legally binding obligation does not exist solely because an individual has a valid expectation that the entity will accept certain responsibilities and has relied on that expectation. The entity must also have little or no realistic alternative to avoid the obligation.

Little or no realistic alternative to avoid the obligation

- 5.18 To satisfy the definition of an obligating event, an entity must have little or no realistic alternative to avoid the obligation. Interpreting this requirement in the context of non-legally binding obligations is difficult.
- 5.19 A government's ability to change legislation could mean that it has a realistic alternative to settling non-legally binding obligations. Governments frequently change the nature and amount of benefits. Governments rarely provide categorical assurances that current benefits will continue to be provided in future periods. In many jurisdictions governments are frequently in power for limited periods. As such, they are unable to give such assurances even if they want to.
- 5.20 However, governments operate on the basis that they will meet their outstanding obligations. Financial statements should reflect this. Financial statements should also reflect the legal framework at the reporting date. In addition, governments frequently have difficulty in changing policies that "promise" benefits to individuals or households. This applies particularly where past practice has created the valid expectation that those benefits will be provided. In this context, the "little or no realistic alternative to avoid the obligation" criterion may not apply in the same way to the public sector as it does to the private sector. It may need to be interpreted having regard to the circumstances in each jurisdiction.
- 5.21 The IPSASB supports the approach in paragraph 5.20. It considers that reporting current obligations in the financial statements is more likely to provide useful information to users of the financial statements and meet the objectives of financial reporting. The IPSASB has identified a number of factors that it considers should be taken into account in determining whether an entity has little or no realistic alternative to avoid the obligation. These factors are:
- (a) The extent to which households are dependent on a particular benefit. If households are heavily dependent on a benefit it is less likely that the entity will cancel or decrease the benefit.
 - (b) The entity's past practice in:
 - Removing or reducing particular benefits;
 - Changing the method of providing benefits; or
 - Changing eligibility criteria.

The ability to remove or reduce benefits may differ depending on the type of benefit and the groups of recipients.

- (c) The extent to which an entity has used transitional provisions to soften the impact of changes in benefit entitlements. For example, it may delay the implementation of the new criteria in order to protect the rights of existing beneficiaries. A similar delay may protect those who are close to meeting eligibility criteria.
- (d) The likely political impact of changing benefits.

5.22 Whether an entity has little or no realistic alternative to avoid an obligation needs to be considered for all non-legally binding obligations. If a non-legally binding obligation exists, but the entity has a realistic alternative to avoid the obligation, a liability is not recognized.

Summary of factors to be considered

5.23 The three factors should not be considered in isolation. They act cumulatively. An entity must have given an indication to others that the entity will accept certain responsibilities. It must be this indication that gives rise to a valid expectation that the entity will discharge those responsibilities. It must be as a result of creating that valid expectation that the entity has little or no realistic alternative to avoid the obligation.

5.24 Assessing these factors requires the exercise of professional judgment. This applies particularly to social benefits, where the circumstances can be complex. Consequently, there are a number of views as to when an obligating event occurs. The remainder of this chapter discusses these views.

When does an Obligating Event arise?

Background

5.25 The 2004 ITC identified three views as to when an obligating event might give rise to a non-legally binding obligation:

- When all eligibility criteria have been met;
- When threshold eligibility criteria have been satisfied; and
- When key participatory events have occurred.

5.26 Other issues considered in the 2004 ITC and the 2008 CP are:

- Whether requirements to revalidate eligibility criteria should be treated as a recognition criterion or a measurement attribute; and
- Whether a present obligation arises at an earlier stage for contributory benefits compared to non-contributory benefits.

5.27 Some consider that an obligating event in respect of social benefits can only arise from a legally binding obligation. This view is also discussed in this chapter.

(a) Legally binding obligation view

5.28 Those who support the legally binding obligation view argue that public sector entities should only recognize legally binding obligations in respect of social benefits. According to this argument, until a

legally binding obligation exists a government always has the ability to avoid settling an obligation, for example by modifying eligibility criteria or amending legislation.

- 5.29 As a result, the entity does have a realistic alternative to settling the obligation. The fact that, in the absence of a legally binding obligation, the entity is able to avoid settling the obligation may also negate the creation of a valid expectation of benefits being paid in the future. Consequently, an obligating event only occurs when the obligation becomes a legally binding obligation.
- 5.30 Under the legally binding obligation view, identifying the point at which a liability should be recognized is relatively straightforward.

(b) An obligating event arises when all eligibility criteria have been met

- 5.31 The 2004 ITC summarized this approach as follows:

“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.”

- 5.32 The ITC refers to an individual. It notes, however, that an entity may have an obligation to an individual, a group of individuals or an entity. This CP takes the term individual to refer to individuals and households.
- 5.33 This approach considers that all eligibility criteria must have been met for an obligating event to have occurred.
- 5.34 Under this approach, a requirement that a recipient revalidate eligibility criteria at a future date affects the recognition of a liability as well as its measurement. An entity does not recognize a single liability for future benefits. Instead, a series of liabilities are recognized over time, when the eligibility criteria (including revalidation) for each individual liability have been met. Revalidation is discussed later in this chapter.
- 5.35 A variation on this view that recognizes a narrower range of liabilities is commonly known as the “due and payable” approach. This approach has been adopted by a number of governments in their financial statements. The approach is discussed below.

(c) Variation on all eligibility criteria have been met: the “due and payable” approach²⁵

- 5.36 Under the “due and payable” approach, benefits relating to the period which were paid or due to be paid in the period are recognized as an expense. Unpaid amounts are recognized as a liability.

²⁵ “Due and payable” is not interchangeable with “pay as you go”, although many entities account for social benefits using both concepts. “Due and payable” describes those liabilities that are recognized in respect of a social benefit. “Pay as you go” describes the funding arrangements in respect of a social benefit, especially an old-age pension, regardless of whether liabilities are recognized using a due and payable approach or another basis.

- 5.37 This approach considers that an obligating event does not arise until a recipient has satisfied all of the eligibility criteria. This view also considers that eligibility criteria need to be satisfied on an ongoing basis. Staying alive is considered to be an eligibility criterion. Meeting the criteria at a point in time only generates a liability until the next payment point. Eligibility criteria need to be met anew before a liability is recognized for future payments.
- 5.38 The “due and payable” differs from the legal obligation view. A liability would be recognized if the payment was due and payable, even if it arose from a non-legally binding obligation

(d) An obligating event arises when threshold eligibility criteria have been satisfied

- 5.39 The 2004 ITC summarized this approach as follows:

“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.”

- 5.40 Under this approach, the likelihood of an individual continuing to meet the eligibility criteria is a factor that affects measurement. This includes an assessment of a recipient’s longevity. This is the difference between approach (d) and approach (b) above. Under approach (b), revalidation affects the recognition of a liability. Under approach (d), revalidation only affects the measurement of the liability.
- 5.41 Measurement is discussed below.
- 5.42 This approach views an obligating event as occurring when key threshold eligibility criteria are first met. Examples would be when an individual:
- Reaches pensionable age;
 - Becomes unemployed;
 - First qualifies for tertiary education; or
 - Is first diagnosed with a complaint for which medical support is provided.

(e) An obligating event arises when key participatory events have occurred

- 5.43 The 2004 ITC summarized this approach as follows:

“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.”

- 5.44 In certain circumstances an entity communicates its intention to provide certain benefits in the future. It confirms this intention by providing those benefits to current eligible recipients. The provision of old age pensions by a government is a case in point for many jurisdictions. Potential recipients respond to the government's communication of intent by making economic decisions in reliance on the receipt of those future benefits. This in turn is likely to mean that the government has little or no realistic alternative but to provide those benefits.
- 5.45 Another example is the provision of free education (i.e., without charge to the students). Individuals may have a valid expectation that they will receive free education services prior to the point of actually satisfying all the eligibility criteria. If the right to free education is set out in legislation and there is a past practice of providing free education, this valid expectation may arise when a child is born.
- 5.46 Those that support this view note that governments sometimes accept that individuals have a valid expectation that they will receive future benefits before they are eligible to do so. They may compensate individuals where benefits are withdrawn or modified. They argue that in these cases, meeting the eligibility criteria is not the critical event that gives rise to a present obligation. A liability should be recognized at an earlier point. Those that support this view argue that this is required to meet the objectives of financial reporting.
- 5.47 The approach may be more difficult to apply than others. What constitutes an obligating event, and the point at which it occurs, is less clear than under other approaches. It may be possible to assert that individuals have relied on the expectation of receiving future benefits. There may be evidence that such reliance has occurred. However, it is difficult to identify the point at which the government has little or no realistic alternative but to provide those benefits. In some cases, there may have been a series of points at which expectations arose, leading to an increasing expectation over time. This may be the case with contributory programs, with each contribution made increasing the expectation that benefits will be paid in the future.

Specific Matter for Comment 4

In your view, at what point should a future IPSAS consider that an obligating event arises under the obligating event approach? Is this when:

- (a) A legal liability exists;
- (b) All eligibility criteria have been met;
- (c) Amounts become due and payable;
- (d) Threshold eligibility criteria have been satisfied;
- (e) Key participatory events have occurred; or
- (f) At some other point.

If, in your view, a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises, please provide details.

Please explain your reasons for this view.

How should revalidation requirements be taken into account?

- 5.48 Different views of when an obligating event occurs have been described above. These views treat revalidation requirements in one of two ways, as discussed below.

- 5.49 Many programs delivering social benefits require recipients who have satisfied threshold eligibility criteria to revalidate their eligibility at a future date in order to maintain their entitlement to benefits. Requirements for revalidation are normally laid down in the legislation or regulations governing the program. Some approaches consider that revalidation is taken into account when considering the recognition of a liability, as well as when measuring that liability. Other approaches consider that revalidation is only taken into account when considering the measurement of a liability. This distinction influences the extent of the present obligation and, if recognition criteria are met, the measurement of the resultant liability.
- 5.50 Revalidation affects recognition under the approaches that consider an obligating event occurs when:
- (a) A legal liability exists;
 - (b) All eligibility criteria have been met; or
 - (c) Amounts become due and payable.
- 5.51 It follows that, for these approaches, the extent of a present obligation cannot exceed the maximum amount that an individual is entitled to receive from one revalidation point to the next. An entity can avoid further payments beyond the next revalidation date. Liabilities may be lower than this maximum. This could occur where an individual's eligibility ceases prior to the next revalidation point, for example when an individual claiming unemployment benefit starts a new job.
- 5.52 Some argue that "continuing existence" of a beneficiary is an implicit eligibility criterion for all cash transfer programs as an entity will not have to make further payments beyond the reporting date if an individual were to die. For some programs, this may be an explicit criterion.
- 5.53 Revalidation only affects measurement under the approaches that consider an obligating event occurs when:
- (a) Threshold eligibility criteria have been satisfied; or
 - (b) Key participatory events have occurred.
- 5.54 Those who support these approaches consider that treating revalidation as a recognition criterion rather than a measurement attribute may not meet the QC of comparability. They consider this approach can distort the recognition of liabilities, depending on the timing and frequency of eligibility revalidation requirements. Thus, two programs with identical benefits and nearly identical eligibility requirements can have different liabilities, because of different revalidation dates. They consider this approach may also fail to meet the QC of faithful representation. This is because it does not represent the claims on the resources of the entity.
- 5.55 Entities could also seek to manipulate eligibility criteria to enable them to recognize fewer liabilities. An entity could reduce a liability by introducing a revalidation requirement where one does not currently exist, or by reducing the time between the end of the reporting period and the date at which revalidation is next required.
- 5.56 Non-pension benefits, as defined in this CP, introduce a further complication. For some non-pension benefits, eligibility will be re-asserted at intervals after a period of ineligibility. Should measurement include all periods of eligibility or just the period until the beneficiary becomes ineligible? This decision affects the recognition and measurement of a liability under both the threshold eligibility criteria and participatory event views. An example of this scenario is unemployment benefits, where individuals may have alternating periods of employment and unemployment.

Are there different obligating events for contributory and non-contributory schemes?

- 5.57 Some argue that whether a program is contributory affects the point at which an obligating event occurs. According to this view, contributory programs should be considered separately from non-contributory programs. The payment of a specified number, or amount, of contributions creates a valid expectation that an individual or household will receive benefits based on those contributions. These expectations may be strengthened by communications regarding personal details of estimated future benefits. Such expectations are stronger than for non-contributory programs that are primarily funded from general taxation. It is also argued that it is unrealistic for the government to avoid paying such benefits. This is the case even if payments will only be made many years in the future.
- 5.58 A valid expectation that benefits will be paid may also be stronger where recipients know that contributions are paid into a specific fund.
- 5.59 Some argue 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. The question of whether contributory programs give rise to exchange transactions is discussed further below.
- 5.60 Some do not consider that whether a program is contributory affects the point at which an obligating event occurs. They challenge the view that making contributions has an impact on whether a government has little or 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, but note that such communications are often accompanied by caveats or other qualifications, for example, that the payment of projected benefits depends on the future viability of the fund from which those benefits are paid. In some jurisdictions, contributions may in substance be a form of taxation. Therefore they argue that the validity of those expectations is doubtful.
- 5.61 Contributory programs vary widely in nature and often 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.
- 5.62 Fiscal projections may suggest that existing benefit levels are unsustainable, and that the government will have little choice but to take action such as raising participants' contributions, reducing benefit levels or deferring the age at which benefits are first received. This again challenges the view that individuals will have a valid expectation of benefits being paid in the future.
- 5.63 Some argue that there is little difference between a program that is wholly dependent on government financing (and which may therefore vary with government policy) and a program that is substantially dependent on government financing. Contributions may partially finance the program, but if substantial government financing is required, participants will be aware that changes to government policy could affect the benefits provided by the program. Once more this challenges the view that individuals will have a valid expectation of benefits being paid in the future. This scenario does, however, raise the question of whether individuals are more likely to have a valid expectation of benefits being paid in the future where a program is wholly financed by contributions.

Specific Matter for Comment 5

In your view, does an obligating event occur earlier for contributory programs than non-contributory programs under the obligating event approach?

Please explain your reasons for this view.

Social benefits arising from exchange transactions

- 5.64 IPSAS 19 excludes from its scope social benefits arising from non-exchange transactions. Social benefits arising from exchange transactions are currently within the scope of IPSAS 19 unless they are covered by more specific requirements in other standards, for example IPSAS 25.
- 5.65 Within the SNA, social benefits include exchange transactions. The main example is employment related social insurance. The definition of social benefits in this CP also includes social benefits arising from exchange transactions, although employee benefits are excluded from the scope of this project.
- 5.66 This raises the question as to whether there are other social benefits arising from exchange transactions. For example, some social benefits are contributory in nature. Compulsory accident insurance may be provided by a government and may involve contributions. Education and medical services may also be provided on a contributory basis. Often these services will be subsidized by government, and may therefore be non-exchange transactions.
- 5.67 Where no government subsidy is involved, the IPSASB will consider whether these services should be considered exchange transactions. The answer to this question may vary depending on whether some individual participants are subsidizing others. Cross subsidization could arise for a variety of reasons, including:
- Participants receive the same benefits, but contributions are based on, for example, income.
 - Contributions to a social insurance scheme do not reflect the risk associated with individual participants. The nature of the exchange under an insurance contract is that the participant pays a premium to the insurer in exchange for the insurer accepting specified risks. The greater the risk, the greater the premium. Some social insurance schemes are based on flat rate contributions, which may not reflect the risk associated with individual participants.
- 5.68 If these services are being provided on an exchange basis, the IPSASB will consider whether there is any reason to account for them in a different manner than other exchange transactions. Respondents are asked for their views on these matters.

Specific Matter for Comment 6

In your view, is a social benefit provided on a contributory basis without government subsidy an exchange transaction where:

- (a) Some participants are subsidizing other participants; and
- (b) There is no cross-subsidization between participants?

If you consider that some or all of these transactions are exchange transactions, should they be accounted for in accordance with the requirements for other exchange transactions?

Please explain your reasons for this view.

Measurement of the Liability [Staff Note – Previously Separate Chapter]

5.69 So far the discussion of Option 1 has considered when a liability arises under the obligating event approach. It has also considered whether that liability covers future payments of benefits, and if so, how many. This section considers how the liability should be measured.

5.70 Chapter Six of the Conceptual Framework discusses a number of measurement bases for liabilities. This CP proposes a preliminary view that, under the obligating event approach, the most appropriate basis for measuring liabilities in respect of social benefits is the **Cost of fulfillment**. This is because:

- Many social benefits liabilities will arise from non-exchange transactions. There may be no consideration on which a **Historical cost** value could be based. **Historical cost** can also be difficult to apply to liabilities that may vary in amount, which may be the case with some social benefits.
- It is extremely unlikely that there will be a **Market value** for social benefits.
- In the context of social benefits, the **Cost of release** is the amount that “a third party would charge to accept the transfer of the liability.” For social benefits, a transfer of the liability will rarely be practically possible. Where a public sector entity uses reinsurance in respect of a social insurance program, the cost of release may be an appropriate measure of the liability.
- **Assumption price** “is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.” This is not relevant to the measurement of social benefits under the obligating event approach. Under this approach, the liability is viewed as arising as a result of the public sector entity’s own actions.

5.71 The Cost of fulfillment is defined in the Conceptual Framework:

“Cost of fulfillment is the current value of fulfilling the obligations represented by the liability. Where the obligation is financial, fulfillment will be making the required payments; where the obligation is to provide goods or services, fulfillment consists of providing those goods or services.”²⁶

5.72 The measurement of the liability will require an estimate of payments to be made in future periods. The fact that payments may be made many years into the future affects the measurement of the liability. This is because there will be a degree of uncertainty regarding the future payments. The expected payments will also need to be discounted to reflect their current value. The Conceptual Framework notes the following:

“Where the cost of fulfillment depends on uncertain future events, all possible outcomes are reflected in the estimated cost of fulfillment, which should aim to reflect all those possible outcomes in an unbiased manner.”²⁷

“Where fulfillment will not take place for an extended period, the flows need to be discounted to reflect the value of the liability at the reporting date.”²⁸

²⁶ Chapter 6, paragraph 4.18

²⁷ Chapter 6, paragraph 4.20

²⁸ Chapter 6, paragraph 4.24

- 5.73 Guidance as to how these factors could be taken into account can be found in existing IPSASs. IPSAS 19 notes that if the provision being measured involves a large population of items, the estimated value is used.²⁹ Estimated value is a probability-weighted approach that considers all possible outcomes. This CP considers that the cost of fulfillment of a social benefit liability should reflect the estimated value.
- 5.74 IPSAS 19 also notes that the evidence considered when assessing a provision may include reports from independent experts.³⁰ IPSAS 25, *Employee Benefits* provides an example. In IPSAS 25, the measurement requirements for a defined benefit post-employment benefit plan are based on actuarial reviews. There are similarities between some social benefits and post-employment benefits. Actuarial reviews may provide an appropriate basis for measuring some or all social benefit liabilities.
- 5.75 IPSAS 19 and IPSAS 25 provide guidance on the discount rates that could be applied.
- 5.76 IPSAS 25 also considers the value of plan assets for funded post-employment benefit plans. Many social benefit programs are unfunded. However, in some cases a separate fund exists or there are earmarked assets. In such circumstances it may be appropriate to consider the program assets as well as liabilities.
- 5.77 Including program assets in the measurement of social benefit programs may provide more useful information. This may particularly be the case for contributory programs. Where a program is financed by contributions, including program assets in the measurement of the program will provide useful information regarding the financial health of the program. This is likely to have predictive value regarding future benefits or contributions.
- 5.78 The IPSASB is aware that there are differing views about whether assets and liabilities should be shown net or gross. The answer to this question determines whether the expected return on the assets should impact the discount rate used for the liability.
- 5.79 The approach taken in measuring defined benefit plans under IPSAS 25 considers assets and liabilities separately. An entity recognizes a liability to pay post-employment benefits to its employees and former employees. To enable it to meet this liability, the entity might have assets. In this case, the liability and the assets are measured separately using the relevant discount rates.
- 5.80 Following amendments published in 2011, IAS 19 *Employee Benefits* takes a different approach. An entity recognizes a net liability or asset. Under this approach, it is considered to have either a net liability to transfer resources to employees (or the fund), or a net entitlement to receive resources from employees (or the fund). Consistent with this view that there is a net liability or a net asset, the net amount is measured using a single discount rate. An interest expense is reported where there is a net liability. Interest income is reported where there is a net asset.
- 5.81 The IPSASB is seeking respondents' views as to which approach should be used should the measurement of social benefit programs include program assets.
- 5.82 Post-employment benefits are often related to service. The greater the period of service, the greater the future benefits. IPSAS 25 provides guidance on measuring these benefits. Some social benefits have similar characteristics. For example, an old age pension program awards a full pension after contributions have been made for 40 years. A deduction of 2.5 per cent of the pension is made for

²⁹ See IPSAS 19, paragraph 47

³⁰ See IPSAS 19, paragraph 46

each year contributions are not made. The measurement approach in IPSAS 25 may be an appropriate method of measuring the liability for programs that reflect service or contributions.

Preliminary View 2

Liabilities in respect of social benefits should be measured using the Cost of Fulfillment. The Cost of Fulfillment should reflect the estimated value.

Specific Matter for Comment 7

In your view, under the obligating event approach, when should program assets be included in the measurement of a social benefit program:

- (a) In all cases;
- (b) For contributory programs;
- (c) Never; or
- (d) Another approach?

Should assets and liabilities be reported net (the approach used in IAS 19 following the 2011 amendments) or gross (the approach used in IPSAS 25)?

Please explain your reasons for your views.

6 Option 2: Social Contract Approach [Staff Note – New Chapter]

Introduction

- 6.1 The approach was raised in the 2008 CP as a possible alternative to the obligating event approach. The 2008 CP described the approach as follows:

“One alternative model is to view obligations to provide social benefits by governments as quasi-contractual in nature, and adopt executory contract accounting. Executory contracts are contracts in which neither party has performed any of its obligations, or where both parties have partially performed their obligations to an equal extent. Under this model, (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, those governmental obligations are effectively offset by the ongoing duty of individuals or households to contribute taxes and other sources of finance. Under this model, liabilities would not arise until legal entitlements have been established. The advantage of recognizing only legal obligations is that the point at which they arise is more objectively identifiable, and therefore subject to less ambiguity than the point at which constructive obligations arise. Long-term fiscal sustainability reporting would complement executory contract accounting by providing a fuller picture of a program’s future viability.”³¹

- 6.2 The 2008 CP acknowledged that some aspects of this approach may prove problematic and that more development was required before the approach could be fully assessed.
- 6.3 Respondents to the CP supported further development of the approach. Respondents identified a number of issues to be taken into account in further developing the approach, as summarized below.
- Executory contracts involve an exchange transaction. Some recipients of social benefits will not pay taxes, so identifying the obligations they perform will be problematic.
 - Recognizing non-legally binding obligations for post-employment benefits (as required by IPSAS 25) but not social benefits would be inconsistent.
 - Courts in some jurisdictions have rejected the argument that government services only need be provided to the extent that appropriate funding is obtained. If a government is required to provide services even if citizens fail to contribute taxes and other sources of funding, it may be difficult to sustain the executory contract analogy.
- 6.4 This Chapter further develops this option, taking into account the comments made by respondents to the 2008 CP. It seeks respondents’ views on whether this approach provides useful information for some or all social benefits.

Executory Contracts

- 6.5 IPSAS defines executory contracts as follows:

³¹ Consultation Paper, *Social Benefits: Issues in Recognition and Measurement* (2008), paragraph 57

“Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.”³²

- 6.6 General global practice does not usually recognize the rights and obligations that arise from executory contracts as separate assets and liabilities. Instead, a net asset or liability is recognized. Unless the contract has become onerous, this will normally be measured at zero as, in an arm's length transaction, the value of the right and the value of the obligation will usually be the same. In addition, it is often possible to cancel an executory contract at no cost, neither side having performed any of its obligations (or both sides having performed equally).
- 6.7 Most social benefits are provided through non-exchange transactions. The concept of the executory contract is not directly applicable to these transactions. However, some argue that the concept can be applied to social benefits by analogy.
- 6.8 In considering how to apply the concept of executory contracts by analogy, two distinct (but related) factors need to be considered:
- Is the counterparty to the transaction defined on an individual or collective basis?
 - What obligations are to be performed by each of the parties?

Other party

- 6.9 One side of the arrangement is straightforward to determine. The public sector entity is one party, and has an obligation to provide one or more social benefits. The other side of the arrangement is more difficult to define. In the absence of a contract that specifies these factors, a number of scenarios can be identified.
- 6.10 The description of this approach in the 2008 CP refers to the “ongoing duty of individuals or households to contribute taxes and other sources of finance.” This duty could be considered to be an individual duty or a collective duty. If the duty is considered to be a collective duty, this could be a duty of the recipients of a particular social benefit, or of society as a whole.
- 6.11 Respondents to the 2008 CP identified some difficulties that arise from considering the duty to contribute taxes and other sources of finance to be an individual duty:
- Recipients of social benefits may not contribute direct taxes.
 - Recipients of social benefits may reside outside the jurisdiction of the public sector entity that provides the benefit.
- 6.12 This suggests that, for the executory contract analogy to be operational, the duty to contribute taxes and other sources of finance cannot be considered an individual duty.
- 6.13 The IPSASB considers that under the social contract approach, executory contract accounting should be applied by analogy to society as a whole and is based on the assumption that society as a whole will always contribute taxes and other sources of finance.

³² IPSAS 19, paragraph 18

Obligations to be performed

- 6.14 The description of this approach in the 2008 CP assumes that the obligations to be performed by the other party are to contribute taxes and other sources of finance.
- 6.15 It may be possible to identify other obligations. Where individuals, or society as a whole, perform activities that enable a public sector entity to achieve its objectives, this could be viewed as fulfilling an obligation. However, when discussing social benefits it is often difficult to identify the obligations that individuals, or society as a whole, need to perform to enable an entity to achieve its objectives.
- 6.16 For example, an objective of a health service may be to increase the longevity of the population. The health service may provide medication that prevents conditions deteriorating and becoming fatal. The provision of the medication will allow the health service to achieve its objective. However, there is no independent performance by the individuals affected; any performance by the individuals affected is dependent on the health service first providing the medication.
- 6.17 The IPSASB has concluded that, under the social contract approach, any performance obligation on society as a whole cannot relate to the achievement of an entity's objectives. It follows that the performance obligation on society as a whole relates to the contribution of taxes and other sources of funding, as proposed in the 2008 CP. The contribution of taxes and other sources of funding is independent of the provision of social benefits by a public sector entity. The two transactions, therefore, can be considered to be analogous to an exchange.
- 6.18 In many jurisdictions, the entities that provide social benefits will be different to the entities that receive taxes and other sources of funding. This raises the question as to whether there is any obligation owed to the entity providing social benefits. In such cases, the entity providing the social benefits will be funded by another public sector entity. For the purposes of the social contracts approach only, the IPSASB considers that it is appropriate to consider this arrangement to be analogous to the funding entity acting as the agent of the entity providing the social benefits. The contribution of taxes and other sources of funding can be seen as an obligation to the entity providing the social benefits.

Proposed Accounting Treatment

- 6.19 Under the executory contract analogy, the public sector entity performs its obligations when it assumes a legal obligation to provide social benefits. The performance of society as a whole is recognized by a public sector entity recognizing the right to receive taxes and other sources of funding.
- 6.20 This CP proposes that, should the social contract approach be incorporated into a future IPSAS, a public sector entity would recognize a liability in respect of social benefits at the point at which the obligation becomes a legally-binding obligation. This liability should be measured at the cost of fulfillment. The cost of fulfillment is discussed in more detail above, beginning at paragraph 5.72.
- 6.21 The recognition and measurement of taxes and other sources of funding provided in non-exchange transactions is specified in IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) and is outside the scope of this project.

Specific Matter for Comment 8

In your view, under the social contract approach, should a public sector entity:

- (a) Recognize an obligation in respect of social benefits at the point at which an obligation becomes a legally binding obligation?
- (b) Measure this liability at the cost of fulfillment?

Please explain your reasons for your view.

7 Option 3: Social Insurance Approach [Staff Note – New Chapter]

Introduction

- 7.1 This CP defines social security programs as “programs providing cash transfers, operated by or on behalf of a public sector entity, where the benefits received are conditional on participation in the program, usually evidenced by way of actual or imputed contributions made by or on behalf of the recipient.”
- 7.2 Social security programs are a type of social insurance. Many social security programs operate in a similar manner to insurance contracts, and hence insurance accounting may provide insights into how best to account for some or all social security programs.

Insurance Accounting

- 7.3 There is currently no IPSAS on insurance accounting. Entities that issue insurance contracts are directed to national or international accounting standards on insurance accounting when determining their accounting policies.
- 7.4 IFRS 4 *Insurance Contracts* was published in 2004. The International Accounting Standards Board (IASB) describes IFRS 4 as an “interim Standard that permits a wide range of practices and includes a ‘temporary exemption’, which explicitly states that an entity does not need to ensure that its accounting policies are relevant to the economic decision-making needs of users of financial statements, or that those accounting policies are reliable.”³³
- 7.5 As such, IFRS 4 does not provide an appropriate basis for accounting for social benefits. The IASB is developing a replacement for IFRS 4, and has issued Exposure Draft ED/2013/7 *Insurance Contracts*. The IPSASB considers that the proposals in this ED are a suitable starting point for the development of accounting for social benefits under the social insurance approach.

IASB Exposure Draft ED/2013/7 Insurance Contracts

- 7.6 The following paragraphs describe the principles set out in the IASB’s ED. This description summarizes the key features that will be relevant to accounting for social benefits; it does not claim to include all of the detailed requirements. Readers seeking further information regarding the IASB’s proposals should refer to the ED directly.
- 7.7 Under the ED, the statement of financial position reports liabilities for the obligations arising as a result of insurance contracts. These liabilities are recognized at the earlier of the beginning of the coverage period (i.e., the period during which the entity provides coverage for insured events) or the date on which the first payment from the policyholder becomes due.
- 7.8 The liability is measured using a current estimate of future cash flows associated with the contract and includes the expected contract profit. These cash flows include premiums receivable by the entity and claims and benefits payable by the entity. The liability is discounted to reflect the timing of the cash flows, and risk adjusted to reflect the uncertainty associated with the cash flows. Unwinding the discounting in later periods leads to the recognition of interest revenue and / or expense.

³³ Exposure Draft ED/2013/7 *Insurance Contracts*

- 7.9 The expected contract profit is recognized as revenue over the period of the contract on a systematic basis that reflects the transfer of services provided under the contract. Revenue is adjusted for underwriting experience³⁴, and the remaining expected contract profit is adjusted for changes to the estimated future cash flows. Where these changes result in an expected loss, contracts are considered onerous, and the loss is recognized as an expense immediately.

Social assistance programs

- 7.10 The IPSASB is proposing in this CP that it is not appropriate to apply insurance accounting to unfunded social assistance programs. Such programs do not require participation, evidenced by contributions. The absence of contributions means that the only future cash flows would be the payment of social benefits. Estimating the present value of the future payments would be equivalent to determining the best estimate of a liability under Option 1.

Accounting for Social Security Programs under the Social Insurance Approach

- 7.11 This section of the CP describes how the social insurance approach would be applied to the recognition and measurement of social security programs. It then discusses individual issues that will arise under such an approach and seeks respondents' views as to how these should be addressed.
- 7.12 Two different scenarios may arise. In the first scenario, the social security program is designed to be fully financed through contributions. In this scenario, the program is designed to operate without any subsidy from general taxation.
- 7.13 In the second scenario, the social security program is designed to operate with a subsidy from general taxation. The program is designed to be partially financed through contributions and partly through the tax subsidy.
- 7.14 These two scenarios give rise to different accounting issues, and are discussed separately in the following paragraphs. For some social security programs, it may be difficult to establish whether the program is designed to operate with a tax subsidy or without a tax subsidy unless this is specified in legislation.

Initial recognition

- 7.15 This CP proposes that, in line with the IASB's proposals for insurance contracts, social security programs would be recognized at the earlier of the beginning of the coverage period or the date on which the first contribution from or on behalf of the participant becomes due. As social security programs are conditional on participation, usually evidenced by the payment of contributions, it is anticipated that in many cases, a social security program will be recognized when the first contribution becomes due.
- 7.16 Where the number of participants in a social security program is sufficiently small, recognition could be on an individual basis. Where the number of participants is large, recognition may need to be based on aggregated groups of individuals, for example those joining a social security program in a particular period. This CP proposes that under the social insurance approach, a future IPSAS should not specify the level at which such amounts are aggregated (this is sometimes referred to as the "unit

³⁴ Underwriting experience refers to the actual cash flows from premiums, claims and benefits, which are likely to differ from the estimated amounts.

of account”). Where an aggregated approach is taken, estimation techniques will be necessary. Actuarial reports are typically required to provide the information to enable this process.

- 7.17 For social security programs designed to operate without a tax subsidy, at initial recognition the statement of financial position would show the expected surplus (if any) from the program, and a current estimate of the amount of future cash flows from the program, discounted to reflect the timing of those cash flows.
- 7.18 This CP proposes that in those circumstances where the contributions are designed to exceed the expected benefits paid, the expected surplus should be recognized over the coverage period of the program.
- 7.19 A current estimate of the future cash flows, discounted to reflect the timing of those cash flows, may indicate that there is an expected deficit for a social security program. This CP proposes that, where the program is designed to be fully funded from contributions (i.e., designed to operate without a tax subsidy), the expected deficit should be recognized as an expense on initial recognition. This would provide useful information about the performance of the program and the level of additional contributions (or reductions to the benefits offered) required to balance the program. It would also be consistent with the approach being considered by the IASB. This CP does not consider it appropriate to recognize the expected deficit emerges over the coverage period where the program is designed to be fully funded from contributions. Such an approach would imply that the financing of the program was part of the entity’s ongoing operations, whereas the situation is analogous to a contract becoming onerous.
- 7.20 Where the program is not designed to be fully funded from contributions (i.e., where the program is designed to operate with a tax subsidy), the CP is seeking the views of respondents as to how the expected deficit should be treated. The IPSASB has identified the following approaches:
- The entity should recognize an expense on initial recognition of the liability determined. This would ensure the consistent accounting treatment for all deficits, whether they resulted from the design of the program or not, and would provide useful information on the liability of the entity to subsidize the program.
 - The entity should treat the subsidy as a future expense on initial recognition of the obligation and recognize the subsidy as the expected deficit emerges over the coverage period (i.e., the accounting treatment for a deficit would mirror the treatment for a surplus). This would recognize the liability that the entity has to subsidize the program, whilst recognizing the subsidy as an expense in the periods in which the subsidy is provided.
 - The entity should deduct the planned subsidy from the liability determined from the future cash flows. There are two variations to this approach.
 - Deduct the planned subsidy from the liability only where this is to be received as a transfer from another public sector entity. This mirrors the approach taken for expected reimbursements for provisions under IPSAS 19. The subsidy can be seen as a form of indirect contribution. However, if both entities are consolidated into the same financial statements (for example, at whole of government level) the transfer would be eliminated.
 - Deduct the planned subsidy from the liability irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation. This would require the recognition of future tax revenues as an asset offsetting

the liability, albeit future inflows earmarked to support a social security program. This would be a departure from current practice.

Specific Matter for Comment 9

Do you agree that where a social security program is designed to be fully funded from contributions:

- (a) Any expected surplus should be recognized over the coverage period of the program; and
- (b) Any expected deficit should be recognized as an expense on initial recognition?

Please explain your reason for this view.

Specific Matter for Comment 10

In your view, what is the appropriate accounting treatment for the expected deficit of a social security program that is not designed to be fully funded from contributions:

- (a) An expense on initial recognition;
- (b) Recognize the deficit as an expense over the coverage period of the program;
- (c) Deduct the planned subsidy from the liability only where this is to be received as a transfer from another public sector entity;
- (d) Deduct the planned subsidy from the liability irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation; or
- (e) Another approach?

Please explain your reason for this view.

Risk adjustment

- 7.21 The IASB's proposals for insurance accounting require a risk adjustment to be made to the estimate of the future cash flows. The risk adjustment reflects the compensation that the entity would require for bearing the uncertainty about the amount and timing of the cash flows that arise as the entity fulfils the contract.
- 7.22 If a risk adjustment is applied when estimating the future cash flows, the resulting measurement basis will be the **assumption price**, i.e., the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability. If a risk adjustment is not applied when estimating the future cash flows, the measurement basis will be the **cost of fulfillment**.
- 7.23 The main advantage of using the assumption price measurement basis is that there may be significant risks associated with the estimated cash flows. It is appropriate, therefore, to make a prudential adjustment to increase the likelihood that the reported liability will be adequate. Such an adjustment is also likely to be a factor in assessing the contribution rate funding the liability and hence more useful for decision-making purposes.
- 7.24 The main advantage of using the cost of fulfillment measurement basis is that this represents the best estimate of the cost that is expected to be incurred. A differentiation can be made between the

public and private sector in this instance as going concern or solvency concerns differ between the sectors³⁵.

- 7.25 For some social insurance programs, uncertainty regarding future cash flows will be relatively small. An example would be where past experience shows that the level of both contributions received and payments made is relatively stable. In these circumstances, information about the best estimate of the entity's liability in regard of the program may be most useful to users of the financial statements.
- 7.26 For other social insurance programs, there may be significant uncertainty regarding future cash flows. In these circumstances, the use of the assumption price measurement basis may be more appropriate. Information regarding the risk adjustment applied by the entity may enable users of the financial statements to better evaluate the risks borne by the entity in operating the program.
- 7.27 This CP proposes that the measurement basis used for the social insurance approach should be the cost of fulfillment, unless the uncertainty over future cash flows justifies a risk-based approach. In this latter case, the measurement basis would be the assumption price.

Specific Matter for Comment 11

In your view, under the social insurance approach, should an entity use the cost of fulfillment measurement basis unless the uncertainty over future cash flows justifies the use of the assumption price measurement basis?

Please explain your reasons for this view.

Coverage Period

- 7.28 The IASB's proposals for insurance accounting require an entity to recognize the future cash flows relating to the coverage period of an insurance contract. The coverage period ends at the point where the entity can assess the risks associated with a policy holder or group of policy holders, and can set a price that reflects those risks. The policy holder will have the ability to seek an alternative insurer at this point, and so coverage beyond this point amounts to a new agreement.
- 7.29 For many social benefits, participation is mandatory under legislation. Contributions may not reflect individual risks, and may be influenced by factors other than the risks covered, for example government policy. This applies especially to those social security programs that are not designed to be fully funded from contributions. In these circumstances, the coverage period may be difficult to determine. The entity will need to identify the point at which the coverage period should be considered to have ended.
- 7.30 A social security program providing retirement benefits will have a very long coverage period. Benefits will be paid until the death of a participant. A typical pattern of cash flows for such programs may be almost 50 years of contributions followed by an average of 20 years of benefit payments.
- 7.31 Where a retirement benefits program also provides survivor benefits and/or dependent benefits³⁶, benefits may be paid after the death of the participant. Survivor and dependent benefits may also be

³⁵ Going concern in the public sector is discussed in more detail in the Preface to the Conceptual Framework.

³⁶ Survivor benefits are benefits payable to the surviving spouse or partner of a beneficiary upon the death of that beneficiary. An example of a survivor benefit would be a reduced pension, which may be payable for a specified period or until the death of the surviving spouse or partner. Dependent benefits are similar benefits payable to the dependents (usually dependent children) of a deceased beneficiary. Benefits are often payable until a child reaches a specified age.

payable where a participant dies before reaching retirement age. The program may therefore pay benefits for a much longer period of time.

- 7.32 Such issues are also faced by providers of annuities in the private sector.
- 7.33 For other social security programs, the coverage period may be less straightforward to identify. Taking the example of an unemployment benefit program, contributions may be mandatory during periods of employment, with benefits paid during periods of unemployment. In some cases, the period over which the benefits are paid, and the amount of those benefits, are dependent (at least in part) on the amount of contributions during an eligibility reference period.
- 7.34 For example, the Canadian Employment Insurance program pays benefits where the level of benefits and the period for which those benefits are paid is based (at least in part) on the contributions in the previous 52 weeks.
- 7.35 This CP proposes that the estimate of future contributions should be based on the eligibility period (if any) of the social security program. The estimate of future benefit payments should be based on the eligibility period plus the period (if any) after the eligibility period during which benefits resulting from that eligibility period can be payable. Where the eligibility period is not specified, estimates should be made based on experience combined with assessments of the impact of recent policy changes.
- 7.36 In the example of the Canadian Employment Insurance program, the eligibility period is 52 weeks. The estimate of future contributions would consist of the contributions to be received during that year. Those contributions provide eligibility for benefits that may be paid for up to 45 weeks after a participant becomes unemployed. If a participant became unemployed at the end of the eligibility period, the coverage period would be 52 weeks (eligibility period) + 45 weeks (claim period), giving a total of 97 weeks. For participants who became unemployed part way through the eligibility period, the coverage period would be less. In estimating the future payments, an estimate of when a participant may become unemployed would need to be taken into account.
- 7.37 In the example of a retirement benefit, the eligibility period will normally run until the participant retires. The claim period will be from the date at which the participant retires to the day he or she dies. The estimate of future contributions would take into account contributions that would be received from the date a participant enters the workforce to the date he or she retires. The estimate of future payments would take into account payments from the date a participant retires to the date he or she dies. The estimates would also take into account the possibility of the participant dying before retirement, and the possibility of survivor or dependent benefits being paid.

Nature of contribution

- 7.38 So far, this chapter has considered those social security programs where the contributions payable relate directly to the benefits. In some cases, the relationship is more complex. Some examples are discussed below
- A social benefit operates as if it were a social insurance program. However, rather than contributions being made by or on behalf of identifiable individuals, the program is funded through a levy. An example would be an accident insurance benefit funded through a levy on fuel sales.
 - A social security program provides benefits to non-participants, funded through the contributions made by participants. An example would be an accident insurance scheme,

financed by mandatory contributions, which also provides coverage to non-participants, for example tourists.

- A social security program requires the payment of contributions; however, these contributions are considered (by the entity or by legislation) to be general taxation rather than relating to a particular social benefit or range of benefits. Such contributions may provide access to a number of benefits. An example would be National Insurance (NI) contributions in the United Kingdom. NI contributions are used to determine eligibility for a range of benefits including unemployment benefits and retirement benefits. However, contributions are treated as general taxation receipts. In such circumstances, contributions would need to be apportioned to each program if the programs were accounted for using the social insurance approach.

7.39 Respondents' views are sought as to the circumstances in which it is appropriate to account for programs using the social insurance approach.

Specific Matter for Comment 12

In your view, in which of these situations (if any) would it be appropriate to account for a program using the social insurance approach:

- (a) The program is funded by a levy rather than contributions.
- (b) The program provides benefits to non-participants as well as participants.
- (c) The contributions relating to a program are considered to be general taxation.

Please explain your reasons for this view.

Discount rate

7.40 The IASB's proposals for insurance contracts specify that that discount rate should adjust the future cash flows to reflect the time value of money. Such rates should be consistent with observable market prices for instruments with cash flows that are consistent with the timing, currency and liquidity of the insurance contract.

7.41 IPSAS 25, in setting the requirements for defined benefit post-employment plans, also states the principle that the discount rate should reflect the time value of money. It clarifies that the discount rate does not reflect the actuarial or investment risk, nor the entity-specific credit risk born by participants in the scheme. IPSAS 25 also includes guidance on estimating the discount rate where there is no deep market in government bonds or high quality corporate bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments.

7.42 This CP proposes to adopt the approach that a social insurance obligation should reflect the time value of money, excluding actuarial, investment, entity-specific credit or liquidity risk in any future IPSAS that incorporates the social insurance approach.

Specific Matter for Comment 13

Do you agree that, under the social insurance approach, the time value of money should exclude actuarial, investment, entity-specific credit and liquidity risks?

Please explain your reasons for these views.

Subsequent measurement

- 7.43 This CP proposes requirements for subsequent measurement that are based on the IASB's proposals for insurance contracts, with adjustments for relevant decisions on initial measurement. The CP's proposals, which will depend on decisions made regarding initial recognition, are summarized in the following paragraphs.
- 7.44 At the end of the reporting period, the carrying amount of a social insurance program would reflect the future cash flows, measured at that date, and the remaining expected surplus (or, if the deficit relating to a program not designed to be fully funded by contributions is recognized over the period of the program, the remaining expected deficit).
- 7.45 The remaining expected surplus (or expected deficit) would be adjusted for changes to future cash flows arising from future coverage.
- 7.46 The expected surplus (or expected deficit) would be recognized as revenue in the statement of financial performance using a systematic basis that reflects the transfer of benefits provided under the program. Benefits payable during the period would be recognized as an expense.
- 7.47 The statement of financial performance would also reflect any changes to the discount rate, and the unwinding of the discounted cash flows.

8 Presentation [Staff Note – New Chapter]

- 8.1 This chapter of the CP discusses at a high level the information to be presented in accordance with a future IPSAS. This chapter does not discuss specific disclosure requirements. These requirements are linked to decisions regarding the approach to recognition and measurement, and therefore will be determined once the IPSASB has considered the responses to this CP.
- 8.2 The information to be presented will need to be useful for accountability and decision-making purposes to ensure it meets the objectives of financial reporting. Information will need to be consistent with the qualitative characteristics set out in the Conceptual Framework. Decisions about the information to include will also need to take into account the constraints on information included in general purpose financial reporting.

Information in the Financial Statements

- 8.3 Chapter [X] of the Conceptual Framework describes the decisions that need to be made regarding the presentation of information. These decisions are grouped under three headings – information selection, information location and information organization. This CP concentrates on information selection, but will discuss location and organization where these inform the discussion of information selection.
- 8.4 Provisions within existing IPSASs will require some information to be presented in the financial statements:
- The statement of financial position will include liabilities (and, where relevant, assets) in respect of social benefits.
 - The statement of financial performance will include expenses (and, where relevant, revenues) in respect of social benefits.
 - The cash flow statement will include cash flows in respect of social benefits.
 - The notes will include accounting policies in respect of social benefits, and a further details of the amounts listed above.

Accounting policies

- 8.5 Accounting for social benefits may be complex, and may require a significant degree of estimation. The summary of the key accounting policies should explain the approach or approaches used when accounting for social benefits. The summary of the key accounting policies should also explain the estimation techniques used and why these are appropriate. The challenge will be to provide sufficient information so that users of the financial statements understand the approach or approaches used and their limitations without overwhelming them with details.

Significant judgment and key sources of estimation uncertainty

- 8.6 IPSAS 1, *Presentation of Financial Statements* requires entities to disclose any significant judgments they have made in preparing the financial statements, and key sources of estimation uncertainty. Social benefits could feature prominently in both. Depending on which approach to recognition and measurement is adopted, accounting for social benefits may require significant judgments and involve estimation uncertainty. For example, there will be significant estimation uncertainty in the measurement of a retirement pension benefit under the social insurance approach, where cash flows

for many years into the future need to be estimated. There will be little estimation uncertainty when the same benefits are measured under the social contract approach.

8.7 When considering how such uncertainty could best be communicated to the users of the financial statements, the IPSASB will need to consider a number of issues, for example:

- Would it be helpful to state the range of estimates within which the liability is expected to fall, or to show the probability distribution of the estimate?
- Would a sensitivity analysis, for example in relation to the discount rate, assist users?
- Or would these approaches introduce a level of complexity that would confuse users rather than assisting them?

Details of revenues, expenses, assets and liabilities

8.8 The faces of the financial statements will display the amounts of revenues, expenses, assets and liabilities arising from social benefits. The notes will disclose more detail on these amounts; the following questions will need to be addressed:

- How much more detail is appropriate?
- Should each social benefit program be disclosed individually, or should programs be aggregated?
- Under the social insurance approach, should future flows of contributions and payments be shown net or gross?
- What level of detail is appropriate when describing the assumptions that underlie the estimates?

Prospective information

8.9 Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* provides guidance on reporting prospective information outside of the financial statements. This includes information on social benefit programs that is currently not reported in the financial statements. The IPSASB will consider whether including prospective information in the financial statements will assist users to understand the likely implications of social benefit programs. It is important that the information in the financial statements satisfies the QCs set out in the Conceptual Framework, for example verifiability. Whether information meets the QCs may depend on the approaches to recognition and measurement that have been selected.

Information outside the Financial Statements

8.10 The IPSASB acknowledges that information presented in the financial statements about social benefits may, on its own, be insufficient for the needs of users of the financial statements. This was set out in paragraph 5 of the 2008 CP:

In considering these issues the IPSASB concluded that, within the constraints of its current implied conceptual framework for general purpose financial reporting, traditional approaches to liability recognition may not be suitable for conveying information to users about the future provision of social programs by governments. In doing so, the IPSASB acknowledged the limitations of the primary financial statements including the statement of financial position and notes thereto. These limitations exist because, although primary financial statements use estimation techniques to measure liabilities by reference to settlement amounts in future reporting periods, they focus primarily on past events.

- 8.11 Some options for the recognition and measurement of social benefits incorporate more prospective information than others. The social contract approach, which considers liabilities only where society has contributed taxation and other sources of funding, does not incorporate prospective information. The social insurance approach, with its emphasis on estimating future contributions and future payments, incorporates some prospective information. This prospective information does not, however, incorporate all the prospective information that users of the financial statements may find useful. The social insurance approach considers cash flows in respect of participants, i.e., those who are currently contributing to a program, or receiving benefits from a program. It does not consider cash flows in respect of those individuals who will become participants in the future.
- 8.12 These concerns led the IPSASB to develop RPG 1. The scope of the RPG includes projected flows. Social benefits will form a significant portion of those flows for many entities, but are not the only flows considered. The RPG sets these flows in the context of other projected flows such as tax receipts.
- 8.13 Reporting on the long-term sustainability of an entity's finances will enhance the information about social benefits that is included in the financial statements. Additional prospective information about social benefits, set in the context of projected taxation income and debt levels, will be useful for accountability and decision-making purposes.

Specific Matter for Comment 14

In your view, what information is required to enable users to understand social benefit programs and their impact on the financial statements of an entity?

Please explain your reasons for this view.

9 Social Security Funds, Composite Programs and Other Issues [Staff Note – New Chapter]

Accounting by Social Security Funds

- 9.1 In some jurisdictions, social benefits may be provided by separate entities, often referred to as social security funds. The relationship of these funds to the public sector varies across jurisdictions. This section of the CP discusses the accounting treatment for such funds that either apply IPSASs or are consolidated into an entity that applies IPSASs.
- 9.2 The IPSASB has concluded that, in general, the issues regarding the recognition and measurement of liabilities in respect of social benefits by social security funds are the same as for other entities. The options set out in this CP will therefore be equally applicable to social security funds as to other entities, subject to the following considerations.
- **Social contract approach** – some social security funds operate outside of the public sector. Where these funds are financed by contributions rather than transfers from a public sector entity, it is unlikely that the executory contract model can be applied by analogy. The social contract approach option may not be appropriate for such funds.
 - **Social insurance approach** – some social security funds may receive a guarantee from a public sector entity, for example that the entity will make good any shortfall in funding. The social insurance approach considers the net cash flows in respect of social benefits. This calculation may need to include amounts received in accordance with the guarantee.

Composite Social Security Programs and other Programs providing multiple benefits

- 9.3 Some social benefits programs are composite social security programs. Composite social security programs provide both employee benefits and non-employment related benefits in a single program.
- 9.4 Other programs may provide both social security benefits and social assistance benefits in a single program.
- 9.5 Where composite and similar programs provide benefits that have different accounting requirements, this CP proposes that social security funds and other public sector entities should account for each benefit provided in accordance with the appropriate accounting treatment. This will require entities to distinguish between each element of the benefit payable. For example, a composite social security program that provides both employee related benefits and social security benefits would need to separately identify payments to be made in respect of the employee benefits element. The liability for this element would be determined by applying the requirements of IPSAS 25. The liability for the remaining payments (those relating to the social security element) would be determined by applying the requirements of a future IPSAS on social benefits.
- 9.6 There may be situations where the benefits provided are so interlinked that it is not practicable to distinguish between the different elements. In these circumstances, this CP proposes that the entity should determine which characteristics of the program are most significant in terms of the amounts payable. The entity should then determine the accounting policy for the composite or similar program by selecting the accounting requirements that most closely match those most significant characteristics.

9.7 For example, a composite social security program may provide employee benefits which are based on length of service and social security benefits where the amounts payable are linked to the level of contributions paid. If the entity determines that:

- It is not practicable to distinguish between the employee benefits and social security benefits elements of the program; and
- The level of contributions paid is the most significant characteristic of the composite program when determining an individual's level of benefits;

the entity would account for the entire composite program as social security benefits in accordance with a future IPSAS on social benefits.

Accounting by public sector entities – guarantees

9.8 As noted in paragraph 9.2 above, some public sector entities may provide guarantees to social security funds. Typically, such guarantees cover any shortfall in funding experienced by the social security fund. However, guarantees could be given for other purposes. For example, a social security fund may borrow money to enable it to pay social benefits. A public sector entity may provide a guarantee in respect of the debt.

9.9 Where a public sector entity has provided a guarantee to a social security fund, the entity should account for that guarantee in the same way as for all other guarantees. Financial guarantees are defined in IPSAS 29. Where a public sector entity has provided a guarantee to a social security fund that meets the definition of a financial guarantee, the public sector entity should account for that guarantee in accordance with IPSAS 29. Where the guarantee does not meet the definition of a financial guarantee, the public sector entity should account for the guarantee in accordance with IPSAS 19.

Accounting by public sector entities – control, joint control and significant influence

Staff Comment: It is anticipated that the project *Interests in Other Entities* will be completed prior to this CP being published. If this is the case, references to the Exposure Drafts below will be replaced by references to the issued IPSASs.

9.10 Where a social security fund operates wholly in the public sector, it is likely that the fund will be controlled by a public sector entity.

9.11 Where the social security fund does not operate wholly in the public sector, the situation is more complex. For example, some social security funds in France are tripartite arrangements involving the government, the employer and trades unions.

9.12 In each case, a public sector entity will need to evaluate its involvement with the social security fund, and account for its interest accordingly:

- Where the entity determines that it controls the fund (as defined in IPSAS XX (ED 49)), it will account for the fund as a controlled entity in accordance with IPSAS XX (ED 49).
- Where the entity determines that it has joint control of the fund (as defined in IPSAS XX (ED 51)), it will account for its interest in the fund in accordance with IPSAS XX (ED 50).

- Where the entity determines that it has significant influence over the fund (as defined in IPSAS XX (ED 50)), it will account for its interest in the fund in accordance with IPSAS XX (ED 50).
- 9.13 A public sector entity may determine that it has neither control, joint control, nor significant influence over a social security fund. In such circumstances, the entity will only account for its transactions with the social security fund.

Appendix A: Examples of Social Benefit Programs [Staff Note – New Appendix]

A.1 This CP has discussed the principles of how to account for social benefits. In practice, there are a wide variety of benefits and programs, which the principles will need to be able to accommodate. Chapter 2 describes this range of programs at a high level. This Appendix gives individual examples of the programs and considers how the approach outlined in this CP could be applied in practice to these examples were the financial statements to be prepared under IPSASs. This Appendix does not address all possible benefits. Instead, it discusses a small number of examples, showing how the principles can be applied to each.

Retirement Benefits

A.2 This Appendix describes three examples of how retirement benefits are provided, and discusses how the approach outlined in the CP can be applied to each example. Occupational pension schemes also exist. These are not part of the state systems, and are outside the scope of this CP.

Denmark

A.3 State retirement benefits in Denmark are provided through two schemes. The first scheme is a universal scheme, the second a social insurance scheme.

A.4 The universal scheme provides an annual basic amount to citizens and to non-citizens who meet the minimum residency requirements (or who are covered by reciprocal agreements). The amount assumes 40 years residence, with the amount being reduced for shorter periods. The minimum residency requirements are three years for Danish nationals and 10 years (to include the last five years before retirement age) for foreign nationals. Individuals become eligible to receive a pension at age 65 (increasing to 67 between 2024 and 2027). A means-tested supplementary pension benefit is paid to the financially most disadvantaged pensioners.

A.5 The universal scheme is managed by a government Ministry, with all the costs of the scheme being met through general taxation.

A.6 The social insurance scheme ((the Danish Labor Market Supplementary Pension) is known as the ATP. Contributions are fixed, and vary only with the number of hours worked rather than with income.

A.7 The ATP provides a guaranteed deferred annuity. The pensions paid are based on an individual's contribution record. A full, continuous contribution record (from age 16) is required for a full pension, with a reduced pension being payable for shorter contribution periods. Individuals become eligible to receive a pension at age 65 (increasing to 67 between 2024 and 2027).

A.8 The ATP is administered by the Labor Market Supplementary Pension Institution, an independent institution headed by a bipartite board of directors representing employers (including the public sector) and employees. The ATP is funded through contributions from employers and employees. In recent years, the ATP has set aside substantial additional funds to cover the current increase in life expectancy.

Application of the approach in this CP

A.9 The universal scheme and the ATP will have different accounting treatments.

A.10 The universal scheme is provided by the government Ministry. The Ministry will include amounts relating to the universal scheme in its financial statements. The Ministry will recognize and measure

its liability using one of the options set out in the CP. Which of the options is used will depend on decisions made by the IPSASB in developing a future IPSAS. It is unlikely that the social insurance approach will be appropriate for the universal scheme as the scheme is financed from general taxation.

- A.11 The ATP is provided through the Labor Market Supplementary Pension Institution, which will include amounts relating to the ATP in its financial statements. As with the universal scheme, recognition and measurement will be based on one of the options set out in the CP. The social insurance approach is a possible option for the ATP, as the scheme operates on a social insurance basis, funded solely through employer and employee contributions.
- A.12 The Ministry will need to consider whether it has any interest in the Labor Market Supplementary Pension Institution. If the Ministry concludes that it has such an interest, it will account for that interest in accordance with IPSAS XX (ED 49) (where the entity is a controlled entity) or IPSAS XX (ED 50) (where the entity is a jointly controlled entity or an associate). If the Ministry concludes it has no such interest, the ATP will not be included in the Ministry's financial statements.

France

- A.13 The provision of retirement benefits in France is complex. The overarching principle of solidarity drives the provision of all social benefits in France. The solidarity principle means, for example, that compensation mechanisms are in place to take account of demographic disparities. Schemes with small numbers of current contributors that otherwise would not be able to finance all their payments receive a transfer from schemes with large numbers of current contributors. The Government may also provide cash to allow the schemes to meet their payment commitments for the period.
- A.14 The French pension system broadly covers civil servants and private sector employees through different programs. This Appendix describes the general scheme (*régime général*) that covers most private-sector employees. However, the approach applies (with minor variations in some cases) to other schemes.
- A.15 There are two tiers to the pension system. The first tier is the basic pension scheme, the second tier is the additional or supplementary pension scheme. Participation in both schemes is mandatory.
- A.16 The basic pension scheme provides pensions where the amount receivable is based on the number (rather than the amount) of contributions made. A full (flat rate) pension is payable when contributions have been made for the minimum number of years. Reductions are made where the number of years' contributions is below this minimum number. Retirement ages and contribution periods are currently being increased. Once the transition period is complete, the minimum retirement age will be 62, and the age of entitlement to a full pension will rise to 67. The minimum number of contribution periods required for a full pension will be 166 quarters (41.5 years).
- A.17 The additional or supplementary pension scheme provides pensions where the amount payable is based on pension points. Annual contributions are related to a participant's earnings; the higher the earnings, the higher the contributions and the greater the number of pension points allocated. When the participant retires, the pension payable is based on the number of pension points the participant has accumulated over their working life.
- A.18 The different schemes are managed by separate public entities established by law. Each entity has a board of directors, comprising, in the main, employers' representatives and employees'

representatives (often unions). The entity manages the scheme under the supervision of the relevant Ministry of the French Government.

- A.19 The pension schemes are financed on a 'pay as you go' basis, with the contributions received in a year being used to make pension payments in the year. Schemes are generally funded through contributions. The application of the solidarity principle means that some schemes may receive transfers (from other schemes or from the Government) to supplement the contributions.

Application of the approach in this CP

- A.20 Each entity will prepare its own financial statements. The entity will recognize and measure any liability it may have using one of the options set out in the CP. Which of the options is used will depend on decisions made by the IPSASB in developing a future IPSAS.
- A.21 Currently, the entities do not recognize a liability in respect of future pensions payable. Instead, estimates of future payments in respect of civil servants are disclosed in the notes to the financial statements of the Government.
- A.22 Each entity (and each Ministry) will also consider whether the solidarity principle and the compensation mechanisms in place give rise to a liability that should be recognized in its financial statements.

Japan

- A.23 In Japan, the public pension system has two tiers: a basic, flat-rate program and an earnings-related program (employees' pension scheme). The public pension system is being reformed following the introduction of new legislation in 2012. This Appendix describes the new system but does not address all the transitional provisions that are currently in place. Instead, it describes how the system will operate once the transition period is complete.
- A.24 The public pension system is operated as an insurance system. There are three categories of insured person within the system. Category 1 comprises self-employed individuals. Individuals within this category pay a fixed insurance premium each month. Category 2 comprises individuals employed in public and private sectors. Individuals within this category pay a premium that is proportional to their salary. Employers match this contribution. Category 3 comprises dependent spouses of individuals in Category 2. Those individuals in Category 3 do not pay any insurance premiums.
- A.25 The basic pension is paid from age 65. A full pension is paid with 40 years contributions, with payments being adjusted proportionately for shorter periods. The minimum requirement for receiving the basic pension is that the payment period for the insurance premium and any exemption period for the insurance premium together must cover more than 10 years.
- A.26 The earnings-related employees' pension is also paid from age 65. The eligibility criteria require a minimum of one contribution to have been paid. The amount of the pension is dependent on an individual's contribution record (both the number and the amount of contributions paid).
- A.27 The pensions payable are index-linked. During the transition period, this level of index-linking is being deflated to ensure the program is able to meet its future obligations. Deflation of the index-linking will cease when an actuarial review indicates that the financial equilibrium of the pension system is sustainable. Actuarial reviews are undertaken every five years.

- A.28 The program primarily operates on a 'pay as you go' basis, although a reserve is also being maintained.
- A.29 In its financial statements, the Japanese Government currently presents the difference between the assets of the pension system (net of an allowance for doubtful amounts) and the accounts payable (recorded on a "due and payable" basis) as the "deposit reserved for public pension".

Application of the approach in this CP

- A.30 The Government will include amounts relating to the public pension system in its financial statements. The Government will recognize and measure its liability using one of the options set out in the CP. Which of the options is used will depend on decisions made by the IPSASB in developing a future IPSAS.
- A.31 As the public pension system operates as an insurance system, the social insurance approach may be an appropriate basis for the recognition and measurement of the public pension system.
- A.32 The fact that future benefits are being adjusted to ensure that the system is financially viable will need to be taken into account when measuring the program.
- A.33 Under the obligating event approach, adjustments to future benefits will affect the assessment as to when a present obligation arises. Individuals' valid expectation of being paid a pension will be affected by such reductions (at least with regard to the amount of the pension), and the Government may be seen as having a realistic alternative to settling the whole obligation.
- A.34 Under the social insurance approach, the assessment of future payments will need to take into account the Government's ability to reduce benefits to a sustainable level.

Unemployment Benefits

- A.35 This Appendix describes two examples of how unemployment benefits are provided and discusses how the approach outlined in the CP can be applied to each example.

Canada

- A.36 In Canada, unemployment benefits are payable through the federal Employment Insurance program. The program provides a number of benefits. This Appendix considers regular benefits. Although the arrangements for other benefits are different, the accounting issues will be the same.
- A.37 Employment Insurance regular benefits are paid to individuals who become unemployed through no fault of their own, and who have worked at least the minimum number of hours required in the previous 52 weeks. The minimum number of hours required varies depending on the level of unemployment in the region, with a higher number of hours required for eligibility in regions with lower unemployment.
- A.38 The basic rate for calculating benefits is 55% of the weekly average insurable earnings. Insurable earnings includes all earnings up to a maximum level. The average is calculated using the "best weeks" (i.e., those weeks with the highest earnings) in the qualifying period. The number of weeks used to calculate the average varies from 14 to 22 weeks, depending on the regional unemployment level. Fewer weeks are taken into account in regions of higher unemployment. Weeks where the individual earned no income will be included in the average if the individual worked for fewer weeks

than the number of weeks over which the average is calculated. The benefit rate can be higher for low income families.

- A.39 There is a two week “waiting period” before benefits are paid. After the waiting period, the maximum number of weeks during which the regular benefit will be paid depends on two factors. The first factor is the number of hours worked during the qualifying period. The higher the number of hours, the longer the benefit period. The second factor is regional unemployment. The higher the regional unemployment, the longer the benefit period.
- A.40 Employment Insurance is provided by the federal Government, and is financed through mandatory contributions from employers and employees. Contributions are proportionate to earnings up to the maximum insurable amount. Although Employment Insurance appears to operate as a social insurance program, income from Employment Insurance is treated as general taxation by the Government. In most years, income from contributions matches or exceeds the benefits paid.

Application of the approach in this CP

- A.41 The Government will include amounts relating to Employment Insurance in its financial statements. The Government will recognize and measure its liability using one of the options set out in the CP. Which of the options is used will depend on decisions made by the IPSASB in developing a future IPSAS. If the social insurance approach were used, it may be helpful to users to disclose the fact that future revenue, which is be taken into account in measuring the program, is treated as general taxation.
- A.42 The eligibility criteria and benefits calculations are complex, and are significantly determined by the regional rate of unemployment. Estimates of future benefit payments are required under some variants of the obligating event approach. Estimates of future cash flows are required under the social insurance approach. In both cases, estimates may need to be prepared on a region-by-region basis to take account of the effect of the regional rate of unemployment.
- A.43 The Government will also need to consider whether the complex design of the program affects presentation decisions. Significant judgments and estimation uncertainty relating to the program are likely to be disclosed. Under some recognition and measurement models, the impact of the regional variations on disclosure may need to be considered. For example, under the social insurance approach, it may be useful for accountability and decision making purposes to disclose the net present value of the program region by region if these varied significantly.

United Kingdom

- A.44 In the United Kingdom, unemployment benefits are provided through the Jobseeker's Allowance program. There are two types of Jobseeker's Allowance (JSA), income-based JSA and contribution-based JSA. JSA is payable to those individuals who are unemployed or work a limited number of hours per week and who are available for and actively seeking work.
- A.45 Income-based JSA is payable to those individuals who have not made sufficient Class 1 National Insurance contributions. Income-based JSA is means-tested, with income and savings taken into account. The maximum amounts payable vary depending on the individual's age and family circumstances. Reductions are made when an individual's income and / or savings exceed set levels.
- A.46 Contribution-based JSA is payable to those individuals who have made sufficient Class 1 National Insurance contributions. Class 1 National Insurance contributions are paid on all earnings from

employment above a threshold. Contributions are proportionate to earnings, with a reduced amount payable above an upper limit. Contributions are made by employers and employees. Contribution-based JSA is payable for a maximum of 182 days. The amounts payable vary depending on the individual's age. No deduction is made for income or savings, unless the income is from part-time work or a pension.

- A.47 JSA is managed by the Department for Work and Pensions, and is funded through general taxation. This applies equally to contribution-based JSA and income-based JSA. National Insurance is collected by HM Revenue and Customs, a non-ministerial department. Whilst payment of National Insurance contributions is a requirement for eligibility to a number of benefits, receipts of National Insurance contributions are treated as general taxation by the Government.

Application of the approach in this CP

- A.48 The Department will include amounts relating to JSA in its financial statements. The Department will recognize and measure the program using one of the options set out in the CP. Which of the options is used will depend on decisions made by the IPSASB in developing a future IPSAS.
- A.49 The social insurance approach is unlikely to be an appropriate basis for recognizing and measuring income-based JSA as contributions are not required for access to this benefit. The social insurance approach may be appropriate for recognizing and measuring contribution-based JSA, although there are complicating factors.
- A.50 The payment of sufficient National Insurance contributions forms part of the eligibility criteria for a number of benefits, including the state pension. In order to recognize and measure JSA using the social insurance approach, National Insurance contributions receivable will need to be apportioned to each benefit.
- A.51 If the social insurance approach were used, it may be helpful to users to disclose the fact that future revenue, which is taken into account in measuring the program, is treated as general taxation. Because they are treated as general taxation, National Insurance contributions are not included in the financial statements of the Department as the Department does not control the resource. National Insurance contributions are shown at the whole of government level.

Injury Benefits

- A.52 This Appendix describes an example of how personal injury compensation benefits are provided and discusses how the approach outlined in the CP can be applied.

New Zealand

- A.53 In New Zealand, comprehensive, no-fault personal injury cover is provided as a social benefit. Benefits are provided by the Accident Compensation Corporation (ACC), a public sector entity established by legislation.
- A.54 The ACC works with businesses and the community to reduce accidents. When an accident does occur, the ACC helps to provide treatment, care and services for anyone who is injured. These are provided on a no-fault basis.

- A.55 Claims are managed through five separate accounts. The accounts are mainly funded through levies. The ACC operates a 'fully funded' model whereby it seeks to collect enough money during each year to cover the full lifetime costs of every claim that occurs in that year.
- A.56 The operation of each account is described in the following paragraphs.
- A.57 The Work Account provides cover for all work-related injuries. The Work Account is funded by a levy. There are two portions to the levy. The current portion is based on payroll or liable earnings, as well as the level of risk and cost of injuries associated with the particular industry. This provides cover for injuries in the period. The residual portion of the Work Account levies covers claims for work injuries that happened before 1 July 1999, when the ACC operated a 'pay as you go' model.
- A.58 The Earners' Account covers claims for people in paid employment who are injured outside of work. The Account is funded by a levy on employment.
- A.59 The Non-Earners' Account covers claims for injuries to people who are not in the paid workforce, such as students, beneficiaries, retired people and children. This account is funded through general taxation.
- A.60 The Motor Vehicle Account covers claims for all injuries involving motor vehicles on public roads. It is funded by a levy included in the price of fuel and the motor vehicle licensing fee.
- A.61 The Treatment Injury Account covers claims for treatment injuries, i.e., injuries connected with the medical treatment received. This Account is funded by transfers from the Earners' Account and the Non-Earners' Account.
- A.62 The programs operated by the ACC provide benefits to everyone who is injured in New Zealand, irrespective of whether they have contributed to an account. This includes those who are visiting New Zealand.

A.63 The ACC's annual report includes the following information:

Account	Type of cover	Source of funding	2012/13 combined average levy (excl. GST)
Levied Accounts – revenue is collected through ACC levies			
Work	Work-related injuries	Employers Self-employed	\$1.15 per \$100 liable earnings
Earners'	Non-work-related injuries to earners, e.g. home, sport	Employees Self-employed	\$1.48 per \$100 liable earnings
Motor Vehicle	Injuries involving motor vehicles on public roads	Motorists	\$334.52 (average levy for petrol-driven car including petrol levy and licensing fee)
Non-levied Account – revenue is collected through Government appropriation			
Non-Earners'	Injuries to non-earners, e.g. students, elderly	Government appropriation	N/A
Mixed-funded Account – revenue is collected through ACC levies and Government appropriation			
Treatment Injury	Injuries caused by registered health providers	Earners' and Non-Earners' Accounts	N/A

Application of the approach in this CP

A.64 The ACC will include the programs in its financial statements. The Corporation will recognize and measure the program using one of the options set out in the CP. Which of the options is used will depend on decisions made by the IPSASB in developing a future IPSAS.

A.65 The social insurance approach may not be an appropriate basis for recognizing and measuring the Non-Earners' Account as this is funded from general taxation rather than contributions. However, the social insurance approach may be appropriate if the substance of the arrangement is that the Account is funded by contributions made by the Government on behalf of non-earners.

A.66 The social insurance approach may be appropriate for recognizing and measuring the other Accounts. If the social insurance approach is used to recognize and measure the Treatment Injury Account, levy income from the Earners' Account and the Non-Earners' Account will need to be apportioned to the Treatment Injury Account.

A.67 The Government will need to consider whether its obligation to fund the Non-Earners' Account gives rise to a liability that should be recognized in the financial statements.

Sources of Information

A.68 Information for the case studies in this Appendix was drawn from the sources listed below. In addition, IPSASB Members, Technical Advisors and Observers provided additional information.

Case Study

Source of Information

Retirement Benefits

All OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators*,
OECD Publishing.

http://dx.doi.org/10.1787/pension_glance-2013-en

Denmark

ATP web site:

http://www.atp.dk/X5/wps/wcm/connect/ATP/atp.com/about/omatp/about_the_organisation/

United States Social Security Administration web site:

<http://www.ssa.gov/policy/docs/progdesc/ssptw/2012-2013/europe/denmark.html>

France

Centre des Liaisons Européennes et Internationales de Sécurité Sociale (CLEISS) web site:

http://www.cleiss.fr/docs/regimes/regime_france/an_3.html

Embassy of France in Washington web site:

<http://www.ambafrance-us.org/spip.php?article643>

Japan

Japanese Ministry of Health, Labour and Welfare web site:

<http://www.mhlw.go.jp/english/policy/pension/pension/index.html>

Unemployment Benefits

Canada

Service Canada web site:

<http://www.servicecanada.gc.ca/eng/sc/ei/index.shtml>

United Kingdom

United Kingdom Government web site:

<https://www.gov.uk/jobseekers-allowance>

Injury Benefits

New Zealand

Accident Compensation Corporation (ACC) web site:

<http://www.acc.co.nz/about-acc/overview-of-acc/introduction-to-acc/index.htm>

Appendix B: Evaluation of Options against the Objectives of Financial Reporting and the QCs [Staff Note – New Appendix]

B.1 This Appendix evaluates each of the options identified in this CP against the objectives of financial reporting and the QCs. In preparing an Exposure Draft on social benefits, the IPSASB will use the information provided by respondents to update this evaluation.

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Social Insurance Approach
2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).	The obligating event approach provides information on the performance of each program by reporting the expenses, the liabilities arising from both legally binding and non-legally binding obligations recognized in the reporting period. This provides information about the cost of services. Information about expenses recognized in the period and any liabilities that exist at the reporting date will relate to the entity's financial capacity.	The social contract approach provides information on the performance of each program by reporting the expenses and the liabilities arising from legally binding obligations recognized in the reporting period. This provides information about the cost of services. Information about expenses recognized in the period and any liabilities that exist at the reporting date will relate to the entity's financial capacity.	The social insurance approach provides information regarding the performance of each program by determining expected levels of benefits to be paid and contributions to be received, and reporting variations from those levels. This provides information about the cost of services. Information about any surplus generated by the program or any subsidy required to finance the program relates to the financial capacity of the entity.
3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value,	The obligating event approach provides relevant information. Information will have confirmatory value on the cost of services in the period. Information in respect of some of the sub-options will relate to future	The social contract approach provides relevant information. Information will have confirmatory value on the cost of services in the period.	The social insurance approach provides relevant information. Information will have confirmatory value on the cost of services in the period. As information regarding estimated future cash flows is

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Social Insurance Approach
predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.	periods. To differing degrees, this information has predictive value.		provided, the information also has predictive value.
3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.	Some sub-options (for example, the “due and payable” approach) consider revalidation as a recognition criterion rather than a factor affecting measurement. Some question whether these sub-options meet the QC of faithful representation. They question whether these sub-options provide a complete depiction of the claims on the resources of the entity.	Some question whether the social contract approach meets the QC of faithful representation. They question whether an approach that recognizes only legally binding obligations provides a complete depiction of the claims on the resources of the entity.	Under the social insurance approach, information is based on all expected future cash flows and is therefore complete. With appropriate controls to ensure the information is neutral and free from material error, the information will meet the QC of faithful representation.
3.17 & 3.18 Understandability is the quality of information that enables users to comprehend its meaning. GPFs of public sector entities should present information in a manner that responds to the	Some sub-options of the obligating event approach (for example, the “due and payable” approach) provide information that is straightforward to understand. Information provided by such	Under the social contract approach, information is provided in respect of legally binding obligations. Such information meets the QC of understandability. Information	The calculations that underpin the information provided by the social insurance approach are complex. Such information may be difficult for non-experts to understand. Sufficient explanation of the

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Social Insurance Approach
<p>needs and knowledge base of users, and to the nature of the information presented.</p> <p>...</p> <p>However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.</p>	<p>approaches will meet the QC of understandability.</p> <p>Other sub-approaches that consider revalidation to be a factor that affects measurement rely on more complex calculations. Such information may be difficult for non-experts to understand. Sufficient explanation of the information will be required for the QC of understandability to be met.</p>	<p>provided under this approach may be more understandable than under the other approaches.</p>	<p>information will be required for the QC of understandability to be met.</p>
<p>3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.</p>	<p>Some sub-options of the obligating event approach (for example, the “due and payable” approach) provide information that is simple to calculate and can be provided in a timely manner.</p> <p>For other sub-approaches that rely on more complex calculations, the timeliness of the information provided will depend on the quality of the entity’s financial and management information systems.</p>	<p>The social contract approach provides information that is simple to calculate and can be provided in a timely manner.</p>	<p>The social insurance approach relies on complex calculations. The timeliness of the information provided under this approach will depend on the quality of the entity’s financial and management information systems.</p>
<p>3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of</p>	<p>Some sub-options consider revalidation as a recognition criterion rather than a factor affecting measurement. Some</p>	<p>The social contract approach will provide information that enables users to identify similarities in, and differences between, the legally</p>	<p>The social insurance approach will provide information that enables users to identify similarities in, and differences between, different</p>

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Social Insurance Approach
<p>phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.</p>	<p>question whether these sub-options meet the QC of comparability. This is because two programs with identical benefits and nearly identical eligibility requirements can have different liabilities, because of different revalidation dates.</p>	<p>binding obligations arising from different social benefit programs.</p>	<p>social security programs. Considerable information on the assumptions used is necessary to achieve the QC of comparability.</p>
<p>3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent....</p>	<p>Some sub-options of the obligating event approach (for example, the “due and payable” approach) provide information that is simple to calculate and which will meet the QC of verifiability.</p> <p>For other sub-approaches that rely on more complex calculations, information may only be verifiable indirectly, by checking the inputs and recalculating the outputs using the same accounting convention or methodology.</p>	<p>The social contract approach provides information that is simple to calculate and which will therefore meet the QC of verifiability.</p>	<p>The social insurance approach provides information that may only be verifiable indirectly, by checking the inputs and recalculating the outputs using the same accounting convention or methodology.</p>

Appendix C: Implications for Existing IPSASs [Staff Note – New Appendix]

- C.1 Some existing IPSASs contain references to social benefits. This may be to exclude social benefits from the scope of the IPSAS. Alternatively, the IPSAS may include specific provisions relating to social benefits in the absence of a specific social benefits IPSAS. This Appendix to the CP highlights the existing references and notes where consequential amendments are likely to be required. Proposals for these amendments will be included in a future Exposure Draft.

IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

- C.2 IPSAS 19 is discussed earlier in this CP. IPSAS 19 excludes provisions in respect of non-exchange social benefits from the scope of that IPSAS. This exclusion is set out in paragraph 1. Paragraphs 7–11 provide further details. Liabilities in respect of social benefits for which there is little or no uncertainty regarding amount and timing are recognized under IPSAS 19.
- C.3 An entity may elect to recognize a provision in respect of social benefits. In such cases, the entity would develop its own accounting policy for the social benefits. IPSAS 19 includes disclosure requirements for these circumstances.
- C.4 This CP notes that the adoption of an IPSAS on social benefits will require consequential amendments to IPSAS 19. The exclusion of non-exchange social benefits from the scope of IPSAS 19 should remain but may need to be extended to include all social benefits, including those arising from exchange transactions. Paragraph 1 should refer to the proposed IPSAS in framing this exclusion. Similarly, paragraphs 7–11 should be amended to refer to the proposed IPSAS, or be withdrawn. This will depend on the wording in the proposed IPSAS.
- C.5 This CP also notes that a further consequential amendment will be the withdrawal of the disclosure requirements referred to above, with new disclosure requirements set out in the proposed IPSAS.

IPSAS 22, Disclosure of Financial Information about the General Government Sector.

- C.6 IPSAS 22 notes that social security funds at each level of government form part of the general government sector. Social benefits is shown as a line item in the Statement of Financial Performance for the GGS (Alternative Presentation Method). The CP does not identify any amendments to IPSAS 22.

IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)

- C.7 Compulsory contributions to social security schemes that are non-exchange transactions are within the scope of IPSAS 23. This is set out in the Basis for Conclusions, paragraph BC26.
- C.8 The measurement of social benefit programs under Option 3, social insurance approach, is based on the present value of the net cash flows. It therefore takes contributions into account. Should this option be included in the proposed IPSAS, there could be confusion regarding which IPSAS to apply. This CP therefore notes that IPSAS 23 may need to be amended to exclude any contributions to social security schemes that are covered by the proposed IPSAS.

IPSAS 25, Employee Benefits

- C.9 IPSAS 25 includes provisions relating to composite social security programs. Such programs provide employee benefits as defined in IPSAS 25. They also provide benefits that are not for service rendered by employees.
- C.10 IPSAS 25 only applies to employee benefits provided by composite social security programs. Other benefits provided by these programs are outside the scope of IPSAS 25.
- C.11 This CP considers that this approach is appropriate. However, there may be circumstances where it is not possible to clearly distinguish between employee benefits and other benefits. This CP proposes that, in those circumstances, an entity would determine which characteristics of the program are the most significant, and select the accounting requirements that best fit those characteristics. This may result in all benefits provided by a composite social security program being accounted for as social benefits. If the proposed IPSAS adopts this position amendments to IPSAS 25 would be required to reflect this approach.

IPSAS 28, Financial Instruments: Presentation

- C.12 IPSAS 28 discusses statutory obligations in its application guidance. Paragraph AG23 notes that obligations to provide social benefits are accounted for in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors and IPSAS 19. This CP notes that this reference would need to be updated to the proposed IPSAS.

Recommended Practice Guideline (RPG) 1, Reporting on the Long-Term Sustainability of an Entity's Finances

- C.13 RPG 1 discusses social benefits as items to be included when reporting on the long-term sustainability of an entity's finances. This CP does not identify any changes to RPG 1.