

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Santiago, Chile

Meeting Date: March 10–13, 2015

Agenda Item 3

For:

☒ Approval

☐ Discussion

☐ Information

Social Benefits

Objective(s) of Agenda Item

1. The objective of this session is to **review** an Issues Paper and to **approve** the Consultation Paper (CP) *Recognition and Measurement of Social Benefits*.

Material(s) Presented

Agenda Item 3.1	Issues Paper, Social Benefits
Agenda Item 3.2	Consultation Paper, <i>Recognition and Measurement of Social Benefits</i> (clean version)

Action(s) Requested

2. The IPSASB is asked to:
 - (a) Review the Issues Paper and decide how the Matters for Consideration identified in the paper should be addressed in the Consultation Paper;
 - (b) Undertake a page-by-page review of the Consultation Paper and agree any amendments that are required; and
 - (c) Approve the Consultation Paper.

Issues Paper, *Social Benefits*

Objective of the Issues Paper

1. The objective of this session is to **review** this Issues Paper and **approve** the Consultation Paper (CP) *Recognition and Measurement of Social Benefits*.

Background

2. At its December 2014 meeting, the IPSASB considered a draft of the CP. The IPSASB provided directions to staff regarding the finalization of the CP.
3. A clean version of the revised draft CP is included as Agenda Item 3.2. A version of the draft with changes shown in mark-up is available from staff on request.
4. This Issues Paper seeks the IPSASB's views on the key issues that staff has identified in revising the CP. The IPSASB is also asked to undertake a page-by-page review of the CP and to approve the CP for issue.

Key Issues

Restructuring of the CP

5. At its December 2014 meeting, the IPSASB requested some significant changes to the structure of the CP to make it more readable for stakeholders. These changes are reflected in the CP at Agenda item 3.2. The most significant changes can be summarized as follows:
 - (a) The presentation objective from Chapter 8 in the December 2014 version of the CP has been reworked to form an overall objective for the project. This has been incorporated into Chapter 1, and the remainder of Chapter 8 deleted in line with the IPSASB's decision at the December 2014 meeting.
 - (b) As directed by the IPSASB, Chapters 2 and 3 in the December 2014 version of the CP have been combined into Chapter 2 of the latest version of the CP. Some of the material from Chapter 9 in the December 2014 version has also been incorporated into this Chapter, and the remainder of Chapter 9 has been deleted in line with the IPSASB's decision at the December 2014 meeting. The structure of the new Chapter 2 is as follows:
 - (i) Introduction
 - (ii) Social Benefits in IPSASB literature
 - (iii) Social Benefits in GFS
 - (iv) IPSASB review of GFS (and reasons for aligning)
 - (v) Scope
 - (vi) Definitions

- (c) The diagram included in the December 2014 version of the CP has been removed. A new diagram illustrating the scope of the project has been included in Chapter 2.
 - (d) There have been some changes in terminology and in the definitions to ensure the project better aligns with GFS. In particular, the CP no longer refers to social transfers in kind. In the SNA, this term covers a wide range of transactions, some of which meet the definition of social benefits and some of which do not. For clarity, the CP now refers to social benefits in kind and other transfers in kind.
 - (e) The discussion of the Qualitative Characteristics (QCs) in Chapter 4 has been deleted in line with the IPSASB's decision at the December 2014 meeting. A paragraph referring stakeholders to the discussion of the QCs in Appendix B has been added to Chapter 1.
 - (f) The Specific Matter for Comment (SMC) regarding composite social security programs has been relocated to the end of Chapter 2. The Task Force had mixed views about whether this SMC is required, and the IPSASB's views are sought.
6. Some members have indicated that they consider that paragraphs 2.41 (administrative arrangements) and 2.42 (funding mechanisms) add little value to the CP, and could be deleted. The IPSASB is asked to consider whether to remove these paragraphs.

Matter(s) for Consideration

- 1. The IPSASB is asked to **indicate** whether it supports the restructuring of the CP; or alternatively to agree any changes that are required.
- 2. The IPSASB is asked to **decide** whether to retain SMC 2 regarding composite social security programs.
- 3. The IPSASB is asked to **decide** whether to delete paragraphs 2.41 and 2.42.

Clarification of Option 1

- 7. At its December 2014 meeting, the IPSASB considered that the distinctions between sub-options (a) a legal liability exists; (b) all eligibility criteria have been met; and (c) amounts become due and payable were not sufficiently clear. The IPSASB directed staff to revise the drafting of these sections.
- 8. The CP at Agenda item 3.2 includes revised text which seeks to clarify the distinctions between these sub-options. A diagram summarizing the differences has also been added.
- 9. Task Force members also commented that the example (at paragraph 4.11) of the differences between a legally binding obligation and a non-legally binding obligation were not clear. Staff has therefore changed the example to clarify this distinction.
- 10. Staff notes that in many (but not all) cases, the "due and payable" approach will produce the same result as one of the other sub-options. Staff is therefore seeking the IPSASB's views as to whether to retain this sub-option.
- 11. Some Task Force members were concerned that the discussion of social benefits provided through exchange transactions is lacking in detail. However, it was acknowledged that providing more detail might significantly increase the length of that section. Staff considers that this is a peripheral issue, and that an alternative approach to the lack of detail would be to simplify the discussion. Alternative wording for this section, shown in mark-up, is included at Appendix A to this Issues Paper.

Matter(s) for Consideration

4. The IPSASB is asked to:
- (a) **Indicate** whether it considers the revised text clarifies the distinction between the sub-options; or alternatively to suggest alternative wording;
 - (b) **Decide** whether to retain the “due and payable” approach in the CP; and
 - (c) **Decide** whether to retain the current text relating to social benefits provided through exchange transactions or to adopt the alternative text in Appendix A to this Issues Paper.

Page-by-Page Review and Approval of CP

12. The IPSASB is asked to perform a page-by-page review of the CP. In carrying out the page-by-page review, the IPSASB is asked to indicate whether it supports the redrafting that has taken place in respect of the following items:
- (a) The redrafting of Specific Matters for Comment 3 (Chapter 3) and 4 (Chapter 4) to seek stakeholders’ views as to what they like and what they dislike about each option.
 - (b) The redrafting of the social contract approach in Chapter 5. At its December 2014 meeting, the IPSASB noted that there were concerns that this approach may not be consistent with the Conceptual Framework because it limits the recognition of obligations to legal obligations. The IPSASB therefore directed staff to consider whether a variant of the approach considering due and payable obligations only should be referred to in the CP. The redrafted Chapter 5 includes this variant of the approach.
 - (c) The IPSASB is also asked to consider whether paragraphs 5.16 – 5.19 (which discuss the social contract approach as a form of agency arrangement) are required. These paragraphs were added to reflect the IPSASB’s discussions in September 2014, but some TBG members have suggested that they may not be necessary.
 - (d) The redrafting of the example in the insurance approach in Chapter 6 to better reflect the nature of each option, and to include the effect on the statement of financial position.
 - (e) In Appendix A, the French example (paragraphs A16 – A25) have been amended to reflect suggestions made by the former French member. At the end of paragraph A24, staff has included the sentence “Some (but not all) of the options in this CP might, if the approach in this CP was adopted by the public entities, require the recognition of a liability in respect of some future pensions beyond the reporting period.” Staff considers that without this sentence, there is no indication of how the CP could be applied to a scheme similar to the French example. The IPSASB is asked to indicate whether it supports the approach taken by staff.
13. The IPSASB is asked to approve the CP. When approving the CP, the IPSASB is also asked to decide what response period is appropriate for this project. Response periods are usually a minimum of four months, but this may be extended to a minimum of six months where this increase is justified by the nature of the project. Some members have suggested that the complex nature of the project, and the consequential length of the CP, justify a six month response period.

Matter(s) for Consideration

5. The IPSASB is asked to **perform a page-by-page review** and to **identify any changes** to the CP that are required.
6. The IPSASB is asked to **approve** the CP for issue and to **decide** what response period is appropriate for this project.

Appendix A: Alternative approach to social benefits provided through exchange transactions

Social benefits arising from exchange transactions

- 4.68 IPSAS 19 excludes from its scope social benefits arising from non-exchange transactions. Social benefits arising from exchange transactions are covered by specific requirements in other standards, for example IPSAS 25.
- 4.69 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.
- 4.70 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 will be provided in non-exchange transactions as there is no direct relationship between the financing and the benefits.
- ~~4.71 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. Where there is significant cross-subsidization, this may also break the relationship between the financing of a program and the benefits provided by that program. However, as some cross-subsidization can occur in exchange transactions, the level of cross-subsidization would need to be sufficient to consider the transaction a non-exchange transaction. 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.~~
- ~~4.744.71~~ 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?~~

~~In your view, should a social benefit provided through an exchange transaction be accounted for:~~

~~(a) In accordance with a future IPSAS on social benefits; or~~

~~(b) In accordance with other IPSASs?~~

~~Please provide any examples you may have of social benefits arising from exchange transactions.~~

~~Please explain your reasons for this view.~~

Consultation Paper

April 2015

Comments due: [August/October] 31, 2015

Recognition and Measurement of Social Benefits



This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS, RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Consultation Paper, *Recognition and Measurement of Social Benefits*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by [August/October] 31 2015.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this Consultation Paper. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The Preliminary Views for Comment in this Consultation Paper are provided below. Paragraph numbers identify the location of the Preliminary View in the text.

Preliminary View 1 (following paragraph 2.53)

Social Benefits are benefits payable to individuals and households, in cash or in kind, to mitigate the effect of social risks.

The other key definitions are as follows:

- (a) **Social risks** are events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income.
- (b) **Social Benefits in Cash** are social benefits paid in cash that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.
- (c) **Social Benefits in Kind** are goods and services provided as social benefits to individuals and households by a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.
- (d) **Reimbursements** are cash payments made as a social benefit by a public sector entity to compensate a service provider or 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.
- (e) **Social Insurance Programs** are programs providing social benefits where the benefits received are conditional on participation in the program, evidenced by way of actual or imputed contributions made by or on behalf of the recipient.
- (f) **Social Security Programs** are social insurance programs covering the community as a whole, or large sections of the community, that are imposed and controlled by a government entity.
- (g) **Social Assistance Programs** are programs providing social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.

Preliminary View 2 (following paragraph 4.86)

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

The Specific Matters for Comment requested in this Consultation Paper are provided below. Paragraph numbers identify the location of the Specific Matter for Comment in the text.

Specific Matter for Comment 1 (following paragraph 2.53)

In your view:

- (a) Is the scope of this CP (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) appropriate?
- (b) Are the definitions in Preliminary View 1 an appropriate basis for an IPSAS on social benefits?

Please explain the reasons for your views.

Specific Matter for Comment 2 (following paragraph 2.53)

The IPSASB is intending to review its arrangements for composite social security programs. This is likely to take place when it reviews IPSAS 25. To assist its review and to identify any implications for this project, the IPSASB is seeking examples of such programs. If you are aware of any programs that meet, or may meet, the definition of a composite social security program, please provide details of the program.

Specific Matter for Comment 3 (following paragraph 3.2)

- (a) Based on your review of Chapters 4 to 6, what do you consider to be the relative conceptual merits and weaknesses of the following approaches:
 - (i) The obligating event approach;
 - (ii) The social contract approach; and
 - (iii) The insurance approachin addressing the objectives of this project, the objectives of financial reporting and the qualitative characteristics?
- (b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS?
- (c) In your view, which approach or combination of approaches should the IPSASB develop into a future IPSAS? Are there circumstances in which the choice of the approach to be adopted should be dependent upon the characteristics of particular programs?

Please explain your reasons for your views.

Specific Matter for Comment 4 (following paragraph 4.53)

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.

In coming to this conclusion, please explain what you consider to be the relative strengths and weaknesses of each view discussed in this chapter.

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.

Specific Matter for Comment 5 (following paragraph 4.67)

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.

Specific Matter for Comment 6 (following paragraph 4.72)

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.

Specific Matter for Comment 7 (following paragraph 4.86)

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.

Specific Matter for Comment 8 (following paragraph 5.38)

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:
 - (i) Becomes a legally binding obligation; or

- (ii) Becomes due and payable?
- (b) Measure this liability at the cost of fulfillment?

Please explain your reasons for your view.

Specific Matter for Comment 9 (following paragraph 6.34)

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 (following paragraph 6.34)

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) Recognize 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.

Specific Matter for Comment 11 (following paragraph 6.40)

In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis?

Please explain your reasons for this view.

Specific Matter for Comment 12 (following paragraph 6.60)

Do you agree that, in those cases where the link between contributions and benefits is not straightforward, the criteria for determining whether the insurance approach is appropriate are:

- The substance of the program is that of a social insurance program; and
- There is a clear link between the benefits paid by a social security program and the revenue that finances the program.

If you disagree, please specify the criteria that you consider should be used.

Please explain your reasons for your views.

Specific Matter for Comment 13 (following paragraph 6.69)

Do you support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25?

Please explain your reasons for these views.

Specific Matter for Comment 14 (following paragraph 6.73)

Do you support the proposals for subsequent measurement set out in paragraphs 6.70–6.73?

Please explain your reasons for these views.

Executive Summary

The objective of this Consultation Paper (CP) is to initiate discussion on the possible accounting treatments for social benefits. It considers matters such as the scope of a future IPSAS on social benefits and related definitions, the extent to which liabilities in respect of social benefits arise, and the recognition and measurement of any such liabilities.

The delivery of social benefits to the public is a primary objective for many governments and accounts for a sizeable proportion of their expenditure. Yet 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 scope.

This CP proposes the following objective for a future IPSAS on social benefits:

IPSASs shall require an entity to provide information that helps users of its financial statements and general purpose financial reports assess:

- (a) The nature of social benefits provided by the entity;
- (b) How the entity administers the provision of social benefits;
- (c) The impact of social benefits provided on the entity's financial performance and financial position; and
- (d) The sustainability of social benefits provided.

This CP defines social benefits as “benefits payable to individuals and households, in cash or in kind, to mitigate the effect of social risks.” Social risks are defined as “events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income.” These definitions are intended to be consistent with the approach adopted in statistical reporting. As such, the scope of this project is significantly narrower than the IPSASB's previous work in this area. This CP identifies different types of social benefits – social security and social assistance, both in cash and in kind – each of which may raise specific accounting issues.

The CP identifies three broad approaches to accounting for social benefits. 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. 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. The CP identifies five scenarios in which a present obligation for social benefits may arise:
 - (a) A present legal obligation exists;
 - (b) All eligibility criteria have been met (with the present obligation not extending past the next revalidation point);
 - (c) Amounts become due and payable;
 - (d) Threshold eligibility criteria have been satisfied; or
 - (e) Key participatory events have occurred

- Option 2: social contract approach. 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 (or, under an alternative approach, once obligations become due and payable).

- Option 3: 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 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. Complex issues arise under the insurance approach in respect of partially subsidized programs and significant changes to the terms of programs. Unlike the first two options, a mixed approach to accounting for social benefits is implicit within the insurance approach. The CP seeks respondents' views on these matters.

The CP considers the three approaches in detail, and assesses them against the objectives of financial reporting and the qualitative characteristics that are set out in the Conceptual Framework.

Respondents are directed to the At a Glance Consultation Paper Summary located on the IPSASB website. This staff document provides a brief and useful overview of this CP.

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

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1 Introduction

- 1.1 The delivery of social benefits to the public is one of the primary objectives of many governments and often 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 sector¹.
- 1.2 IPSASs do not provide requirements and guidance on how to account for social benefits in general. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* excludes provisions related to social benefits in non-exchange transactions from its scope². Some social benefits provided through exchange transactions such as employee benefits and concessionary loans may be addressed in other IPSASs; this is discussed in Chapter 2. However, due to the lack of a specific IPSAS on accounting for social benefits, 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 the financial position and financial performance of social benefits. Therefore, the lack of an IPSAS on accounting for social benefits is 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. The CP 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; and
 - Approaches to the recognition and measurement of 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 one of its first major public sector specific projects on this subject.
- 1.5 The PSC established a Steering Committee to oversee development of 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

¹ See, for example, paragraph 17 of the *Preface to the Conceptual Framework*

² Further details can be found in Chapter 2

- 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 on social benefits. Further information about the long-term fiscal sustainability of those programs is required.
- 1.8 The IPSASB then developed an Exposure Draft (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 responses to ED 34, the 2008 CP and the project brief provided valuable insights into the information that users would find useful for accountability and decision-making purposes. The key insights of relevance to this project were:
- Providing actuarially-based information on liabilities arising from prospective outflows (i.e., social benefit expenses) without providing similar information on assets arising from prospective inflows (such as tax receipts and contributions received) is of limited relevance and does not faithfully represent an entity's financial position.
 - Providing prospective information that only includes current recipients (those currently in receipt of a social benefit) rather than future recipients (those who will receive a social benefit in future) may be misleading. Prospective information provided only on current recipients does not provide useful information about the future sustainability of social benefit programs.
 - There can be a significant overlap between cash transfers and individual goods and services³; providing information about cash transfers, but not individual goods and services does not provide useful information about the future sustainability of social benefit programs.
- 1.11 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. Some also expressed reservations that the approach to determining the amount of disclosures would pre-judge approaches to recognition and measurement. The majority of respondents supported a project on long-term fiscal sustainability in line with the project brief.
- 1.12 The IPSASB decided not to develop ED 34 into an IPSAS. The IPSASB also recognized the linkages between the Conceptual Framework and accounting for social benefits. The Elements and Recognition phase of the Conceptual Framework would define a liability. This definition and supporting analysis would influence the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic until after the completion of the Conceptual Framework. The IPSASB initiated a project on the long-term sustainability of the public finances in 2008, based on the

³ These terms are discussed further in Chapter 2

project brief. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, was published in July 2013.

- 1.13 In September 2013, following the publication of RPG 1, and with the Conceptual Framework project well advanced, the IPSASB agreed to restart its work on social benefits. In developing this CP, the IPSASB agreed to the CP should address recognition and measurement issues; other issues, including presentation and disclosure matters, will be addressed after the IPSASB has reviewed comments on the recognition and measurement of social benefits. This decision was made because presentation and disclosure issues will be intrinsically linked to the approach to recognition and measurement that the IPSASB decides to adopt.

Conceptual Framework

- 1.14 The Conceptual Framework was published in October 2014. This development influences this project in two ways:
- Updated definitions of a liability and related terminology will influence the discussion as to whether social benefit obligations meet the definition of a liability, and if so, when these should be recognized; and
 - The objectives of financial reporting and the qualitative characteristics provide a framework against which the options identified in this CP can be assessed.

Definition of a liability and related terminology

- 1.15 The Conceptual Framework defines a liability as “a present obligation of the entity for an outflow of resources that results from a past event.”⁴
- 1.16 The Conceptual Framework defines a present obligation as “a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid.”⁵ Until the publication of the Conceptual Framework, this term was not defined in the IPSASB's literature.
- 1.17 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?
- 1.18 IPSAS 19 brings these two factors together in its definition of an 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.”⁶
- 1.19 In line with the Conceptual Framework, this CP adopts an updated definition of an obligating event as “an event that creates a present obligation.” This updated definition indirectly refers to “a legally binding obligation (legal obligation) or non-legally binding obligation” rather than a “legal or constructive obligation.” The updated definition also considers whether an entity has “little or no realistic alternative to avoid” an outflow of resources.

⁴ Conceptual Framework, paragraph 5.14

⁵ Conceptual Framework, paragraph 5.15

⁶ IPSAS 19, paragraph 18

- 1.20 These updated definitions are used to revise 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

- 1.21 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")."

- 1.22 For accountability and decision-making purposes, service recipients and resource providers need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
 - Meeting its service delivery and other operating and financial objectives;
 - Managing the resources it is responsible for; and
 - Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources;
- The liquidity (ability to meet current obligations) and solvency (ability to meet obligations over the long term) of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period;
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.

- 1.23 Following this direction set in the Conceptual Framework, the IPSASB therefore proposes the following objective for a future IPSAS on Social Benefits:

IPSASs shall require an entity to provide information that helps users of its general purpose financial reports assess:

- (a) The nature of social benefits provided by the entity;
- (b) How the entity administers the provision of social benefits;
- (c) The impact of social benefits provided on the entity's financial performance and financial position; and
- (d) The sustainability of social benefits provided.

- 1.24 This CP identifies three options for accounting for social benefits provided by public sector entities (these are summarized in Chapter 3 and discussed in detail in Chapters 4–6). In assessing those options, the IPSASB will consider how well they satisfy the objective of this project, the objectives of financial reporting and meet users' information needs.

- 1.25 The IPSASB will also consider how well the three options identified satisfy the qualitative characteristics (QCs) set out in the Conceptual Framework. Appendix B provides descriptions of the QCs.

Approach taken in this CP

- 1.26 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.
- 1.27 This CP adopts a definition of social benefits that is consistent with Government Finance Statistics (GFS). This excludes collective goods and services such as defense and public order. The CP also adopts a classification of social benefit arrangements that is consistent with GFS. The reasons underlying this approach are set out in Chapter 2.
- 1.28 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 (a further development of the alternative approach outlined in the 2008 CP)
 - Insurance approach (a new approach based on insurance accounting)
- 1.29 These options are explored in Chapters 4–6. Appendix B evaluates these options against the objectives of financial reporting and the qualitative characteristics set out in the Conceptual Framework.

2 Scope and Definitions

- 2.1 This Chapter of the CP summarizes how social benefits have been described in previous IPSASB publications. It also considers how social benefits are addressed in Government Finance Statistics. Based on these discussions, the chapter proposes a scope for the project as well as proposing definitions.
- 2.2 Appendix A includes 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.

Social Benefits in Existing IPSASB Literature

- 2.3 As noted in paragraph 1.2, existing IPSASs do not address accounting for social benefits provided in non-exchange transactions. 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 equal to the value of goods and services provided, directly in return from the recipients of those benefits.”⁷
- 2.4 Existing IPSASs do not define social benefits. Instead, a description is given in IPSAS 19. This description is broad, and consequently the 2004 ITC covered a wide range of non-exchange social benefits. The 2004 ITC noted that what constitutes social benefits may vary between jurisdictions and that what constitutes social benefits in any jurisdiction will be generally understood.
- 2.5 IPSAS 19 describes social benefits as “goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:
- (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
 - (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.”⁸
- 2.6 The examples of social benefits included in IPSAS 19 are often referred to as “cash transfers” and “individual goods and services.” The 2004 ITC 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.”
- 2.7 Social benefits may also be provided through exchange transactions. The most common examples are employer programs such as occupational pensions. IPSAS 25 *Employee Benefits* provides guidance on accounting for employer programs. Some social benefits may be covered in other IPSASs. For example, guidance on accounting for concessionary loans (such as some student loans, where the concessionary elements may meet the definition of a social benefit if they address social risks) is provided in IPSAS 29, *Financial Instruments: Recognition and Measurement*.

⁷ IPSAS 19, paragraph 1 (a)

⁸ IPSAS 19, paragraph 7

- 2.8 IPSAS 25 also introduces the concept of composite social security programs. Composite social security programs provide both employee benefits and non-employment related benefits in a single program.
- 2.9 As discussed above, 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. By 2008 this view had changed, and 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.”
- 2.10 The definition in the 2008 CP introduced the idea of social benefits being related to social risks for the first time in the IPSASB’s literature. According to this definition, not all cash transfers or collective and individual goods and services are social benefits. Only those cash transfers or collective and individual goods and services that are provided to protect the entire population, or a particular segment of the population, against certain social risks meet the definition of social benefits. The 2008 CP did not define social risks.
- 2.11 By linking social benefits to social risks, the definition of social benefits in the 2008 CP had a narrower scope of social benefits compared to the description in IPSAS 19.

Government Finance Statistics

- 2.12 Social risks also form the basis of the definition of social benefits in Government Finance Statistics (GFS). The IPSASB therefore considered the approach to social benefits taken in GFS, noting that GFS included an approach to classifying social benefits that the IPSASB had not considered to that point. It should be noted, however, that the definition of social risks in GFS is considerably narrower than that implied by the definition of social benefits in the 2008 CP. The impact of this narrower definition can be seen in paragraphs 2.25–2.28 which discuss expenditure that does not meet the definition of social benefits.
- 2.13 The IPSASB reviewed the SNA approach to social benefits to determine whether this might assist in the development of an IPSAS. 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 2014.⁹
- 2.14 The GFS framework is based on the *System of National Accounts 2008* (SNA). The discussion of the GFS approach to social benefits that follows is based on the SNA.
- 2.15 According to GFS, social protection is the systematic intervention intended to relieve households and individuals of the burden of a defined set of social risks. Social risks are defined as events or circumstances that may adversely affect the welfare of households either by imposing additional

⁹ <http://www.ifac.org/sites/default/files/publications/files/IPSASB-GFS-Policy-Paper.pdf>

demands on their resources or by reducing their income. These social needs may occur due to sickness, unemployment, retirement, housing, education or other family circumstances. Households benefit from social protection in different ways:

- Households could receive benefits when they meet certain eligibility criteria that originate from a social risk without making any contributions;
- Households could make contributions and receive benefits as transfers receivable in the event of the occurrence of the specified social risks. Such social protection arrangements are essentially a process of redistribution across a wide section of the population, with many individuals contributing resources so that those in need may benefit;
- Households could make contributions to a scheme to accumulate entitlements to benefits from which they withdraw in the event of the occurrence of the specified social risk—therefore there is relatively little redistribution among the various contributors, but rather redistribution over time for the contributor.

2.16 The SNA describes social benefits using the following high level categories¹⁰:

- Social assistance; and
- Social insurance, comprising:
 - Social security schemes (covering the community as a whole or large segments of the community); and
 - Employment related schemes.

In all of these cases, benefits can be provided in cash or in kind.

2.17 The SNA also includes an alternative analysis of social benefits. In the case of social insurance, some schemes are akin to non-life insurance schemes¹¹, spreading risks among all the participants in the scheme (for example unemployment schemes). Other social insurance schemes are akin to life insurance schemes¹², spreading the risk of one particular participant to the scheme over time (for example, employment-related pension schemes), with only limited redistribution between participants. Under some of the options discussed later in this CP, these differences may affect the recognition and measurement of liabilities for social insurance programs.

Social Assistance

2.18 Social assistance provides similar benefits to social insurance schemes. However, these benefits are provided without any formal requirement to participate as evidenced by the payment of contributions. Access to benefits under social assistance is determined by eligibility criteria (including a risk materializing) being met. For example, social assistance often includes an assessment of income (sometimes referred to as a “means test”) in which case benefits are only payable where the income

¹⁰ See Chapter 8 of SNA 2008 for further details.

¹¹ SNA 2008 describes non-life insurance as “an activity similar to life insurance except that it covers all other risks, accidents, sickness, fire, etc.”

¹² SNA 2008 describes life insurance as “an activity whereby a policy holder makes regular payments to an insurer in return for which the insurer guarantees to provide the policy holder (or in some cases another nominated person) with an agreed sum, or an annuity, at a given date or earlier if the policy holder dies beforehand.”

of the household is below a threshold. Social assistance payments are therefore funded from the general resources of government.

- 2.19 The SNA notes that the extent of household income provided by social assistance varies significantly from country to country. A few countries provide all social benefits to meet social needs without contributions. However, this is rarely the case.

Social Insurance

- 2.20 Social insurance programs require formal participation by the beneficiaries, evidenced by the payment of contributions (actual or imputed¹³) to secure entitlement to benefits. As mentioned in paragraph 2.15 above, benefits may be accumulated over time, or based on the redistribution principle. 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. Therefore, social insurance is treated in the SNA as similar to a contractual insurance scheme (whether similar to life insurance or non-life insurance) where the policyholder insures against certain contingencies. The SNA identifies two categories of social insurance programs, namely social security schemes and employment-related schemes.

Social Security Schemes

- 2.21 Social security schemes are social insurance schemes covering the community as a whole, or large sections of the community and are operated by a government. These schemes provide benefits such as pensions and unemployment benefits. As social insurance programs, social security programs are contributory programs. In some cases, the government itself will make or impute contributions to the social security scheme on behalf of a recipient. This may happen, for example, during a period of unemployment. 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.

Employment-related social insurance schemes

- 2.22 The second category of social insurance is employment-related social insurance schemes. The terms of these programs are determined by the employer, sometimes in conjunction with the employees and forms part of the contractual agreement of the employer-employee relationship. These schemes provide benefits such as employment-related pensions and health benefits. Governments and other public sector entities may operate employment-related social insurance schemes in addition to any social security schemes they operate.

Social Benefits in Cash and in Kind

- 2.23 Social assistance and social insurance programs may provide social benefits to 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 benefits in kind, where the public sector provides services directly, reimburses a service provider for services delivered to the households, or reimburses the households for costs associated with acquiring those services. Vouchers that allow individuals and households

¹³ Imputed contributions are treated in an individual's record as having been made, even though the individual has not made the contribution. Imputed contributions may be recorded on a nominal basis, or may involve a cash transfer by a public sector entity.

to access specified goods and services are a form of reimbursement, and hence are treated as social benefits in kind.

- 2.24 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. In other cases, the government may pay cash to the household to reimburse them for expenditure incurred. An example is where a household that is unable to afford medical insurance pays a private hospital for medical services, and the government reimburses the household for some or all of the expenditure. Alternatively the private hospital could claim reimbursement in respect of uninsured persons directly from the government. Under the SNA, reimbursements are classified as social benefits in kind, not social benefits in cash.

Expenditure not meeting the definition of Social Benefits

- 2.25 As discussed above, the SNA definition of social benefits refers to protecting the entire population, or a particular segment of the population, against certain social risks. In the SNA, social risks are events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income. In other words, a social risk is an event or circumstance that could adversely affect a household's budget. The term social risk does not cover other risks that would not impact on a household's budget. For this reason, certain significant government expenditures for goods and services provided to individuals and households fall outside of the SNA definition of social benefits. Within the SNA, these transfers are treated as "social transfers in kind". As the term "social transfers in kind" also encompasses social insurance and social assistance, this CP refers to goods and services provided to individuals and households other than to protect against a social risk as "**other transfers in kind**".
- 2.26 A major example of government expenditure that would not be included in the SNA definition of a social benefit is the provision of universal health and education services. Services are provided on a universal basis where they are provided to "all members of the community without requiring participation in a scheme or qualifying requirements." Government expenditure on such services that does not meet the definition of social benefits is recorded in the respective category of expense incurred in producing the goods and services in the SNA, which is a different classification to social benefits in kind.
- 2.27 The SNA definition of social benefits also excludes 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 (such as defense and public order) 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;
 - The use of the collective service is usually passive, that is, it does not require the explicit agreement or active participation of all the individuals concerned; and
 - The provision of a collective service to one individual does not reduce the amount available to others.

- 2.28 As with other transfers in kind, collective goods and services do not relate to protecting a particular household against social risks, because they do not impact on that household's budget. They therefore do not meet the SNA definition of a social benefit.

IPSASB Review of GFS Approach

- 2.29 The SNA approach identifies different categories of social benefits with potentially different economic consequences for a public sector entity. These differing consequences result in different treatment within the SNA, and might justify different accounting requirements within a future IPSAS.
- 2.30 The different economic consequences that might arise, and which have different classifications in the SNA are:
- The universal provision of services such as education and health are considered as ongoing activities of government. In the SNA, providing these services does not give rise to an obligation prior to the delivery of services. In developing a future IPSAS, the IPSASB would need to consider whether the universal provision of services would be within the scope of an IPSAS on social benefits, and if so, whether an obligation arises prior to the delivery of services.
 - Households could receive benefits when they meet certain eligibility criteria related to a social risk without making any contributions (known as social assistance in the SNA). This will give rise to a consumption of resources. Within the SNA, these benefits are classified as an expense that leads to a redistribution of income through transfers. In developing a future IPSAS, the IPSASB would need to consider whether an obligation arises when the social risk materializes, the eligibility criteria are met, or the benefits are paid. The fact that no contributions are paid by the households is a factor that may be taken into account in making this determination.
 - Households could make contributions and receive benefits in the event of the occurrence of the specified social risks (known as social insurance in the SNA). The finances of these arrangements function similarly to non-life insurance schemes. Such arrangements are essentially a process of redistribution across a wide section of the population with many individuals contributing resources so that those in need may benefit. These arrangements will give rise to a consumption of resources. Within the SNA, these social benefits are classified as an expense. In developing a future IPSAS, the IPSASB would need to consider whether an obligation arises when contributions are made, the social risk materializes, or benefits are paid. The fact that contributions are paid by the households is a factor that may be taken into account in making this determination.
 - Households (including employees, self-employed, and unemployed) could make contributions (actual and imputed) to a scheme to accumulate assets (also known as social insurance in the SNA). They can withdraw from these accumulated assets in the event of the occurrence of the specified social risk. Examples are employment-related pensions and other retirement benefits, compulsory saving schemes, and other types of annuities. The finances of these arrangements function similarly to life insurance schemes. There is relatively little redistribution among the various households holding similar policies and members of households are able to predict with a reasonable degree of certainty what they will receive and when. Within the SNA, contributions and payments of these benefits are treated as transactions in financial assets and liabilities. It is generally assumed that these arrangements will give rise to an obligation, and in developing a future IPSAS, the IPSASB will need to consider the point at which an obligation should be recognized.

- 2.31 Social benefits, other transfers in kind and collective goods and services are expected to raise similar issues regarding the recognition and measurement of liabilities and expenses. However, the IPSASB considers it possible that different factors may arise in the recognition and measurement of transactions that address specific social risks (i.e., social benefits) and those transactions that do not. For example, the recognition and measurement of an obligation in respect of social benefits may be related to individuals satisfying eligibility criteria. This relationship does not apply in respect of other transfers in kind and collective goods and services. For example, the costs associated with providing defense do not vary as individuals become entitled to benefit from the service (i.e., when they are born, or enter the jurisdiction).
- 2.32 Having reviewed the approach to social benefits taken in GFS, the IPSASB noted that the economic consequences described above may be similar in the SNA and in a future IPSAS. The IPSASB decided to align, as far as possible, the definitions in this CP with those in GFS. This is intended to provide clearer definitions that demarcate transactions and events which are, in substance dissimilar. It will also maximize consistency between the two frameworks, in line with the IPSASB policy paper *Process for Considering GFS Reporting Guidelines during Development of IPSASs*.

Scope

- 2.33 Following the IPSASB's decision to align (as far as possible) the definition of social benefits with the definition used in GFS, the scope of this project is limited to those benefits that are provided to protect the entire population, or a particular segment of the population, against social risks.
- 2.34 Adopting this definition means that other transfers in kind and collective goods and services are outside the scope of this project. This is a significant change from the approaches taken in the 2004 ITC and the 2008 CP.
- 2.35 Other transfers in kind and collective goods and services will be addressed in a later project on non-exchange expenses. This narrows the scope of this project compared to the IPSASB's previous work on this topic. The IPSASB published its Strategy and Work Plan Consultation in March 2014¹⁴. The Consultation included non-exchange expenses as a possible project. Following the consultation process, the IPSASB has agreed that this project should be added to the IPSASB's work program. [Note: this is dependent on the IPSASB's work plan decisions elsewhere on the agenda.]

Social Benefits addressed in other IPSASs

- 2.36 This CP also excludes from its scope those social benefits that are already addressed by other IPSASs. One example is employment-related social insurance programs¹⁵. 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, as they are dealt with by IPSAS 25.
- 2.37 This project also excludes transactions such as some concessionary student loans, which may include concessionary elements, related to social risks, that are considered to be social benefits in

¹⁴ http://www.ifac.org/sites/default/files/publications/files/IPSASB-Strategy-Consultation-2015-2019_0.pdf

¹⁵ SNA 2008 notes that the terms of employment-related social insurance programs are determined by employers, sometimes in conjunction with their employees. They may be administered by the employers themselves, by an insurance corporation on behalf of the employer or the funds may form an autonomous pension fund.

some jurisdictions. These transactions are financial instruments. Guidance on accounting for these transactions is provided in IPSAS 29.

Transactions addressed in other IPSASs

- 2.38 Some public sector entities may provide guarantees to other entities, such as social security funds, in respect of social benefits. Such guarantees are outside the scope of this project as these transactions are already addressed in other IPSASs. 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 to enable it to pay social benefits. A public sector entity may provide a guarantee in respect of the debt.
- 2.39 Financial guarantees are defined in IPSAS 29, which also specifies the appropriate accounting requirements. The accounting requirements for other guarantees are specified in IPSAS 19 unless the guarantee is an insurance contract within the scope of the relevant international or national accounting standard dealing with insurance contracts.
- 2.40 Questions regarding the control of, joint control of, or significant influence over an entity providing social benefits are also outside the scope of this project. Requirements and guidance on these issues is provided in IPSASs 34 – 38. The IPSASB noted that some entities that provide social benefits may be outside the public sector. Social benefits provided by such entities will be outside the scope of this CP.

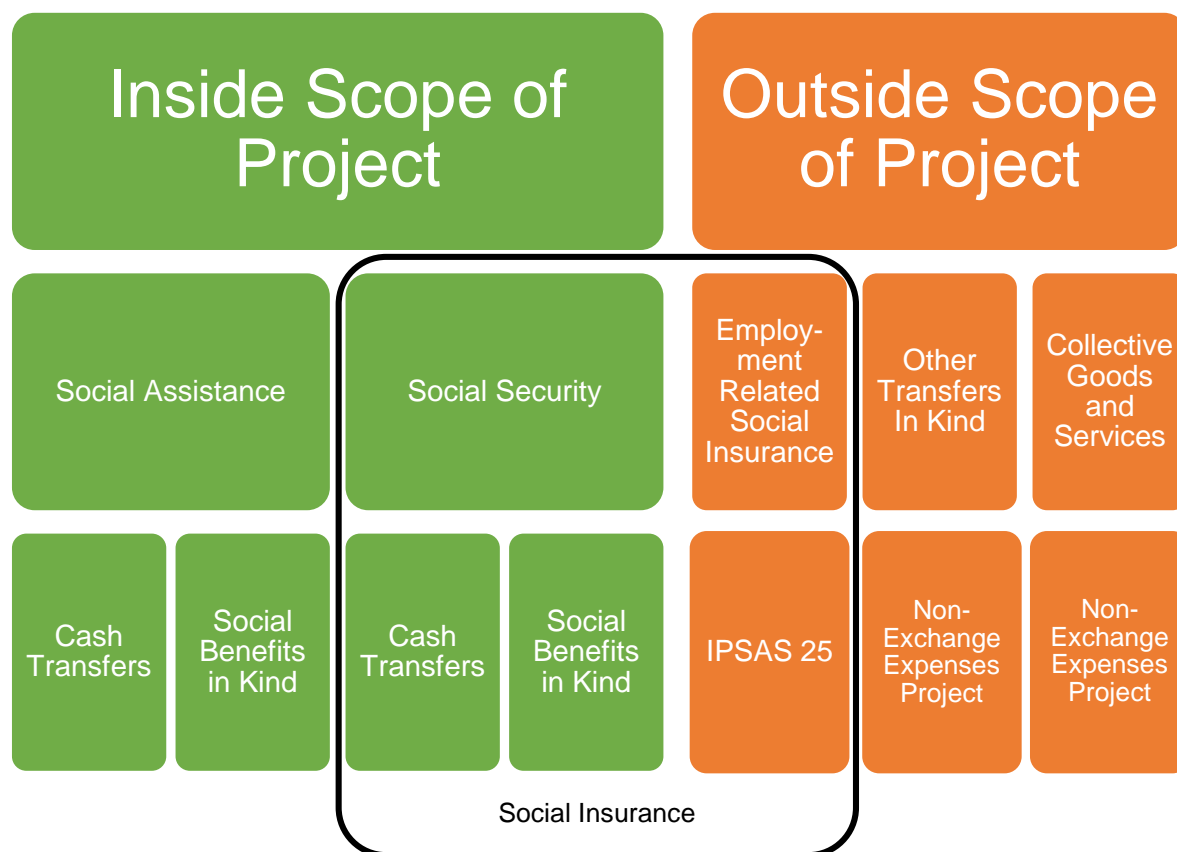
Administrative Arrangements

- 2.41 There are a variety of different administrative arrangements used to deliver social benefits. All types of arrangement are within the scope of this project where the entity providing social benefits applies IPSASs.

Funding Mechanisms

- 2.42 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. All funding mechanisms are within the scope of this project.
- 2.43 The following diagram illustrates the scope of this CP:

Figure 1: Scope of Project on the Recognition and Measurement of Social Benefits



Definitions

2.44 As a result of the decisions referred to above, specifically the decision to exclude other transfers in kind and collective goods and services from the scope of the project, this CP proposes the definitions below. These definitions are intended to be consistent with the descriptions given in the SNA as far as possible.

2.45 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 social risks.”

2.46 **Social risks** are defined as follows:

“Events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income.”

2.47 **Social Benefits in Cash** are defined as follows:

“Social benefits paid in cash that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.”

2.48 **Social Benefits in Kind** are defined as follows:

“Goods and services provided as social benefits to individuals and households by a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.”

2.49 **Reimbursements** are defined as follows:

“Cash payments made as a social benefit by a public sector entity to compensate a service provider or 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.”

2.50 **Social Insurance Programs** are defined as follows:

“Programs providing social benefits where the benefits received are conditional on participation in the program, evidenced by way of actual or imputed contributions made by or on behalf of the recipient.”

2.51 **Social Security Programs** are defined as follows:

“Social Insurance programs covering the community as a whole, or large sections of the community, that are imposed and controlled by a government entity.”

2.52 **Social Assistance Programs** are defined as follows:

“Programs providing social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.”

2.53 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 25¹⁶, from the scope of this project will be sufficient to exclude all employment related social insurance programs as defined in the SNA.

Preliminary View 1

Social Benefits are benefits payable to individuals and households, in cash or in kind, to mitigate the effect of social risks.

The other key definitions are as follows:

- (a) **Social risks** are events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income.
- (b) **Social Benefits in Cash** are social benefits paid in cash that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.

¹⁶ 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.

- (c) **Social Benefits in Kind** are goods and services provided as social benefits to individuals and households by a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.
- (d) **Reimbursements** are cash payments made as a social benefit by a public sector entity to compensate a service provider or 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.
- (e) **Social Insurance Programs** are programs providing social benefits where the benefits received are conditional on participation in the program, evidenced by way of actual or imputed contributions made by or on behalf of the recipient.
- (f) **Social Security Programs** are social insurance programs covering the community as a whole, or large sections of the community, that are imposed and controlled by a government entity.
- (g) **Social Assistance Programs** are programs providing social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.

Specific Matter for Comment 1

In your view:

- (a) Is the scope of this CP (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) appropriate?
- (b) Are the definitions in Preliminary View 1 an appropriate basis for an IPSAS on social benefits?

Please explain the reasons for your views.

Specific Matter for Comment 2

The IPSASB is intending to review its arrangements for composite social security programs. This is likely to take place when it reviews IPSAS 25. [Note: this is subject to the decisions on the IPSASB's work plan elsewhere on this agenda] To assist its review and to identify any implications for this project, the IPSASB is seeking examples of such programs. If you are aware of any programs that meet, or may meet, the definition of a composite social security program, please provide details of the program.

3 Identification of Approaches

3.1 Following the considerations outlined in Chapter 2, the IPSASB identified three broad approaches to accounting for social benefits. These approaches are developed in detail in Chapters 4–6 of the CP. Chapters 4–6 should be read before answering Specific Matter for Comment 3. 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. The key issue is when a present obligation arises. The CP identifies five scenarios in which a present obligation for social benefits may arise:
 - (a) A present legal obligation exists;
 - (b) All eligibility criteria have been met (with the present obligation not extending past the next revalidation point);
 - (c) Amounts become due and payable;
 - (d) Threshold eligibility criteria have been satisfied; or
 - (e) Key participatory events have occurred.
- **Option 2: The 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 is underpinned by a view that the ongoing duty of individuals or households to contribute taxes and other sources of finance effectively offsets such obligations. There is an imputed social contract between the state and the citizens under which 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 when legal entitlements are established, while citizens' performance is achieved through acknowledging their obligations to contribute taxes and other sources of finance as taxable and other obligating events occur.

- **Option 3: The insurance approach.** This approach considers that some social benefit programs are similar in practice to insurance contracts. Therefore, it may be appropriate to use an insurance accounting model when accounting for such similar 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 that operate in a similar manner to insurance contracts. The insurance 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. The 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 presented in the statement of financial position. Because of this, it may be appropriate to adopt the insurance approach for contributory programs, and another approach for non-contributory programs (i.e., mixed measurement whereby some programs are accounted for using one approach and other programs are accounted for using a different approach, depending on the nature of the individual programs).

3.2 The IPSASB has not identified any other approaches to accounting for social benefits.

Specific Matter for Comment 3

(a) Based on your review of Chapters 4 to 6, what do you consider to be the relative conceptual merits and weaknesses of the following approaches:

- (i) The obligating event approach;
- (ii) The social contract approach; and
- (iii) The insurance approach

in addressing the objectives of this project, the objectives of financial reporting and the qualitative characteristics?

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

(c) In your view, which approach or combination of approaches should the IPSASB develop into a future IPSAS? Are there circumstances in which the choice of the approach to be adopted should be dependent upon the characteristics of particular programs?

Please explain your reasons for your views.

4 Option 1: Obligating Event Approach

Introduction

- 4.1 This option is based on the theoretical model outlined in the 2004 ITC. It also formed the main option discussed in the 2008 CP.
- 4.2 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

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

“Definition

5.14 A liability is:

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

A Present Obligation

5.15 Public sector entities can have a number of obligations. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.”

- 4.4 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 an outflow of resources?
- 4.5 These two factors are brought together in the revised definition of an obligating event proposed in paragraph 1.19:

“An obligating event is an event that creates a present obligation.”

- 4.6 In other words, an obligating event is an event that creates a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid.
- 4.7 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 the obligating event the greater the liability will be. Views on what constitutes an obligating event differ. This chapter of the CP will explore those different views.

- 4.8 This chapter discusses both cash transfers and social benefits in kind. In many cases the issues that arise in identifying when an obligating event takes place will be the same for cash transfers and social benefits in kind.

Factors to be Considered

- 4.9 For legally binding obligations, the obligating event is the event that gives rise to the 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.
- 4.10 Identifying the obligating event that may give rise to a non-legally binding obligation is generally more difficult than for legally binding obligations. 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 an outflow of resources.

These are discussed below.

- 4.11 The following example illustrates how a legally binding obligation can arise at a later point than a non-legally binding obligation.

The only eligibility criterion for an accident compensation benefit is that an individual has suffered a loss as a result of an accident. Accident compensation benefit payments are made on the fifteenth day of the month following the approval of the claim. Until that time, individuals are unable to enforce their entitlement. Beyond that time, they can enforce payment for amounts due. Some may consider that the obligating event for a non-legally binding obligation may be when the individual has the accident or when the claim is approved. The obligating event for the legally binding obligation will be the payment falling due on the fifteenth day of the following month after the individual's claim was approved¹⁷.

Indication to others that the entity will accept certain responsibilities

- 4.12 The definition of a non-legally binding obligation requires that an entity indicate acceptance of certain responsibilities to others. The Conceptual Framework¹⁸ 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;

¹⁷ In other circumstances, a legal obligation may occur at an earlier point where this is specified in the legislation

¹⁸ Conceptual Framework, paragraph 5.23.

- The approval of budgets by legislative or governing bodies; or
 - The budget becoming effective (which may require an appropriation to be effected).
- 4.13 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 criteria that need to be satisfied for a non-legally binding obligation to exist.

Creation of a valid expectation

- 4.14 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.
- 4.15 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. Policies that are enshrined in legislation are more likely to create a valid expectation prior to an individual satisfying the entitlement requirements.
- 4.16 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 an outflow of resources.

Little or no realistic alternative to avoid an outflow of resources

- 4.17 To satisfy the definition of an obligating event, an entity must have little or no realistic alternative to avoid an outflow of resources. Interpreting this requirement in the context of non-legally binding obligations is difficult.
- 4.18 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.
- 4.19 However, governments generally operate on the basis that they will meet their outstanding obligations as they fall due. 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 an outflow of resources" criterion may not apply in the same way in the public sector as it does in the private sector. It may need to be interpreted having regard to the circumstances in each jurisdiction.
- 4.20 The IPSASB supports the approach in paragraph 4.19. It considers that reporting obligations in the financial statements in accordance with the legal framework in place at the reporting date is more likely to provide useful information to users of the financial statements and meet the objectives of

financial reporting¹⁹. 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 an outflow of resources. 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 likely political impact of changing benefits.

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

Summary of factors to be considered

4.22 The three factors should not be considered in isolation. They act cumulatively. An entity must have given a sufficiently precise 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 an outflow of resources.

4.23 Assessing these factors requires the exercise of professional judgment. This applies particularly to social benefits, where the circumstances of individual programs 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

4.24 The 2004 ITC identified three views as to when, in the absence of a legally binding obligation, 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.

¹⁹ See the Basis for Conclusions to Chapter 5 of the Conceptual Framework, paragraphs BC5.32 and BC5.33.

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

- Whether a requirement 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.

4.26 Some consider that an obligating event in respect of social benefits can only arise from a legal obligation. This view is also discussed immediately below.

(a) Legal obligation sub-option

4.27 Those who support the “legal obligation” sub-option argue that public sector entities should only recognize legal obligations in respect of social benefits. According to this argument, until a legal obligation exists, a claim is unenforceable. A government always has the ability to avoid settling such an obligation, for example by modifying eligibility criteria or amending legislation.

4.28 As a result, the entity does have a realistic alternative to an outflow of resources. The fact that, in the absence of a legal obligation, the entity is able to avoid an outflow of resources 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 legal obligation.

4.29 Under the “legal obligation” sub-option, 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 sub-option

4.30 This sub-option was raised in the 2004 ITC. It can be summarized 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.

4.31 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.

4.32 This sub-option considers that all eligibility criteria must have been met for an obligating event to have occurred.

4.33 Under this sub-option, a requirement that a recipient meet eligibility criteria at a future date affects the recognition of a liability as well as its measurement. An entity does not recognize a liability for future benefits at a single point in time. Instead, a liability is accrued over time, as the eligibility criteria (including revalidation) are met. Revalidation is discussed later in this chapter. Under this sub-option, the present obligation is for future payments to be made until the next point in time at which eligibility criteria are required to be met. Typically, this will be at the time that the next social benefit will be provided and the beneficiary must meet the eligibility criteria in order to receive the benefit.

- 4.34 Validation is the process performed by the entity to determine whether the beneficiary is eligible to receive the social benefit, based on information provided by or on behalf of the beneficiary to support the beneficiary's eligibility. Such validation procedures range from merely administrative to significant judgments needing to be exercised by the entity (for example, disability determinations). For programs that may provide a series of periodic social benefits (for example, monthly or biweekly unemployment benefits), the entity may require periodic revalidations as a condition for continuing the benefits. An example of these periodic revalidations would be monthly visits to the unemployment office, where the beneficiary is required to provide the entity with evidence supporting continuing eligibility on a biweekly or monthly basis. Typically, if the beneficiary does not comply with the revalidation requirements, the beneficiary is not eligible for further benefit payments.
- 4.35 Eligibility criteria specify the criteria for determining whether a beneficiary is entitled to a particular social benefit. This may include eligibility criteria related to the beneficiary, a third party providing goods or services to the beneficiary, and the specific goods and services provided to the beneficiary. Eligibility criteria relate to validations and revalidations, as well as eligibility criteria that must continue to be satisfied after initial validation and any subsequent revalidations in order for the beneficiary to be eligible to receive continuing benefits. For example, to be eligible to receive a periodic benefit payment, the beneficiary may need to maintain financial need, remain unemployed, or remain alive.
- 4.36 Some consider that this sub-option also includes the recognition of an expense and a liability for benefits applied for but not yet approved. This view is more likely to be supported where approval is essentially an administrative process that does not require the exercise of judgment by the entity.
- 4.37 Those who support this sub-option accept that some individuals or households may have expectations that benefits would be paid in the future. They also accept that past practice may indicate that the government has accepted a responsibility to provide benefits. However, they consider that until all eligibility criteria have been satisfied, a government has a realistic alternative to avoid an outflow of resources, for example by modifying legislation.
- 4.38 A variation on this sub-option that recognizes a narrower range of liabilities is commonly known as the "due and payable" approach²⁰. 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" sub-option²¹

- 4.39 Under the "due and payable" sub-option, 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.
- 4.40 This sub-option considers that an obligating event does not arise until a recipient has satisfied all of the eligibility criteria and the payment is due and payable. This sub-option also considers that eligibility criteria need to be satisfied on an ongoing basis. Staying alive is considered to be an implicit eligibility criterion. Meeting the criteria at a point in time only generates a liability until the next

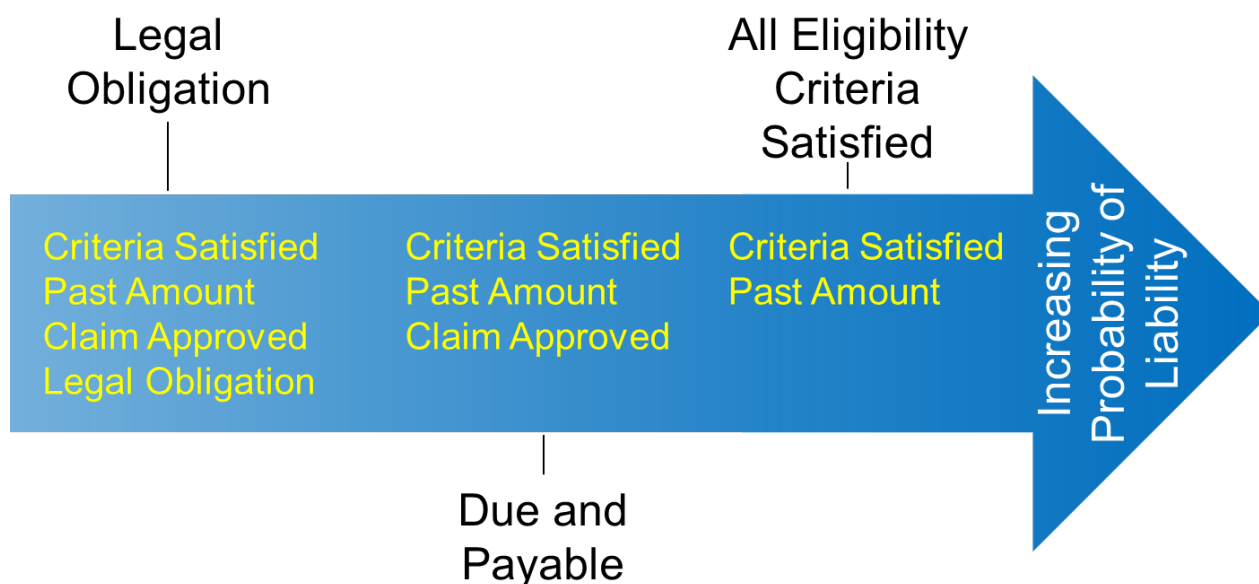
²⁰ The IPSASB notes that different jurisdictions use the term "due and payable" with slightly different meanings. The term is used in this CP with the meaning set out in paragraphs 4.39–4.43.

²¹ "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.

payment due date. Eligibility criteria need to be met anew before a liability is recognized for future payments.

- 4.41 The “due and payable” sub-option differs from the “legal obligation” sub-option. A liability would be recognized if the payment was due and payable, even if the recipient could not enforce payment at the reporting date.
- 4.42 The “due and payable” sub-option also differs from the “all eligibility criteria” sub-option. The “due and payable” sub-option would not recognize an expense and a liability for benefits applied for but not yet approved.
- 4.43 For the same reasons given under sub-option (b) above, those who support this sub-option consider that until a payment becomes due and payable, a government has a realistic alternative to avoid an outflow of resources, for example by modifying legislation. Some also believe that, for such non-exchange transactions, a valid expectation does not occur until the beneficiary has met all eligibility criteria.
- 4.44 The “legal obligation” sub-option, the “all eligibility criteria” sub-option and the “due and payable” sub-option may, in some circumstances, recognize an expense and a liability at the same point. The following diagram is intended to assist stakeholders identify the differences between these three sub-options:

Figure 2: Differences between (a) “legal obligation” sub-option; (b) “all eligibility criteria” sub-option; and (c) “due and payable” sub-option



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

- 4.45 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.”

- 4.46 Under this sub-option, 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 expected longevity. This is the difference between approach (d) and approach (b) above. Under approach (b), continuing eligibility requirements (including revalidation) affect the recognition of a liability. Under approach (d), these only affect the measurement of the liability.
- 4.47 Measurement is discussed later in this chapter.
- 4.48 This sub-option views an obligating event as occurring when key threshold eligibility criteria are first met. Examples could be when an individual:
- Reaches pensionable age;
 - Becomes unemployed; or
 - Is first diagnosed with a complaint for which medical care is provided to those who are unable to afford medical insurance.
- 4.49 Those who support this sub-option consider that individuals or households may have expectations that benefits will be paid in the future. They also consider that past practice may indicate that the government has accepted a responsibility to provide benefits. In these circumstances, they consider that once the threshold eligibility criteria have been satisfied (i.e., once an individual becomes eligible to receive benefits for the first time), a government no longer has a realistic alternative to avoid an outflow of resources.

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

- 4.50 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.”

- 4.51 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 to providing those benefits.

- 4.52 Those that support this sub-option note that governments sometimes accept that individuals have a valid expectation that they would 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.
- 4.53 The sub-option 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 sub-options. 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 to providing those benefits. In some cases, there may have been a series of points at which expectations arose, leading to an increasing expectation over time (which may mean that there are intergenerational differences in expectations). 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.

In coming to this conclusion, please explain what you consider to be the relative strengths and weaknesses of each view discussed in this chapter.

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?

- 4.54 Different views of when an obligating event occurs have been described above. These sub-options treat revalidation requirements in one of two ways, as discussed below.
- 4.55 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.

- 4.56 Revalidation affects both the recognition and measurement of a liability under the sub-options 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.
- 4.57 It follows that, for these sub-options, 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.
- 4.58 Some argue that "staying alive" is an implicit eligibility criterion for all programs as an entity will not have to provide further benefits if an individual were to die. For some programs, this may be an explicit criterion.
- 4.59 Revalidation affects measurement (but not recognition) under the sub-options that consider an obligating event occurs when:
- (d) Threshold eligibility criteria have been satisfied; or
 - (e) Key participatory events have occurred.
- 4.60 For some 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 sub-options. 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?

- 4.61 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. Under this view, 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.
- 4.62 A valid expectation that benefits will be paid may also be stronger where recipients know that contributions are paid into a specific fund.

- 4.63 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.
- 4.64 Some do not consider that whether a program is contributory affects the point at which an obligating event occurs. They argue that the existence of an obligation is not affected by the funding of that obligation. They also challenge the view that making contributions has an impact on whether a government has little or no realistic alternative to paying 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 individuals' expectations is doubtful.
- 4.65 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.
- 4.66 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.
- 4.67 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

- 4.68 IPSAS 19 excludes from its scope social benefits arising from non-exchange transactions. Social benefits arising from exchange transactions are covered by specific requirements in other standards, for example IPSAS 25.
- 4.69 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.

- 4.70 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 will be provided in non-exchange transactions as there is no direct relationship between the financing and the benefits.
- 4.71 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. Where there is significant cross-subsidization, this may also break the relationship between the financing of a program and the benefits provided by that program. However, as some cross-subsidization can occur in exchange transactions, the level of cross-subsidization would need to be sufficient to consider the transaction a non-exchange transaction. 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.
- 4.72 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

- 4.73 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.
- 4.74 Chapter Seven 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.

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

“Cost of fulfillment is:

The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.”²²

4.76 If the measurement of the liability requires an estimate of payments to be made in future periods, this may affect the cost of fulfillment. 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 where fulfillment will not take place for an extended period. The Conceptual Framework notes the following:

“Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.”²³

“Where fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the reporting date.”²⁴

4.77 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.²⁵ 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.

²² Conceptual Framework, paragraph 7.74

²³ Conceptual Framework, paragraph 7.75

²⁴ Conceptual Framework, paragraph 7.78

²⁵ See IPSAS 19, paragraph 47

- 4.78 IPSAS 19 also notes that the evidence considered when assessing a provision may include reports from independent experts.²⁶ IPSAS 25, *Employee Benefits*, provides an example, in that 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.
- 4.79 IPSAS 19 and IPSAS 25 provide guidance on the discount rates that should be applied.
- 4.80 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.
- 4.81 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.
- 4.82 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.
- 4.83 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.
- 4.84 Following amendments published in 2011, IAS 19 *Employee Benefits* takes a different approach²⁷. An entity recognizes a net liability or asset. Under this approach, the entity reports 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.
- 4.85 The IPSASB is seeking respondents' views as to which approach should be used if the IPSASB decides that the measurement of social benefit programs should include program assets.
- 4.86 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 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.

²⁶ See IPSAS 19, paragraph 46

²⁷ The IPSASB will consider these amendments in its project to review IPSAS 25.

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 of the required payments.

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.

5 Option 2: Social Contract Approach

Introduction

- 5.1 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.”²⁸

- 5.2 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.
- 5.3 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.
- 5.4 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.
- 5.5 The IPSASB is also considering an alternative approach to that outlined in the 2008 CP, whereby liabilities are recognized when all eligibility criteria are met (i.e., when the liabilities become due and payable). The alternative approach may lead to the earlier recognition of a liability in some cases. This may be consistent with the recognition of taxation income, which IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* requires to be recognized when the taxable event occurs rather than on the legal date for receipt. This alternative approach is intended to avoid any

²⁸ Consultation Paper, *Social Benefits: Issues in Recognition and Measurement (2008)*, paragraph 57

concerns that some may have that the social contract approach may not be consistent with the Conceptual Framework. This concern might arise if the approach limited the recognition of obligations to legally binding obligations whereas the Conceptual Framework acknowledges that obligations may arise from non-legally binding obligations.

Executory Contracts

5.6 IPSAS defines executory contracts as follows:

“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.”²⁹

- 5.7 General global practice does not usually recognize the rights and obligations that arise from executory contracts as separate assets and liabilities³⁰. 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).
- 5.8 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.
- 5.9 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

- 5.10 One party to 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 party to the arrangement is more difficult to identify. In the absence of a contract that specifies these factors, a number of scenarios can be identified.
- 5.11 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.
- 5.12 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.

²⁹ IPSAS 19, paragraph 18

³⁰ The Basis of Conclusions to the Conceptual Framework (paragraph BC5.6) notes that within IPSASs, the recognition and presentation of assets and liabilities resulting from executory contracts will be determined at standards level.

- Recipients of social benefits may reside outside the jurisdiction of the public sector entity that provides the benefit.
- 5.13 Therefore, for the executory contract analogy to be operational, the duty to contribute taxes and other sources of finance cannot be considered an individual duty.
- 5.14 Some argue that, although the duty to contribute taxes and other sources of finance is not an individual duty, it is a collective duty of individuals and households. They argue that the social benefit system as a whole reflects the notion of intergenerational solidarity, with individuals and households being both net recipients and net contributors at different stages of their life:
- Children will be net recipients of social benefits, as they will contribute little (if anything) by way of taxes and other sources of finance. Receipt of these benefits would impose a duty on the individuals concerned to contribute to the social benefits system later in life.
 - Those of working age (with some exceptions, such as those who are unemployed for a period of time) will generally be net contributors to the social benefits system, contributing more in taxes and other sources of finance than they receive in social benefits during that stage of their life. These contributions can be seen as repayments for earlier benefits as well as giving rise to an entitlement to future benefits.
 - In many jurisdictions, those of retirement age will (with some exceptions, such as those with a relatively high level of assets or alternative sources of income such as a private pension) once more be net recipients of social benefits. The value of the benefits they receive will be greater than the taxes and other sources of finance that they contribute during that stage of their life. This can be seen as the individuals consuming the benefits to which they are entitled as a result of their earlier contributions.
- 5.15 Some who support this “collective” view consider that a government’s role is to facilitate intergenerational solidarity. The IPSASB therefore considered whether acceptance of this view would require a government to consider itself as an agent of the individuals and households who are either net recipients of, or net contributors to, the social benefit system.
- 5.16 The IPSASB notes that agents may be responsible for receiving and transferring resources, but that they do not control those resources. Applying this principle to the social contract scenario would suggest that a government does not control the receipts of taxation and other sources of finance that are used to finance the social benefits system.
- 5.17 The IPSASB does not consider that considering the government as an agent reflects the economic substance of the situation. In particular, the IPSASB notes that, in accordance with IPSAS 23, a government recognizes revenue when a taxable event occurs. The IPSASB does not consider that there is a sufficient link between the entitlement to receive taxes and other sources of finance and the obligation to provide social benefits to require a government to consider itself an agent of the individuals and households.
- 5.18 The IPSASB also considers that applying the agency principle would not meet the objective of financial reporting. Should a government account for social benefits (and the related financing) as an agent, neither the expenses nor the revenue will be reported in the financial statements of that government. The IPSASB considers that information regarding expense and revenue is required for accountability and decision-making purposes.

- 5.19 The IPSASB then considered the implications of considering individuals and households collectively as the counterparty to the social contract.
- 5.20 The IPSASB notes that, as explained in paragraph 5.14 above, individuals and households may be net recipients of, or net contributors to, the social benefits system. Considering all individuals and households collectively allows for the reporting of the net position, rather than reporting duties and entitlements individually.
- 5.21 Under this collective view, there is an ongoing obligation on a government to provide social benefits, and an ongoing obligation on individuals and households to contribute taxes and other sources of finance. This can explain why a non-legally binding obligation can arise for post-employment benefits but not (under the social contract approach) for social benefits. In the case of post-employment benefits, there is no ongoing obligation on the employee; the benefit has been earned as a result of past service (along with any past contributions). In the case of social benefits, there is an ongoing obligation on individuals and households collectively.
- 5.22 The social contract approach also considers that reporting a large liability without reporting the corresponding right to future revenues does not provide useful information for users of the financial statements. Under the collective view, this issue does not arise. Collectively, individuals and households contribute taxes and other sources of finance to enable a government to provide social benefits. Each party performs their obligation to the same extent each financial period. Therefore, applying the executory contract model, the net asset or liability will continue to be measured at zero unless there is evidence that individuals and households will no longer be able to finance the social benefits.
- 5.23 If there is evidence that individuals and households will no longer be able to finance the social benefits, the social contract could be considered as onerous. In these circumstances, applying the executory accounting model, a liability would be recognized immediately. The IPSASB acknowledges that making this assessment and determining any resulting liability is likely to be difficult.
- 5.24 Some would suggest that because of uncertainty about the recognition and measurement of the liability, the financial statements should be required to disclose indicators that assist users to make judgments about whether the obligation is onerous and therefore whether the program is sustainable. Such indicators could be drawn from long term fiscal sustainability reports where available.
- 5.25 Some have expressed concern that the social contract approach appears to recognize a liability dependent on its financing, which is contrary to how IPSASs usually address recognition. The IPSASB notes that, under the social contract approach, a liability is recognized when performance is required in response to the performance of the other party.
- 5.26 The IPSASB notes that in some jurisdictions, a significant proportion of taxes and other sources of finance is provided by corporate entities that do not directly receive social benefits, although they benefit from, for example, a healthy and trained workforce. As such, these entities may not form part of the same social contract. Corporate entities may also be domiciled in another jurisdiction. It is therefore possible that the level of taxes and other resources provided by individuals and households collectively may be lower than that required to finance social benefits. In these circumstances, it may not be possible to apply the executory contract model to the social contract where the counterparty is individuals and households collectively.
- 5.27 As noted above, the IPSASB has currently taken the view that executory contract analogy cannot be sustained on an individual basis. The IPSASB has also taken the view that if the executory contract

analogy may not apply to individuals and households collectively in all jurisdictions, it follows that executory contract accounting should be applied by analogy to society as a whole. This is based on the assumption that society as a whole will always be able to contribute sufficient taxes and other sources of finance.

Obligations to be performed

- 5.28 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.
- 5.29 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.
- 5.30 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.
- 5.31 The IPSASB has currently taken the view that, under the social contract approach, any performance obligation on society as a whole cannot relate to the carrying out of activities that enable an entity to achieve its 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 executory exchange contract.

Application of the Social Contract Approach

- 5.32 The IPSASB has currently taken the view that under the social contract approach, social benefits can be accounted for by applying the analogy of an executory contract. A public sector entity provides social benefits to society as a whole. Society as a whole provides taxes and other sources of finance to the public sector entity.
- 5.33 Unless an executory contract is considered onerous, the net asset or liability is usually measured at zero. The public sector entity would therefore recognize no liability for social benefits, except where it has accepted a legal liability to provide benefits (or, in the alternative approach, a liability has become due and payable) but has yet to do so. The assumption of the legal liability (or due and payable liability) forms part of the entity's performance of its obligation in the reporting period. It follows that the public sector entity should recognize an expense and a liability in respect of any outstanding legal (or due and payable) liabilities at the reporting date.
- 5.34 In many jurisdictions, the entities that provide social benefits will be different to the entities that receive taxes and other sources of funding. At the whole of government level, the fact that different entities are involved does not affect the assessment of the social contract. However, at individual entity level (and assuming the entities are not under common control), this raises the question as to whether there is any obligation owed to the entity providing social benefits. Some question whether the social contract approach can be applied at entity level if no obligation is owed to the entity.

- 5.35 In such cases, the entity providing the social benefits will be funded by another public sector entity. For the purposes of the social contract 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. In the same way that the social contract applies to society as a whole, it applies to government as a whole.

Proposed Accounting Treatment

- 5.36 Under the executory contract analogy, the public sector entity performs its obligations when it assumes a legal obligation to provide social benefits (or, in the alternative approach, the obligation becomes due and payable). 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.
- 5.37 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 (or, in the alternative approach, a due and payable obligation). This liability should be measured at the cost of fulfillment. The cost of fulfillment is discussed in more detail above, beginning at paragraph 4.75.
- 5.38 The recognition and measurement of taxes and other sources of funding provided in non-exchange transactions is specified in IPSAS 23 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:
 - (i) Becomes a legally binding obligation; or
 - (ii) Becomes due and payable?
- (b) Measure this liability at the cost of fulfillment?

Please explain your reasons for your view.

6 Option 3: Insurance Approach

Introduction

- 6.1 This CP defines social insurance programs as “programs providing social benefits where the benefits received are conditional on participation in the program, evidenced by way of actual or imputed contributions made by or on behalf of the recipient.” Social security programs are defined as “social insurance programs covering the community as a whole, or large sections of the community, that are imposed and controlled by a government entity.”
- 6.2 Social security programs may be considered to be a type of insurance. Many social security programs operate in a similar manner to insurance contracts. Individuals and households make contributions (which can be seen as analogous to premiums) and receive benefits when specified risks occur. Insurance accounting, therefore, may provide insights into how best to account for some or all social security programs.

Insurance Accounting

- 6.3 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.
- 6.4 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.”³¹
- 6.5 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 insurance approach.

IASB Exposure Draft ED/2013/7 Insurance Contracts

- 6.6 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 include all of the detailed requirements. Readers seeking further information regarding the IASB’s proposals should refer to the ED directly.
- 6.7 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.
- 6.8 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

³¹ Exposure Draft ED/2013/7 *Insurance Contracts*

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.

- 6.9 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 experience³², 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

- 6.10 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 some variants of Option 1, for example the threshold eligibility criteria sub-option.

Contributions other than direct contributions

- 6.11 The IPSASB noted that contributions may take different forms, including:

- (a) Contributions in kind;
- (b) Imputed contributions; and
- (c) Contributions treated as general taxation.

These are discussed below.

Contributions in kind

- 6.12 In some cases, contributions may be made in kind rather than in cash. For these programs, participants are required to provide services on behalf of a government in exchange for an entitlement to receive similar services in the future. The IPSASB does not consider that it would be appropriate to apply the insurance approach to such programs. Although such programs require participation, evidenced by contributions, the fact that the contributions are in kind not in cash means that an approach based on net cash flows is unlikely to provide useful information for such programs. Rather, another approach that provided information on a government's liabilities in respect of such programs is likely to provide more useful information. A government's liabilities could include, for example, administration costs and any costs of providing services in excess of the services provided by participants.

Imputed contributions

- 6.13 In some cases, contributions may be imputed, for example when an individual is unemployed or when a parent stays at home to care for the children.

³² Underwriting experience refers to the actual cash flows from premiums, claims and benefits, which are likely to differ from the estimated amounts.

- 6.14 Where imputed contributions involve a cash transfer from a public sector entity to (for example) the social security fund providing the program, the insurance approach may provide useful information regarding any surplus or deficit on the program. From the perspective of the social security fund (and the individual program), there is no difference between contributions received directly from participants and those received from a public sector entity in respect of imputed contributions.
- 6.15 Where imputed contributions do not involve a cash transfer, the insurance approach may provide useful information regarding any surplus or deficit on the program and the extent to which the imputed contributions are being financed by other contributors or subsidized by taxation. However, it is possible that the value of this information would decrease as the proportion of imputed contributions increased. Taking an extreme example, if all contributions were imputed, the insurance approach would not be appropriate as there would be no contributions received. The insurance approach may therefore only provide useful information where, in addition to the imputed contributions, there are significant cash contributions.

Contributions treated as general taxation

- 6.16 In some cases, contributions received may be treated by governments as general taxation. Accounting for such programs using the insurance approach may still provide useful information. Where contributions relate to a single program, applying the insurance approach will inform users as to whether the program is subsidized by taxation; whether the program is fully funded by the contributions; or whether the program is generating a surplus that is being used to finance other government expenditure. Such information is likely to be useful to users.
- 6.17 Where contributions relate to more than one program (for example, National Insurance in the United Kingdom), the insurance approach may provide useful information where an appropriate basis for allocating the contributions to individual programs exists (for example, a specific percentage). Where no such basis exists, and any allocation would be arbitrary, the IPSASB considers that the use of the insurance approach would not be appropriate. The insurance approach highlights whether contributions are sufficient to finance a program's liabilities. Where the allocation of those contributions is arbitrary, this information is unlikely to be relevant or reliable. There may also be opportunities for a government to manipulate the allocations to achieve a desired outcome in respect of a specific program. Further complications may arise where contributions are collected by one public sector entity (for example, a revenues service) and programs are provided by one or more other public sector entities.

Conclusion

- 6.18 The IPSASB has currently taken the view that the insurance approach may be appropriate where there are significant cash transfers in respect of a program, and these can be reliably measured.
- 6.19 The insurance approach will not provide useful information in respect of:
- Programs involving contributions in kind;
 - Programs where there is a high level of imputed contributions not involving a cash transfer; and
 - Programs involving contributions (including those treated as general taxation) where there is no reliable basis for allocating the contributions to individual programs.

- 6.20 The insurance approach may provide useful information in respect of:
- Programs where imputed contributions involve a cash transfer;
 - Programs where there is a low level of imputed contributions not involving a cash transfer; and
 - Programs involving contributions treated as general taxation where there is a reliable basis for allocating the contributions to individual programs.
- 6.21 The IPSASB notes that, unlike the other approaches considered in this CP, the insurance approach implies a mixed approach to accounting for social benefits. Some programs would be accounted for using the insurance approach. Other programs would be accounted for using a different approach. The IPSASB considers that as programs have different characteristics and operate in different ways, a mixed approach might be appropriate.

Accounting for Social Security Programs under the Insurance Approach

- 6.22 This section of the CP describes how the 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.
- 6.23 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.
- 6.24 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.
- 6.25 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

- 6.26 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.
- 6.27 Coverage is not the same as eligibility. An individual may be covered by an unemployment insurance scheme to which they contribute, but will not be eligible to receive benefits until they become unemployed (and satisfy any further eligibility criteria).
- 6.28 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 insurance approach, a future IPSAS should not specify the level at which such amounts are aggregated (this is sometimes referred to as the "unit 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.

- 6.29 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.
- 6.30 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.
- 6.31 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 as it 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.
- 6.32 In some cases, a program may operate without the need of a subsidy from taxation over the life of the program, but with periods where there are net negative cash flows. During these periods, the social security fund or other public sector entity providing the program may borrow from a government, and make repayments during periods where there are net positive cash flows on the program. Any such borrowing will be reflected in the present value calculations. Where borrowing is provided at a subsidized rate, this may need to be reflected in the discount rate.
- 6.33 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. This treatment reflects an assets and liabilities-led approach to accounting for social benefits.
 - The entity should recognize the subsidy as a liability on initial recognition, and subsequently recognize the subsidy as an expense 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. This treatment reflects a revenue and expenses-led approach to accounting for social benefits.
 - The entity should adjust the liability determined from the future cash flows to reflect the planned subsidy. This treatment considers the planned subsidy to be a form of contribution and adjusts the cash flows accordingly. There are two variations to this approach.
 - Adjust the liability for the planned subsidy 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. At this consolidated level, the accounting treatment would be the same as for the variation below.

- Adjust the liability for the planned subsidy 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 treat 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, and some question whether this would be consistent with the Conceptual Framework.

6.34 The effect of these different treatments is considered in the following example:

Example: Unemployment Insurance Benefit

The following example considers the accounting for a new unemployment insurance benefit being introduced by a government. The legislation permits the government to revise the contribution rates every five years. The surplus or deficit on the program is therefore considered by forecasting cash flows over five years. The following simplifications have been made in preparing the example:

- The time value of money and any risk adjustment (see discussion below) are considered to be immaterial; and
- All benefit claims are paid when they are incurred and all contributions are received when they fall due.

The government estimates that contributions of 1,000CU per annum will be received. Benefit claims payable are estimated to be as follows

Year 1	Year 2	Year 3	Year 4	Year 5
1,000CU	1,050CU	1,100CU	1,100CU	1,000CU

Over the five year period, there will be a planned deficit of 250CU.

Assuming no variation from the estimated amounts, the three options for accounting for a planned deficit would result in the following accounting treatments:

1 – Expense on initial recognition. Under this option, the government would recognize an expense of 250CU when it initially recognized the program. Subsequent to initial recognition, the government would recognize program revenue equal to the program expenses recognized in the year. No liability would be shown in the statement of financial position.

2 – Recognize the deficit over the coverage period. Under this option, the government would not recognize an expense when it initially recognized the program. Instead, a liability of 250CU would be recognized. The deficit would be recognized on a systematic basis over the coverage period, and the liability reduced by a corresponding amount. Assuming a straight line basis reflects the delivery of services, program expenses would exceed program revenue by 50CU each year, and the liability would reduce by 50CU each year, reaching zero at the end of Year 5.

3 – Treat the subsidy as part of the cash flows. Under this option, the subsidy is treated as an expense when it is required. No liability is recognized in the statement of financial position.

However, a right to future taxation revenue (or, if the subsidy is to be received from another entity, a receivable) of 250CU is recognized in the statement of financial position. The government will recognize a deficit on the program (i.e., the subsidy) of 50CU in year 2 and 100CU in each of years 3 and 4. This is matched by a corresponding reduction in the right to future taxation revenue (or the receivable if the subsidy is to be received from another entity) in those years.

Any variations to the expected cash flows would be reflected in the statement of financial performance.

Specific Matter for Comment 9

Under the insurance approach, 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 under the insurance approach for the expected deficit of a social security program that is not designed to be fully funded from contributions:

- (a) Recognize 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

- 6.35 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.
- 6.36 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.”³³ If a risk adjustment is not applied when estimating the future cash flows, the measurement basis will be the **cost of fulfillment**.

- 6.37 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 may be a factor in assessing the contribution rate funding the liability and hence more useful for decision-making purposes.
- 6.38 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 sectors³⁴.
- 6.39 For some social security 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 related to the program may be most useful to users of the financial statements.
- 6.40 For other social security programs, there may be significant uncertainty regarding future cash flows. In these circumstances, some consider that the use of the assumption price measurement basis may be more appropriate. They argue that 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. Others consider that the use of the assumption price measurement basis is not appropriate for the public sector where there is no third party that might assume the liability. They argue that applying a risk adjustment results in an estimate other than the best estimate of the claims on the entity's resources in regard to the program; such an estimate may not be neutral and may therefore not satisfy the qualitative characteristic of faithful representation.

Specific Matter for Comment 11

In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis?

Please explain your reasons for this view.

Coverage Period

- 6.41 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.
- 6.42 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

³³ Conceptual Framework, paragraph 7.87

³⁴ Going concern in the public sector is discussed in the Preface to the Conceptual Framework.

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. Actuarial assumptions may be helpful in determining this point.

- 6.43 A social security program providing retirement benefits may 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.
- 6.44 Where a retirement benefits program also provides survivor benefits and/or dependent benefits³⁵, benefits may be paid after the death of the participant. Survivor and dependent benefits may also be payable where a participant dies before reaching retirement age. The program may therefore pay benefits for a much longer period of time. Such issues are also faced by providers of annuities in the private sector.
- 6.45 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.
- 6.46 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.
- 6.47 Under the insurance approach, the estimate of future contributions would 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.
- 6.48 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, estimates of when a participant may become unemployed, and when he or she would return to the workforce, would need to be taken into account.
- 6.49 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

³⁵ 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.

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

6.50 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 benefit program operates as a social insurance program. However, rather than contributions being made by potential beneficiaries, the contributions are made by those who create the risk. An example would be an accident insurance scheme where benefits may be paid to employees or members of the public, but where the contributions are paid by employers.
- 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.

6.51 The insurance approach provides useful information to users by assessing future cash flows to determine whether a program will produce a surplus or a deficit.

6.52 Where a program is intended to operate without being subsidized by taxation, the insurance approach can provide information as to operation of the program and whether changes to contribution rates or benefits are likely to be required to enable the program to continue to operate without a subsidy.

6.53 Where a program is intended to operate with a subsidy through taxation, the insurance approach can provide information as to the operation of the program and the level of subsidy required.

6.54 The information provided by the insurance approach will only be relevant and faithfully representative where there is a clear link between the benefits paid by a social security program and the revenue that finances the program. Where there is no clear link, the information provided by the insurance approach may be misleading rather than useful.

6.55 In the example of an accident insurance benefit funded through a levy on fuel sales, the information provided by the insurance approach will be useful if the levy relates only to the accident insurance. In such circumstances, the insurance approach will provide useful information regarding the adequacy of the levy to meet the financial objectives of the program (whether that is to be self-funding or to operate with a specific level of subsidy). In this case, the levy can be seen as analogous to contributions.

6.56 If the levy relates partly to the accident insurance and partly to other programs or to general taxation the insurance approach will only provide useful information where there is a reliable basis (such as a specific percentage) for allocating levy revenues to the accident insurance program and other programs or general taxation. Without a reliable basis of allocating the levy revenues, it will not be possible to assess the adequacy of the levy, and the insurance approach will not provide useful

information. This mirrors the position where contributions finance a number of programs and it may be difficult to determine a basis of allocation.

- 6.57 In the example of an accident insurance benefit funded by contributions made by employers, the insurance approach will usually provide useful information. In such circumstances, the financing of the program and the payment of benefits is linked by the risk covered by the program, rather than through individuals or households. The operation of the program is likely to be similar to that of an insurance contract that indemnifies the policy holder against claims by third parties. This type of social benefit may be provided to enable injured parties to be compensated on a 'no-fault' basis.
- 6.58 Where a program provides benefits to non-participants, the insurance approach will provide useful information only where the substance of the program is that of a social insurance program. As the proportion of benefits provided to non-participants increases, the less likely it is that the substance of the program is that of a social insurance program, and the more likely it is that the substance of the program is a social assistance program financed by a specific tax. An entity will need to assess the substance of the program to determine whether the insurance approach will provide useful information.
- 6.59 The IPSASB has currently taken the view that, in those cases where the link between contributions and benefits is not straightforward, the insurance approach will only provide useful information where:
- The substance of the program is that of a social insurance program; and
 - There is a clear link between the benefits paid by a social security program and the revenue that finances the program.
- 6.60 Respondents' views are sought as to whether they consider these criteria to be appropriate for determining when the insurance approach would be appropriate.

Specific Matter for Comment 12

Do you agree that, in those cases where the link between contributions and benefits is not straightforward, the criteria for determining whether the insurance approach is appropriate are:

- The substance of the program is that of a social insurance program; and
- There is a clear link between the benefits paid by a social security program and the revenue that finances the program.

If you disagree, please specify the criteria that you consider should be used.

Please explain your reasons for your views.

Discount rate

- 6.61 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.
- 6.62 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. This approach does not include a liquidity adjustment.

- 6.63 The IPSASB considered whether the discount rate approach in the IASB's proposals for insurance contracts or the discount rate approach in IPSAS 25 would be more appropriate when accounting for social benefits using the insurance approach.
- 6.64 The IPSASB noted that statistical reporting uses consistent discount rates for accounting for employee benefits and social benefits. Consistency with statistical reporting would suggest adopting the approach to discount rates specified in IPSAS 25.
- 6.65 The IPSASB considered the nature of a liquidity adjustment. Where financial markets are illiquid, a seller of a financial instrument may have to accept a lower price for the instrument. This may lead them to demand a higher market yield. Longer duration insurance contracts may be seen as illiquid.
- 6.66 The IPSASB noted that the notion of a policy holder demanding a higher market yield is irrelevant where the terms of a social benefit are prescribed by government. The IPSASB also noted that a higher market yield is unlikely to be required where a social benefit program is partially subsidized through taxation. For these reasons, the IPSASB is currently of the view that the discount rate used in measuring a social insurance obligation should not include a liquidity adjustment. The IPSASB is currently of the view that the discount rate approach in IPSAS 25 is appropriate for a social benefits IPSAS.
- 6.67 In some jurisdictions, the yield on government bonds is negative, at least for short term instruments. This could lead to negative discount rates being applied to social benefits of shorter durations. Some question whether negative discount rates reflect the time value of money.
- 6.68 The IPSASB noted that negative discount rates may reflect the time value of money in some circumstances. In periods of deflation, falling prices and salaries may result in reduced taxation income for a government. Negative discount rates would reflect the government's reducing ability to finance payments. The IPSASB also noted that the provisions in IPSAS 25 include guidance on determining the discount rate in circumstances in which market yields at the reporting date on government bonds do not reflect the time value of money. The IPSASB is therefore currently of the view that the possibility of negative discount rates does not require an alternative approach to discount rates to that adopted in IPSAS 25
- 6.69 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, as specified in IPSAS 25, in any future IPSAS that incorporates the insurance approach.

Specific Matter for Comment 13

Do you support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25?

Please explain your reasons for these views.

Subsequent measurement

6.70 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 below:

- 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).
- The remaining expected surplus (or expected deficit) would be adjusted for changes to future cash flows arising from future coverage.
- The expected surplus (or expected deficit) would be recognized as revenue (or expense) 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.
- The statement of financial performance would also reflect any changes to the discount rate, and the unwinding of the discounted cash flows.

6.71 Governments and other public sector entities may from time to time modify the terms of a social insurance program. This CP proposes requirements for significant modifications to the terms of a program that are based on the IASB's proposals for insurance contracts.

6.72 In some cases, new terms may be put in place for new entrants to a program, while existing participants retain their existing terms. In such cases, an entity shall account for these arrangements as two separate programs.

6.73 Where the terms of a program are modified for all participants, this CP proposes the following treatments:

- A modification that gives rise to an obligation to provide additional benefits shall be accounted for as a new program. The surplus or deficit on this new program shall be assessed by reference to any increase in contributions imposed as a result of the modification.
- A modification that gives rise to a reduction in benefits shall be accounted for by derecognizing that part of the program that is related to the reduction in benefits.
- A modification that does not give rise to a change in benefits provided is accounted for as a change in the estimated cash flows.

Specific Matter for Comment 14

Do you support the proposals for subsequent measurement set out in paragraphs 6.70–6.73?

Please explain your reasons for these views.

Appendix A: Examples of Social Benefit Programs

- 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. 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.
- A.2 This CP is seeking comments on three approaches to accounting for social benefits rather than proposing a specific approach. The IPSASB will decide which approach or approaches should be included in an ED after reviewing the comments received.
- A.3 Of the approaches being considered, the obligating event approach and the social contract approach take a 'one size fits all' view of social benefits. These approaches (including all of the sub-options under the obligating event approach) can be applied to all social benefit programs. The insurance approach takes a mixed measurement view of social benefits. This approach can be applied only to those social benefit programs that are financed, at least in part, by contributions. Non-contributory social benefit programs would be accounted for using one of the other approaches.
- A.4 In discussing the examples below, this CP does not come to a view as to which approach would be used for each example; the IPSASB will decide when developing an ED which approach or approaches to permit. This CP comments on whether the insurance approach could be applied to specific examples, based on the nature of their financing. It also comments on any specific issues that would arise in applying any of the approaches to a specific example, but otherwise assumes that any of the identified approaches could be applied to any of the examples.

Retirement Benefits

- A.5 This Appendix describes examples of how retirement benefits are provided, and discusses how the approach outlined in the CP could 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.6 State retirement benefits in Denmark are provided through two schemes. The first scheme is a universal scheme, the second a social insurance scheme.
- A.7 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.8 The universal scheme is managed by the Ministry of Social Affairs and Integration, with all the costs of the scheme being met through general taxation.
- A.9 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.10 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.11 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.12 The universal scheme and the ATP may have different accounting treatments.
- A.13 The universal scheme is provided by the Ministry of Social Affairs and Integration. If it followed the approach set out in this CP, the Ministry would include amounts relating to the universal scheme in its financial statements. The Ministry would recognize and measure its liability using either the obligating event approach or the social contract approach, depending on which approach the IPSASB includes in a future IPSAS. The insurance approach would not be appropriate for the universal scheme as the scheme is financed from general taxation.
- A.14 The ATP is provided through the Labor Market Supplementary Pension Institution, which, if it followed the approach in this CP, would include amounts relating to the ATP in its financial statements. As with the universal scheme, recognition and measurement would be based on whichever approach(es) the IPSASB includes in a future IPSAS (obligating event approach, social contract approach or insurance approach). The insurance approach would be a possible option for the ATP, as the scheme operates on a social insurance basis, funded solely through employer and employee contributions.
- A.15 The Ministry would also 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 would account for that interest in accordance with IPSAS 35 *Consolidated Financial Statements* (where the entity is a controlled entity) or IPSAS 36 *Investments in Associates and Joint Ventures* (where the entity is an associate or joint venture). If the Ministry concludes it has no such interest, the ATP would not be included in the Ministry's financial statements.

France

- A.16 The provision of retirement benefits in France is complex. The overarching principles of "redistribution" and of solidarity drive the provision of social benefits in France. "Redistribution" means that at any time inflows of contributions finance outflows of pensions: pensions are not paid on the basis of secured pension funds resulting from earlier savings and contributions, but, if they exist, previous surpluses may be used to compensate deficits. 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.17 The French pension system covers 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 variations in some cases such as agriculture) to other schemes in the private sector. Pensions of civil servants are regulated by other mechanisms and paid by the Government.
- A.18 There are two tiers to the private sector 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.19 The basic pension scheme provides pensions where the amount receivable is based on the number of periods of contribution (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. Retirement ages and contribution periods are currently being increased.
- A.20 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.21 The different schemes are managed by separate entities established by law. The basic pension schemes are managed by public entities that are under a strict supervision from the relevant Ministry of the French Government. Supplementary schemes are managed by private entities, through governance bodies ruled by employers and workers representatives according to professional agreements.
- A.22 The basic 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. The application of the "redistribution" and "solidarity" principles means that some schemes may receive transfers (from other schemes or from the Government) to supplement the contributions. Outflows (pensions) being more important than inflows (contributions, transfers and public subsidies), deficits have generated public debt.
- A.23 Entities that operate supplementary schemes are not allowed to use debt. They were able, in past decades, to generate surpluses and reserves that are now used to fill the gap between expenses and contributions.

Application of the approach in this CP

- A.24 Currently, public entities do not recognize a liability in respect of future pensions beyond the reporting period. Only estimates of future payments in respect of civil servants are disclosed in the notes to the financial statements of the Government. Some (but not all) of the options in this CP might, if the approach in this CP was adopted by the public entities, require the recognition of a liability in respect of some future pensions beyond the reporting period.
- A.25 If the approach in this CP was adopted, each public entity would also consider whether the solidarity principle and the compensation mechanisms in place would give rise to a liability that should be recognized in its financial statements.

Japan

- A.26 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.27 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.28 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.29 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.30 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.31 The program primarily operates on a 'pay as you go' basis, although a reserve is also being maintained.
- A.32 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.33 If it followed the approach set out in this CP, the Government would include amounts relating to the public pension system in its financial statements. The Government would recognize and measure its liability using whichever approach(es) the IPSASB includes in a future IPSAS (obligating event approach, social contract approach or insurance approach).
- A.34 The fact that future benefits are being adjusted to ensure that the system is financially viable might need to be taken into account when measuring the program.
- A.35 If the obligating event approach is included in a future IPSAS and used to account for the public pension scheme, adjustments to future benefits would affect the assessment as to when a present obligation arises. Individuals' valid expectation of being paid a pension would be affected by such reductions (at least with regard to the amount of the pension), and the Government might be seen as having a realistic alternative to settling the whole obligation.

- A.36 As the public pension system operates as an insurance system, the insurance approach might be an appropriate basis for the recognition and measurement of the public pension system.
- A.37 If the insurance approach is included in a future IPSAS and used to account for the public pension scheme, the assessment of future payments would need to take into account the Government's ability to reduce benefits to a sustainable level.
- A.38 If the social contract approach is included in a future IPSAS and user to account for the public pension scheme, only legal obligations (or due and payable obligations under the revised approach) would be recognized as liabilities. Adjustments to future benefits would not need to be considered under this approach.

Switzerland

- A.39 State retirement benefits in Switzerland are provided through a social insurance scheme (Old-Age and Survivors' Insurance, OASI). OASI is a legally independent entity. It grants pensions of two basic types: old age pensions to people of retirement age, and in addition so called survivors' pensions to spouses or dependent children of a deceased insured person.
- A.40 Both schemes - old-age and survivors' insurance - are administered by compensation funds, which collect contributions and pay benefits. There are about 100 such funds, which operate under the auspices of various professional associations, of the cantons, and of the federal administration.
- A.41 Employers are legally bound to deduct the employees' contributions from all salaries or salary-like benefits and to pay these, along with their own contributions, to the compensation fund to which they are affiliated. The contributions are a fixed percentage of the insured person's income, equally divided between employees and employers.
- A.42 The pensions paid are based on an individual's contribution record. A full, continuous contribution record is required for a full pension, with a reduced pension being payable for shorter contribution periods. Errors in the contribution record can be corrected within 5 years, however errors further back and years with less than minimal contribution cannot be rectified.
- A.43 Men are entitled to old-age pensions from the age of 65. Since 1 January 2005 the age limit for entitlement for women is 64.
- A.44 The Swiss Central Compensation Office in Geneva, technically a part of the federal administration, acts as an intermediary between the various funds, booking the contributions paid by all compensation funds and providing them with the means to pay the pensions. Compensation funds transfer any surpluses to the Central Compensation Office.
- A.45 The Swiss government and in particular the Federal Social Insurance Office supervise the old-age, survivors' and invalidity insurance system.
- A.46 Since the Swiss old-age and survivors' insurance is funded on a "pay-as-you-go" basis by the contributions of the working population, the balance between the two is increasingly out of kilter. To face up to such difficulties, the Swiss Confederation also contributes 19.55 % of outgoings. It acquires this sum through direct federal and value-added taxes (VAT) as well as the taxes on tobacco products, alcohol and gambling casinos. This amount is specified in legislation, as are the contributions from employees/employers, as well as the benefits. In addition, a fixed proportion of VAT is directly allocated to the program.

- A.47 Therefore, in case of a deficit of the scheme, there is no automatic adjustment of any funding source and parliament needs to determine which sources are adjusted or whether they change benefits. No guarantee is provided, and there is no default option.

Application of the approach in this CP

- A.48 If it followed the approach set out in this CP, the OASI would include amounts relating to the state retirement scheme in its financial statements. The OASI would recognize and measure its liability using whichever approach(es) the IPSASB includes in a future IPSAS (obligating event approach, social contract approach or insurance approach).
- A.49 If the obligating event approach is included in a future IPSAS and used to account for the state retirement scheme, adjustments to future benefits would affect the assessment as to when a present obligation arises. Individuals' valid expectation of being paid a pension would be affected by such reductions (at least with regard to the amount of the pension). The fact that, in the case of a deficit, future benefits may be adjusted to ensure that the system is financially viable would need to be taken into account when measuring the program. The fact that the Swiss Confederation's contribution is prescribed in legislation would also need to be taken into account in assessing when a valid expectation can arise.
- A.50 Future benefits would not need to be assessed if the social contract approach is included in a future IPSAS and used to account for the state retirement scheme.
- A.51 As the state retirement scheme operates as an insurance system, the insurance approach might be an appropriate basis for the recognition and measurement of the public pension system. If this approach is included in a future IPSAS and used to account for the state retirement scheme, the contributions from the Swiss Confederation and from VAT would need to be included in the assessment of future cash flows. As the VAT contribution is based on the revenue raised by the tax, this will involve estimating future VAT revenues.
- A.52 The fact that, in the case of a deficit, future benefits or contribution rates might be adjusted to ensure that the system is financially viable would need to be taken into account if the program was measured using the insurance approach. The assessment of future cash flows would need to take into account any adjustments to contribution and benefit rates.
- A.53 The Swiss Confederation's contributions are prescribed by legislation, and no guarantees are provided to the compensation funds. The Central Compensation Office, as part of the Swiss Confederation, would recognize expenses as its liability to make contributions arises if it followed the approach set out in this CP.

Unemployment Benefits

- A.54 This Appendix describes examples of how unemployment benefits are provided and discusses how the approach outlined in the CP could be applied to each example.

Canada

- A.55 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.56 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.57 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.58 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.59 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.60 If it followed the approach set out in this CP, the Government would include amounts relating to Employment Insurance in its financial statements. The Government would recognize and measure its liability using whichever approach(es) the IPSASB includes in a future IPSAS (obligating event approach, social contract approach or insurance approach). If the insurance approach were used (which would be possible as the benefit operates as an insurance scheme), it might be helpful to users to disclose the fact that future revenue, which would be taken into account in measuring the program, is treated as general taxation.
- A.61 The eligibility criteria and benefits calculations are complex, and are significantly determined by the regional rate of unemployment. Estimates of future benefit payments would be required under some variants of the obligating event approach. Estimates of future cash flows would be required under the insurance approach. In both cases, estimates might need to be prepared on a region-by-region basis to take account of the effect of the regional rate of unemployment. No such complexities arise under the social contract approach as only legal obligations (or due and payable obligations under the alternative approach) are recognized as a liability.
- A.62 If it followed the approach set out in this CP, the Government would also need to consider whether the complex design of the program would affect presentation decisions. Significant judgments and estimation uncertainty relating to the program would probably need to be disclosed. Under some recognition and measurement models, the impact of the regional variations on disclosure might need to be considered. For example, under the insurance approach, it might be useful for accountability

and decision making purposes to disclose the net present value of the program region by region if these varied significantly.

Switzerland

- A.63 Unemployment insurance provides benefits in the case of loss of employment, shortened working hours, lack of employment due to weather conditions and insolvency on the part of the employer. This insurance also pays for re-integration measures.
- A.64 All persons in employment are obliged to contribute to the unemployment insurance scheme with the exception of some family members of persons working in the agricultural sector and persons who have reached retirement age.
- A.65 The unemployment insurance is financed through mandatory contributions from employers and employees. Contributions are proportionate to earnings, with a reduced percentage applied to earnings above CHF 10,500 per month.
- A.66 Unemployment insurance regular benefits are paid to individuals who become unemployed and who have paid contributions for at least 12 month in the previous 2 years and earned a minimum average amount of salary (currently CHF 500 per month). There is a 120 days “waiting period” before benefits are paid in case of being exempt from contributions (e.g. studying at university, other educational measures).
- A.67 The maximum number of days during which the regular benefit will be paid depends on the number of days worked during the qualifying period, the age of the insured person and the obligation to maintain a third person. The benefits will be paid a maximum of 2 years of unemployment.
- A.68 The basic rate for calculating benefits is 70% or 80% of the weekly average insurable previous earnings. The 80% benefit applies to those with dependents (e.g. children in education), the 70% to all others.
- A.69 The unemployment insurance is administered by local employment offices (Arbeitslosenkassen), which collect contributions and pay benefits. Some offices are operated by state or local government, others by trade unions. Both are compensated out of the premium for the services provided (Service Level Agreement). A compensation body acts as an intermediary between the various offices, booking the contributions paid by all local employment offices and providing them with the means to pay the benefits.
- A.70 There are no contributions financed through tax revenues. However, federal and state governments have provided loans to the compensation bodies during periods of high unemployment. These loans have to be paid back, if necessary through a temporary increase in the contributions for the employers and employees. Over time, the scheme is therefore fully financed by contributions.
- A.71 The State Secretariat for Economic Affairs, an agency of the Swiss Confederation is responsible for the employment insurance.

Application of the approach in this CP

- A.72 Although unemployment insurance is administered by local employment offices, this is on an agency basis. The compensation bodies act as principals for unemployment insurance.
- A.73 Because local employment offices act as agents for the receipt of contributions and payment of benefits, they would not recognize these amounts in their financial statements if they followed the

approach set out in this CP. They would recognize their own costs in providing these services and the income they receive under the Service Level Agreement for providing the services.

- A.74 If they followed the approach set out in this CP, the compensation bodies would recognize and measure unemployment insurance using whichever approach(es) the IPSASB includes in a future IPSAS (obligating event approach, social contract approach or insurance approach).
- A.75 Because the scheme is fully financed by contributions over the long term, the insurance approach could be applied to unemployment insurance. Under this approach, the program would be measured by reference to the net present value of the cash flows. Federal and state governments might provide the compensation bodies with loans during periods of high unemployment. If these loans were below market rates, this might need to be taken into account when assessing the discount rate to be used.
- A.76 If a federal or state government were to provide loans to a compensation body, the loan would be treated as a financial asset by the government and as a financial liability by the compensation body. Interest would be recognized as revenue (by the government) and as an expense (by the compensation body) in accordance with IPSAS 29.

United Kingdom

- A.77 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.78 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.79 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.80 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.81 If it followed the approach set out in this CP, the Department would include amounts relating to JSA in its financial statements. The Department would recognize and measure the program using whichever approach(es) the IPSASB includes in a future IPSAS (obligating event approach, social contract approach or – for contribution-based JSA only – the insurance approach).

- A.82 The 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 insurance approach might be appropriate for recognizing and measuring contribution-based JSA, although there are complicating factors. In order for the insurance approach to be appropriate, a reliable method of allocating National Insurance contributions to individual programs would need to be identified.
- A.83 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 insurance approach (assuming this approach is included in a future IPSAS), National Insurance contributions receivable would need to be apportioned to each benefit.
- A.84 If the insurance approach is included in a future IPSAS and used to account for the contribution-based JSA, it might 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.85 This Appendix describes examples of how personal injury compensation benefits are provided and discusses how the approach outlined in the CP could be applied.

New Zealand

- A.86 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.87 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.88 Claims are managed through five separate accounts. The accounts are mainly funded through levies. The levy rates are regularly updated on the basis of actuarial advice to achieve this objective. 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.89 The operation of each account is described in the following paragraphs.
- A.90 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.91 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.92 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.93 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.94 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.95 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.96 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.97 If it followed the approach set out in this CP, the ACC would include the programs in its financial statements. The Corporation would recognize and measure the programs using whichever approach(es) the IPSASB includes in a future IPSAS (obligating event approach, social contract approach or insurance approach).
- A.98 The insurance approach might 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 insurance approach might 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.99 The insurance approach might be appropriate for recognizing and measuring the other Accounts. If the insurance approach is included in a future IPSAS and used to account for 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.100 If it followed the approach set out in this CP, the Government would 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.

Switzerland

- A.101 Switzerland operates a compulsory accident insurance scheme. The compulsory accident insurance scheme is a personal insurance, which covers the economic consequences of work and non-work accidents and occupational diseases. Benefits available under this type of insurance represent compensation for injury to health and incapacity to work as a result of an accident or an occupational disease.
- A.102 Everyone who is employed in Switzerland is covered by accident insurance. Accident insurance does not cover unemployed persons. Self-employed persons and members of their family who work with them in the same business are also not covered by compulsory insurance. These persons must arrange cover against accidents as part of their compulsory sickness insurance.
- A.103 The employer pays premiums for insurance against work accidents and occupational diseases. The employee premiums provide for insurance against non-work accidents. The employer pays the total amount to the insurance company and deducts the employee's contribution from his or her salary. A premium is calculated in advance and paid by the employer. The premium payable is calculated according to the annual income for the past year.
- A.104 Premiums are expressed in amounts per CHF1,000 of income subject to compulsory insurance. They are composed of a net premium corresponding to the risk involved and various supplementary amounts. The employer's business is categorized according to type and conditions and the premium is set according to a premium tariff based on these elements.
- A.105 The benefits consist of benefits in kind (reimbursements for medical costs) as well as cash payments based on the insured income.
- A.106 Both compulsory and voluntary insurance is provided by the Swiss National Accident Insurance Agency (SUVA³⁶) or by other approved private accident insurance companies, depending on the industry or category of cover. The SUVA is an independent, non-profit company established under public law. Both the SUVA and the private accident insurance companies are fully financed by the insurance premium and investment income. They receive no subsidies from any level of government. They do not borrow from government. Some insurance companies invest (voluntarily) in government bonds as part of their asset management activities.

Application of the approach in this CP

- A.107 The compulsory accident insurance scheme is a social benefit provided through exchange transactions. As insurance companies, the providers (including SUVA) are outside the scope of this CP. They will account for the insurance policies using international or national standards for insurance

³⁶ Referred to on the Swiss Federal Social Insurance Office web site as CNA (French abbreviation)

accounting, which may (depending on the standards used) may have similarities with the insurance approach outlined in this CP.

- A.108 If it followed the approach set out in this CP, the Swiss Confederation would assess whether it controls, jointly controls or has significant influence over SUVA. If the Confederation concluded it has no control, joint control or significant influence over SUVA, it will account only for its transactions with the providers (the payment of employer contributions, deduction and remittance of employee contributions and any investments by the companies in government bonds).
- A.109 If the Confederation concludes it has control, joint control or significant influence over SUVA, the Confederation will account for its interest in SUVA in accordance with the relevant IPSAS (IPSAS 35 where the entity is a controlled entity or IPSAS 36 where the entity is a jointly controlled entity or an associate or joint venture).

Sources of Information

- A.110 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
<i>Retirement Benefits</i>	
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

Case Study	Source of Information
<i>Unemployment Benefits</i>	
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
<i>Injury Benefits</i>	
New Zealand	Accident Compensation Corporation (ACC) web site: http://www.acc.co.nz/about-acc/overview-of-acc/introduction-to-acc/index.htm
Switzerland	Federal Social Insurance Office web site: http://www.bsv.admin.ch/themen/ueberblick/00003/index.html?lang=en

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

B.1 This Appendix evaluates each of the recognition and measurement 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: Insurance Approach (contributory schemes only)
<p>2.1 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”).</p> <p>...</p> <p>2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:</p> <ul style="list-style-type: none"> The performance of the entity during the reporting period in, for example: 	<p>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.</p> <p>Information about expenses recognized in the period and any liabilities that exist at the reporting date will relate to the entity's financial capacity.</p> <p>The obligating event approach provides information on the performance of each program by reporting the expenses, the liabilities arising from both legally</p>	<p>The social contract approach provides information on the performance of each program by reporting the expenses and the liabilities arising from legally binding obligations (or, under the alternative approach, due and payable obligations) recognized in the reporting period. This provides information about the cost of services.</p> <p>Information about expenses recognized in the period and any liabilities that exist at the reporting date will relate to the entity's financial capacity.</p> <p>The social contract approach provides information on the performance of each program by reporting the expenses and the liabilities arising from legally</p>	<p>The 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. In considering future cash flows, the insurance approach considers both legally binding and non-legally binding obligations. This provides information about the cost of services.</p> <p>Information about any surplus generated by the program or any subsidy required to finance the program relates to the financial capacity of the entity.</p> <p>The insurance approach provides information regarding the performance of each program by determining expected levels of benefits to be paid and</p>

Extract from Conceptual Framework	Option 1: Obligor Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<ul style="list-style-type: none"> ○ Meeting its service delivery and other operating and financial objectives; ○ Managing the resources it is responsible for; and ○ Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources; <ul style="list-style-type: none"> • The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity; 	<p>binding and non-legally binding obligations recognized in the reporting period. This provides information about the cost of services.</p> <p>In combination with other information, either in the notes or in another GPFR, this will contribute to assessments of whether an entity is meeting its objectives, managing its resources and complying with relevant regulations.</p> <p>Some obligor event approach sub-options will provide information regarding current and long-term liabilities that may contribute to assessments of liquidity and solvency.</p>	<p>binding obligations (or, under the alternative approach, due and payable obligations) recognized in the reporting period. This provides information about the cost of services.</p> <p>In combination with other information, either in the notes or in another GPFR, this will contribute to assessments of whether an entity is meeting its objectives, managing its resources and complying with relevant regulations.</p> <p>The social contract approach provides information regarding current legal obligations (or, under the alternative approach, due and payable obligations) that may contribute to assessments of liquidity.</p>	<p>contributions to be received, and reporting variations from those levels. This provides information about the cost of services.</p> <p>In combination with other information, either in the notes or in another GPFR, this will contribute to assessments of whether an entity is meeting its objectives, managing its resources and complying with relevant regulations.</p> <p>The insurance approach will provide information regarding cash flows (both inflows and outflows) over the coverage period of a social benefit program that will be relevant to assessments of liquidity and, to varying degrees, solvency. The extent to which the insurance approach provides information that is relevant to an assessment of solvency will depend on the nature of the programs, for example the coverage period included in the assessment and the extent to</p>

Extract from Conceptual Framework	Option 1: Obligor Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<ul style="list-style-type: none"> The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period ...; The capacity of the entity to adapt to changing circumstances, whether 	<p>The obligor event approach does not provide information about the sustainability of the entity's service delivery over the long term.</p> <p>Under some sub-options, the statement of financial position will include liabilities that are to be settled in future periods. However, this information relates only to current liabilities and does not provide information on how these will be financed.</p> <p>Information could be made available in the notes of in a separate GPFR, for example a report on long-term sustainability of an entity's finances prepared in accordance with RPG 1.</p> <p>The obligor event approach provides limited information about</p>	<p>The social contract approach does not provide information about the sustainability of the entity's service delivery over the long term.</p> <p>Such information could be made available in the notes of in a separate GPFR, for example a report on long-term sustainability of an entity's finances prepared in accordance with RPG 1.</p> <p>The social contract approach provides limited information about</p>	<p>which the program is funded from general revenue sources such as taxation.</p> <p>The insurance approach provides information on expected future cash flows (both inflows and outflows) and hence provides a degree of information regarding the sustainability of the entity's service delivery over the long term. This information relates to current participants in a program, and so does not include participants who will join a program in future periods. The coverage period for some programs may be short, limiting the usefulness of the information provided.</p> <p>Further information could be made available in the notes of in a separate GPFR, for example a report on long-term sustainability of an entity's finances prepared in accordance with RPG 1.</p> <p>The insurance approach provides some information about the</p>

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<p>changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.</p>	<p>the capacity of the entity to adapt to changing circumstances.</p> <p>Information regarding costs (and under some sub-options, liabilities) is provided.</p> <p>Notes may include trend information.</p> <p>The obligating event approach does not provide information as to how future costs and liabilities (which may be a constraint on the entity's ability to adapt to changing circumstances) are to be financed.</p>	<p>the capacity of the entity to adapt to changing circumstances.</p> <p>Information regarding costs is provided.</p> <p>Notes may include trend information.</p> <p>The social contract approach does not provide information as to how future costs (which may be a constraint on the entity's ability to adapt to changing circumstances) are to be financed.</p>	<p>capacity of the entity to adapt to changing circumstances.</p> <p>Information about any surplus generated by a program or any subsidy required to finance a program is relevant to an assessment of the capacity of the entity to adapt to change.</p> <p>Notes may provide further information about a program such as the coverage period and whether the entity has the opportunity to amend contribution rates to reflect revised assessments of risks.</p>
<p>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, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take</p>	<p>The obligating event approach provides relevant information. Information will have confirmatory value on the cost of services in the period.</p> <p>Information in respect of some of the sub-options will relate to future periods. To differing degrees, this information has predictive value.</p>	<p>The social contract approach provides relevant information. Information will have confirmatory value on the cost of services in the period.</p>	<p>The insurance approach provides relevant information. Information will have confirmatory value on the cost of services in the period.</p> <p>If information regarding estimated future cash flows is provided, the information will also have predictive value.</p>

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
advantage of it or are already aware of it.			
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.	<p>The obligating event approach faithfully represents those liabilities recognized by the approach.</p> <p>Some sub-options (for example, the “due and payable” approach) consider revalidation as a recognition criterion rather than a factor affecting measurement. There are differing views as to whether these sub-options provide a complete depiction of the claims on the resources of the entity and therefore meet the QC of faithful representation.</p>	<p>The social contract approach faithfully represents those liabilities recognized by the approach.</p> <p>There are differing views as to whether the social contract approach provides a complete depiction of the claims on the resources of the entity and therefore meets the QC of faithful representation.</p>	<p>Under the 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.</p>
3.17 & 3.18 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.	<p>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 approaches will meet the QC of understandability.</p>	<p>Under the social contract approach, information is provided in respect of legally binding obligations (or, under the alternative approach, due and payable obligations). Such information meets the QC of understandability. Information provided under this approach may</p>	<p>The calculations that underpin the information provided by the insurance approach are complex. 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>

Extract from Conceptual Framework	Option 1: Obligor Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<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>Other sub-approaches that consider revalidation to be a factor that affects measurement may 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>be more understandable than under the other approaches.</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 obligor 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-options 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>Because only legally-binding obligations (or, under the alternative approach, due and payable obligations) are recognized, the social contract approach provides information that is simple to calculate and can be provided in a timely manner.</p>	<p>The 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 phenomena. Comparability is not a quality of an individual item of</p>	<p>Some sub-options consider revalidation as a recognition criterion rather than a factor affecting measurement. There are differing views as to whether these sub-options meet the QC of</p>	<p>The social contract approach will provide information that enables users to identify similarities in, and differences between, the legally binding obligations (or, under the alternative approach, due and</p>	<p>The insurance approach will provide information that enables users to identify similarities in, and differences between, different social security programs. Considerable information on the</p>

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
information, but rather a quality of the relationship between two or more items of information.	comparability. This is because two programs with identical benefits and nearly identical eligibility requirements can have different liabilities, because of different revalidation dates.	payable obligations) arising from different social benefit programs.	assumptions and accounting conventions used is necessary to achieve the QC of comparability.
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>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 (for example, the actuarial models used).</p>	The social contract approach provides information that is simple to calculate and which will therefore meet the QC of verifiability.	The 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 (for example, the actuarial models used).

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