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**Subject** : Response to the IPSASB “Recognition and measurement of social benefits” consultation paper.

I am writing on behalf of the French Directorate of Public Finances (hereinafter mentioned as DGFIP) to express our views on the mentioned above Consultation paper (hereinafter mentioned as CP).

The Head of Central Government Accounting Department

François Tanguy

This CP deals with “Recognition and measurement of social benefits” which is a critical issue for the public sector. Indeed, in Government Finance Statistics (GFS)<sup>1</sup>, social benefits in France represent 31.88% of GDP in 2014 (for whole government administrations), equivalent more than 700 billion EUR. Thus, 35 billion<sup>2</sup> EUR was recorded as transfers to households in 2014 in the central government's statement of financial performance<sup>3</sup>.

Nevertheless, the scope of the CP seems too restrictive, given to the issues raised by the intervention expenditures on the whole public entities. They are defined as payments made as part of public entities' task of economic and social regulation (more particularly by the central government). These payments are made to different categories of beneficiary as part of aid and support schemes (households, enterprises, local and regional authorities, other entities)

In France, these expenditures, as part of the economic and social regulator mission of the Central Government, amounted more than 143 billion EUR for 2014, whatever category of beneficiaries.

Within the intervention expenditure, social benefits are transfers to households.

Consequently, we recommend to develop a consistent approach between social benefits and non-exchange transactions (IPSAS 23).

DGFIP supports "the obligating event approach". Nevertheless, it must be completed, as explained later in our response. In our view, it's the sole relevant and suitable approach for the whole public sector, compliant with the IPSASB conceptual framework and IPSAS.

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<sup>1</sup> Source : the National Institute for Statistics and Economic Studies (INSEE).

<sup>2</sup> Government's general financial statement 2014 (CGE).

<sup>3</sup> By CGE, we consider the Government's general financial statement.

**Specific Matter for Comment 1 (following paragraph 2.50)**

*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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?*

*Please explain the reasons for your views.*

**(a)** *Yes, the scope of this CP is appropriate. Nevertheless, the exclusion of other transfers in kind and collective goods and services does not seem sufficiently justified.*

*In our view, we may justify this exclusion by the fact that the production of collective goods and services, benefiting to the whole community, is the core activity of public sector. It forms the major part of its operating and investment expenditures. For collective goods and services, the final beneficiary is not the direct recipient of expenditures achieved by public administrations (staff expenses for education or defense, investments expenditures for roads and hospitals, etc). In this case, other transfers in kind and collective goods and services are provided to the whole community. Consequently, identify one beneficiary is impossible. Moreover, the IPSASB Conceptual Framework for General Purpose Financial Reporting states that the identification of an external party is an indication of the existence of an obligation giving rise to liability, even if this knowledge is especially necessary for the payment of the obligation (see § 5.18).*

*Hence, those transfers cannot be recognized as an obligation giving rise to liability. These elements justify the exclusion of other transfers in kind and collective goods and services from the scope of this CP.*

**(b)** *Distinction made by GFS between other transfers in kind and collective goods and services seems, for us, artificial. Indeed, according to the CP, education and health are "other transfers in kind", while defense are "collective goods and services".*

*In our view, these concepts address the same economic reality: production of collective goods and services by public administrations. Hence, distinguish these concept is not relevant for accrual based accounting, as reflected in the IPSASB conceptual framework which establishes the predominance of the economy of the transaction on it's legal form in order to fulfill the faithful representation criterion of financial information (see § 3.8 et 3.10)<sup>4</sup>.*

*Therefore, subsequently in our response, the term "collective goods and services" covers the two concepts ("other transfers in kind" and "collective goods and services").*

<sup>4</sup> The paragraph 3.8 of the Conceptual Framework stipulates that "The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be faithfully represented in many ways."

And its paragraph 3,10 specifies that "Faithful representation, substance over form, neutrality, prudence and completeness were identified as components of reliability. The Conceptual Framework uses the term "faithful representation" rather than "reliability" to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation."

**Specific Matter for Comment 2 (following paragraph 3.4)**

*(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

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

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

*(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.*

**(a)** The approach based on "the obligating event" is the most suitable one and the most compliant with the IPSASB conceptual framework in terms of definition of liabilities.

Nevertheless, this approach seems to us unfulfilled because it should include contingent liabilities, that lead to disclosures in the notes in accordance with IPSAS 19<sup>5</sup>. Indeed, the notes are integral part of the financial statements and provide essential information to users of financial statements.

This global approach will satisfy the faithful representation objective for financial statements in accordance with the conceptual framework.

**(b)** As indicated in our reply above (a), this global approach including contingent liabilities, is the most relevant because it provides a faithful representation of financial reporting in accordance with the conceptual framework and IPSAS 19.

**Specific Matter for Comment 3 (following paragraph 3.4)**

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

In accordance with our reply on the question 2, the global approach based on "the obligating

<sup>5</sup> Indeed, standard IPSAS 19 « Provisions, contingent liabilities and contingent assets » stipulates, in paragraph 20, that *"In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard, the term contingent is used for liabilities and assets that are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria"*

Furthermore, its paragraph 100 specifies that *"Unless the possibility of any outflow in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable: (a) An estimate of its financial effect, measured under paragraphs 44–62; (b) An indication of the uncertainties relating to the amount or timing of any outflow; and (c) The possibility of any reimbursement."*



event” and including contingent liabilities, which lead to disclosures in the notes, enables to address all social benefits transactions, with exclusion of collective goods and services as indicated in our reply above in question 1.

**Specific Matter for Comment 4 (following paragraph 4.69)**

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

- (a) Key participatory events have occurred ;*
- (b) Threshold eligibility criteria have been satisfied ;*
- (c) The eligibility criteria to receive the next benefit have been satisfied;*
- (d) A claim has been approved;*
- (e) A claim is enforceable; 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 the reasons for your views.*

In our view, a liability must be recognised in the balance sheet when eligibility criteria have been satisfied, by the beneficiary, on the current financial year. Social benefits, whose rights depend on the satisfaction of criteria by the beneficiary in subsequent periods (for example, criteria relating to income, composition of the household, disability rate...) are not present obligations of the current period.

Nevertheless, an in-depth discussion about their classification with respect to the definition of contingent liabilities and related disclosures in the notes if needed, could be engaged.

That is why, the obligating events a) and b) can not be retained.

Accordingly, under the social benefit arrangements, the obligating event that must be selected is c), but amended as follows:

c) The eligibility criteria to receive the next benefit have been satisfied **on the current financial year**

From our point of view, this obligating event will address most of social benefits.

However, in some cases, the filing out of a form could be an eligibility criteria. For this reason, the obligating event to take into account could be c) amended, and also d) amended as follows:

(d) A claim has been approved **submitted**;

Indeed, the present obligation is recognised when the beneficiary meets the eligibility criteria, whether the administration has approved or not the claim.

We believe that this approach allows to cover all social benefits.

**Specific Matter for Comment 5 (following paragraph 4.76)**

*In your view, does an obligating event occur earlier for contributory benefits than non-*

*contributory benefits under the obligating event approach?  
Please explain the reasons for your views.*

As previously stated, the obligating event for the present obligation is the satisfaction of eligibility criteria on the current financial year by the beneficiary.

Some social benefits are served without being counterpart to the prior payment of a contribution. These schemes are called "non-contributory". This is the case in France, for the additional allowance of the National Solidarity Fund.

For "contributory" schemes, the payment of the benefit is conditioned on prior payment of a contribution. Nevertheless, there is no direct link at the level of each beneficiary between the level of contributions paid and the level of benefits received. Indeed, the level of contributions does not depend on the level of risks to cover for each beneficiary unlike insurance schemes.

Moreover, in France, the nature of the "*régime par répartition*" implies only to make an annual allocation of the contributions collected in the current year, among the benefits beneficiaries over the same period. As result, no present obligation exists on the current financial year for the future benefits.

In addition, social benefits paid by the Central Government are mainly financed by taxes (see the allowance for disabled persons, scholarships, State Medical Assistance,...), and according to the principle of universality of public funds, there is no link between the taxpayer and the beneficiary of social benefits.

As a consequence, the contributory or non-contributory nature of a social benefit scheme can not be retained for the accounting treatment of social benefits in the financial statements of public entities.

**Definition of the French "*régime par répartition*" :**

The French "*régime par répartition*" is characterised by the fact that the social benefits paid to beneficiaries during the year correspond to the distribution of contributions received from contributors over the same period. Moreover, the payment of these contributions does not guarantee a level of social benefits but only the right to payment of future social benefits. The level will depend on the legislative and regulatory framework that will exist at the time of the exercise of this right.

**Specific Matter for Comment 6 (following paragraph 4.80)**

*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 the reasons for your views.*

The global approach, as previously explained (comment 2), is not based on the qualification of a social benefit as an exchange transaction or not. As a consequence, this characteristic doesn't seem, to us, relevant in order to determine the social benefits' accounting treatment.



**Specific Matter for Comment 7 (following paragraph 4.91)**

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

- (a) In all cases;*
- (b) For contributory schemes;*
- (c) Never; or*
- (d) Another approach (please specify)?*

*Please explain the reasons for your views.*

In accordance with our reply on the comment 5, because of the lack of public revenue allocation and the principle of annual Parliamentary authorisation to raise taxes, no hedging asset is recorded in the balance sheet of Central Government.

Nevertheless, if other jurisdictions have hedging assets for their social benefits, we support a comprehensive presentation [answer (a)] for social benefits schemes (assets and liabilities of the scheme) in compliance with IPSAS 25<sup>6</sup>.

**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:*

- (i) A claim becomes enforceable; or*
- (ii) A claim is approved?*

*(b) Measure this liability at the cost of fulfillment?*

*Please explain the reasons for your views.*

As indicated in our response above in comment 2, only the global approach is compliant with the conceptual framework and IPSAS 19.

However, the social contract approach can economically justify the choice of the global approach. Indeed, payment of social benefits is conditioned to the capacity, for the public entity, to finance them. This implies the existence of resources from contributions or taxes.

These conditions justify that we do not retain as obligating event, for example, an election promise, a political program or the budget vote, as indicated in the conceptual framework in paragraph 5.24<sup>7</sup>.

<sup>6</sup> IPSAS standard 25 relating to employee benefits.

<sup>7</sup> Conceptual framework indicates in the paragraph 5.24 “*In the public sector, obligations may arise at a number of points. For example, in implementing a program or service :*

*☐ Making a political promise such as an electoral pledge;*

*☐ Announcement of a policy;*

*☐ Introduction (and approval) of the budget (which may be two distinct points); and*

*☐ The budget becoming effective (in some jurisdictions the budget will not be effective until an appropriation has been effected).*

**Specific Matter for Comment 9 (following paragraph 6.24)**

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

Insurance approach is not adapted to social benefits paid by public entities in France. Indeed, in our contributory social benefits' schemes, a cause and effect relationship is not established between the contribution level of each contributor and its level of risk.

Nevertheless, this insurance approach could be retained by jurisdictions in which it could be appropriate to their social benefits' schemes.

As we do not believe that the insurance approach is relevant for the accounting treatment of the social benefits, we do not propose answers to the remaining six specific matters for comment.

**Specific Matter for Comment 10 (following paragraph 6.35)**

*Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:*

*(a) Any expected surplus should be recognized over the coverage period of the benefit; and*

*(b) Any expected deficit should be recognized as an expense on initial recognition?*

*Please explain the reasons for your views.*

**Specific Matter for Comment 11 (following paragraph 6.37)**

*In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;*

*(c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;*

*(d) Offset the planned subsidy and 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 the reasons for your views.*

**Specific Matter for Comment 12 (following paragraph 6.43)**

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

*The early stages of implementation are unlikely to give rise to present obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to obligations that meet the definition of a liability."*

*Please explain the reasons for your views.*

**Specific Matter for Comment 13 (following paragraph 6.63)**

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

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

*Please explain the reasons for your views.*

**Specific Matter for Comment 14 (following paragraph 6.72)**

*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 the reasons for your views.*

**Specific Matter for Comment 15 (following paragraph 6.76)**

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?*

*Please explain the reasons for your views.*

## **Version française**

Cette consultation relative à la comptabilisation et à l'évaluation des prestations sociales (ci-après appelée CP) porte sur un sujet essentiel pour le secteur public. En effet, en comptabilité nationale<sup>8</sup>, les prestations sociales représentent en France 31,88% du PIB en 2014 (tous secteurs confondus), soit plus de 700 milliards d'euros. En comptabilité générale, l'État a ainsi enregistré, à son résultat, 35 milliards (CGE 2014) au titre des transferts au profit des ménages.

Néanmoins, le périmètre de la consultation semble restrictif au regard des enjeux liés aux dépenses d'intervention. Ces dépenses correspondent à des versements motivés par la mission de régulateur économique et social des entités publiques (dont principalement l'Etat), effectués dans le cadre d'opérations de distributions d'aides ou de soutien à des catégories de bénéficiaires identifiés (les ménages, les entreprises, les collectivités territoriales et les autres collectivités).

Ainsi, en France, le montant des dépenses d'intervention, au titre de la mission de régulateur économique et social de l'État, quelle que soit la catégorie du bénéficiaire, s'élève à plus de 143 milliards d'euros pour l'exercice 2014.

Au sein des dépenses d'intervention, les prestations sociales sont des transferts effectués au profit des ménages.

Aussi, nous préconisons que l'approche retenue pour les prestations sociales soit cohérente avec celle qui sera retenue pour l'ensemble des dépenses d'intervention notamment dans le cadre des travaux à venir relatifs aux « non-exchange transactions » (norme IPSAS 23 « revenue from non-exchange transactions »).

La DGFIP soutient l'approche « fait générateur de l'obligation » qui mérite néanmoins d'être complétée comme explicité dans la suite de notre réponse. En effet, cette approche globale s'avère, de notre point de vue, la seule pertinente et adaptée au secteur public tout en étant conforme au cadre conceptuel de l'IPSASB et aux normes IPSAS.

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<sup>8</sup> Source : Institut national de la statistique et des études économiques (INSEE).

**Question 1 (paragraphe 2.50 et suivants)**

À votre avis :

(a) le périmètre de ce CP (excluant les autres transferts en nature, les biens et services collectifs, et les autres transactions couvertes par d'autres IPSAS) est-il approprié?

(b) est-ce que les définitions proposées constituent un fondement pertinent pour la norme IPSAS relative aux prestations sociales?

Merci de justifier vos réponses.

**(a)** Oui, le périmètre de ce CP est approprié. Néanmoins, l'exclusion des autres transferts en nature et des biens et services collectifs est insuffisamment justifiée.

De notre point de vue, on pourrait justifier cette exclusion par le fait que la production de biens et services publics collectifs, bénéficiant à la collectivité, relève de l'activité normale des administrations publiques. Elle constitue la majeure partie de leurs dépenses de fonctionnement et d'investissement. Les biens et services collectifs se caractérisent par le fait que le bénéficiaire final de ces biens et services collectifs n'est pas le destinataire direct des dépenses réalisées par les administrations publiques (dépenses de personnel pour l'enseignement ou la défense, dépenses d'investissements pour les infrastructures routières et hospitalières, etc). Au cas d'espèce, les autres transferts en nature et les biens et services collectifs bénéficient globalement à la collectivité. En conséquence, il n'est pas possible d'identifier un bénéficiaire individualisé. Par ailleurs, le cadre conceptuel de l'IPSASB dispose que l'identification d'une partie externe est une indication de l'existence d'une obligation donnant lieu à un passif. (cf. § 5.18).

Au regard de ce qui précède, les autres transferts en nature et les biens et services collectifs ne peuvent donner lieu à l'existence d'une obligation.

Ainsi, les éléments ci-dessus justifient l'exclusion du périmètre du CP des autres transferts en nature et des biens et services collectifs.

**(b)** La distinction opérée en comptabilité nationale entre les autres transferts en nature et les biens et services collectifs nous paraît artificielle. En effet, d'après le CP, l'éducation et la santé relèveraient des autres transferts en nature, alors que la défense relèverait des biens et services collectifs. A notre sens, ces différentes notions ne recouvrent qu'une seule réalité économique, la production de biens et de services collectifs par les administrations publiques. En conséquence, l'utilisation de définitions issues de la comptabilité nationale ne nous semble pas pertinente du point de vue de la comptabilité générale, comme l'indique le cadre conceptuel de l'IPSASB qui pose la prédominance de l'économie de la transaction sur la qualification juridique de celle-ci afin de satisfaire le critère de représentation fidèle de l'information financière (cf. § 3.8 et 3.10)<sup>9</sup>.

Aussi, dans la suite de notre réponse, le terme de « biens et services collectifs » couvrira les deux notions (« autres transferts en nature » et « biens et services collectifs »).

<sup>9</sup> Cf. Le paragraphe 3.8 du Cadre conceptuel indique que « Le cadre conceptuel explique qu'une information utile doit être une représentation fidèle des phénomènes économiques ou autres qu'elle prétend représenter. Un seul et même phénomène économique ou autre peut être représenté fidèlement par de nombreuses façons. »

Et son paragraphe 3.10 précise que « La représentation fidèle, la substance sur la forme, la neutralité, la prudence et l'exhaustivité ont été identifiées comme des composantes de la fiabilité. Le cadre conceptuel utilise le terme « représentation fidèle » plutôt que celle de « fiabilité » pour décrire ce qui est sensiblement le même concept. En outre, il ne mentionne pas explicitement la substance sur la forme et la prudence en tant que composantes de la représentation fidèle. »



**Question 2 (paragraphe 3.4 et suivants)**

(a) Sur la base des chapitres 4 à 6, quelle approche soutenez-vous?

- (i) L'approche par le fait générateur de l'obligation;
- (ii) L'approche par le contrat social; ou
- (iii) L'approche par l'assurance.

Merci de justifier vos réponses y compris les avantages et les inconvénients de chaque option conceptuelle ; la mesure dans laquelle chaque option tient compte des objectifs attendus de l'information financière ; et comment les différentes options pourraient fournir des informations utiles sur les différents types de prestations sociales.

(b) D'autres approches devraient-elles être prises en compte selon vous pour élaborer cette norme ? Si oui, merci de décrire cette (ces) approche(s) en expliquant les avantages et inconvénients de chacune d'entre elles.

(a) L'approche « fait générateur de l'obligation » est la plus appropriée et la seule en conformité avec le cadre conceptuel de l'IPSASB pour la définition des passifs.

Néanmoins, il nous semble que cette approche est incomplète car elle devrait intégrer les passifs éventuels tels que définis dans la norme IPSAS 19<sup>10</sup>, qui doivent donner lieu à une information en annexe. En effet, l'annexe fait partie intégrante des états financiers et apporte une information indispensable aux lecteurs des états financiers.

Cette approche plus globale permettra de satisfaire à l'objectif de représentation fidèle des états financiers conformément au cadre conceptuel.

(b) Comme indiqué dans notre réponse ci-dessus au (a), une approche plus globale « fait générateur de l'obligation » incluant les passifs éventuels, nous semble plus pertinente car plus conforme aux dispositions du cadre conceptuel et à la norme IPSAS 19.

**Question 3 (paragraphe 3.4 et suivants)**

Après avoir examiné les trois options des chapitres 4 à 6, avez-vous connaissance de natures de prestations sociales qui ne seraient pas abordées dans le CP, et qui ne pourraient pas être traitées par l'une des 3 options énoncées dans le CP?

Dans l'affirmative, merci de les présenter et d'expliquer pourquoi les options énoncées dans le CP ne couvrent pas ces natures particulières de prestations sociales, de façon adéquate.

Conformément à notre réponse à la question 2, l'approche globale « fait générateur de

<sup>10</sup> En effet, la norme IPSAS 19 relative aux obligations, aux passifs éventuels et aux actifs éventuels dispose dans son § 20 qu'« En règle générale, toutes les provisions ont un caractère éventuel car leur échéance ou leur montant est incertain. Mais, dans le cadre de la présente norme, le terme "éventuel" est utilisé pour des actifs et des passifs qui ne sont pas comptabilisés car leur existence ne sera confirmée que par la survenance (ou non) d'un ou plusieurs événements futurs incertains qui ne sont pas totalement sous le contrôle de l'entité. En outre, le terme de "passif éventuel" est utilisé pour des passifs qui ne satisfont pas aux critères de comptabilisation. »

Par ailleurs, son § 100 précise qu'« À moins que la probabilité d'une sortie pour règlement soit très faible, l'entité doit fournir, pour chaque catégorie de passif éventuel à la date de reporting, une brève description de la nature de ce passif éventuel et, dans la mesure du possible : (a) une estimation de son effet financier, évalué selon les paragraphes 44 à 62 ; (b) une indication des incertitudes relatives au montant ou à l'échéance de toute sortie ; et (c) la possibilité de tout remboursement. »

l'obligation » incluant les éléments de passifs éventuels devant donner lieu à une information en annexe permet selon nous de couvrir l'ensemble des prestations sociales, exclusion faite des biens et services collectifs comme indiqué supra dans notre réponse à la question 1.

**Question 4 (paragraphe 4.69 et suivants)**

*À votre avis, comment faudrait-il définir, dans la future norme IPSAS, la naissance d'une obligation ? Est-ce lorsque :*

- (a) des événements clefs de la vie démocratique ont eu lieu;*
- (b) un certain nombre de critères d'éligibilité ont été satisfaits;*
- (c) des critères d'éligibilité pour recevoir la prochaine prestation ont été remplis ;*
- (d) Une demande a été approuvée ;*
- (e) une demande est exécutoire; ou*
- (f) à un autre moment.*

*Pour arriver à cette conclusion, merci d'expliquer les avantages et inconvénients de chaque approche abordée dans ce chapitre.*

*A votre avis, la future norme IPSAS devrait-elle envisager que le fait générateur d'obligation puisse être fonction de la nature de la prestation sociale ou du cadre juridique dans lequel cette prestation s'inscrit ?*

*Merci de justifier votre point de vue.*

A notre avis, un passif doit être comptabilisé au bilan lorsque les critères d'éligibilité relatifs à la prestation sociale sont satisfaits, par le bénéficiaire, sur l'exercice en cours.

Ainsi, les prestations sociales, dont le droit est conditionné à la satisfaction de critères par le bénéficiaire sur le ou les exercices ultérieurs (par exemple, critères liés au revenu, à la composition familiale, au taux de handicap, etc..) ne constituent pas des obligations de l'exercice en cours.

Néanmoins, il y a lieu de s'interroger sur leur qualification au regard de la définition des passifs éventuels et des conséquences en termes d'information à délivrer en annexe le cas échéant.

Les faits générateurs a) et b) ne peuvent donc être retenus.

En conséquence, selon les modalités d'attribution de la prestation, le fait générateur de l'obligation à prendre en compte est c) mais modifié comme suit :

**c) Les critères d'éligibilité pour recevoir la prochaine prestation ont été remplis sur l'exercice en cours.**

Ce fait générateur couvrira, de notre point de vue, la majorité des dispositifs.

Toutefois, dans certains cas, le dépôt d'une demande peut constituer un critère d'éligibilité pour une prestation sociale. Pour cette raison, le fait générateur de l'obligation à prendre en compte est c) amendé et d) également amendé comme suit :

**(d) Une demande a été approuvée déposée ;**

En effet, l'obligation actuelle est constituée dès lors que le bénéficiaire remplit les critères d'éligibilité, que l'administration ait ou non formalisé cette approbation.

Il nous semble que ces faits générateurs permettent de couvrir les différentes natures de prestations sociales.

**Question 5 (paragraphe 4.76 et suivants)**

*À votre avis, dans l'approche par le fait générateur de l'obligation, est-ce que ce fait générateur peut se produire plus tôt selon que les prestations soient de nature contributive ou non contributive ?*

*Merci de justifier votre point de vue.*

Comme indiqué précédemment, le fait générateur de l'obligation est la satisfaction des critères d'éligibilité sur l'exercice en cours par le bénéficiaire.

Certaines prestations sociales sont servies sans que ces dernières représentent la contrepartie du versement préalable d'une cotisation : ces prestations sont de nature « non contributive ». Il en est ainsi, par exemple en France, de l'allocation supplémentaire du Fonds national de solidarité.

Dans le cas des prestations de nature « contributive », le versement de la prestation est conditionné au versement préalable d'une cotisation. Néanmoins, il n'y a pas de lien entre le niveau des cotisations versées et le niveau des prestations reçues par chaque bénéficiaire. En effet, le niveau de cotisations n'est pas fixé selon le niveau de risques à couvrir pour chaque bénéficiaire contrairement aux régimes assurantiels.

Par ailleurs, en France, la nature des régimes dits « par répartition » implique uniquement de répartir annuellement les cotisations collectées sur l'exercice en cours aux bénéficiaires des prestations sur la même période. Il ne peut donc y avoir de passif à constater sur l'exercice en cours au titre de prestations futures.

De plus, les prestations sociales versées par l'État sont principalement financées par l'impôt (cf. allocation adulte handicapé, bourses, aide médicale de l'État, ...), et conformément au principe d'universalité des fonds publics, il n'existe pas de lien entre le contribuable et le bénéficiaire des prestations sociales.

En conséquence, le caractère contributif ou non du financement d'une prestation sociale ne peut être retenu pour déterminer le traitement comptable des prestations sociales, dans les états financiers des entités publiques.

#### **Définition de la notion de « Régime par répartition » en France**

Le régime par répartition en France se caractérise par le fait que les prestations sociales versées aux bénéficiaires sur l'exercice correspondent à la répartition des cotisations reçues des cotisants sur la même période. Par ailleurs, le versement de ces cotisations ne garantit pas un niveau de prestations sociales mais uniquement le droit au versement de prestations futures dont le niveau sera déterminé en fonction du cadre législatif et réglementaire qui existera au moment de l'exercice de ce droit.

#### **Question 6 (paragraphe 4.80 et suivants)**

À votre avis, est-ce qu'une prestation sociale qualifiée de transaction avec contre-partie doit être comptabilisée :

- (a) en application de la future norme IPSAS sur les prestations sociales; ou
- (b) dans une autre norme IPSAS?

Merci de donner des exemples de prestations sociales qualifiées de transactions avec contrepartie et d'expliquer votre point de vue.

L'approche globale « fait générateur de l'obligation » ne repose pas sur la qualification d'une

prestation sociale en tant que transaction avec ou sans contrepartie. En conséquence, cette caractéristique ne nous semble pas pertinente pour déterminer le traitement comptable applicable aux prestations sociales.

**Question 7 (paragraphe 4.91 et suivants)**

*À votre avis, en vertu de l'approche par le fait générateur de l'obligation, quand faudrait-il que les actifs du régime soient inclus dans la présentation d'un régime de prestations sociales :*

- (a) Dans tous les cas ;*
- (b) Pour les régimes contributifs ;*
- (c) Jamais ; ou*
- (d) Une autre approche (à préciser) ?*

*Merci de justifier votre point de vue.*

Conformément à notre réponse à la question 5, en raison de l'absence d'affectation des recettes publiques et du principe de l'annualité de l'autorisation parlementaire pour lever l'impôt, aucun actif de couverture n'est enregistré au bilan de l'État.

Néanmoins, si dans d'autres juridictions, des actifs sont affectés à la couverture de leurs prestations sociales, nous sommes en faveur d'une présentation globale [cf. réponse (a)] des régimes de prestations sociales (actifs et passifs du régime) conformément aux dispositions de la norme IPSAS 25<sup>11</sup>.

**Question 8 (paragraphe 5.38 et suivants)**

*À votre avis, en vertu de l'approche par le contrat social, une entité du secteur public pourrait-elle :*

- (a) Reconnaître l'obligation au titre des prestations sociales au moment où :*
  - (i) Une demande devient exécutoire ; ou*
  - (ii) Une demande a été approuvée ?*
- (b) Mesurer ce passif au coût de la prestation ?*

*Merci de justifier votre point de vue.*

Comme indiqué dans notre réponse à la question 2, seule l'approche globale « fait générateur de l'obligation » est en conformité avec le cadre conceptuel et la norme IPSAS 19.

Toutefois, l'approche « contrat social » permet de justifier économiquement le choix de l'approche « fait générateur de l'obligation » car le maintien des régimes de prestations sociales est conditionné à la capacité de les financer et donc à l'existence de ressources issues de cotisations ou d'impôts.

*Dans ces conditions, cela justifie que l'on ne retienne pas comme fait générateur d'une obligation actuelle, par exemple, une promesse électorale, un programme politique ou le vote du budget, comme indiqué dans le cadre conceptuel au paragraphe 5.24<sup>12</sup>.*

<sup>11</sup> Norme IPSAS 25 relative aux avantages du personnel.

<sup>12</sup> Le cadre conceptuel indique dans le paragraphe 5.24 que « Dans le secteur public, les obligations peuvent survenir à différents moments. Par exemple, pour la mise en œuvre d'un programme ou d'un service :

- faire une promesse politique comme un engagement électoral ;

**Question 9 (paragraphe 6.24 et suivants)**

*Êtes-vous d'accord avec les conclusions de l'IPSASB sur l'applicabilité de l'approche par l'assurance?*

*Merci de justifier votre point de vue.*

L'approche assurantielle n'est pas adaptée aux prestations sociales versées par des entités publiques en France. En effet, nos régimes contributifs de prestations sociales ne prévoient pas que le niveau de cotisations de chaque cotisant soit fonction de son niveau de risque, contrairement au système assurantiel.

Néanmoins, le modèle de l'assurance pourrait être retenu pour les juridictions dans lesquelles il serait adapté à leurs régimes de prestations sociales.

Considérant que l'approche assurantielle n'est pas adaptée au traitement comptable des prestations sociales, nous ne proposons pas de réponse pour les questions 10 à 15.

**Question 10 (paragraphe 6.35 et suivants)**

*Selon l'approche par l'assurance, êtes-vous d'accord, si une prestation de sécurité sociale est entièrement financée par des contributions :*

*(a) que tout excédent prévu doit être constaté sur la période de couverture de la prestation ; et*

*(b) que tout déficit attendu devrait être comptabilisé comme une charge à la comptabilisation initiale ?*

*Merci de justifier votre point de vue.*

**Question 11 (paragraphe 6.37 et suivants)**

*À votre avis, selon l'approche assurantielle, quel est le traitement comptable approprié pour le déficit attendu d'une prestation de sécurité sociale qui n'est pas entièrement financée par des contributions :*

*(a) reconnaître une charge lors de la comptabilisation initiale ;*

*(b) reconnaître le déficit en charges sur la période de couverture de la prestation ;*

*(c) compenser la subvention d'équilibre et le passif dès lors que cette subvention est issue d'une autre entité du secteur public ;*

*(d) compenser la subvention d'équilibre prévue et le passif indépendamment du fait que ce cette subvention soit issue d'une autre entité du secteur public ou d'une affectation de l'impôt; ou*

- *annonce d'une politique ;*
- *introduction (et approbation) du budget (qui peut constituer deux points distincts) ; et*
- *l'exécution du budget (dans certaines juridictions le budget ne sera pas exécuté tant qu'un crédit n'a pas été affecté).*

*Les premières étapes de la mise en œuvre ne sont pas susceptibles de donner lieu à des obligations actuelles qui répondent à la définition d'un passif. Les étapes ultérieures, comme les demandes répondant aux critères d'admissibilité pour le service à fournir, peuvent donner lieu à des obligations qui répondent à la définition d'un passif. »*

*(e) autre approche?  
Merci d'expliquer votre point de vue.*

**Question 12 (paragraphe 6.43 et suivants)**

*À votre avis, en vertu de l'approche par l'assurance, une entité devrait-elle utiliser, pour évaluer les passifs, le coût de la prestation ou une hypothèse de prix de base ?  
Merci de justifier votre point de vue.*

**Question 13 (paragraphe 6.63 et suivants)**

*Convenez-vous que, dans les cas où le lien entre cotisations et prestations n'est pas évident, les critères permettant de déterminer si l'approche par l'assurance est appropriée sont:*

- *La substance du régime est celle d'un régime d'assurance sociale ; et*
- *Il y a un lien clair entre les prestations versées par un régime de sécurité sociale et les recettes qui financent le régime.*

*Si vous n'êtes pas d'accord, merci de préciser les critères qui devraient être utilisés d'après vous.*

*Merci de justifier votre point de vue.*

**Question 14 (paragraphe 6.72 et suivants)**

*Êtes-vous favorable à la proposition qui indique, selon l'approche de l'assurance, que le taux d'actualisation utilisé pour refléter la valeur temporelle de l'argent doit être déterminé de la même façon que dans la norme IPSAS 25 ?*

*Merci de justifier votre point de vue.*

**Question 15 (paragraphe 6.76 et suivants)**

*Selon l'approche de l'assurance, soutenez-vous les propositions pour l'évaluation ultérieure (à la clôture) énoncée aux paragraphes 6.73-6.76 ?*

*Merci de justifier votre point de vue.*

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CANADA

Lausanne, January 11, 2016

## Swiss Comments to

## Consultation Paper Recognition and Measurement of Social Benefits

Dear Stephenie,

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to Consultation Paper Recognition and Measurement of Social Benefits. We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments to the Consultation Paper in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP



Prof Nils Soguel, President



Evelyn Munier, Secretary

## Swiss Comment to

## CP Recognition and Measurement of Social Benefits

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## 1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPCP has discussed the *Consultation Paper Recognition and Measurement of Social Benefits* and comments as follows.

## 2. General Remarks

The SRS-CSPCP regards this CP basically as positive. The issue of social benefits is complex. Therefore the text is also often difficult to figure out. But the paper is organized comprehensibly and clearly. This CP provides us with a consistent basis for a future standard on social benefits. Such a consistent basis is necessary since the amounts of liabilities with respect to social benefits can be extremely high. A future standard must offer feasible solutions, which best reflect the economic reality, even if one already knows that it may sometimes be very difficult.

With that in mind and in view of all the possible options, which still remain to be decided upon, at this point the view expressed by the SRS-CSPCP cannot be regarded as final. As a consequence, the SRS-CSPCP reserves the right to reconsider its position regarding the answer it gives to the following specific matters for comment. As a matter of fact, its position may be revised after the IPSASB launches the next step in the discussion for the drawing up of a standard about social benefits.

### 3. Preliminary View 1 – Scope and Definitions

**Social Benefits** are benefits provided 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.

Social benefits are provided to mitigate social risks in the following circumstances:

- 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 in the event of the occurrence of the specified social risks; and
- Households could make contributions to a scheme to accumulate entitlements to future benefits, with the benefits being provided following the occurrence of the specified social risk.

(b) **Social Benefits in Cash** are social benefits paid in cash, by or on behalf of a public sector entity, 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 or on behalf of 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 or on behalf of 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** is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).

(f) **Social Security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.

(g) **Social Assistance** is the provision of social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.

#### 3.1. 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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

Please explain the reasons for your views.

- (a) In its Comments on the *Consultation Paper IPSASs and Government Finance Statistics Reporting Guidelines* of December 2012 the SRS-CSPCP stated that convergence of IPSASs with the GFS is desirable. Therefore the SRS-CSPCP welcomes the idea that the scope of this CP should be consistent with the definition of social benefits in Government Finance Statistics (GFS). The scope of this CP is actually in line with the definition of social benefits under GFS. This is something the SRS-CSPCP strongly supports.

It would, however, like to point out that the content of the box "Employment related Social Insurance" in Diagram 2 (page 26) should be more specific. The wording should better reflect that this box concerns the case in which the public entity (e.g. a government) acts as employer. In other words, the considerations listed in the text (§ 2.34 or better § 2.18) should be better emphasised in the diagram.

- (b) The SRS-CSPCP is of the opinion that the proposed definitions provide an appropriate basis for a standard on social benefits.

#### 4. Preliminary View 2 – Identification of approaches

*The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.*

##### 4.1. Specific Matter for Comment 2

*(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

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

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

*(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.*

- (a) The SRS-CSPCP would not like to commit itself to one single approach. Indeed, the choice of approach over another very much depends on the nature of the considered social benefit. On the whole the SRS-CSPCP, like the IPSAS Board, believes that Approaches 1 and 3 should be used. To name the advantages and disadvantages of the individual approaches is a difficult task. To a great extent they depend on the system which actually provides social assistance and social security. Consequently, the comments below are to be considered with care, when it is a question of determining which option should be applied for which system. It is common to all approaches that their use is relatively complicated; but this is a result of the complexity of the issue. As mentioned the SRS-CSPCP, like the IPSAS Board, is of the opinion that the second approach (social contract approach) should not be used. Therefore, the question arises how future social benefits under the pay-as-you-go system can be recognised. This issue arises above all at the level of the central government (Confederation), where the old age and survivors' pension scheme (AHV) together with the disability insurance scheme (IV) are substantial financial issues.

##### *(i) The obligation event approach*

This approach has the advantage that the resulting liability can be recognized at various times. However, this gives rise to a very wide range in the estimate of the amount of the liability, which in turn is a disadvantage. In addition, no particular attention is given to the financing aspects, because only liabilities are recognized.

(ii) *The social contract approach*

This approach sounds really appealing, but is difficult to implement. In addition, it is really justified only for social benefits, for which the pay-as-you-go system applies.

(iii) *The insurance approach*

*This approach could be used for various social insurances in Switzerland, because they are only financed by contributions (schemes primarily financed by contributions).*

(b) The SRS-CSPCP does not wish any further approaches to accounting for social benefits.

#### 4.2. Specific Matter of Comment 3

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

The SRS-CSPCP is not aware of any additional social benefits, which should be discussed in the CP.

## 5. Obligating Event Approach

#### 5.1. Specific Matter for Comment 4

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

- (a) Key participatory events have occurred;*
- (b) Threshold eligibility criteria have been satisfied;*
- (c) The eligibility criteria to receive the next benefit have been satisfied;*
- (d) A claim has been approved;*
- (e) A claim is enforceable; 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 the reasons for your views.*

The SRS-CSPCP is of the opinion that the *obligating event* determines at which point in time a liability should be recognised in the financial statements. None of the options should be discarded. However the chosen option should provide the best cost-benefit ratio and at the same time fulfil the *qualitative characteristics of the Conceptual Framework*. Thus none of the options should be selected arbitrarily. The SRS-CSPCP proposes that a liability should, where possible, be estimated at point (a). If this is not possible (because of an unfavourable cost-benefit ratio or because the *qualitative characteristics* are not fulfilled), point (b) can be considered and so on until point (e). Following such a procedure, while arbitrariness in the choice of the point of recognition cannot completely be excluded, it is at least reduced. The SRS-CSPCP does not see further points in time where a liability could be recognized, and therefore option (f) drops out.

## 5.2. Specific Matter for Comment 5

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

*Please explain the reasons for your views.*

The SRS-CSPCP is of the opinion that the *obligating event* does not depend on the way social benefits are financed. Consequently it is irrelevant to identify the obligating event whether the social benefit concerned is financed with or without contributions.

## 5.3. Specific Matter for Comment 6

*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 the reasons for your views.*

The SRS-CSPCP prefers Solution (a), i.e. social benefits with a specific exchange transaction should also be dealt with in a future new standard on social benefits. There are some instances for that in Switzerland : the obligatory accident insurance and (very specific to Switzerland) the military insurance, in which everyone is insured, who performs military, civil defence or community service or takes part in assignments of the Swiss Corp for Humanitarian Aid and the Confederation's peace keeping missions and good services.

## Preliminary View 3 – obligation event approach (cost of fulfillment)

*Under the obligating event approach, 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 benefits.*

## 5.4. Specific Matter for Comment 7

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

- (a) In all cases;*
- (b) For contributory schemes;*
- (c) Never; or*
- (d) Another approach (please specify)?*

*Please explain the reasons for your views.*

The SRS-CSPCP believes that assets associated with social benefits, whatever the insurance system, must be recognized in the financial statements. It therefore supports Option (a). However, depending on the approach used (obligation event approach, social contract approach, insurance approach), this option is expected to be difficult to implement.

## 6. Social Contract Approach

### 6.1. 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:*

*(i) A claim becomes enforceable; or*

*(ii) A claim is approved?*

*(b) Measure this liability at the cost of fulfillment?*

*Please explain the reasons for your views.*

The SRS-CSPCP is unable to find a meaningful answer to this question. But as this approach is not approved, the answer is otiose.

## 7. Insurance Approach

### 7.1. Specific Matter for Comment 9

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

The SRS-CSPCP is of the opinion that the measurements in the *insurance approach* are complicated. Social benefits are not contracts. Instead, in many cases, there is personal right grounded on a legal basis, e.g. obligatory non-occupational accident insurance.

Therefore SRS-CSPCP agrees with the IPSAS Board, which in paragraph 6.24 states that this approach is not appropriate for all social benefits, but can be used only in conjunction with another approach.

### 7.2. Specific Matter for Comment 10

*Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:*

*(a) Any expected surplus should be recognized over the coverage period of the benefit; and*

*(b) Any expected deficit should be recognized as an expense on initial recognition?*

*Please explain the reasons for your views.*

In the opinion of the SRS-CSPCP over a long period surpluses and deficits should balance out and therefore the same method must be used in recognising them. The SRS-CSPCP is of the opinion that the insurance approach should be designed in accordance with the standards for private insurance contracts applicable in the future (successor standard to IFRS 4).

### 7.3. Specific Matter for Comment 11

*In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;*
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;*
- (d) Offset the planned subsidy and 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 the reasons for your views.*

The SRS-CSPCP is of the opinion that (a) is the correct way. This is consistent with the position adopted by the SRS-CSPCP that future tax revenues may not be recognized and therefore also not set off; on the other hand benefit obligations should be accrued. Alternative (b) drops out, because the SRS-CSPCP does not believe that the accrual is dependent on the way of financing (cf. also response to Question 5). Alternatives (c) and (d) drop out, because future tax revenues may not be recognized.

The SRS-CSPCP wishes that the IPSAS Board explains in a future ED with the aid of an example how these alternatives are to be applied.

### 7.4. Specific Matter for Comment 12

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

*Please explain the reasons for your views.*

The SRS-CSPCP is of the opinion that the liabilities should be measured on the basis of *fulfillment costs*, because there is no active market.

### 7.5. Specific Matter for Comment 13

*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 is:*

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

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

*Please explain the reasons for your views.*

The SRS-CSPCP agrees with this statement.



## 7.6. Specific Matter for Comment 14

*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 the reasons for your views.*

The SRS-CSPCP supports this proposal. In IPSAS 25 a method has already been proposed. Therefore there is no reason to determine the discount rate in a different way.

## 7.7. Specific Matter for Comment 15

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?*

*Please explain the reasons for your views.*

The SRS-CSPCP agrees in principle with most proposals in paragraphs 6.73 to 6.76, apart from the last *bullet point* in paragraph 6.73: changes to the discount rate should not be recognized in the statement of financial performance, but, similarly to IPSAS 25, over equity (or OCI).

## 8. Additional Comments

*Complements for appendix A Examples of Social Benefits: paragraphs A.29 to A.35 (retirement benefits) and A.51 to A.59 (unemployment insurance)*

A.29 : *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. **It is a state-run scheme. Non-working and self-employed people must also compulsorily contribute to it. The Swiss central government finances 19.5% of the outgoing annual payments***

A.30 : *The pensions paid are mainly based on an individual's contribution record. **However other factors are also taken into account to set the amount of the benefits.** 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.31 : *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. **Early withdrawal is possible from 62 (women) resp. 63 (men). Withdrawal can be postponed until the age of 70. In such cases the retirement pension are actuarially reduced or increased.***

A.34 : *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 such difficulties, **a smoothing fund (buffer fund) has been established. Presently it amounts to the equivalent of more than 100% of the annual outgoing payments.** The Swiss Confederation also contributes 19.55 % of the outgoing payments. ~~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 **contribution 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 scheme **and an amount of gambling casinos.***

*A.35 : 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. **However a smoothing fund has been established that currently amounts to more than 100% of the annual outgoing payments. In case the financial situation would get worse, the Executive should submit to the Parliament the necessary amendment to the existing act in order to balance the budget of the scheme.***

*A.53: The unemployment insurance is financed through mandatory contributions from employers and employees. It is funded on a « pay-as-you-go » basis, analogous to Swiss old-age and survivors' insurance (A.34)*

*A57: ...which ~~collect~~ receive contributions and pay benefits. Some offices are operated by state ~~or local~~ government, trade unions and employer's organisations.*

*A58: ~~There are no contributions financed through tax revenues.~~ Federal and state governments contribute to the cost of employment services and labour market measures. However, federal ~~and state~~ governments have provided loans to the compensation ~~bodies~~ body during...*

*A59. ...is responsible for the employment insurance and acts as compensation body.*

Lausanne, November 9, 2015



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Paris, December 18, 2015

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**Re: Response to Consultation Paper – Recognition and Measurement of Social Benefits**

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Consultation Paper Recognition and Measurement of Social Benefits published in July 2015. The issue addressed in this CP is at the heart of the public sector and the work performed so far is of critical importance.

Broadly, the CNoCP approves the obligating event approach retained in the Consultation Paper (CP), but only to the extent that the existence of liabilities is confirmed.

The CNoCP is of the view that, in several instances of social benefits transactions, no liability for future social benefits should be recognised. In that sense, within the specific context of social security and public spending in France, the CNoCP would like to express some reservations and concerns. Namely, a critical reservation that we develop in the appendix to this letter is that the CP seems to assume the existence of a liability for future payments in all economic circumstances. Conversely, we believe that the IPSAS Board should explore further whether economic circumstances should lead systematically to the existence of liabilities.

As for the scope, we strongly believe that the rationale for the exclusion of collective goods and services should be clarified and strengthened. We understand that the CP designs the provision of protection against social risk as the drawing line between social benefits and collective goods and services. In our opinion, that whether public spending is a protection against social risk is insufficient to set a limit that would justify different accounting treatments. In addition, we are concerned that, with a view to apply the relevant accounting treatment, deciding whether public spending is collective goods and services or social benefits will raise practical issues. Therefore, we would encourage the IPSAS Board to further explore in what collective goods and services are different from other social benefits from an accrual accounting perspective rather than from a GFS perspective.

Moreover, the absence of linkage between the scope section (section 2) and the approaches proposed (sections 3 onwards) leads us to wonder if scope definitions and classification should be aligned with GFS's. In other words, we question whether the proposed definitions and classification are operative from an accrual accounting perspective. Therefore, we would encourage the IPSAS Board to clarify the definitions so that they better match the accrual accounting concepts and allow drawing a clear dividing line between those social benefits that require liability recognition and those that do not.

Eventually, for the benefit of a comprehensive analysis, we strongly support the view that a first step should be the identification of the reporting entity to which rights and obligations are attached. We believe that this is critical in the public sector where decision-making on public spending usually involves government at high level; then only, implementation is assigned to various public entities. Such an approach would open up the discussion on the need to provide information on elements that are not yet liabilities of a reporting entity.

As a conclusion, we find it difficult to comment on the CP because we think that the way it is structured does not fully support the rationale for the approaches set in sections 3 to 6. Additionally, we believe that the proposals incompletely describe such mechanisms as "répartition"<sup>1</sup> mechanisms that may also exist in other parts of the world. Still, we would favour the obligating event approach and the recognition of a liability for social benefits in the reporting period, most likely at point (c) "the eligibility criteria to receive the next benefit have been satisfied", though we would like to stress that the recognition point would depend on facts and circumstances. Eventually, besides the need to determine the point at which a liability should be recognised, we would suggest that the IPSAS Board should envisage what information on social

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<sup>1</sup> See the description of "répartition" in the appendix.

benefits over future periods should be provided in the notes and how such information should articulate with other information, for instance, that provided in the long term sustainability report.

Details of our response to the specific matter for comment are set out in the appendix.

Yours sincerely,



Michel Prada





## APPENDIX

### Description of the “répartition” mechanism<sup>2</sup> in France

Before we get into the detailed questions, we take the opportunity to present the mechanism under which social benefits operate in France, and possibly in other parts of the world as well. In the description below, we focus on the French social security scheme.

We do strongly support the view that a comprehensive knowledge of how the provision of social benefits is organised in a jurisdiction is a first critical step in the design of an appropriate accounting treatment, together with the identification of the reporting entity to which rights and obligations to serve social benefits are attached.

The French social security scheme does not, from a legal point of view, refer to any kind of contractual binding arrangement: it is a purely one-sided mechanism enforced by law, that may be modified by law at any time, under the only condition that such law, voted by Parliament, remains compliant with the French Constitution.

The features of the “répartition” mechanism in France are as follows:

- (a) Compulsory membership to the scheme<sup>3</sup>, root to the contributory and to the non-contractual natures of the scheme;
- (b) Contributions amounts not fully computed in relation to the risk profile. This is a key difference with private insurance schemes;
- (c) No direct relationship between the contributions paid and the social benefits received;
- (d) Contributions received in a period serve benefits due in the same period;
- (e) Periodic revision of the overall balance of the schemes; and
- (f) Adjustments to maintain the balance generally enacted by law annually.

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<sup>2</sup> We retain the word “répartition” throughout the whole document to refer to the mechanism under which social benefits operate in France.

<sup>3</sup> It should be noted that in the context of the “répartition” mechanism in France, the use of the English word “scheme” may imply the existence of a contractual binding arrangement; conversely, “scheme” refers in this document to a mechanism enforced by law.



### *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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?*

*Please explain the reasons for your views.*

#### **(a) Scope of the CP**

While we fully support the scope exclusion of transactions that are covered by other IPSASs, we have reservations as to the current rationale for the exclusion of collective goods and services from the scope of the project. Based on the current proposals, we find it difficult to assess whether it is relevant to exclude collective goods and services from the scope of the project. Our main concern is that scoping out collective goods and services might entail different accounting treatments where in substance transactions are similar from the accrual accounting perspective of establishing a reporting entity's financial statements.

We observe that such exclusion is currently based on definitions from GFS. More specifically, collective goods and services are not considered within this project because they do not meet the definition of social risk. We understand the need in the national accounts to segregate social benefits from collective goods and services provided to an entire population that cannot be individualised. The aim is to insure proper matching and eliminations when it comes to aggregating market and non-market production. However, we are unsure that segregating public spending depending on the nature of those who benefit from such spending (individuals or households versus a group of beneficiaries) is relevant for the purpose of accrual accounting, primarily destined to reflect inflows and outflows derived from the rights and obligations of a reporting entity.

At this point, we struggle to identify differences between social benefits as defined in the project and collective goods and services. To add to the confusion, we note that the Consultation Paper *Social Benefits: Issues in Recognition and Measurement*, published in March 2008, describes collective goods and services using references to social benefits and social risks in its paragraph 17:

*Collective goods and services are **social benefits** in the form of goods and services provided to the entire population or to a particular segment of the population in any jurisdiction, to protect the population or one of its segments against certain **social risks**. Collective goods and services include national defence and most aspects of the criminal justice system.*  
[Emphasis added]





Therefore, from an operative point of view, while we fully support bringing in definitions to help setting up the scope, we are unsure that attaching the notion of social risk to that of social benefits is workable. For instance, one could reason that absent the provision of defence, a population could turn to hiring private security which would adversely affect its welfare by reducing its income: as such, defence as a collective good would meet the definition of social benefits mitigating the effect of social risk. Whether providing protection against social risk is a relevant criterion is all the more important that it is assumed that such criterion drives the accounting treatment.

Though we do fully understand that, from a practical standpoint, dealing only with social benefits defined by reference to social risk, is a simpler way to address a complex issue, we think that it is too weak a rationale to be the starting point of the analysis.

Therefore, for the sake of clarity, we would encourage the IPSAS Board to further explore in what collective goods and services are different from other social benefits from an accrual accounting perspective rather than from a GFS perspective.

#### **(b) Proposed definitions**

With respect to the proposed definitions, as currently drafted, we struggle to see the link between the proposed definitions and the approaches to account for social benefits. We would therefore recommend that the development in section 2 should be better articulated with sections 3 to 6 that expose the proposed approaches.

Generally, we observe that public spending may not cover the same economic reality across different jurisdictions. In some jurisdictions for instance, contracts are the prevailing source of operations, whereas in other jurisdictions, laws and regulations are the overall framework under which the central government acts. Usually, it is a mixture of both to varying degrees; however, we believe that listing the prevailing features of the systems under which governments might operate should be the primary focus of the scope section of the project. For that matter, our view is that the description<sup>4</sup> of the economic circumstances that could give rise to a liability for social benefits is of critical importance:

#### **General comment on the structure of the CP**

We would like to call the IPSAS Board's attention on the need for a clearer articulation of the scope and approaches sections. For instance, the insurance approach is described to apply to systems that are contributory rather than funded through general taxation. Because whether a

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<sup>4</sup> See paragraph 2.43 of the Consultation Paper





scheme is contributory in nature would then drive the approach that should be retained, this might lead to the thinking that it is a critical feature of a social security system. However, we note that the contributory<sup>5</sup> nature of a social security scheme is neither discussed at length nor is identified as a feature of social benefits in the scope section. It is only discussed as part of the obligating event approach to determine whether social benefits from contributory systems should be treated differently<sup>6</sup>.

Identifying the main features of the social security (and assistance) systems and analysing the existence of obligations would help design relevant accounting treatments.

### ***Specific matter for comment 2***

*(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

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

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

*(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.*

### **(a) Approach supported**

We agree on the obligating event approach as it directly derives from the conceptual framework; in that sense, we believe it is not an approach as such, rather, it should be considered the overall framework of the analysis.

In addition, though we commend the efforts made to identify the different approaches, we observe that a thorough analysis of what an obligation is and whether it exists in the context of social benefits is missing.

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<sup>5</sup> Further development on the contributory nature of a scheme is provided in Specific matter for comment 5 below.

<sup>6</sup> See paragraphs 4.70-4.76 of the Consultation Paper



We could also see merits to the social contract approach as it reflects the substance of public spending operations in various jurisdictions. However, we believe that such an approach should be assessed against the need for the existence of a contractual relationship, which seldom occurs in the public sector where public spending is considered.

Additionally, in some jurisdictions, the social contract may not be based on an agreed level of contributions and benefits to be collected and distributed in the future. For instance with respect to old age benefits, the policymaker is solely accountable for sustaining the intergenerational solidarity principle, which is insufficient in itself to generate a liability or a contingent liability for future benefits beyond the reporting period.

In our opinion, sustaining the intergenerational solidarity principle does not meet the definition of a liability of the reporting entities that provide the social benefits.

For that matter, identifying the reporting entities that bear rights and obligations attached to the provision of social benefits is a significant step in the whole analysis, from an accrual accounting perspective. We find that the proposed approaches fail to address that critical issue.

**(b) Additional approach to accounting for social benefits that the IPSASB should consider in developing an IPSAS**

Irrespective of the existence of a liability or a contingent liability, we would like to point out that we would support providing prospective information at an appropriate level<sup>7</sup>, consistent with the decision making level for the mechanism, involving relevant aggregation of reporting entities.

Consequently, we believe that it is critical that the reporting entity should be clearly identified to determine whose rights should or should not be recognised and in the financial statements of what reporting entity, provided rights exist at the very level of the reporting entities.

Therefore we would encourage the IPSAS Board to set up a step approach to account for social benefits that should first address the identification of the reporting entity that bears the rights and obligations related to the provision of social benefits.

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<sup>7</sup> The nature and location of the prospective information are currently being discussed at the CNoCP, with a preference for presentation in a supplementary document.



### ***Specific matter for comment 3***

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

Because the obligating event approach is a mere application of the conceptual framework, we believe that it should be self-sufficient to analyse the various existing systems that generate social benefits in France.

Therefore we are not aware of any social benefits transactions that could not be addressed by the obligating event approach.

### ***Specific matter for comment 4***

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

- (a) Key participatory events have occurred;*
- (b) Threshold eligibility criteria have been satisfied;*
- (c) The eligibility criteria to receive the next benefit have been satisfied;*
- (d) A claim has been approved;*
- (e) A claim is enforceable; 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 the reasons for your views.*

Liability recognition involves an analysis of facts and circumstances to assess whether the obligation meets the definition of a liability in the Conceptual Framework. As far as





“repartition” mechanisms are concerned, we are of the view that for those identified reporting entities that provide social benefits to the public, obligations that should be reflected in the financial statements exist for the reporting period only.

As for the appropriate timing for recognition for “répartition” mechanisms, we believe that (c) “the eligibility criteria to receive the next benefit have been satisfied” and (d) “a claim has been approved” could be relevant recognition points depending on facts and circumstances.

In most cases, recognition of a liability for social benefits served in the period would occur at point (c) “the eligibility criteria to receive the next benefit have been satisfied”.

We observe that point (b) “threshold eligibility criteria have been satisfied” would trigger the need to reflect on the relevance of providing information on projections for social benefits over future periods in the notes: what information and how such information should articulate with other information, for instance that provided in the long term sustainability report.

#### ***Specific matter for comment 5***

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

*Please explain the reasons for your views.*

We strongly advocate the view that the contributory nature of a “répartition” mechanism does not give rise to a constructive obligation. Social benefits derive from public money to which no direct exchange is attached: contributions made in a reporting period are unrelated to the social benefits provided *in fine* to those beneficiaries that contributed in earlier reporting periods. It should also be noted that contributions are not set up/computed to cover individual risk.

In addition, an unfunded “répartition” mechanism is bound to be controlled on an annual basis only in order to properly monitor its balance and remain accountable for the appropriate use of contributions. As such, contributions cannot give rise to future expectations, and no present constructive obligation for future payments should be recognised on the date the financial statements are established.



### ***Specific matter for comment 6***

*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 the reasons for your views.*

We note that the approaches and the accounting treatments proposed for social benefits do not rely on the exchange/non-exchange nature of the transactions. Therefore, we believe that a future standard on social benefits should not elaborate further on the exchange/non-exchange nature of the transactions.

### ***Specific matter for comment 7***

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

- (a) In all cases;*
- (b) For contributory schemes;*
- (c) Never; or*
- (d) Another approach (please specify)?*

*Please explain the reasons for your views.*

As far as plan assets are concerned, we would favour an approach that would primarily fully comply with the definition of assets in the conceptual framework.

Based on our knowledge of a “répartition” social security system, no scheme assets are accumulated: in that sense, schemes are unfunded. Added to the facts that the balance of the schemes are assessed on an annual basis with actions taken annually through enactment of a law (namely to assert the level of contributions), and that the reporting entity is designed only to manage and implement the policy requirements on an annual basis, there is no present obligation for the provision of social benefits in the future, nor a right to receive future contributions.

Therefore, the contributory nature of a scheme does not automatically translate into a scheme asset.



### ***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:*

*(i) A claim becomes enforceable; or*

*(ii) A claim is approved?*

*(b) Measure this liability at the cost of fulfillment?*

*Please explain the reasons for your views.*

Though we do not fully support the social contract approach, with respect to the point at which an obligation should be recognised, if it exists, we believe that the obligating event approach is self-sufficient to assess whether recognition should be when a claim becomes enforceable or is approved.

### ***Specific matter for comment 9***

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

The "répartition" system, as described at the beginning of this appendix, is contributory in nature. However, we do not believe that the system is akin to insurance contracts in that contributions are not fully computed in relation to the social risk for each beneficiary. We believe that this is a striking difference with the computation of premiums in insurance contracts and consequences should be reflected through different accounting treatments.

In addition, insurance schemes are bound to support their liabilities with plan assets; under the "répartition" system, there is no such accumulation of assets as the policymaker decided that the balance of the "répartition" system depends only on decisions made on an annual basis.

Because we do not believe that the accounting for insurance contracts should be applied to the accounting for social benefits, we do not propose answers to the remaining six specific matters for comment.





Treasury Board of Canada  
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Dear Sir/Madam:

**SUBJECT: Consultation Paper: Recognition and Measurement of Social  
Benefits**

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Thank you for the opportunity to comment on the Consultation Paper:  
*Recognition and Measurement of Social Benefits* issued in July 2015.

The Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of Chartered Professional Accountants of Canada (CPA Canada). The government of Canada is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS are regarded as an important secondary source of generally accepted accounting principles.

Our comments with respect to the preliminary views and specific matters for comment in the Consultation Paper (CP) are included in the attached appendix.

We thank you again for providing the opportunity to comment on this Consultation Paper. If you require further information, please do not hesitate to contact either Leona Melamed at [leona.melamed@tbs-sct.gc.ca](mailto:leona.melamed@tbs-sct.gc.ca) (613-355-2731) or myself at [diane.peressini@tbs-sct.gc.ca](mailto:diane.peressini@tbs-sct.gc.ca) (613-369-3107)

Yours sincerely,

Diane Peressini  
Executive Director,  
Government Accounting Policy and  
Reporting

c.c.: Bill Matthews, Comptroller General of Canada

**Canada**

## APPENDIX

### Responses to Preliminary Views and Specific Matters for Comment

#### Scope and Definitions Preliminary View 1 (following paragraph 2.50) Specific Matter for Comment 1 (following paragraph 2.50)

*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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits? Please explain the reasons for your views.*
- a) We agree that transfers in kind and collective goods and services should be excluded in order to provide a narrower and more defined scope to this standard.
- b) We do not agree with all of the definitions provided.

We disagree that social benefits are all related to financial need. The definitions should reflect that social benefits are paid to those individuals that a government entity determines should receive them; such payments may be made to all individuals that qualify, whether or not they are in financial need. Consequently, we have suggested changes to the definitions of social benefits and social assistance to reflect this.

In addition, as the benefits provided as a result of an employer-employee relationship arise from an exchange transaction, we believe that such benefits should be excluded from the definitions in this CP. Our suggestion is to remove the definition of social insurance entirely, given that it includes benefits arising as a result of an employer-employee relationship for which guidance is provided in IPSAS 25 *Employee Benefits*, and to modify the definition of social security to combine the relevant elements of social insurance that relate to these benefits.

Consequently we suggest the following changes to the definitions:

**Social benefits:** Benefits provided by a public sector entity (or entities) to individuals and households, in cash or in kind, to mitigate the effect of certain social risks.

**Social assistance** is the provision of social benefits to qualifying individuals or households without any formal requirement to participate, as evidenced by the payment of contributions.



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**Social Security** is the provision of social benefits to the community as a whole, or large sections of the community, that is conditional on participation in a scheme imposed and controlled by a public sector entity, as evidenced by way of actual or imputed contributions made by or on behalf of the recipient.

**Social insurance:** remove definition

**Specific Matter for Comment 2 (following paragraph 3.4)**

*(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

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

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

*(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.*

a) In our view, the obligating event approach is the only one of the three approaches that is consistent with the substance of the underlying transactions and which is aligned with the definitions of elements and the recognition criteria in the conceptual framework. Under this approach, establishing when the obligating event has occurred such that the government entity has little or no discretion to avoid an outflow of resources is critical in ensuring that the financial statements present information that is fair and balanced with respect to the financial position of the entity. Governments have full discretionary power over changes to their social benefit programs, particularly if there will be insufficient future revenues to fund them. Consequently, we believe that the obligating event for recognition of a liability for social benefits arises only when a claim is approved. Please see our detailed response to Specific Matter for Comment 4.

We agree with the statement in Preliminary View 2, that the social contract approach is not consistent with the conceptual framework; however, the rationale for this statement should have been provided in the CP. In our view, given that public sector entities do not recognize the power to tax as an asset, the executory contract model is not supportable, as it requires “net” recognition of the right to receive taxes against the obligation to pay social benefits. As a result we feel that the social contract approach may be more relevant to sustainability reporting, where future tax revenue considerations can be taken into account, rather than financial statement reporting.

Furthermore, in our opinion, the insurance accounting approach is not appropriate for social benefits. The substance of social benefit schemes is very different to that of private sector insurance contracts to be accounted for under proposed IFRS 4, which are undertaken on an exchange basis and establish the same rights and obligations for the insured and the insurer as financial instruments. The funding mechanism for contributory social benefit schemes is a form of taxation, albeit for a specific purpose, and does not result in an enforceable right to an individual participant to the assets of the scheme in the future. As well, the public sector entity does not have an obligation at the inception of the scheme to pay benefits in the future, as this is a non-exchange transaction based on the entity's own legislation. Consequently, the insurance approach is not consistent with the conceptual framework and we do not support its application to social benefit schemes, whether contributory or not. Please see response to Specific Matter for Comment 9.

b) We are not aware of additional approaches that the IPSASB should consider developing.

**Specific Matter for Comment 3 (following paragraph 3.4)**

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

We are not aware of any such transactions.

**Preliminary View 2 (following paragraph 3.4)**

*The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.*

Please see comments in response to Specific Matter for Comment 2.

**Specific Matter for Comment 4 (following paragraph 4.69)**

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

(a) *Key participatory events have occurred;*

- 5 -

- (b) *Threshold eligibility criteria have been satisfied ;*
- (c) *The eligibility criteria to receive the next benefit have been satisfied;*
- (d) *A claim has been approved;*
- (e) *A claim is enforceable; 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 the reasons for your views.*

In our view, a liability arises for social benefits only when the claim is approved. As stated in paragraph 4.49, this implicitly includes the satisfaction of eligibility criteria on an ongoing basis in order to receive the next benefit.

Although an individual may have an expectation of receiving a benefit in the future, an obligation does not arise until there is an obligating event. The enactment of legislation is not the event that creates a present obligation, as an event or action must occur to trigger the government's liability to an individual recipient. Until this event or action has occurred, the recipient is not entitled to the benefits.

In our view, the obligating event or action that must occur for a liability for social benefits to arise is the approval of the claim (sub-option (d)). Only at this point is a valid expectation created for an individual to receive the benefit that leaves the entity little or no discretion to avoid the outflow of resources.

The key participatory events and threshold eligibility criteria sub-options (a) and (b) do not create a liability as the obligating event has not yet occurred. In sub-option (b), although the threshold criteria have been met, this does not obligate an entity for future periods in which the eligibility criteria may no longer be met. We believe that sub-options (a) and (b) produce financial information that may be useful for long-term sustainability reporting but do not meet the liability recognition criteria in financial statements, as these sub-options involve future obligations rather than present obligations. As noted in paragraphs 4.28 – 4.33 of the Consultation Paper, long-term sustainability reporting is not considered an objective of financial statements. Recognizing future obligations as liabilities does not provide relevant or meaningful information to the user of financial statements, and does not fairly present the financial position of the entity when the future revenues that the government expects to receive to fund the social benefits are not recognized in financial statements.

When an approved claim is required for payment of the next benefit, sub-option (c) does not represent the obligating event for which a liability should be recognized, as the entity still has discretion to avoid payment. However, certain benefits may not require approval of a claim prior to each payment date after the initial claim is approved. Examples of these benefits are entitlement programs, such as an old age security program, which are approved initially when the citizen reaches a certain age; subsequent approval essentially consists of revalidating that the individual continues to meet the eligibility criteria for the payment of the next benefit (e.g. is still alive and a resident of the jurisdiction). For these benefits, the continued meeting of the eligibility criteria for the next benefit payment constitutes the approval process. Consequently, for some entitlement programs, sub-option (c) and (d) may provide the same result.

Sub-option (e), i.e. recognition only at the point the claim becomes enforceable, is not considered the most appropriate recognition point as it does not properly reflect the accrual basis of accounting.

**Specific Matter for Comment 5 (following paragraph 4.76)**

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

*Please explain the reasons for your views.*

In our opinion, the obligating event does not arise at a different point for contributory schemes. Contributions paid by an individual to gain access to future social benefits do not entitle the individual to receive those benefits until all eligibility criteria have been satisfied for the next benefit and the claim approved. Contributions are part of the satisfaction of the eligibility criteria. Although the payment of contributions may create an expectation by the contributors to receive the future benefits, the contributor does not have an entitlement to those benefits until the past event i.e. the approved claim and meeting of the eligibility criteria, that creates the obligation has occurred.

**Specific Matter for Comment 6 (following paragraph 4.80)**

*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 the reasons for your views.*

We are unable to provide examples of social benefits arising from exchange transactions. We believe that social benefits, by their nature, are non-exchange

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transactions, even when contributory. As exchange transactions are usually contractual in nature, we believe that other standards such as IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* or IPSAS 25 *Employee Benefits*, would provide relevant guidance as applicable to the nature of the transaction.

**Preliminary View 3 (following paragraph 4.91)**

*Under the obligating event approach, 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 benefits.*

We agree that the cost of fulfillment represents the most appropriate measurement basis for liabilities for social benefits under the obligating event approach.

**Specific Matter for Comment 7 (following paragraph 4.91)**

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

- (a) *In all cases;*
- (b) *For contributory schemes;*
- (c) *Never; or*
- (d) *Another approach (please specify)? Please explain the reasons for your views.*

We believe that scheme assets related to liabilities for contributory social benefit schemes should be included in the presentation when they will be solely used to finance that particular scheme. Assets earmarked from general taxation to be used to fund a scheme should not be included in the presentation of that scheme.

**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:*
  - (i) *A claim becomes enforceable; or*
  - (ii) *A claim is approved?*
- (b) *Measure this liability at the cost of fulfillment? Please explain the reasons for your views.*

We believe that the social contract approach is not supportable for the reasons outlined in our response to Specific Matter for Comment 2.

### **Specific Matter for Comment 9 (following paragraph 6.24)**

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach? Please explain the reasons for your views.*

We do not agree. In our opinion, the insurance approach should not be applied to social benefit schemes. Our views are based on the following observations:

- The proposed IFRS 4 guidance on insurance contracts relates to exchange transactions for individual contracts where each party has rights and obligations under the contract. An insurer recognises those rights and obligations created by an insurance contract when it becomes a party to the contract. Social benefit schemes differ from insurance contracts as follows:
  - Contributions to a scheme do not give the contributor enforceable rights to future benefits.
  - The government entity does not have rights to the future contributions that result in the recognition of an asset under the IPSAS conceptual framework.
  - The government entity controlling a social benefit scheme is not obligated under the terms and conditions of the plan, given that it is established by its own legislation and which the government entity has the right to modify unilaterally.
- The IFRS 4 proposed guidance for recognizing expected profits on a contract applies to individual insurance contracts. It provides a smoothing mechanism for insurers to offset premium revenue with expected payments over the term of the insurance contract, as a private sector insurance contract is usually established by the insurer with the intent of obtaining a profit. It is likely to be rare that an insurer would establish a contract under which a loss expected; this would be considered an onerous contract, with the loss is recognized at the inception of the contract
  - Social benefit schemes are not created with the expectation of being profitable, although they could be profitable or unprofitable when considered for an individual recipient, depending on the individual's risk. However, application of the expected risk associated with a particular benefit scheme would need to be on a collective rather than an individual basis, and would always result in the upfront recognition of losses.
  - Unlike an insurance contract, receipt of benefits under a social security scheme is based on meeting eligibility criteria, and consequently, there is not usually a direct relationship between the amount of the contributions payable by an individual and the benefits to be received.
  - Also, as stated in the CP (paragraph 6.45), contributions may not reflect individual risks and may be influenced by other factors than the risks covered, such as government policy. Again, this does not reflect the intent behind linking premiums for an insurance contract in exchange for the expected payments reflecting the transfer of an individual's risk, which is the premise of insurance accounting.

Based on the differences between social benefit schemes and insurance plans discussed above, we believe that insurance accounting does not reflect the substance of social benefit schemes. Consequently, it is not appropriate to apply the insurance approach to any social benefit schemes, whether contributory or not.

**Specific Matter for Comment 10 (following paragraph 6.35)**

*Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:*

- (a) *Any expected surplus should be recognized over the coverage period of the benefit; and*
- (b) *Any expected deficit should be recognized as an expense on initial recognition? Please explain the reasons for your views.*

Please see our response to Specific Matter for Comment 9 as we do not agree with the insurance approach for social benefit programs. Social benefit plans are not designed to generate a profit and are often funded on a pay-as-you-go basis, rather than being fully funded. Consequently, insurance accounting would result in unbalanced and misleading information on an entity's financial position in the financial statements. As well, it is impracticable to evaluate social benefit plans on an individual participant basis, which is the intent behind the proposed IFRS 4 guidance, as there may be profits for some participants and losses for others (for example, on employment insurance plans).

**Specific Matter for Comment 11 (following paragraph 6.37)**

*In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;*
- (c) *Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;*
- (d) *Offset the planned subsidy and 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 the reasons for your views.*

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We do not support the insurance approach. Please see our response to Specific Matters for Comment 9 and 10.

**Specific Matter for Comment 12 (following paragraph 6.43)**

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

*Please explain the reasons for your views.*

We do not support the insurance approach. Please see our response to Specific Matters for Comment 9 and 10.

**Specific Matter for Comment 13 (following paragraph 6.63)**

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

*If you disagree, please specify the criteria that you consider should be used.  
Please explain the reasons for your views.*

We do not support the insurance approach. Please see our response to Specific Matters for Comment 9 and 10.

**Specific Matter for Comment 14 (following paragraph 6.72)**

*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 the reasons for your views.*

We do not support the insurance approach. Please see our response to Specific Matters for Comment 9 and 10.

**Specific Matter for Comment 15 (following paragraph 6.76)**

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?*



- 11 -

*Please explain the reasons for your views.*

**We do not support the insurance approach. Please see our response to Specific Matters for Comment 9 and 10.**

## Recognition and Measurement of Social Benefits

### Comments

In my opinion, another approach is possible. And we discuss his position about three themes:

- The scope of the standards dedicated to the question of social obligations;
- The recognition and measurement of liabilities and of provisions; or the recognition of a contingent liabilities, and
- Disclosures annexed to financial statements.

### 1. Scope

The scope of the future standards results from the combination (overall) of the IPSAS 19 entitled "Provisions, contingent liabilities and contingent assets" and the IPSAS 25 "Employee benefits".

This ITC focuses on accounting for those social benefits specifically excluded from the scope of IPSAS 19 by paragraph 1(a). That is, those social benefits where the entity does not receive approximately equal value in return, including the circumstances where a charge is levied with respect to the benefit but there is no direct relationship between the charge and the benefit received. The scope of IPSAS 19 is set out in Figure 2.1 below.

**Figure 2.1 IPSAS 19 Scope**

<p>1. An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for provisions, contingent liabilities and contingent assets, except:</p> <p>(a) those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits;</p> <p>(g) those arising from employee benefits except employee termination benefits that arise as a result of a restructuring as dealt with in this Standard.</p> <p>IPSAS 19 paragraph 1</p>
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IPSAS 19 paragraphs 7 to 11 describe the types of social benefits that are excluded from the Scope of the Standard. Paragraphs 7 and 8 of IPSAS 19 are shown in Figure 2.2.

**Figure 2.2 Social Benefits**

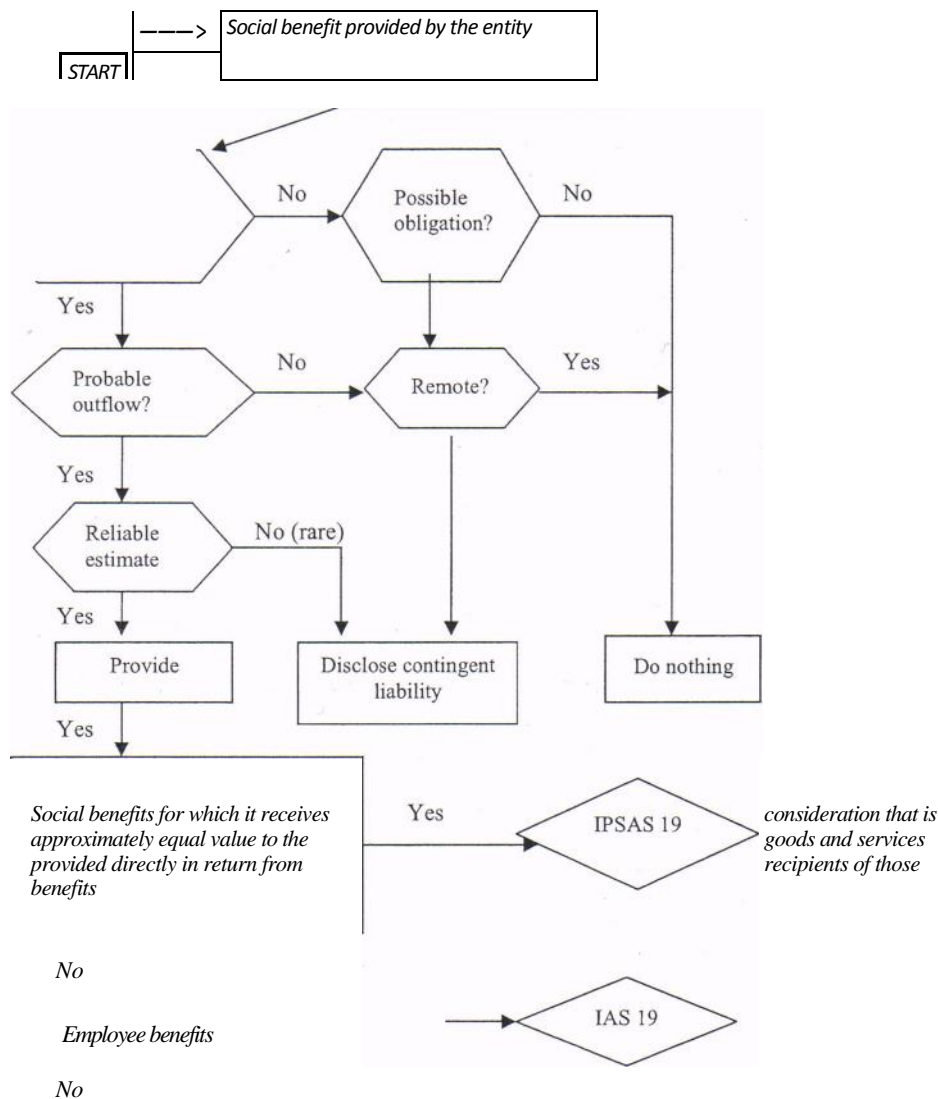
7.	For the purposes of this Standard “social benefits” refer to goods, services and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:
(a)	the delivery of health, education, housing, transport and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
(b)	payment of benefits to families, the aged, the disabled, the unemployed, veterans and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.
8.	In many cases, obligations to provide social benefits arise as a consequence of a government’s commitment to undertake particular activities on an on-going basis over the long-term in order to provide particular goods and services to the community. The need for, and nature and supply of, goods and services to meet social policy obligations will often depend on a range of demographic and social conditions and are difficult to predict. These benefits generally fall within the “social protection”, “education” and “health” classifications under the International Monetary Fund’s Government Finance Statistics framework and often require an actuarial assessment to determine the amount of any liability arising in respect of them.
IPSAS 19 paragraphs 7 and 8	

And IPSAS 19 applies to all public sector entities other than Government Business Enterprises<sup>1</sup>.

The tree of decision pulled (fired) by the previous works of the IFAC summarizes the scope of this invitation to comment.

<sup>1</sup> Business Enterprise<sup>3</sup> An entity that has all the following characteristics:

(a) is an entity with the power to contract in its own name;  
(b) has been assigned the financial and operational authority to carry on a business;  
(c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;  
(d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm’s length); and (e) is controlled by a public sector entity. (from Glossary of Defined Terms : see website of IFAC [http://www.ifac.org/Members/Downloads/2005\\_PSC\\_Glossary\\_of\\_Terms.pdf](http://www.ifac.org/Members/Downloads/2005_PSC_Glossary_of_Terms.pdf) .



IAS 19 becomes IPSAS 25 “Employee benefits”.

## 2. Liabilities or not ?

Before describing exactly the posting of the pensions in the financial statements, the IPSAS 19 and the invitation comment on the social obligations of 2002 are engaged (surrender) in an effort of definition.

- Preliminary definitions. The notions of liabilities, liability are defined, of contingent, contingent liability liabilities, present, legal or constructive obligations, present, legal golden constructive obligations (bonds), as well as their accounting (countable) consequences towards the funding of the social obligations (bonds). While sending back (dismissing) to the definitions of the IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, the invitation with comment also asks the question to know if the other definitions cannot be proposed.

- Pensions been of use to the old persons because of their age (see minimum old age). The scope of the invitation to comment reserves these benefits to the persons because of their only age.
- The invitation to comment presented a triple option with the aim of the posting of these obligations :
  - Or the beneficiary fills (performs) all the criteria of eligibility in the service of the service and in that case, no liability is established but charges her(it) or asks her(it) to pay is noticed according to payments. The majority of the steering committee with the posting of the social obligations of countries held (retained) this option. In this hypothesis, the others consider that a contingent liabilities should be recognized when future benefits must be granted; others dispute this last opinion by considering that these future obligations are not possible;
  - Or the beneficiary satisfies certain criteria of eligibility. In the case of a present obligation, no liability is established but expenses her (it) or asks her (it) to pay is noticed according to payments. In the hypothesis of a future obligation, some people consider that a liability should be established because payments are likely and can be connected with the obligation; others consider the future obligation as a contingent liability because of the uncertainties which press on these obligations. The committee specially loaded with the posting of the social obligations of countries did not hold (retain) this option;
  - Or the benefit depends on the age of entrance (entry) to the active life of the future pensioner or on the arrival of its anniversary to benefit from the pension (retreat). In this hypothesis for some, a liability could be constituted in the presence of a future obligation. The minority of the committee specially loaded with the posting of the social obligations of countries held (retained) this option. For others, a contingent liability could be recognized because the future obligation (bond) would be uncertain.

§ 8.45 of the invitation to comment of 2002 clarified moreover that the International Monetary Fund (IMF) considers these benefits old age as expenses of transfer which give place neither to constitution of provisions nor to a piece of information about a contingent liabilities, a French equivalent of the commitment except balance sheet (assessment).

In my opinion, it seems preferable to be held in the option 1 proposed by the particular committee of the IFAC, the solution corresponding to that of the IMF, it is - - to tell to consider the commitments of the " minimum old age " as spending (expenses) of transfer, by avoiding noticing provisions.

- **Other pensions and particularly pension benefits provided to government employees in exchange for their services as employees**

For me, it is necessary to refer to the capacities §19 to 72 of the IPSAS 19 to know notably, if these obligations those social benefits where the entity does not receive approximately equal value in return, the payment of the contributions of pension (retreat), establish (constitute) effectively liabilities which can give place to constitution of liability.

§19 of the IPSAS 19 defines the liabilities as the present obligations of an entity which arise from a past event which will have for consequence a decrease of the resources of the entity expressed in the form of economic advantages or of potential services.

Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

(a) Payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and

(b) Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

According with § 22 of IPSAS 19, a provision should be recognized when:

- (a) An entity has a present obligation (legal or constructive) as a result of a past event;
- (b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- (c) A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

In my opinion, about of the "French-style" contributory pension schemes, two obstacles appear to prevent the constitution of a liability under the influence of the definition resulting from §22 of the IPSAS 19. Indeed, the simulations concerning retirements:

- Either do not establish (constitute) present obligations but possible obligations such as defines them §18 of the IPSAS 19 by defining contingent liabilities, or an obligation which arises from past events and the existence of which must be only confirmed by

the arrival or not of one or several uncertain events which escape completely the control of the entity,

- Or establish (constitute) present obligations which cannot be recognized because he (it) improbable that they will pull (entail) a decrease of the resources of the entity expressed in the form of economic benefits or of potential services or because the amount of this obligation cannot be measured in a reliable enough way. It is rather this last impossibility which should forbid the constitution of a liability and to allow on the other hand a financial piece of information about the contingent liabilities, the French equivalent of the commitment except balance sheet (assessment),

And, according with International Accounting Standard Board (IASB), there is a new definition of contingent liability<sup>2</sup> : “a conditional obligation that arises from past events that may require an outflow of resources embodying economic benefits based on the occurrence or non – occurrence of one or more uncertain future events not wholly within the control of the entity”. Demographic events are “future events not wholly within the control of the governments.

- ~~“(a) a possible conditional obligation that arises from past events and whose existence will be confirmed only by that may require an outflow of resources embodying economic benefits based on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or~~
- ~~(b) a present obligation that arises from past events but is not recognised because:~~
  - ~~(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or~~
  - ~~(ii) the amount of the obligation cannot be measured with sufficient reliability.”~~

In these conditions, it will be necessary to carry a financial piece of information about a contingent liabilities, a piece of information which will be annexed to the financial statements of the State or the Social Security.

### 3. Disclosure

According with 8.51 of ITC of 2002, the relevant disclosure requirements in IPSAS’s are discussed in Chapter 9. Chapter 9 also considers broader issues related to the disclosure of information to support assessment of the sustainability of government’s social policies. Many of these disclosures will be relevant whether Option 1, 2 or 3 is adopted, and will encompass amounts that do not qualify for recognition as a liability.

<sup>2</sup> Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, definitions § 7. See Website : <http://www.iasb.org/>

According with 8.52, where assets have been specifically set aside to fund future old age pension benefits or where a government maintains separate funding for such benefits (at least in part), disclosure of such assets or funds would be appropriate.

Disclosures annexed to financial statements depend on the recognition of a liability or of contingent liabilities.

In the first case, § 97 and 98 of the IPSAS 19 say:

” 97. For each class of provision, an entity should disclose:

- (a) The carrying amount at the beginning and end of the period;
- (b) Additional provisions made in the period, including increases to existing provisions;
- (c) Amounts used (that is, incurred and charged against the provision) during the period;
- (d) Unused amounts reversed during the period; and
- (e) The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

98. An entity should disclose the following for each class of provision:

- (a) A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;
- (b) An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity should disclose the major assumptions made concerning future events, as addressed in paragraph 58; and
- (c) The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.”

IPSAS 19, § 97 and 98

In the second case, § 100 of the IPSAS 19 foresee :

Unless the possibility of any outflow in settlement is remote, an entity should disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

- (a) An estimate of its financial effect, measured under paragraphs 44 to 62;
- (b) An indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) The possibility of any reimbursement.

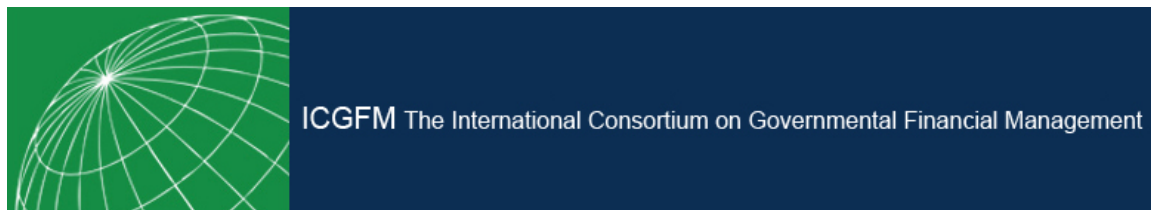


The invitation to comment suggested the other remarks to annex to financial statements. According with § 9.16 to 9.20 of ITC. It would be a question of appreciating the budgetary "sustainability" of the social obligations of countries. And the IFAC to quote the experience(experiment) of States - United who informs about the long-term forecasts associated to the collections and to the payments concerning the big categories of social benefits, the value presents of these future advantages and the main demographic changes bound (connected) to these forecasts (see RPG1 "Reporting on the long term sustainability of the entitys' finances")

22/01/2016

Jean – Bernard Mattret

Author of "la nouvelle comptabilité publique".



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January 25, 2016

The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6th Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultation Paper on Social Benefits.
2. We provide a separate paper setting out our comments and responses.
3. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this paper with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at [Michael.parry@michaelparry.com](mailto:Michael.parry@michaelparry.com) or on +44 7525 763381.

Yours faithfully,

**Michael Parry**

ICGFM Accounting Standards Committee

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Jesse Hughes

Kennedy Musonda

Mark Silins

Maru Tjhumino

Masud Mazaffar

Nino Tchelishvili

Paul Waiswa

Steve Glauber

Tony Bennett

Cc: Jack Maykoski  
President, ICGFM

## **COMMENTS ON IPSAS CONSULTATION PAPER ON SOCIAL BENEFITS**

Prepared by the Statistics Directorate of the OECD, 28 January 2016.

### **Comment 1**

#### **(a) Is the scope of this (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) appropriate?**

We broadly agree with the scope as described in the Consultation Paper, although we have the impression that the title of the Consultation Paper is not fully in line with this scope. The title refers to ‘social benefits’, whereas the scope seems to be limited to social benefits by public sector entities excluding employment-related social insurance benefits. In that regard, we think it would be clearer to define the title of the project ‘social benefits under social assistance and social security’ or ‘social benefits other than employment-related benefits’ to clearly distinguish it from benefits described under IPSAS 25. In saying that, it would be interesting to see how the rules under this CP would relate to the guidelines for employment-related benefits. If they would also be applicable to them, it may not be needed to have two separate sets of accounting standards. In that regard, we do not think that transactions covered in other IPSASs should be excluded beforehand, but that these should be reviewed in conjunction with these new guidelines.

Looking at the scope itself, we agree that it is appropriate to exclude ‘collective goods and services’ as these do not relate to individual households and consequently should not be regarded as social benefits. However, with regard to the exclusion of ‘other transfers in kind’, it is not fully clear to us what this would entail. Paragraphs 2.23 and 2.24 of the CP elaborate on that, but seem to contain some inconsistencies, at least in reference to the 2008 SNA. Paragraph 2.23 explains that “certain significant government expenditures for goods and services provided to individuals, and households fall outside of the SNA definition of social benefits” as they “cover other risks that would not impact on household’s budget”. It is stated that within the SNA these transfers are treated as “social transfers in kind”. However, we don’t think this is correct. “Social transfers in kind” are regarded as social benefits in the 2008 SNA (see 2008 SNA paragraph 17.79) and the two examples presented in paragraph 2.24 on health and education services are indeed treated as such in the SNA and should, in our view, be included in the scope of the project. Therefore, we think other examples should be included in the CP with reference to benefits “provided to individuals and households other than to protect against a social risk”. By definition these types of benefits are not ‘social transfers in kind’ according to the 2008 SNA, but ‘other current transfers’ (SNA code D7). In this, one has to realise that the related amounts (with regard to benefits from government to households) are usually small.

#### **(b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?**

Most of the definitions seem appropriate in our view. However, we think that two of them are too narrow as they already seem to be limited to the public sector. This is the case for the definition of ‘social benefits in cash’ and ‘social benefits in kind’ that state that these are paid “on behalf of a public sector entity”. However, according to the 2008 SNA, social benefits can also be paid by

employers, financial corporations (both only in cash) and non-profit institutions serving households (both in cash and in kind) (see paragraph 17.86). Furthermore, in relation to the scope of the project, we think it would also be good to include a definition of employment-related social insurance, to clearly distinguish it from social security (see also comment under 1a).

More fundamentally, we think that additional definitions may be needed to provide further guidance to help determining when to recognize an obligation for social benefits. The definition of a liability that is used in the CP refers to a 'past event' that creates a 'valid expectation'. This is defined in IPSAS 19 as "an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation". However, this may still give rise to interpretations, as various past practices may lead to varying expectations. It will in our view depend on the event in combination with the characteristics of the scheme whether it indeed leads to an accrual of an entitlement. Some expectations will be based on the combination of events that have already taken place (meeting necessary and sufficient eligibility criteria) and past practices or statements of government (giving rise to 'unconditional' expectations), whereas past practices or statements of government may also give rise to future expectations but with the knowledge that it still requires actions (or specific events) by the participants, such as tax or premium payments (giving rise to 'conditional' expectations)<sup>1</sup>. In the case of the 'unconditional' expectations, in our view an entitlement has indeed accrued for future benefits, whereas in the case of 'conditional' expectations the accrual will take place in the future, depending on other triggering events. We think it would be good to clearly distinguish between these two types of expectations<sup>2</sup> and link them to the concept of accrual accounting<sup>3</sup>. In our view, looking at the accrual principle, it will come down to the question whether a scheme creates a valid expectation of future entitlements on the basis of events in the current period. If the premiums (or taxes) or triggering events accrue an entitlement only for the same period, it will only give rise to a liability for the same period (a current liability that would be paid off within the next reporting period). However, if the premiums (or taxes) or triggering events accrue expected benefits for a point in time in the future, a liability will be created. As we think that

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<sup>1</sup> For instance, from past experience one may have a valid expectation that the government will provide unemployment benefits in case a person becomes unemployed, but as it is usually the case persons will need to keep paying taxes or premiums year in year out to stay eligible. With the payment of taxes or premiums a person only accrues an 'insurance' entitlement for the period at stake, just like it would be the case under a non-life insurance scheme. On the other hand, one can argue that social security pension entitlements accrue over time on the basis of meeting eligibility criteria overtime. On the basis of meeting these criteria, one can establish a valid expectation of receiving benefits in the future on the basis of these past events, without (for the accrued-to-date entitlements) having to make any more contributions, just as it would be the case as this would be organised by a life insurance corporation. The triggering event of meeting the eligibility criteria in the second case in our view leads to a valid unconditional expectation of future payments, whereas meeting the criteria in the first case only leads to a valid expectation of payments in the current time period. The determination of the exact eligibility criteria and corresponding coverage of social benefit schemes is therefore crucial in our respect. Definitions need to be included to clearly define these terms.

<sup>2</sup> To include obligations for future unemployment benefits without including the corresponding future contributions, would lead to an incorrect view of government finances in our view. Moreover, it would lead to incomparable results with countries that organise these types of social risk insurance via insurance companies for which only accrued entitlements are recorded.

<sup>3</sup> 2008 SNA paragraph 2.55 states that "transactions between institutional units have to be recorded when claims and obligations arise, are transformed or are cancelled." Paragraph 3.166 elaborates that accrual accounting means that a flow is recorded at the time that economic value is created, transformed, exchanged, transferred or extinguished. Paragraph 3.167 elaborates that many transactions are monetary transactions in which some asset is delivered against immediate, or nearly immediate, payment in cash.

the concept of accrual accounting is closely related to coverage and eligibility criteria of schemes, we think it may also be good to provide some clearer guidance on these concepts.

## **Comment 2**

**(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?**

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

**Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.**

Option (i) in our view has the following merits:

In this approach, all obligations that have accrued-to-date are included, as of the point that the 'valid expectation' arises by meeting the necessary and sufficient eligibility criteria. This will lead to comparable results across social benefit schemes (and between these schemes and similar insurance schemes) that will provide users with a clear picture of the financial situation of an entity at a given point in time.

The weakness is that it is not yet clearly defined at what stage a valid expectation will arise. As explained under comment 1b), in our view, this will depend on the eligibility criteria and the coverage, and therefore will differ across social benefit schemes. More guidance is needed to clearly define at what point the 'past event' takes place that triggers the obligation and what exact obligation it triggers. What is actually being accrued in a specific period? If this is clearly defined, we think that this option would probably work perfectly.

Another weakness of this approach may be that it does not provide insights in financial consequences of expected future accruals, as it only looks at what has been accrued-to-date. However, as will be explained under option (iii), we have some doubts whether it will be possible to provide comparable, comprehensive calculations on expected future accruals for all types of social benefit categories and in that way, we think it may be better to stick to accrued-to-date entitlements.

Option (ii) in our view has the following merits:

We think this approach clearly explains the situation for most of the social benefit categories and also clearly explains why these should not give rise to any entitlements with regard to what has been accrued-to-date. Most categories will indeed be based on the principle that current taxes and other sources of finances are used to finance the current benefits and that they will not give rise to any entitlements (outside the coverage period) as the coverage is limited to the current period. Taxes,

premiums and other means of finance are used to cover the current benefits and in case the government would decide to quit one of these social benefit programs (together with the cancellation of the collection of corresponding premiums or taxes), the government would usually not be confronted with any outstanding expected claims on the basis of past contributions. For these schemes, obligations and entitlements accrue in the same pattern and are offset before the end of the coverage period. Therefore, they do not lead to any entitlements remaining at the end of the coverage period. It will depend on the characteristics (with regard to coverage period and eligibility criteria) of the specific schemes whether these schemes indeed qualify as 'social contract approach' types of schemes. In case there is a valid expectation that contributing in period  $t$  entitles you to a benefit in  $t+1$  regardless of whether the scheme will still exist, this means that an entitlement has accrued and the relevant unit should record an obligation. In that way, in our view, it is a specific case within option (i). By clearly defining 'coverage period' and 'eligibility criteria', these types of schemes will be clearly recognized and treated accordingly.

Option (iii) in our view has the following merits:

As this approach includes both past accruals (accrued-to-date entitlements (i.e. benefits for the current and past contributors)) and future accruals (future entitlements (i.e. benefits that will be accrued by current and future contributors), and future receipts by current and future contributors), this approach gives a comprehensive overview of the financial situation of a social benefit scheme. However, as is explained in the CP this will only be the case for contributory schemes. For the other schemes it will turn out to be too difficult to make estimates of future receipts. In that way, this approach will lead to incomparable results between schemes. That is considered as a major downside. We think that this can only be solved a) by making a forecast of future receipts for the other schemes, or b) by excluding future entitlements and future receipts from the estimates. In the latter case, this approach would only describe the accrued-to-date entitlements and would be equal to option (i). Looking at the issue from a National Accounts perspective, which is based on the accrual principle, this would also be perfectly fine. According to the SNA, only this accrued-to-date part should be regarded as the actual obligation.

Furthermore, another problem with the insurance approach in our view is with its use of the net position from expected future cash flows; this implies that future taxes/contributions may need to be recognized before the taxable/contributable event has occurred, which would not be consistent with standard accounting practice nor with other established accounting standards.

Looking at the three options, we support option (i) as it applies (in our view after further tuning some of the definitions) accrual accounting principles to the 'valid expectations'. This will lead to comparable results across social benefit schemes and between these schemes and similar insurance schemes. In our view, it would also be best to go with only one approach and not have a combination of multiple ones, as the latter may easily give rise to discussions on when to apply which and to differences in interpretation. When looking at the approaches, we also have the impression that the obligating event approach generally covers the other two approaches, as long as the relevant 'past events' are defined properly in accordance with the characteristics (coverage



and eligibility criteria) of the schemes. For ‘social contract approach’ schemes, the ‘past event’ would be the start of the new coverage period in which new taxes and other sources of finances will be received to pay for the expected benefits for that period. It can then be either the moment that the claim becomes enforceable or that the claim is approved to recognize the liability. When looking at the ‘insurance approach’, the obligating event approach would also work for the accrued-to-date part, as looking at the coverage and eligibility characteristics of a scheme it can be determined how and when entitlements accrue. On the other hand, it does not foresee in estimates for the expected future entitlements and obligations, but as we explained before we think it is questionable whether these would lead to comparable results anyhow. In our view, any estimates of expected future obligations and of future receipts with regard to contributory schemes, in case they are included, should only be presented as memorandum items.

**(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.**

No.

### **Comment 3**

**Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP? If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.**

No. However, it would be useful to clarify how other related government transactions would be classified within the framework of the definitions discussed in Chapter 2. For example, would government services such as mail postal service, public libraries and public utilities be classified as an “other social service” described in paragraph 2.4a or would it be a “community amenity” referenced in 2.5 in cases where they are partially subsidized using funds from taxation? Or would these be considered collective goods and services (even though, in these examples, the delivery of the good/service can be attributed to a single person or household)?

### **Comment 4**

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

- (a) Key participatory events have occurred;**
- (b) Threshold eligibility criteria have been satisfied;**
- (c) The eligibility criteria to receive the next benefit have been satisfied;**
- (d) A claim has been approved;**

- (e) A claim is enforceable;**
- (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. 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 the reasons for your views.**

We would prefer option A, with the additional comment that it should concern not only 'key', but 'necessary and sufficient' events to be eligible for a benefit in a certain period. This will depend on the eligibility criteria and the coverage period of the schemes. Looking at post-employment benefits, the obligations should in our view be recognized when the participatory event has occurred. As soon as a worker has been employed for the minimum period of time to be eligible for unemployment benefits in case he gets unemployed within a certain coverage period, an obligation has been created with regard to that coverage period that the government entity has little or no realistic alternative to avoid. As soon as an individual has lived in the country for the minimum period of residence to be eligible to receive various social benefits (and when those benefits are not dependent on future contributions by the person or society), an obligation has been created that the government entity has little or no realistic alternative to avoid. The measurement of such obligations may need to factor the coverage, probability and timing of when such benefits will be claimed (with the assistance of actuaries), but a material obligation exists as soon as the necessary and sufficient participatory criteria have been met by each individual.

Sub-options B, C, D and E are not feasible, as any later recognition could be interpreted as a material understatement of the obligations that an entity has accrued with respect to social benefits. These sub-options are also not consistent with IPSAS 23 for taxes or IPSAS 25 for post-employment benefits.

#### **Comment 5**

**In your view, does an obligating event occur earlier for contributory schemes than non-contributory schemes under the obligating event approach? Please explain the reasons for your views.**

No. *Ceteris paribus*, it should not make a difference whether a scheme is contributory or not. The recognition of the obligation should only depend upon the legal basis or the strength of the constructive obligation. The point in time for recognition may be dependent on which sub-option is selected, but not on being contributory or not.

#### **Comment 6**

**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 the reasons for your views.**

As we assume that these transactions are probably similar to other exchange transactions that have already been covered by other IPSASs, we think these benefits should be accounted for in accordance with other IPSASs.

#### **Comment 7**

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

- (a) In all cases**
- (b) For contributory schemes;**
- (c) Never; or**
- (d) Another approach (please specify)?**

**Please explain the reasons for your views.**

In our view, if assets are earmarked within the scheme to pay out future benefits, these should always be included in the presentation (option a). This provides the most accurate information on the financial obligations associated with the scheme, regardless of whether it is contributory or not. For both types of schemes, option (a) would provide information on the funding that will be used to meet future obligations.

Further to this, we would like to add that only assets that have accrued-to-date should be recognized. As is explained in paragraph 1.33 of the Consultation Paper, RPG 1 has already addressed the need for information about the long-term fiscal sustainability of social benefits provided by an entity. As such, it is explained that the recording should be in line with regular reporting requirements for financial statements. In our view, this means that the IPSAS on social benefits should follow the normal practices of accrual accounting and therefore should be consistent with established accounting principles. For example, IPSAS 23 states that “an entity shall recognize an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.” This means that taxes expected to be collected in future years cannot be recognized before the taxable event occurs. The recognition of scheme assets, such as social security contributions, should follow a similar principle.

#### **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:**
  - (i) A claim becomes enforceable; or**
  - (ii) A claim is approved?**
- (b) Measure this liability at the cost of fulfilment?**

**Please explain the reasons for your views.**

We do not have a clear preference on when to recognize the obligation, except that we think it would be best to align the recognition of the obligation for the government entity to the recognition of the entitlements for the household. Under the social contract approach the government complies by providing goods, services and cash transfers and the society complies by contributing taxes or other sources of finance. In our view, it is important that for both obligations the same principle of recognition is applied.

The liability should in our view indeed be recorded at cost of fulfilment.

**Comment 9**

**Do you agree with the IPSASB's conclusion about the applicability of the insurance approach?**

**Please explain the reasons for your views.**

We do not agree with these conclusions. In our view the contributory aspect of a social benefit is not decisive in whether or not to regard the social benefit as being provided under a type of insurance. The liabilities can, in our view, regardless of being paid for by contributions or being subsidized, be measured as current estimates of future cash flows (as under option 1). Depending on the way of financing (participatory or not), the premiums (receivable) could also be recorded accordingly. In our view, it would therefore not be necessary to have a separate approach for this.

IPSASB should consider the possibility that the applicability of the insurance approach may need to be based on the underlying nature of the liability and how it accrues to date. If the obligation to pay a social benefit must be continually renewed by an obligating event (such as a beneficiary's payment of unemployment insurance contributions), then the liability accrues in a much different manner than an obligation that persists after contributions have ceased (such as the beneficiary's payment of pension contributions). This is akin to term life insurance versus whole life insurance. One liability is expected to expire without payment (for the majority of participants) and is dependent upon the continual receipt of contributions, while another liability persists and can continue to accumulate in value beyond the contributory period (in the case of pension indexing). IPSASB should consider whether the proposed applicability of the insurance approach fundamentally reflects the nature of how a liability has accrued for a government entity.

Furthermore, a practical issue with the proposed applicability is that it would treat social benefit schemes with dedicated funding differently from social benefit schemes that do not have dedicated funding. The result may be a government balance sheet with various liabilities that have not been measured consistently; some items may represent accrued-to-date obligations while others may represent expected deficits arising from future cash inflows and outflows. Further consideration should be given to how liabilities arising from social benefits can be treated in a consistent manner.

### **Comment 10**

**Under the insurance approach, do you agree that where a social security scheme is designed to be fully funded from contributions:**

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

**Please explain the reasons for your views.**

Expected surpluses and expected deficits should be treated in the same manner to ensure consistency in the recognition and measurement of social benefits over time. This is particularly important for a scheme that is close to break-even and could shift between a surplus and a deficit position.

The recognition of an expense pertaining to a social security benefit is complicated by its various components, including the equivalents to its service cost, interest cost, actuarial gains/losses, and curtailments/settlements. We recommend that the IPSASB consider using IPSAS 25 as a starting point in formulating the appropriate recognition of the expected surplus/deficit of a social security benefit.

### **Comment 11**

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

- (a) Recognize the deficit as an expense on initial recognition;**
- (b) Recognize the deficit as an expense over the coverage period of the scheme;**
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;**
- (d) Offset the planned subsidy and 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 the reasons for your views.**

We prefer option B as expected surpluses and deficits represent flows (not stocks) and therefore they should be recognized as flows over the coverage period.

Options C and D appear to be inconsistent with established accounting principles, because these options imply that a liability does not exist until the funding to pay for it is earmarked or reallocated from elsewhere. The funding for a social benefit has no relevance to the existence of the obligation to pay the beneficiaries.

### **Comment 12**

**In your view, under the insurance approach, should an entity use the cost of fulfilment measurement basis or the assumption price measurement basis for measuring liabilities?**

**Please explain the reasons for your views.**

The cost of fulfilment is the more appropriate basis in our view as it represents an objective approach to measuring the liabilities. As stated in paragraph 6.43, the assumption price would not be appropriate for the public sector where there is no third party that might assume the liability. Furthermore, we are assuming that the cost of fulfilment approach would be conducted under the principle of neutrality (such as in International Standard of Actuarial Practice 2, paragraph 2.3) whereby all assumptions are made such that the resulting projection is not considered to be a material underestimate or overestimate, and as such, material levels of uncertainty would already be reflected in the measurement of the liability on a cost of fulfilment basis. The cost of fulfilment represents the best estimate of the cost that is expected to be incurred.

### **Comment 13**

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

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

**Please explain the reasons for your views.**

We agree with the first criterion. However, the second criterion should be stricter to ensure that there is a dedicated and fixed source of revenue that is clearly attributable to the social security scheme. If the second criterion provides too much flexibility in the interpretation of the link between benefits and contributions, then the resulting measurements could lose relevance, as it would be easy for every social security scheme to have an expected net cash flow of zero based on the assumption that the government will simply reallocate revenues from other sources to pay for any deficits in that scheme.

### **Comment 14**

**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 the reasons for your views.**

Yes, in our view IPSASB should maximize, to the extent possible, the consistency between the measurement of liabilities from employee benefits and liabilities from social benefits.

**Comment 15**

**Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73-6.76?**

**Please explain the reasons for your views.**

We recommend that the IPSASB considers using IPSAS 25 as a guide in formulating the appropriate subsequent measurement. This will maximize consistency across established accounting standards.



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

January 29, 2016

The Technical Director  
International Public Sector Accounting Standards Board  
529 Fifth Avenue  
New York NY 10017  
United States of America

Dear Sir,

**Re: IAA comments on the IPSASB Consultation Paper on *Recognition and Measurement of Social Benefits***

In response to the request for comments on the July 2015 Consultation Paper on *Recognition and Measurement of Social Benefits*, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

Our comments are structured around the specific matters for comment in the Consultation Paper using the comment template. In addition, we preface our comments with more general remarks immediately below.

Social benefit programs take many different forms in different countries and with differing scope. It is ambitious to cover all in one standard; we suggest that it may be sensible to limit the scope. In particular, we are concerned that the position of health-related programs is not clear. These may take a variety of forms, from social insurance based to government financed, in some cases including private insurance. We suggest covering health-related programs in a separate standard or expanding this standard to address these different forms.

Social security programs range from those which are financed by government out of general revenue through to social insurance programs which are intended to be essentially self-supporting on the basis of contributions from employers and employees. Benefits under the former can usually be significantly amended by governments passing legislation (for example, to raise the eligibility age or tighten other criteria for eligibility for benefits). Thus, it may be misleading to recognise future benefits from these programs as liabilities in public sector accounts when they may not turn out to be obligations at all.

Social insurance programs, by contrast, are almost always financed using an open group funding methodology, under which future contributions are treated as an asset or contra-liability (alongside any current investments), and all benefit expenditures, contribution income and investment income, if any, are considered for all generations in the program over a relevant period, including people not yet born and those not yet in the workforce, as well as active contributors and current benefit recipients.



We recognise that this presents a challenge from an accounting perspective, since it would be unusual to recognise future liabilities in respect of those who are not yet covered by the program. However, in adopting accounting conventions caution is needed not to provide information which is of no value to the intended users, since it is not consistent with the financing methodology, and may be misleading in the messages it conveys. As mentioned above, this applies in particular to balance sheet liabilities which may not be liabilities at all because the government can amend the legislation and implicit social security debt figures which assume a termination approach to funding as in private sector pension plans, rather than recognising the open group funding methodology on which many such programs are financed.

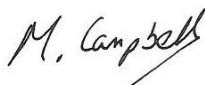
As a result, we strongly recommend that there should be a requirement for full disclosure of long-term sustainability information on an open group basis in the notes to the accounts.

As the unique supranational organisation representing professional actuarial associations around the world, we respectfully recommend that attention should be paid to the need for appropriate actuarial techniques to be adopted in placing a present value on future cash-flows, for example to estimate the future value of payments triggered by an obligating event (e.g. claim liabilities). We suggest that the standard should provide for the involvement of appropriate experts in making such claim liability and open group funding assessments. We respectfully submit that qualified actuaries are the relevant experts for making such assessments of future cash-flows and their present values. Qualified members of the actuarial associations which make up the International Actuarial Association are required to meet high standards of competence and professional conduct and are well suited to carry out such tasks in the public interest.

We also recommend that there should be strong encouragement to convey the degree of uncertainty as part of disclosure associated with projections of these programs. Actuarial techniques such as sensitivity-testing or stress-testing, with or without the use of stochastic models, can be used to illustrate uncertainty in the cash-flow estimates and corresponding capitalised values. Attention should also be paid to the need for full disclosure of assumptions and methodology adopted.

These comments have been prepared by the IAA Social Security Committee. The IAA would very much welcome the opportunity to discuss these ideas further with you and to cooperate with IPSASB in the development of the eventual standard. We suggest that a fruitful way forward might be to establish a joint working party of the IPSASB and the IAA, to include expert actuarial practitioners in this field, which could help the IPSASB to develop their ideas with access to actuarial expertise.

Yours sincerely,



Malcolm Campbell  
President

Attachment: [IAA comments](#)

## Comments by the International Actuarial Association on the IPSASB Consultation Paper – Recognition and Measurement of Social Benefits

### International Actuarial Association and its Due Process

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty-seven Full Member actuarial associations, listed in [Appendix A](#) to this statement, represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact upon the areas of expertise of actuaries.

We are pleased to be given the opportunity to provide input to the IPSASB on this important consultation paper. These comments have been prepared by the Social Security Committee of the IAA, whose members are listed in [Appendix B](#) to these comments. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA’s official web site.

Our comments are as follows:

### Preliminary View 1 (following paragraph 2.50)

**Social Benefits** are benefits provided 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.

Social benefits are provided to mitigate social risks in the following circumstances:

- 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 in the event of the occurrence of the specified social risks; and
  - Households could make contributions to a scheme to accumulate entitlements to future benefits, with the benefits being provided following the occurrence of the specified social risk.
- (b) **Social Benefits in Cash** are social benefits paid in cash, by or on behalf of a public sector entity, 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 or on behalf of 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 or on behalf of 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** is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).
- (f) **Social Security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.
- (g) **Social Assistance** is the provision of 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 (following paragraph 2.50)

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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

Please explain the reasons for your views.

- (a) No. We do not consider the scope of the CP to be sufficiently well defined or entirely logical. We assume that the intention is to exclude directly government-financed national health services, as otherwise it would follow that all government expenditure should be included. However, there are many different forms of legislated health insurance programs which are similar in nature to other social insurance programs and may involve cash payments towards prescriptions, medical consultations, reimbursement of medical costs, etc. To the extent that health-related services are collective goods and services or transfers in kind, they appear to be specifically excluded – but there is no clear distinction made between health insurance which reimburses monetary amounts and health services which provide only benefits in kind. Sometimes benefits may take the form of services and sometimes financial contributions toward the cost of the service. Some of the same considerations apply to long-term care.

In some countries, workers' compensation is a social benefit program but it is not clear from the scope of the CP whether or not this is included. Other government-supported social benefit programs in some countries include flood insurance, crop insurance, terrorism insurance and government intervention in case of earthquake, tsunami or other catastrophe peril. It is unclear whether these would be in scope.

- (b) In our view the definitions in the CP are unclear even with regard to pensions and similar provisions, because they include within social insurance some employer-sponsored benefit provisions (that which 'forms part of an employer-employee relationship'), which the Consultation Paper describes as 'employment-related'. The CP defines social insurance which arises "outside the employer-employee relationship" as social security. In our view this could create confusion, since in most jurisdictions social security is intimately connected to the employment relationship and benefits and contributions are contingent on employment status.

We would prefer to see a clear distinction between social security on the one hand and 'employer-sponsored benefits' on the other, the latter referring to benefit programs where the government is acting as employer for public sector workers. Provision of pension and other benefits where a government is acting as the employer and providing benefit

programs solely for government employees similar to those provided by non-government employers for their employees should not be included under this social benefit standard. However, in some countries programs for specific groups of public sector workers, such as civil servants, municipal employees, public utility companies are operated in much the same way as social security is operated in other countries, so provision may need to be made in the standards for employer-sponsored benefits for programs which operate as social security.

The term ‘social security’ would then be confined to public benefit systems which apply to the whole population or significant sub-sections of the population, including both public and private sector workers or just private sector workers. These systems would in many countries arise in connection with the employer-employee relationship, i.e. by virtue or participation in the labour force. The term ‘social insurance’ should be used to define the subset of ‘social security’ where there is a close link between payment of contributions and receipt of benefits.

Examples of “social insurance” would include unemployment benefits and contributory pension schemes with employee/employer contributions defined by legislation and which are a responsibility of public entity and not an individual employer (for example ATP in Denmark and Canada Pension Plan in Canada). Membership of many such programs is contingent on being in employment.

Long-standing definitions of social security exist in ILO and OECD publications and statistics and it would be useful to align the definitions in the standard with those as far as possible. In addition to the definitions given, **Goods and Services** should be defined if they are to be specifically excluded.

### Specific Matter for Comment 2 (following paragraph 3.4)

- (a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?
- (i) The obligating event approach;
  - (ii) The social contract approach; and
  - (iii) The insurance approach.

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

- (b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.

(a)(i) *The obligating event approach.* This type of approach would be most appropriate for non-contributory social security programs, including not only means-tested and citizenship-based basic pensions, but also flat-rate pension programs such as those in Denmark and the Netherlands, where there are no specific social security contributions and financing is through general revenue.

A disadvantage of this approach is that does not take into account the ability of the State to raise taxes (including different forms of social security financing contributions) and, as a result, it may provide an incomplete picture with respect to the financial burden of such programs on the taxpayer. Therefore, we suggest that the standard should include a requirement that disclosures based on the “obligating event approach” be accompanied by the discussion of the program’s long-

term sustainability as per RPG1. We note that the CP touches on this option in Appendix B of the CP (page 83), where it proposes, in relation to Option 1: Obligating Event Approach, that “sustainability information could be made available in the notes or in a separate GPFR, for example a report on long-term sustainability of an entity’s finances prepared in accordance with RPG1”.

We suggest that the above should become a disclosure requirement for financial reporting for these systems. In many instances the information on long-term sustainability is available from actuarial valuation reports, but these may not be updated on an annual basis. Reference could be made to the most recent long-term sustainability report available, or, if information on long-term sustainability is required to be presented on an annual basis, an estimated update should be allowed during the inter-valuation period.

(a)(ii) *The social contract approach.* We do not believe that the social contract approach is an appropriate or financially realistic way of accounting for social benefits.

(a)(iii) *The insurance approach.* We see some benefits in this approach for social insurance schemes where the system is financed by designated contributions, including situations where contributions are made by employers and employees. These schemes are akin to private insurance in that benefits are paid for by contributions over a period, part of which is before the accounting date and part afterwards. However, (1) there is likely to be intergenerational and intragenerational solidarity and (2) financing will usually be on an open group approach, taking into account contributions and benefits for many generations.

We notice that Appendix B of the CP states explicitly on page 83 with regard to sustainability that: “This information relates to current participants in a scheme, and so does not include participants who will join a scheme in future periods.” Full sustainability information should include the expected benefit payments and contribution income in respect also of future participants. We understand from Appendix B that it is intended that the sustainability information should be made available in the notes or in a separate GPFR, for example a report on long-term sustainability of an entity’s finances prepared in accordance with RPG1.

We strongly encourage IPSASB to make the provision of long-term sustainability information a disclosure requirement for financial reporting. In many instances the information on long-term sustainability is available from the actuarial valuation reporting and is not updated on an annual basis. Thus we suggest that if information on long-term sustainability is required to be presented on an annual basis, an estimated update should be allowed during the inter-valuation period.

(b) It would be more informative for decision-makers if the accounting treatment were aligned with the funding approach. For many contributory programs this involves presenting financial statements and long-term sustainability information on an open group basis. To ignore this will lead to information that is unhelpful and quite possibly misleading for decision-making. An open group approach to financing requires contributions of both existing and future contributors to be considered as an asset, with liabilities recognizing future benefits in respect of current pensioners, existing contributors and future contributors.

### Specific Matter for Comment 3 (following paragraph 3.4)

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?



If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

The accounting treatment should be aligned with the agreed funding approach, especially when programs are financed using pay-as-you-go or partial funding. For many contributory programs this would involve accounting on an open group basis. It is potentially misleading to produce financial statements which ignore or misrepresent the reality of the financing approach for the scheme. Treating future benefit payments as liabilities without taking future contributions as assets would be particularly erroneous. Even to take into account only certain generations of contributors could be quite misleading. Such approaches fail to recognize that under pay-as-you-go and partially funded systems, in any given year current contributors allow the use of their contributions to pay benefits to current beneficiaries. Thus, there is a claim of current and past contributors on contributions of future contributors. For programs financed solely by contributions (without any government subsidy) these claims do not represent a government debt. For programs which are financed by both contributions and government subsidies, government debt is created only to the extent to which current assets and future contributions of existing and future contributors do not cover the current and future benefits.

### **Preliminary View 2 (following paragraph 3.4)**

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

## **Chapter 4 – Option 1: Obligating Event Approach**

### **Specific Matter for Comment 4 (following paragraph 4.69)**

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

- (a) Key participatory events have occurred ;
- (b) Threshold eligibility criteria have been satisfied ;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; 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 the reasons for your views.

Several interpretations might be provided for each of these obligating events, which also might differ by benefits being provided and the rules of the program.

Point (a) could be interpreted in the social security context to be the first time an individual makes a contribution as he/she joins the labour market (or in a more extreme way as when an individual is born), whereas point (b) would be when the qualification criteria are first satisfied (e.g. when sufficient contributions have been paid, a sufficiently long period of contributions has elapsed, the qualifying age attained or other eligibility criteria). Point (c) allows for the possibility that eligibility criteria might be met when a participant initially becomes entitled to a benefit, as under point (b), but without entitling the individual to continue receiving these benefits for his/her lifetime and the lifetime of dependants/survivors, if applicable. Therefore points (a) and (b) might be the same, at least regarding disability and retirement benefits. (b) could also be interpreted as being many years prior to the initial benefit being due, so could be of significant size, determined on a present value basis.

Revalidation (e.g. of whether disability or unemployment criteria are still met or, for pension, whether the individual is still alive and/or satisfies means-tested criteria) may be required. Challenges relating to family-based benefits might arise because benefits might be a function of future births into the family or divorce or death of a worker or dependant. Point (d) takes it to the next stage where a payment has been approved and point (e) is the strictest position where a payment is legally enforceable, but it could also be subject to interpretation.

An approach such as (a) based on the date of joining the labour market would only be meaningful as a liability if future contributions were also valued – so this would require an insurance approach (Option 3). Where social benefits are provided other than through a contributory social insurance scheme, entitlement will usually be based on meeting specific eligibility criteria. This would apply for means-tested benefits, where it is possible for eligibility to be withdrawn; in such cases we consider that approach (c) or (d) would be appropriate and only benefits payable up to the next validation check would be valued (such an approach might also apply for disability pensions). This would reflect the underlying reality, although in strict legal terms it might be more appropriate only to recognise claims that are enforceable (option (e)).

For other types of non-contributory benefits, we consider that approach (b) would be appropriate and a value would be placed on the liability using actuarial valuation methodology

For social insurance, if claims are recognised for everyone in the labour market who might be eligible to make a claim at some point in their lifetime, actuarial evaluation of the value of future claims would be needed. For retirement pensions, (b) would include as a liability only pensions for which all eligibility conditions have been met and the measurement would include the full annuity value (together with associated survivorship benefits).

We note that in all cases where an estimate is needed of the future value of payments that have been triggered by an obligating event, actuarial methodologies would be needed and the standard should provide for the involvement of actuaries in making the assessments.

### **Specific Matter for Comment 5 (following paragraph 4.76)**

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

Please explain the reasons for your views.

An obligating event could be said to occur on an accrual basis when contributions are paid but, in practice, unlike employer-sponsored plans, accrual of benefits is not always very closely linked to payment of contributions, since not all years necessarily count for additional accrual and some accrual may be deemed rather than actual, in order to allow, for example, for periods of sickness, maternity or caring. However, we do not think it would be appropriate to use the obligating event approach for contributory benefits, since these would be better accounted for on the insurance

approach or some modification thereof.

### **Specific Matter for Comment 6 (following paragraph 4.80)**

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 the reasons for your views.

We do not have any comments as we do not see social benefits as being provided through an exchange transaction. Even if they were, useful accounting disclosures would not result.

### **Preliminary View 3 (following paragraph 4.91)**

Under the obligating event approach, 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 benefits.

### **Specific Matter for Comment 7 (following paragraph 4.91)**

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

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

Please explain the reasons for your views.

We suggest (a). Where a liability is recognized and there are related assets, they should be included in all cases. It would be perverse not to show any assets which exist if a corresponding liability is to be recognized.

The value of future contributions is also an important asset in contributory schemes and should be included.

## **Chapter 5 – Option 2: Social Contract Approach**

### **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:
  - (i) A claim becomes enforceable; or
  - (ii) A claim is approved?
- (b) Measure this liability at the cost of fulfillment?

Please explain the reasons for your views.



In any case, a claim obligation should be recognized when services are provided. This is consistent with the cost of fulfilment of the obligation.

## **Chapter 6 – Option 3: Insurance Approach**

### **Specific Matter for Comment 9 (following paragraph 6.24)**

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?

Please explain the reasons for your views.

We support the insurance approach, or some modification of it that takes into account that there is no "profit" to be recognized, for contributory social security schemes. We consider it to be a step towards financial statements being aligned with the long-term financial sustainability of the program. The liability to be recognized would include reflection of contingent events which will take place in the future but would also recognize future contributions as an asset.

In addition, we strongly encourage the IPSASB to make a compulsory requirement to include in financial statements disclosure information on the long-term sustainability of programs prepared in accordance with RPG1.

### **Specific Matter for Comment 10 (following paragraph 6.35)**

Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:

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

Please explain the reasons for your views.

It would not necessarily be appropriate to recognise an expected deficit as an expense on initial recognition. This would depend on how deficits are dealt with.

Where a program is financially self-supporting based on contributions from employers and employees, it would not be appropriate to show a deficit if the financing method is designed to ensure that the system is in balance over the longer term. This is especially true for programs that possess so called self-adjustment mechanisms that prescribe methods for allocating the deficit between different program stakeholders: contributors (i.e. employers and employees) and beneficiaries and thus strive to maintain intergenerational equity. Some programs could be split into two components for the purpose of recognising deficit or surplus -- the first part financed on a pay as you go basis while the second is funded.

A different approach would be needed if there is an explicit government guarantee to make up any shortfall, which would be reasonable to show as a debt. However, more often it is the case that the government can change the rules of the game in the future to maintain the system in balance, e.g. by raising retirement age or increasing contributions, so the impact of such future adjustments should be recognized, particularly where the adjustments are automated by indexation of the retirement age to expectation of life at retirement age.

### **Specific Matter for Comment 11 (following paragraph 6.37)**

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and 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 the reasons for your views.

We favour (d). In our view a clear distinction needs to be made between financial information regarding social security programs and financial statements of governments. The former might be set up explicitly with a remit to ensure that benefit costs and administrative expenditures are met in full by contributions of employers and employees, together with investment income. If they are fulfilling this requirement it would be strange to force them to present financial statements which appear to show something different. If amounts are due to be paid from other parts of government in order to complete the picture, these should be shown as income, with a corresponding liability shown elsewhere in the government accounts.

#### **Specific Matter for Comment 12 (following paragraph 6.43)**

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

Please explain the reasons for your views.

We do not agree that the normal cost of fulfilment measurement basis should be used. Our understanding is the cost of fulfilment presumes that the future cash flows are adjusted for risk. In particular, although we do agree with the use of expected cash flows, we do not agree that a risk adjustment is appropriate. The primary reason is that governments have the flexibility, especially under dire financial conditions, to modify the terms of the social security system, e.g. decrease benefits, increase contributions or change other program features. In addition, given the duration of the obligations and the nature of the expected cash flows, a risk adjustment may be disproportionately large.

We strongly believe it is necessary to convey the degree of uncertainty as part of disclosure. Actuarial techniques such as sensitivity/stress testing and/or use of stochastic models to illustrate the range of uncertainty in the cash flow estimates are strongly encouraged and will provide proper perspective to the estimates involved.

#### **Specific Matter for Comment 13 (following paragraph 6.63)**

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

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

Please explain the reasons for your views.

We agree.

**Specific Matter for Comment 14 (following paragraph 6.72)**

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 the reasons for your views.

No. The discussion in the CP points towards use of government bond yields for discounting the benefit payments and future contributions, since this would be consistent with what is done for employee benefits (in IPSAS 25). We consider that market-based spot bond yields are not appropriate for unfunded social security liabilities which are to be financed out of future contributions and tax revenues. One reason is due to the inverse relationship between the yield on government bonds and credit rating of sovereign debt. For countries in a precarious financial position, the cost of borrowing of the government will be high, resulting in smaller social security liabilities. On the other hand, countries with good economic prospects may end up showing larger future liabilities. The economic basis for discounting would point to using discount rates based on the expected real growth of GDP or the real growth of the wage mass (or the contributions base for a contributory scheme) or growth in the real tax base.

For programs that are financed in part by investment income, the discount rate might be based on the future expected real return on the assets, adjusted for risk. A way to recognize future investment earnings in financial statements based on asset allocation should be addressed by future IPSAS on social security reporting.

**Specific Matter for Comment 15 (following paragraph 6.76)**

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?

Please explain the reasons for your views.

We believe that, although comprehensive disclosure of the changes and the effect of the changes is appropriate, modifications in the program should, in general, be treated as a change in estimates related to the program or in other comprehensive income. However, if the modification is to introduce a new set or eliminate a set of benefits, the proposals in paragraphs 6.73 to 6.76 would be reasonable.

## Appendix A

### Full Member Associations of the IAA (67 members)

(29 January 2016)

Caribbean Actuarial Association  
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)  
Actuaries Institute Australia (Australia)  
Aktuarvereinigung Österreichs (AVÖ) (Austria)  
Institut des Actuairens en Belgique (Belgique)  
Aktuarsko Drustvo U Bosni I Hercegovini (Bosnia and Herzegovina)  
Instituto Brasileiro de Atuária (IBA) (Brazil)  
Bulgarian Actuarial Society (Bulgaria)  
Canadian Institute of Actuaries/Institut Canadien des Actuairens (Canada)  
China Association of Actuaries (China)  
Actuarial Institute of Chinese Taipei (Chinese Taipei)  
Asociación Colombiana de Actuarios (Colombia)  
Institut des Actuairens de Côte d'Ivoire (Côte D'Ivoire)  
Hrvatsko Aktuarsko Drustvo (Croatia)  
Cyprus Association of Actuaries (Cyprus)  
Česká Společnost Aktuárů (Czech Republic)  
Den Danske Aktuarforening (Denmark)  
Egyptian Society of Actuaries (Egypt)  
Eesti Aktuaaride Liit (Estonia)  
Suomen Aktuaariyhdistys (Finland)  
Institut des Actuairens (France)  
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)  
Hellenic Actuarial Society (Greece)  
Actuarial Society of Hong Kong (Hong Kong)  
Magyar Aktuárius Társaság (Hungary)  
Félag Islenskra Tryggingastærðfræðinga (Iceland)  
Institute of Actuaries of India (India)  
Persatuan Aktuaris Indonesia (Indonesia)  
Society of Actuaries in Ireland (Ireland)  
Israel Association of Actuaries (Israel)  
Istituto Italiano degli Attuari (Italy)  
Institute of Actuaries of Japan (Japan)  
Japanese Society of Certified Pension Actuaries (Japan)  
The Actuarial Society of Kenya (Kenya)  
Latvijas Aktuaru Asociācija (Latvia)  
Lebanese Association of Actuaries (Lebanon)  
Lietuvos Aktuaru Draugija (Lithuania)  
Persatuan Aktuari Malaysia (Malaysia)  
Colegio Nacional de Actuarios A. C. (Mexico)  
Association Marocaine des Actuairens (Morocco)  
Het Koninklijk Actuarieel Genootschap (Netherlands)  
New Zealand Society of Actuaries (New Zealand)  
Den Norske Aktuarforening (Norway)  
Pakistan Society of Actuaries (Pakistan)

**Full Member Associations of the IAA (67 members)**

...continued

Actuarial Society of the Philippines (Philippines)  
Polskie Stowarzyszenie Aktuariuszy (Poland)  
Instituto dos Actuários Portugueses (Portugal)  
Asociatia Romana de Actuariat (Romania)  
Russian Guild of Actuaries (Russia)  
Udruzenje Aktuara Srbije (Serbia)  
Singapore Actuarial Society (Singapore)  
Slovenska Spolocnost Aktuarov (Slovakia)  
Slovensko Aktuarsko Drustvo (Slovenia)  
Actuarial Society of South Africa (South Africa)  
Institute of Actuaries of Korea (South Korea)  
Col.legi d'Actuaris de Catalunya (Spain)  
Instituto de Actuarios Españoles (Spain)  
Svenska Aktuarieföreningen (Sweden)  
Association Suisse des Actuaires (Switzerland)  
Society of Actuaries of Thailand (Thailand)  
Association of Consulting Actuaries (United Kingdom)  
Institute and Faculty of Actuaries (United Kingdom)  
American Academy of Actuaries (United States)  
American Society of Pension Professionals & Actuaries (United States)  
Casualty Actuarial Society (United States)  
Conference of Consulting Actuaries (United States)  
Society of Actuaries (United States)

## Appendix B

### Members of the Social Security Committee of the IAA<sup>1</sup>

(29 January 2016)

#### Chairperson:

Barbara D'Ambrogi-Ola                      Suomen Aktuaariyhdistys

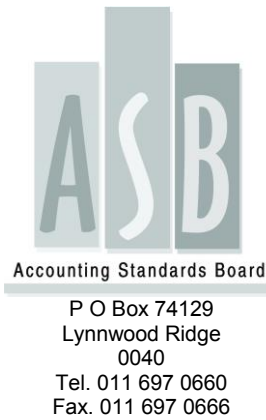
#### Co-Vice-Chairpersons:

Assia Billig                      Canadian Institute of Actuaries  
Aldona Skucaite                      Lietuvos Aktuaru Draugija

#### Members:

Janis Bokâns	Latvijas Aktuaru Asociacija
Catherine Censier	Institut des Actuares en Belgique
Robert F Conger	Casualty Actuarial Society
Roseanne Da Silva	Actuarial Society of South Africa
Maria Economou	Hellenic Actuarial Society
Rosa Maria Farell Campa	Colegio Nacional de Actuarios A. C.
Giovanna Ferrara	Istituto Italiano degli Attuari
A.D. Gupta	Institute of Actuaries of India
Ana Haramija	Hrvatsko Aktuarsko Društvo
Daniel Hernández Gonzalez	Instituto de Actuarios Españoles
Klaus Heubeck	Deutsche Aktuarvereinigung e. V. (DAV)
Martin Kosztolanyi	Slovenska Spolocnost Aktuarov
Christoph Krischanitz	Aktuarvereinigung Österreichs (AVÖ)
Thomas D Levy	Canadian Institute of Actuaries
Warren R Luckner	American Academy of Actuaries
Martin Kristofer Lunnon	Institute and Faculty of Actuaries
Ibrahim E. Muhanna	Lebanese Association of Actuaries
Tibor Parniczky	Magyar Aktuárius Társaság
Anders Erik Paulsboe	Den Norske Aktuarforening
Thierry Poincelin	Institut des Actuares
Adam Justin Reese	Conference of Consulting Actuaries
Nobuhiro Shimizu	Institute of Actuaries of Japan
Martin Alexander Stevenson	Actuaries Institute Australia
Fructueux Tétiali	Institut des Actuares de Côte d'Ivoire
Wilma Gomes Torres	Instituto Brasileiro de Atuária (IBA)
Diego Valero Carreras	Col.legi d'Actuaris de Catalunya
Xiao Qiang Zhao	China Association of Actuaries

<sup>1</sup> Chris Daykin, as Chairman of the Social Security Subcommittee of the Actuarial Association of Europe, is an Observer on the IAA Social Security Committee and participated actively in the preparation of this response



The Technical Director  
International Public Sector Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2  
Canada  
29 January 2016  
Per e-mail

Dear John

**COMMENTS ON THE CONSULTATION PAPER ON SOCIAL BENEFITS  
RECOGNITION AND MEASUREMENT**

Enclosed please find our comments on the IPSASB's Consultation Paper on *Social Benefits Recognition and Measurement*.

We commend the IPSASB for recommencing its work on this important topic. Given the current economic climate, it is important that governments understand the full effect of their social benefit obligations and what this means for their statements of financial position.

Overall, we are generally in support of the proposals in the Consultation Paper, although we do have reservations about the following key issues:

- The scope of the Consultation Paper and the possibility that schemes that are substantially the same may be treated differently because of the way in which the definitions have been crafted.
- There are too many definitions, some of which seem superfluous for accounting and reporting.

Board Members: Ms T Coetzer, Mr B Colyvas, Ms I Lubbe, Mr M Kunene, Mr K Makwetu,  
Mr V Ndzimande, Ms N Ranchod, Ms R Rasikhinya, Ms C Wurayayi  
Alternates: Mr S Badat, Ms L Bodewig  
Chief Executive Officer: Ms E Swart Technical Director: J Poggiolini

- The insurance approach may not be the most appropriate or relevant approach to account for schemes in the public sector, even those that may be similar to insurance-type schemes.

Our responses to the IPSASB's Preliminary Views are set out in Annexure A of this letter, while our responses to the Specific Matters for Comment are outlined in Annexure B.

In developing this comment letter, we have consulted a range of stakeholders locally. These stakeholders included audit firms, professional bodies, preparers and users.

Should you wish to discuss any of our comments, please feel free to contact me directly on [jeaninep@asb.co.za](mailto:jeaninep@asb.co.za).

Yours sincerely



Jeanine Poggiolini  
Technical Director



## Annexure A – Responses to preliminary views

### Preliminary View 1

Preliminary view 1 outlined a proposed definition of social benefits, along with several related definitions (see paragraph 2.50)

We broadly support the definitions, but have reservations about the following issues:

- the implications for the scope of the project based on the current definition of a social benefit;
- whether all the definitions are needed, particularly those describing social insurance, social security and social assistance;
- what a social risk constitutes and how it should be considered;
- clarity on the application of the definitions of social benefits in cash and in kind; and
- the classification of benefits when they are paid by an agent.

These issues are discussed below.

#### *1. Implication of definition of social benefits on scope of project*

##### Issue 1 – Potential inconsistent treatment of programmes that have the same economic substance

The definition of social benefits makes it clear that only those benefits that are provided to mitigate social risks are in the scope of the Consultation Paper. The Consultation Paper also explains that “universal” benefit programmes, for example, free healthcare or free education provided to all, i.e. individuals or households do not need to meet any eligibility criteria to qualify for the service, are excluded from the scope of the Consultation Paper.

We are concerned that this is going to result in potentially different accounting treatments for benefit programmes that are in substance the same. As a consequence of the definitions and the scope, some jurisdictions may treat these as social benefits in this Consultation Paper, while others will potentially apply the accounting proposed in the IPSASB’s project on non-exchange expenses, yet the substance of the good or service provided is the same. In both instances, government will need to procure the services of employees and the goods necessary to provide these benefits. As a result, there should be no difference in their treatment from an accounting perspective. We also believe that applying different accounting requirements, or even different IPSASs, may be overly complex.

We urge the IPSASB to reconsider the scope to ensure that benefits or programmes that have the same economic substance are not treated differently. We suggest including those programmes that are in substance the same, e.g. healthcare and education, in the non-exchange expenses project.

## Issue 2 – Schemes that are both universal in nature and require the satisfaction of eligibility criteria

We have identified a number of schemes where they include both a “universal” component, in that a certain amount of benefits are made freely available to all citizens, and thereafter additional goods and services are provided to eligible participants.

As an example, each resident within a particular municipality is entitled to 6kL of free water per month as access to water is considered a basic human right. If more than 6kL of water is required by a resident, but they cannot afford to pay for the water, they can apply to receive additional water at a substantially subsidised rate. In these instances, residents need to meet certain eligibility criteria to qualify for the subsidised benefits. Where residents do not qualify, they are supplied with water at the applicable tariff charged by the municipality.

It is unclear in these circumstances how the scheme should be classified.

We propose that the IPSASB includes guidance to accompany the definitions to explain that the substance of these arrangements needs to be considered, and whether they are predominantly a universal programme, or a social benefit as defined.

### *2. Need for all the proposed definitions*

While the definitions are generally supported, it is questioned whether all the definitions are necessary. While some of the definitions may be useful in classifying information for statistical purposes in GFS, they do not assist in distinguishing or classifying transactions for accounting purposes. In addition, the number of definitions makes both definitions and scope difficult to understand.

In particular, the definitions of social insurance, social assistance and social security appear to be “umbrella” terms for grouping together certain types of benefits or classifying types of entities. The main distinctions between these terms appear to relate to whether a scheme is contributory or not (social assistance versus social security); and when the scheme is contributory, whether it relates to an employer-employee relationship or not (social insurance).

In our view, whether schemes are contributory may affect the potential accounting, but does not create a distinct feature that requires separate definitions. Likewise, we believe that the scope of any Standard developed could exclude any benefits dealt with in other Standards, such as those arising from employer-employee relationships, negating the need for a separate definition.

As a result, we do not support retaining definitions of social insurance, social security and social assistance in developing an IPSAS. It may however be useful to discuss in the Basis for Conclusions, if an IPSAS is developed, that it is explained that these definitions were used as the starting point for the classification of social benefits in the GFS, and how they were used to derive the formal definitions in the proposed Standard.

### 3. *Considering “social risks” in identifying social benefits*

If the IPSASB retains the definitions and scope in the Consultation Paper in progressing the project, we have identified an area that requires clarification in relation to the definition of “social benefits”.

One of the key features of the benefits which are within the scope of the Consultation Paper is that beneficiaries must demonstrate the benefits are provided to mitigate a social risk. The concept of a social risk is not well understood in the accounting community, and may lead to a high degree of judgement being applied if an entity needs to assess whether additional demands are being placed on an individual's or household's resources.

Paragraph 2.43 explains when benefits might be provided to individuals and households. A core part of this discussion is that an individual or a household needs to be eligible to receive the benefit by meeting certain eligibility criteria. In our view, even a requirement to make contributions to be eligible for a benefit can be seen as a form of eligibility criteria.

There may be merit in using the concept of meeting eligibility criteria to limit the scope of any IPSAS developed in this area, so as to move the focus away from assessing exposure to a social risk (which may be judgemental), to satisfying eligibility criteria (which is more definitive).

We therefore suggest that the IPSASB consider limiting the scope of this IPSAS to only those benefits where eligibility criteria need to be satisfied.

### 4. *Clarity on the application of the definition “transfers in cash”*

Questions were raised during the consultation process on whether coupons or credits for certain goods and services would be classified as “in cash” or “in kind” transfers. While the Consultation Paper does mention this briefly, it should be clear in the definitions, or the explanatory text to the definitions, whether such items are in cash or in kind benefits.

In addition, the definition of benefits in cash refers to the individuals or households being able to use the cash “indistinguishably” from other forms of cash. It is unclear why this reference is included in the definition, and whether or not it imposes yet another consideration on an entity to assess in distinguishing in kind and in cash benefits.

Some stakeholders indicated that the rationale for separate definitions of in kind and in cash benefits is unclear. We have assumed that these may be necessary as the recognition and measurement approaches are developed, and possibly for presentational purposes. We ask the IPSASB to consider the relevance of these terms as the project progresses and whether they are in fact needed.

It was also observed that the inclusion of a separate definition of reimbursements may be inappropriate as readers may believe it is a separate category of transactions, rather than being part of transfers in kind. We propose deleting the definition of reimbursements, and instead using this as a supplementary description to what is included in transfers in kind.

## 5. *Classification of benefits when paid by an agent*

The definition of social benefits currently refers to benefits being paid to individuals or households by public sector entities. Frequently, other parties are used as disbursement agents. If read literally, it may imply that the payments are not made to the individuals or households but to another party.

We suggest that a discussion be included in the future IPSAS outlining that agents may be used to disburse or provide benefits, but that this does not mean that they are not social benefits as defined.

### **Preliminary View 2**

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

We support the IPSASB's preliminary view that:

Option 2 – social contract approach - should not be considered as we do not believe that it is conceptually sound, and will result in governments possibly understating their liabilities as they will only be recognised when the claim is approved. See our response to SMC 2(a)(ii).

We agree that option 1 – obligating event approach - is appropriate and believe that this will provide relevant information to users about government's obligations, as it reflects those circumstances when entities' have no realistic alternative but to fulfill an obligation. See our response to SMC 2 (a)(i). We believe that option 1 is also appropriate for insurance-type schemes.

We believe that option 3 - insurance approach - may be appropriate in certain circumstances. We do however believe that additional work may need to be undertaken to make this approach workable in the public sector. We also note that the IASB has not completed its work on the Insurance project yet, and question how adopting an approach that is not yet final impacts on the work of the IPSASB.

We are however of the view that in progressing the project, it would be appropriate to consider both option 1 and option 3. See our response to SMC 2(a)(iii) and (b).

### **Preliminary View 3**

Under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfilment. The cost of fulfilment should reflect the estimated value of the required benefits.

We agree that the cost of fulfillment is the most appropriate measurement for social benefits as it reflects the cost that government or individual entity will be required to incur to settle the obligation.

## Annexure B – Responses to Specific Matters for Comment

### Chapter 2 – Scope and Definitions

#### 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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

Please explain the reasons for your views.

- (a) We have reservations about the scope of the project, and in particular, that certain schemes that are in substance the same, may be treated differently. See our response to Preliminary View 1 above.
- (b) We believe that the definitions are appropriate, but question the need for all the definitions, and have identified certain definitions that may require amendment or further explanation. See our response to Preliminary View 1.

Although not related to the types of social benefits within the scope of the Consultation Paper, certain aspects of the scope of the accounting and reporting requirements have not been considered in the Consultation Paper. In particular, derecognition is not discussed. Careful consideration will need to be given to the derecognition requirements for social benefit obligations as the project progresses.

### Chapter 3 – Identification of Approaches

#### Specific Matter for Comment 2 (following paragraph 3.4)

- (a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?
  - (i) The obligating event approach;
  - (ii) The social contract approach; and
  - (iii) The insurance approach.

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

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

If yes, please describe such approach(es) and explain the strengths and weaknesses of each.

- (a) Our support or disagreement with the proposals is outlined below:
- (i) We support the obligating event approach as we believe this provides a sound conceptual basis for the recognition and measurement of liabilities related to social benefits. As approach 1 is based on the Conceptual Framework, we believe it will provide relevant information to users of the financial statements in a way, or on a basis, which is well understood.
  - (ii) We do not support the social contract approach as we do not support the notion that government's obligations are equal and/or related to the receipt of taxes. In South Africa, several court cases have indicated that government obligations need to be fulfilled irrespective of whether funding is available to meet those obligations. We also believe that recognising liabilities only when a claim is approved, as explained in the Consultation Paper, will not result in a fair representation of government's obligations. In many instances, we believe that government has no realistic alternative but to provide a particular benefit much earlier than when the claim is approved.
  - (iii) We support, on a limited basis, the insurance approach as we believe it may only be appropriate to specific types of schemes. While we believe that there is merit in considering this approach, we have reservations about whether it is the most appropriate method to use in the public sector. A number of our respondents have highlighted the complexity of applying the insurance approach outlined in the Consultation Paper. These comments are outlined in SMC 9.
- (b) While no additional approaches were identified, we have noted that the IASB's Exposure Draft on Insurance Contracts considered a "simplified" approach to recognising and measuring insurance contracts. This approach is called the "premium allocation" approach. There is merit in exploring this option as it may result in less complexity than the approach discussed in Chapter 6. See our response to SMC 9.

**Specific Matter for Comment 3**

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP? If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

No additional social benefit transactions were identified during our consultation process.

## **Chapter 4 – Option 1: Obligating Event Approach**

### **Specific Matter for Comment 4**

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

- (a) Key participatory events have occurred;
- (b) Threshold eligibility criteria have been satisfied;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; 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 the reasons for your views.

### Overall view

#### *General support for approach that acknowledges different recognition points*

We are of the view that any future IPSAS on social benefits should acknowledge that an obligating event may arise at different points. We believe that entities should have the ability to decide:

- (a) what the obligating event is that gives rise to the entity having no realistic alternative but to settle an obligation; and
- (b) that this decision should be based on the relevant legislation or other arrangement governing the scheme.

While this may give rise to potential differences in the way that schemes are recognised by jurisdictions, we believe it is conceptually appropriate to allow entities to apply judgement.

A key question to answer in developing a future IPSAS on social benefits is how these points will be used going forward in developing an approach to recognising and measuring social benefits. Subject to our comments below about the acceptability of all the points outlined in (a) to (e), the points should be used to provide guidance to entities about circumstances that may give rise to an obligating event, and in particular when an entity has no realistic alternative but to settle an obligation.



The guidance could include circumstances, or the types of schemes, for which the various points could be used, e.g. key participatory events may be useful for insurance-type schemes, threshold eligibility may be useful for recurring cash transfers, etc. along with appropriate measurement principles.

*Concerns about allowing recognition only when claim approved or claim is enforceable*

Although we support allowing flexibility, we do have reservations about allowing entities to recognise social benefits only when the claim has been approved, or when the claim is enforceable. In our opinion, this might be too late in the process, and will potentially allow entities to continue to understate liabilities on their statements of financial position.

While we do not support (e) at all, we believe that (d) may need to be used as a “last resort” if there is a significant degree of uncertainty about whether an outflow of resources will occur.

We are unsure whether there is, in all instances, a difference between the “meeting eligibility criteria” and “approved claim” options and believe that it may be ambiguous in certain instances. Our concerns on this issue are outlined below.

Observations on the application of the recognition points

In responding to (a) and (f) above and the appropriateness of the recognition points to social benefits, we consulted a number of affected entities about their social benefits programmes.

*(a) Key participatory events*

In general, we do not believe that a key participatory event gives rise to an obligating event. In many instances, it may be extremely difficult to even identify what the key participatory event could be, as for many benefits it could be birth within a particular jurisdiction.

We do however believe that for certain insurance-type schemes, using key participatory events is appropriate. We see that there may be a correlation between “key participatory events” and the “beginning of the coverage period” outlined in the insurance approach. As an example, in our unemployment insurance scheme, the key event that gives rise to an expectation that benefits will be provided is the commencement of employment. This coincides with the start of the coverage period under the insurance approach. Using “key participatory events” as the obligating event may result in liabilities being recognised that are analogous to those “Incurred But Not Reported” (IBNR) in terms of ED/2013/7 on Insurance Contracts issued by the IASB.

As a result, we believe that the obligating event approach could accommodate insurance type schemes. A substantial amount of guidance would need to be provided on the recognition and measurement of such liabilities in any future IPSAS developed on social benefits.

*(b) Threshold eligibility criteria have been satisfied*

We believe that meeting threshold eligibility criteria may give rise to an obligation for certain benefits. Recognising obligations based on meeting threshold eligibility criteria may be particularly appropriate for cash benefits paid, whether over a long or short period.

As an example, in South Africa old age grants are paid to eligible pensioners. We believe that once the pensioner becomes eligible to receive the benefit, this gives rise to an obligating event for the government as it creates a valid expectation that the benefits will continue to be paid until death. Even though pensioners are required to revalidate their eligibility from time-to-time, this is an administrative issue rather than a matter that changes government's obligations.

*(c) Eligibility criteria to receive the next benefit have been satisfied*

The satisfaction of eligibility criteria may give rise to an obligating event, particularly in the case of in kind benefits that are provided. This point is more relevant for in kind benefits because the benefits are often not recurring (or do not recur as frequently as benefits in cash).

We have reservations about the interpretation of the eligibility criteria that need to be met at this point versus point (d) which requires the claim to have been approved. We believe that in some instances the approval of the claim may be part of determining if an individual is in fact eligible to receive a benefit. As an example, to qualify for benefits under our Road Accident benefit scheme, the entity needs to determine that the claimant was not at fault. Once this has been determined, the individual is eligible and the claim is seen as approved.

As a result, we are not sure that there is always such a clear cut distinction between the claim being approved and the satisfaction of eligibility criteria.

If point (d) is retained, we believe that additional guidance may need to be provided on the difference between the two points.

It is also unclear whether (c) is applicable to all types of benefits. As this approach is dependent on revalidation, it would only be applicable to recurring benefits. It might be important to acknowledge this in this approach if it is used in developing a future IPSAS.

*(d) A claim has been approved*

Our response on (d) should be read in the context of our response to (c) above and the potential overlap with the idea of satisfying all the eligibility criteria.

As noted above, we believe that only recognising claims when they are approved may result in an understatement of liabilities on the statements of financial position of governments. An example where we believe it may be inappropriate to apply point (d) is as follows:

In our unemployment insurance scheme, an individual qualifies for cover from the date of employment. If unemployed, application is made to the entity and benefits are received. To receive the benefits every month, the individual must verify every month that he/she is still unemployed. The entity will go through a process every month, administratively, of approving the claim as outlined in legislation. This type of approval should not be used as a basis for recognising obligations of government.

*(e) A claim is enforceable*

We do not support recognising obligations only when they are legally enforceable. This practice is currently applied for our social grant scheme and does not provide meaningful information to users of the financial statements about government's obligations to pay benefits to recipients. Recognition only when claims are enforceable is also not aligned with the concept of accrual accounting which recognises events when they occur.

*(f) Any other point*

No other points were identified during our consultations. We do however note that, if the points outlined in the Consultation Paper are going to be used to provide guidance to entities (as noted in overall comments on this specific matter for comment), it is arguable that other points may arise and could be used by entities.

Alternative views expressed by constituents

Some of our stakeholders indicated that all 5 points outlined in the Consultation Paper should be permitted in any IPSAS developed on social benefits. They were of the view that entities should be left to apply judgement in deciding how to identify the events that give rise to social benefit obligations.

While we understand that this follows a purely conceptual approach, we believe that without more rigorous guidance, governments may not recognise liabilities on their financial statements as they may well choose to recognise only those obligations that are legally enforceable. This could impair the comparability of financial statements of governments operating similar social security schemes.

Some constituents, albeit a minority, also questioned whether a separate IPSAS is needed, and suggested that IPSAS 19 should be amended to include social benefit obligations. We do however support the development of a separate IPSAS as we believe specific recognition and measurement guidance is needed.

**Specific Matter for Comment 5**

In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach? Please explain the reasons for your views.

We do not believe that an obligating event occurs earlier for contributory benefits than non-contributory benefits as we do not believe that making contributions is the event at which an entity has no realistic alternative but to settle an obligation.

In some instances, an obligation may arise before contributions are made because another event triggers an obligation. We believe that the level of contributions provided is important in measuring obligations, but does not provide information about when the obligating events occur. This view is based on the types of schemes operated in our jurisdiction. A brief overview is provided below.

In South Africa, the only contributory schemes that are operated relate to unemployment insurance scheme, compensation for injuries on duty, and compensation for injury, disability or death as a result of an accident on the country's roads. In most of these schemes, the receipt of contributions is merely a funding mechanism rather than giving rise to a specific obligating event.

There is however a closer link between the contributions received and the benefits incurred for the unemployment insurance scheme. For the unemployment benefits, individuals and their employers contribute 2% of the individual's salary to qualify for the benefits. The period of time worked, as well as the salary earned, determines the amount of the benefits to which the individual is entitled.

Although there is a direct and causal link between the benefits received and the contributions made, the event that gives rise to the obligation is entering employment and the expectation that employment will result in future coverage for unemployment. The value of the liability may depend on the amount of the contributions made, but it does not provide evidence of the point at which government has no realistic alternative but to settle the obligation.

While we currently do not have any schemes where contributions themselves give rise to an obligating event for the entity, we acknowledge that this may need to be assessed for the specific scheme in question. A clear assessment would need to be made of whether making a contribution gives rise to an expectation of benefits for the individual or household making the contribution, such that the entity has no realistic alternative but to settle the obligation.

#### **Specific Matter for Comment 6**

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 the reasons for your views.

We are of the view that social benefits provided through exchange transactions, as outlined in the scope of the Consultation Paper, should be accounted for in accordance with existing IPSASs. This would include “exchange” social benefits such as those provided in employer-employee relationships (as outlined in IPSAS 25), concessionary loans and guarantees (as outlined in IPSAS 29) which are already addressed in existing Standards of GRAP.

During our discussions on the Consultation Paper, it was questioned whether certain benefits would be classified as exchange or non-exchange. With the introduction of the “insurance approach” in particular, questions were asked about whether, or in what instances, contributory schemes are exchange or non-exchange in nature. We believe that this will need to be considered in the next phase of the project and clear guidance provided.

#### **Specific Matter for Comment 7**

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

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

Please explain the reasons for your views.

We believe that the answer to this question may depend on whether the contributions provided give rise to an obligation of the entity. Where there is an expectation that contributions entitle an individual or household to certain benefits, it is appropriate to present the scheme assets and obligations on a net basis. However, even if the assets and liabilities are presented on a net basis, a reconciliation should be presented in the notes to the financial statements outlining how the net amount is derived.

In all other circumstances, we are of the view that the assets and liabilities relating to a scheme should be presented on a gross basis.

#### **Chapter 5 – Option 2: Social Contract Approach**

#### **Specific Matter for Comment 8**

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

- (a) Recognise an obligation in respect of social benefits at the point at which:
  - (i) A claim becomes enforceable; or
  - (ii) A claim is approved?
- (b) Measure this liability at the cost of fulfilment?

Please explain the reasons for your views.

As noted in SMC 2, we do not support the social contract approach.

## **Chapter 6 – Option 3: Insurance Approach**

### **Specific Matter for Comment 9**

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach? Please explain the reasons for your views.

We do not support the IPSASB's conclusions on when the insurance approach could be applied. The IPSASB concluded that the insurance approach could be applied when there are schemes with:

- Imputed contributions that involve cash transfers.
- A low level of contributions that do not involve cash transfers.
- Contributions that are funded as a general tax where there is a reliable basis for allocating the contributions to the individual schemes.

We believe that the insurance approach is complex to apply, and is premised on the fact that the entity has information available about the revenue it will receive, the claims it will pay, and the period over which the insurance cover is provided. This information is then used at the outset of the contract to determine the profit or loss.

Entities often do not have information about the revenue they are entitled to receive, as the revenue, even if received in the form of specific contributions, is often collected by another agency. As an example, our unemployment insurance scheme receives contributions from individuals and their employers, but this is collected by the Revenue Authority as a tax on payroll. The entity often only has information available on the individuals and contributions at much later periods compared to the period in which the coverage period starts.

We also believe that insurance contracts are designed to ensure that there is a direct correlation between the risks assumed (i.e. benefits to be paid) and the fees charged. In many instances, there is simply no correlation between the revenue and expense streams. Any revenue received is often based on a tax on a specific activity, or a general allocation of revenue to subsidise the scheme. This is different to the basic economic substance of an insurance contract.

While there is merit in applying the liability aspects of the insurance approach, we believe that the revenue aspect of the approach, and in particular the combination of the revenue and expense streams into a single model, is inappropriate in the public sector. The insurance approach, as outlined in the Consultation Paper, may only be relevant to insurance contracts that are undertaken on a commercial basis, rather than those operated in the public sector, or where contributions charged compensate the entity assuming the risks.

As noted in our response in SMC 4 on “key participatory events”, we are of the view that approach 1 could accommodate insurance related schemes, without developing a separate approach which may be complex for entities to apply.

As noted in our response in SMC 2, the Consultation Paper currently only explores one approach outlined in the IASB’s exposure draft on Insurance Contracts. The other approach explored, called the “premium allocation” approach, is a simplified method that is particularly useful for short term insurance contracts. Under this approach, revenue and expenses are not recognised and measured on a net basis. Revenue is recognised when it is earned, while liabilities and expenses are recognised independently of the revenue generated based on the present value of the future risk plus a risk adjustment. As a result, no contract profit or loss is determined and recognised over the period.

We are of the view that there may be merit in exploring this alternative approach if the insurance approach is pursued as it focuses less on the revenue received as part of the scheme. Although this approach is only applicable to short term insurers in the IASB’s ED, it may be relevant for other types of schemes in the public sector.

We also note that, if either of the insurance approaches are followed, the IPSASB would need to consider the revenue recognition implications of adopting such an approach.

#### **Specific Matter for Comment 10**

Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:

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

Please explain the reasons for your views.

Our response to this specific matter for comment should be read in the context of our limited support for the insurance approach.

If the IPSASB pursues the insurance approach as outlined in the Consultation Paper, we support the proposal that any surplus should be recognised over the period of the benefit, and that any deficit should be recognised immediately. Recognition of the surplus over the period of the contract reflects the period over which the profit is earned. Recognition of the deficit initially reflects the notion that the contract (or arrangement) is onerous.

#### **Specific Matter for Comment 11**

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

- (a) Recognise an expense on initial recognition;
- (b) Recognise the deficit as an expense over the coverage period of the benefit;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and 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 the reasons for your views.

Our response to this specific matter for comment should be read in the context of our views expressed on the appropriateness of the insurance approach.

Where social benefits are not designed to be fully funded by contributions, we question whether the insurance approach is appropriate. It may be feasible to explore the premium allocation approach as outlined in our earlier response.

If the IPSASB pursues the insurance approach as outlined in the Consultation Paper, then we are of the view that the deficit should be reflected as an expense on initial recognition as this reflects that it is an onerous contract.

#### **Specific Matter for Comment 12**

In your view, under the insurance approach, should an entity use the cost of fulfilment measurement basis or the assumption price measurement basis for measuring liabilities? Please explain the reasons for your views.

If an entity is able to charge contributions that adequately compensate it for the risk assumed, the assumption price is appropriate. We note that if an assumption price is used, it may require complex calculations to be undertaken and significant assumptions to be applied. It is also notable that the measurement model in the insurance approach proposed by the IASB also does not fully align with the concept of an assumption price in the Consultation Paper.

However, because many public sector insurance type schemes are not undertaken on this basis, we are of the view that using cost of fulfillment as the measurement basis for liabilities is more appropriate. Cost of fulfillment provides a relevant measure of liabilities as it reflects the cost that the entity will incur to settle the obligation.



**Specific Matter for Comment 13**

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 scheme is that of a social insurance scheme; and
- There is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme. If you disagree, please specify the criteria that you consider should be used.

Please explain the reasons for your views.

In our response to SMC 9, we indicate that we do not support using the insurance approach in these instances as the accounting approach does not support the economic substance of the arrangement.

**Specific Matter for Comment 14** (following paragraph 6.72)

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 the reasons for your views.

Our response to this specific matter for comment is based on the premise that cost of fulfillment rather than an assumption price is used to measure obligations arising from insurance type schemes. If cost of fulfillment is used, then we support the use of a discount rate based on the principles in IPSAS 25 as this reflects a risk free rate.

The discount rate determined in accordance with IPSAS 25 would however be inappropriate if an assumption price measurement basis is used.

**Specific Matter for Comment 15** (following paragraph 6.76)

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76? Please explain the reasons for your views.

If the insurance approach is pursued by the IPSASB, we support the subsequent measurement proposals.



January 29, 2016

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**Re: PSAB Staff Comments on Consultation Paper “Recognition and Measurement of Social Benefits”**

Thank you for the opportunity to comment. We appreciate that social benefits is one of the most important and difficult topics facing public sector accounting today.

Recently, the Ontario government announced a new public pension plan called the Ontario Retirement Pension Plan.<sup>1</sup> The plan will provide a defined benefit to workers who are not already members of work pension plans. It will be funded by employer and employee contributions and supplement retirement income.

This example illustrates how prevalent social benefits are in Canada. While every jurisdiction has its own unique legislation and policy design, we find two questions are inherently tied to such a social benefit:

1. What is the cost of this promise?
2. Is the plan sustainable?

What makes social benefits difficult to account for is that there is rarely consensus as to when a present obligation arises. Our goal as standards setters is to provide decision-useful information and hold governments accountable. To achieve this, accountants must record a provision for the long term obligation the moment contributions enter the fund. Costs cannot be deferred until payments are due.

We believe that in taking contributions, the government has made a firm commitment to the public. It may not know precisely who will receive the cheques and for how much, but in aggregate, it has lost discretion to avoid these costs. If these costs are not recorded until a later date, such as when claims are being made, then we have failed at meeting our goal.

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<sup>1</sup> <https://www.ontario.ca/document/ontario-retirement-pension-plan-made-ontario-solution>

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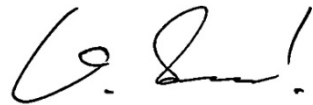
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General purpose financial statements may not always be able to report on the sustainability of social benefits. But for some social benefit schemes (as described above), accounting standards have an opportunity to address sustainability directly on the books. Actuarial assumptions can play a critical role in the measurement of insurance-type liabilities. Indeed, such methods are sufficient for shareholders of insurance companies to know whether reserves are sufficient to meet long term obligations.

Overall, PSAB staff is in support of the proposals in the Consultation Paper. The options are well presented and clear. Our comments to Specific Matters are in the Appendix to this letter. This document represents the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB).

Thank you again for the opportunity to provide you with input on this Consultation Paper. We hope that you find our comments helpful.

Sincerely,



Umar Saeed, MAcc, CPA, CA

Principal, Public Sector Accounting

## APPENDIX

### Specific Matter for Comment 1 (following paragraph 2.50)

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?

Yes the scope of the CP is appropriate. Figure 2 articulates the scope well.

- (b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

The definitions are clear and precise.

## Chapter 3 – Identification of Approaches

### Specific Matter for Comment 2 (following paragraph 3.4)

- (a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?

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

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

The obligating event approach (i) describes the recognition issues sufficiently and encompasses the most critical question with respect to social benefits: at what point should we accrue the obligation? We believe that there is a strong argument to record social benefits no later than the point where "(c) eligibility criteria to receive the next benefit have been satisfied," and perhaps earlier, such as "(b) where threshold criteria have been satisfied." More detailed comments are provided below. We support this overall approach and would welcome its inclusion in an Exposure Draft.

Along with the obligating event approach, we also support the insurance approach. The framework for dealing with certain types of social benefits using the insurance approach is clear. It seems appropriate to recognize and measure insurance-type obligations using provisions.

The social contract approach, while a useful analogy, appears to support no measurement until such time that the contract is deemed onerous. In concept, this makes sense and could provide an elegant solution to a difficult problem. However, we worry that in practice it may be too easy for preparers to defer and deny the recognition of an onerous social contract until it is too late for the information to be decision-useful.

**(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.**

Some of the approaches discussed in “*Accounting for Social Security and Its Reform*” (Howell E Jackson, Harvard) may be of use in defining options for the insurance approach.<sup>2</sup>

### **Specific Matter for Comment 3 (following paragraph 3.4)**

**Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP? If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.**

We are not aware of additional transactions.

### **Preliminary View 2 (following paragraph 3.4)**

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

We agree.

## **Chapter 4 – Option 1: Obligating Event Approach**

### **Specific Matter for Comment 4 (following paragraph 4.69)**

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

- (a) Key participatory events have occurred ;**
- (b) Threshold eligibility criteria have been satisfied;**
- (c) The eligibility criteria to receive the next benefit have been satisfied;**
- (d) A claim has been approved;**
- (e) A claim is enforceable; 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 the reasons for your views.**

PSAB currently has a standard on government transfers (PS 3410) that, broadly speaking, falls somewhere between (b) and (c) above. As it is written, the standard requires judgment as to whether future eligibility are firm criteria that need to be met for an expense/liability recognition, or whether they are merely formalities required as part of the process for claiming entitlements. It may not be

<sup>2</sup> [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=458921](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=458921)

possible to eliminate this element of judgment from preparers and auditors as the nature of social benefits across jurisdictions can be quite unique.

We believe that there is a strong conceptual argument to record social benefits no later than the point where (c) eligibility criteria to receive the next benefit have been satisfied. Recording obligations any later than this point (claim is approved or claim is legally enforceable) is simply too late for this information to be relevant to users. While recording obligations where eligibility criteria to receive the next benefit (c) provides a starting point, it may still fall short of providing decision-useful information or holding governments to account.

In our experience, governments do not record social benefits unless eligibility criteria to receive the next benefit have been satisfied. It is argued that there is too much uncertainty to estimate anything beyond the current year's eligible accrued benefits. However, if social benefit liabilities do not include amounts because their timing and measurement is uncertain, we may not be producing useful financial statements. We must recognize that when we define liabilities for governments, Agency Theory does not apply to government financial statements.<sup>3</sup> Bonuses are not paid out to government employees based on the calculation of annual surplus/deficit. Banks do not make collateral calls based on a government violating its debt-to-equity loan covenant. In other words, private contracts are not settled based on a government's GAAP-based financial results. This is not how general purpose financial statements are used. Considering this, what decisions can be made about the costs or sustainability of social benefits if our goal is to simply accrue that portion of the obligation that is payable in the period?

IPSAS 19 has defined provisions, creating room for the measurement of obligations earlier than point (c) because provisions anticipate uncertain timing and amounts with long term obligations. Provisions acknowledge that when the public needs to know what the costs of a new pension plan might be, they are not inquiring about the current year's accrued obligation. Useful information would be the estimated cost of fulfilling the long-term obligation. The users are interested in knowing the long term obligation relating to the social benefits program, not the short term amount payable to current beneficiaries. This treatment holds governments to account as costs are not deferred into the future.

### **Specific Matter for Comment 5 (following paragraph 4.76)**

**In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach? Please explain the reasons for your views.**

As stated in 4.73, "the existence of an obligation is not affected by the funding of that obligation." This is true. However, funding already set aside for an obligation is concrete evidence that an obligation exists. Funding for a contributory scheme hinders a government's ability to deny that a long term obligation exists. Where general taxation is used to fund a social benefit (i.e., social assistance), evidence that a government has lost its discretion to avoid payment is not as compelling. Thus, it is possible for a contributory scheme to recognize an obligation at an earlier point than a non-

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<sup>3</sup> Although Agency Theory may apply to public sector entities such as Not-for-profits, we have not considered such entities in this analysis as such entities are unlikely to provide social benefits as defined in the Consultation Paper.

contributory scheme. This is not a conceptual difference. It is a distinction based on the evidence available to make judgments about a government's obligations to society.

### **Specific Matter for Comment 6 (following paragraph 4.80)**

**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 the reasons for your views.**

No comment at this time. We are not aware of any additional examples.

### **Preliminary View 3 (following paragraph 4.91)**

**Under the obligating event approach, 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 benefits.**

Agree.

### **Specific Matter for Comment 7 (following paragraph 4.91)**

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

- (a) In all cases;**
- (b) For contributory schemes;**
- (c) Never; or**
- (d) Another approach (please specify)?**

**Please explain the reasons for your views.**

We agree with approach (a), provided there are specific contributions or restricted assets set aside for the provision in question. This approach would inform users about potential funding gaps. Second, this approach faithfully represents the value of contributory schemes. It is not in the public interest to overstate long term obligations (reporting only the gross liability and ignoring plan assets), just as it is not in the public interest to avoid recording long term obligations to begin with.

## **Chapter 5 – Option 2: Social Contract Approach**

### **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:**
  - i. A claim becomes enforceable; or**
  - ii. A claim is approved?**
- (b) Measure this liability at the cost of fulfillment?**

**Please explain the reasons for your views.**

The Social Contract Approach (and executory contracts) provides a useful analogy for understanding social benefit obligations. However, recognizing only legally enforceable liabilities (or approved claims) appears to fall short of meeting financial reporting objectives.



## Chapter 6 – Option 3: Insurance Approach

### Specific Matter for Comment 9 (following paragraph 6.24)

**Do you agree with the IPSASB's conclusions about the applicability of the insurance approach? Please explain the reasons for your views.**

Agree. Where social benefit schemes resemble insurance in substance, we agree that the recognition and measurement of such schemes should follow the Insurance Approach.

#### **Measurement – a word of caution**

As stated in 6.8, insurance contracts are measured using a current estimate of future cash flows associated with the contract. When accounting for insurance contracts in the private sector, it is common practice to estimate the present value of all future cash flows related to an insurance contract obligation, which includes payment of claims/benefits along with future premiums to be collected.<sup>4</sup>

The observation in 6.19 is key to this approach. Financial accounting lacks symmetry when it comes to recognizing assets versus recognizing liabilities. By design, recognizing assets is harder than recognizing liabilities. In measuring a social insurance liability, the more future cash flow information we incorporate into the estimate, the more faithfully we represent that obligation. But in doing so, have we indirectly allowed a government to recognize its sovereign right to tax as an asset on the financial statements?

We at PSAB are divided on this issue. On the one hand, if a government legislates mandatory contributions that are dedicated to relieving specific social insurance obligations, should this not be considered when measuring the expected cash flows of the obligation? Do we not run the risk of overstating liabilities and misstating a government's financial position by ignoring future contributions? Perhaps more importantly, by excluding future contributions in the measurement of the liability, have we proposed a standard that might never be adopted?

On the other hand, if we permit the recognition of future contributions as an offset to measuring the social benefit obligation, have we opened a door for governments to recognize their sovereign right to tax through such obligations? What criteria or limits would stop a government from recognizing such assets as a reduction of liabilities until it no longer has any liabilities?

Can standard setters develop criteria to allow recognition of future contributions in the measurement of a liability without this precedent being applied to all future tax revenue? In the quest to faithfully represent a social benefit obligation on the balance sheet, the question of how we set parameters with respect to items that can offset the obligation is of critical importance.

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<sup>4</sup> In Canada insurance companies use CALM (Canadian Asset Liability Model) where the measurement of an insurance contract takes into consideration scheduled premiums (cash inflows) to be paid by the customer in determining the present value of expected cash flows for the liability.

### **Specific Matter for Comment 10 (following paragraph 6.35)**

**Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:**

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

**Please explain the reasons for your views.**

We understand and agree with the need for applying prudence. If it is a loss, recognize it immediately. If it is a gain, recognize it over the coverage period. However, such a proposal would appear to contradict the IPSASB conceptual framework.

Prudence is not explicitly defined in the conceptual framework. It is incorporated in the notion of neutrality, which is a component of faithful representation. In BC3.17 of the conceptual framework, the IPSASB describes prudence as the “need to exercise caution in dealing with uncertainty.” This leaves us with the following conundrum – how can we claim to faithfully represent a transaction when the result of that transaction (gain or loss) is what determines its accounting treatment?

Overall, proposed approaches should be internally consistent with existing IPSASs (e.g., Employee Benefits) where their substance is comparable.

### **Specific Matter for Comment 11 (following paragraph 6.37)**

**In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;**
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;**
- (d) Offset the planned subsidy and 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 the reasons for your views.**

We believe (a) and (c) are viable options. Option (b) represents deferral and amortization of a loss, which may not represent an entity’s financial position accurately. As discussed above (comment 9), we worry that option (d) may represent the indirect recognition of items that would not otherwise meet the asset test.

In PSAS, governments may use note disclosure to report on funds. This supplemental disclosure provides governments with an opportunity to show the public how earmarked funds or reserved funds are being used to complete public sector projects and programs. This is a reporting option, not a requirement. We have found this type of reporting to be most common at the municipal level in Canada. While we have conceptual issues with option (d), we do believe this type of transparency and accountability has a role to play in the financial statements. Further elaboration of how such an approach would work within the financial statements would be helpful in understanding this option if it is included in future documents for comment.

### **Specific Matter for Comment 12 (following paragraph 6.43)**

**In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities? Please explain the reasons for your views.**

We believe the cost of fulfillment is the most appropriate measurement base for all approaches identified in the CP.

### **Specific Matter for Comment 13 (following paragraph 6.63)**

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

**If you disagree, please specify the criteria that you consider should be used. Please explain the reasons for your views.**

Agree.

#### **Framing the Insurance Approach:**

In describing the Insurance Approach as a third option, it may appear to some readers that the IPSASB is proposing to restrict the recognition of social benefits to only those obligations that resemble insurance contracts. While we do not believe that this is the IPSASB's intention in setting out the Insurance Approach as a standalone option, it may be interpreted that way.

We view the insurance approach as a subset of the obligating event approach. There is broad spectrum of social benefit programs; some are like insurance. The IPSASB may conclude that the obligating event approach is appropriate for all social benefit programs. For a subset of those, there exists a specific measurement approach for the obligations that resemble insurance programs. An entire industry has developed measurement techniques for liabilities related to insurance programs and those techniques can be extrapolated to insurance-type social benefit programs in the public sector.

As stated in 6.10, this measurement approach lines up with some variants of Option 1 (threshold eligibility criteria sub-option). The Insurance Approach is an approach toward measurement of liabilities that resemble insurance contracts. The issue with respect to recognition criteria is well described and can best be dealt with as obligating events (approach 1). It is important to use such techniques where they are most applicable in order to recognize and measure liabilities for social benefits.

However, strategically, if the Obligating Event approach is not well-received, the Insurance Approach may be a theoretically supportable stand-alone approach to ensuring that some social benefit obligations are recognized as liabilities. Under this scenario, the vast majority of social benefit programs would be considered to fall under the Social Contract approach and the recognition of obligations for such programs may be limited. In contrast, social benefit programs that are comparable to insurance programs could arguably be treated differently as there are standards all

over the world regarding the accounting for insurance programs; it may be hard to argue that public sector social insurance programs are substantively different.

**Specific Matter for Comment 14 (following paragraph 6.72)**

**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 the reasons for your views.**

Agree. Internal consistency with other IPSAS is important.

**Specific Matter for Comment 15 (following paragraph 6.76)**

**Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76? Please explain your views.**

No comment at this time.



International Public Sector Accounting Standards Board  
Mr Ian Carruthers, IPSASB Chair  
and Mr John Stanford, IPSASB Deputy Director  
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Toronto, Ontario M5V 3H2  
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31 January 2016

Dear Mr Carruthers, dear Mr Stanford,

**Consultation Paper on Recognition and Measurement of Social Benefits**

We are pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on Consultation Paper on Recognition and Measurement of Social Benefits (the Consultation Paper) on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Exposure Draft. “PricewaterhouseCoopers” or ‘PwC’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency, and transparency of public sector financial reporting worldwide.

The Consultation Paper on the Recognition and Measurement of Social Benefits addresses a very important topic in public sector accounting. Social benefits represent a significant portion of expenses for many governments and it is therefore key that the consequences of such transactions be properly reflected in government financial statements. Timely issuance of a standard on social benefits is crucial as it will fill one of the most important remaining gaps in the suite of IPSAS standards. We therefore support IPSASB’s proposal regarding the limitation of the scope of the project.

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We agree with IPSASB's preliminary view that a combination of the obligating event approach and insurance approach would best reflect the accounting substance of the transactions that will fall into the scope of the social benefits standard. We do however reject the social contract approach which would not result in providing information that can achieve the accountability and decision-making objectives of financial reporting. We also raise some recommendations in order to enhance consistency in application of the proposed approaches.

If you would like to discuss any of these points in more detail, please contact Paul Fitzsimon ((+1) 416 869 2322), Jean-Louis Rouvet ((+33) 1 56 57 85 78), Patrice Schumesch ((+32) 2 710 40 28) or Sebastian Heintges ((+49) 69 9585 3220).

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Patrice Schumesch", written in a cursive style.

PricewaterhouseCoopers

<b>Responses to the questions in IPSASB's Consultation Paper on the Recognition and Measurement of Social Benefits</b>
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### **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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?**

#### **Please explain the reasons for your views.**

- (a) We believe that the scope limitation proposed by the IPSASB is appropriate and agree with the proposal to deal with other transfers in kind and collective goods and services in a separate project on non-exchange expenses as the substance of such transactions, which do not aim to mitigate the effects of social risks, is different. We also welcome the closer alignment with GFS guidelines which is one of the IPSASB's strategic objectives.

In addition, this limitation in scope would facilitate timely issuance of a standard on social benefits, which we strongly encourage as it will fill one of the most important remaining gaps in the suite of IPSAS standards. This will further enhance the relevance and usefulness of the IPSAS framework for governments, and therefore should contribute to the wider acceptability and adoption of IPSAS.

- (b) We believe that the definitions in Preliminary View 1 provide an appropriate basis for a standard on the accounting for social benefits.

### **Specific Matter for Comment 2**

- (a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?**
  - i. The obligating event approach;**
  - ii. The social contract approach;**
  - iii. The insurance approach.**

**Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.**

- (b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.**

- (a) We support the view that a combination of the obligating event approach (option 1) and insurance approach (option 3) would best reflect the accounting substance of the transactions that will fall into the scope of the social benefits standard.

The obligation event approach appears to be the most appropriate due to its consistency with the definition of a liability in the IPSASB Conceptual Framework and its applicability to all kinds of social benefits. However, the insurance approach may also be appropriate for social insurance schemes that are contributory in nature (i.e. similar to a typical insurance contract in the private sector).

We do not believe that the social contract approach is appropriate and strongly reject it. It would be inconsistent with the IPSASB Conceptual Framework and its application would leave many liabilities unrecognised in the financial statements, which would not result in providing information that can achieve the accountability and decision-making objectives of financial reporting. There is typically no direct link between the tax collection and the social security provided by a government. When the government has an obligation to provide social benefits, it has to settle the obligation regardless of the quantum of its tax collections.

- (b) We are not aware of any additional approaches.

### **Specific Matter for Comment 3**

**Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?**

**If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.**

We are not aware of any social benefit transactions which could not be addressed by the options set out in the Consultation Paper.

### **Specific Matter for Comment 4**

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

- (a) Key participatory events have occurred ;**
- (b) Threshold eligibility criteria have been satisfied ;**
- (c) The eligibility criteria to receive the next benefit have been satisfied ;**
- (d) A claim has been approved ;**
- (e) A claim is enforceable; 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 the reasons for your views.**

We do not believe that it is possible to define a rule that would be appropriate for the recognition of a social benefit liability for all types of social benefits at the same point in time. Instead we believe that the variety of the types of social benefits and the specific circumstances of the legal environments and jurisdictions in which they are granted should inevitably lead to different conclusions as to the most appropriate timing for recognition.

In particular, there may be situations linked to certain types of social benefits in specific jurisdictions where the obligation is created over time and which should trigger recognition of the social benefit liability and of the related expense over time as well, while the obligation event in other circumstances (other types of benefits and/or other jurisdictions) may be the occurrence of one specific event which then should lead to the recognition of the social benefit liability and the related expense at one point in time.

We strongly recommend that the IPSASB develop clear principles that go beyond the basic characteristics of a liability and non-country specific illustrative examples that will provide useful guidance as to how the recognition principles should be applied to various types of social benefits, by distinguishing between those benefits for which recognition of a liability / an expense over time is appropriate on the one hand, and those benefits for which recognition of a liability / an expense at one point in time is appropriate on the other hand. Where recognition at one point in time is appropriate, we believe that recognising a social benefit liability when the claim is approved or is enforceable is in any case too late and would lead to an understatement of government liabilities as defined in the Conceptual Framework.

### **Specific Matter for Comment 5**

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

**Please explain the reasons for your views.**

In principle no. For an event to be an obligating event in the absence of a legally binding obligation, it is necessary that the entity has no realistic alternative but to settle the obligation created by the event, and it should in theory not be affected by the way the funding of that obligation is designed.

However, the existence of a contributory element may increase the legitimate expectation that the public sector entity will pay the social benefits and is therefore an element to be considered in the assessment of whether or not a non-legal binding obligation has been created.

### **Specific Matter for Comment 6**

**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 the reasons for your views.**

Where a social benefit is provided by the government through an exchange transaction in an employer-employee relationship, such benefit is an employee benefit by nature and should be accounted for in accordance with IPSAS 25.

For those contributory schemes that have the characteristics of an insurance scheme, the insurance approach as mentioned in the Consultation Paper seems appropriate.

### **Specific Matter for Comment 7**

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

- (a) In all cases;**
- (b) For contributory schemes;**
- (c) Never; or**
- (d) Another approach (please specify)?**

**Please explain the reasons for your views.**

Where social benefit obligations are funded by dedicated scheme assets, we believe that such scheme assets should be included in the presentation of the social benefit scheme.

### **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:**
  - a. A claim becomes enforceable ; or**
  - b. A claim is approved**
- (b) Measure this liability at the cost of fulfilment?**

**Please explain the reasons for your views.**

We do not support the social contract approach. This question is therefore in our view not relevant.

### **Specific Matter for Comment 9**

#### **Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?**

Yes. We agree that the insurance approach may provide useful information in circumstances where social benefit schemes have characteristics similar to private sector schemes to which insurance accounting is applied. We also agree that the insurance approach would be appropriate for such contributory schemes only and that the insurance approach would need to be combined with another approach (in our opinion, the obligating event approach) to appropriately cover the accounting treatment applicable to all types of social benefits.

It might in practice not be easy to distinguish between contributory schemes that would be assimilated to insurance schemes and other social benefit schemes with a contributory element to which the obligating event approach would apply. We recommend that the IPSASB develop clear principles and illustrative examples to provide guidance on how contributory schemes should be treated.

### **Specific Matter for Comment 10**

#### **Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:**

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

**Please explain the reasons for your views.**

Yes. This approach is consistent with IASB's proposal for insurance contracts and would provide useful information on the performance of the scheme and the level of additional contributions from tax subsidy (or reductions to the benefits offered) required to balance the scheme.

### **Specific Matter for Comment 11**

#### **In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions:**

- (a) Recognize an expense on initial recognition;**

- (b) Recognise the deficit as an expense over the coverage period of the benefit;**
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;**
- (d) Offset the planned subsidy and 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 the reasons for your views.**

We believe the expected deficit should be recognised as an expense on initial recognition. This approach would ensure consistency in the accounting treatment for all deficits, whether the scheme is designed to be fully funded from contributions or otherwise.

Where transfers are expected from another public sector entity, these would be considered in the measurement and the estimation of the expected future cash inflows only to the extent that the public sector entity has a present legal right to receive such transfers and is expected to continue to have such a right in the future. This assessment would be made at the entity level and the necessary eliminations would need to be made in consolidation as appropriate.

#### **Specific Matter for Comment 12**

**In your view, under the insurance approach, should an entity use the cost of fulfilment measurement basis or the assumption price measurement basis for measuring liabilities?**

**Please explain the reasons for your views.**

We believe that the cost of fulfilment measurement basis would achieve faithful representation of the social benefit obligations as the amount so determined represents the best estimate of the expected future cash outflows in the particular given circumstances.

#### **Specific Matter for Comment 13**

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

**If you disagree, please specify the criteria that you consider should be used. Please explain the reasons for your views.**

The proposals for insurance accounting included in the Consultation Paper are based on IASB's proposals for insurance contracts. These thus address situations where a contractual relationship exists. The analogy with the accounting treatment of certain types of social benefits is therefore only relevant where a clear and strong link exists between the benefits paid by a social security scheme and the revenue that finances the scheme.

We agree with the proposals set out in the Consultation Paper and recommend that clear guidance be developed to help in the determination of whether a clear and strong link exists between the benefits paid by a social security scheme and the revenue that finances the scheme.

#### **Specific Matter for Comment 14**

**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, Employee Benefits?**

**Please explain the reasons for your views.**

We agree that it makes sense to adopt an approach which is consistent with the one adopted in IPSAS 25 'Employee benefits' and which does not include a liquidity adjustment. Determination of the discount rate by reference to either government bonds or high-quality corporate bonds is therefore appropriate.

#### **Specific Matter for Comment 15**

**Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73-6.76?**

**Please explain the reasons for your views.**

We agree with the proposals included in this Consultation Paper which are based on IASB's proposals for insurance contracts.



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January 29, 2016

Mr. James Gunn  
Managing Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
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***Comments on the Consultation Paper  
“Recognition and Measurement of Social Benefits”***

Dear Mr. Gunn,

The Japanese Institute of Certified Public Accountants (subsequently referred to as “we”, “our”, and “JICPA”) is pleased to provide you with our comments on the Consultation Paper “Recognition and Measurement of Social Benefits.”

**I. Comment on Chapter 2 of this CP (Scope and Definitions)**

**Preliminary View 1**

**Social Benefits** are benefits provided 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.

Social benefits are provided to mitigate social risks in the following circumstances:

- 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 in the event of the occurrence of the specified social risks; and
- Households could make contributions to a scheme to accumulate entitlements to future benefits, with the benefits being provided following the occurrence of the specified social risk.

- (b) **Social Benefits in Cash** are social benefits paid in cash, by or on behalf of a public sector entity, 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 or on behalf of 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 or on behalf of 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** is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).
- (f) **Social Security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.
- (g) **Social Assistance** is the provision of 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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

Please explain the reasons for your views.

We generally agree with the scope of this CP. To avoid overlapping, the requirements specified in other IPSASs and issues considered under other IPSASB projects should be excluded from the scope of this CP. We believe that this CP fully explains this point.

In Japan, however, “other transfers in kind” described in paragraph 2.23 of the CP might be implemented for the purpose of “protecting a particular segment of the population against certain social risks” as defined in the SNA.

Under the mandatory education system, all of the pupils of elementary school age in Japan can receive public elementary education for free. The expenses for lunch (equivalent to 30 to 50 US dollars per month) provided at the schools, however, are partly incurred by the parents or guardians, with some subsidies from the government. School lunches have several objectives, such as maintaining and developing the health of pupils and enhancing their understanding of the importance of appropriate eating habits. The school lunch system functions as an important social risk-mitigation measure, as children in low-income families can take the meals they need during their growing years at a low cost. Does this system fall within the definition of “other transfers in kind?” If so, we should determine whether the system should be addressed in a non-exchange expenses project or social benefit project. In determining the relevant project, we believe that the scope of “other transfers in kind” should be clarified. This comment also relates to the “Specific Matter for Comment 6.”

We believe that all of the definitions in Preliminary View 1 would be appropriate. It would be desirable to maintain consistency between the definitions in a future IPSAS on social benefits and the definitions in the Government Finance Statistics (GFS) in light of the policy paper on the *Process for Considering GFS Reporting Guidelines during Development of IPSASs*. We also believe that the definitions and explanations of terms in this CP, developed based on the definitions of terms in the GFS, would be consistent with the notion underlying the scope of this CP and could be incorporated in a future



IPSAS on social benefits.

## **II. Comment on Chapter 3 (Identification of Approaches)**

### **Specific Matter for Comment 2**

(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?

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

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.

We support the obligating event approach and insurance approach.

For a social benefit system like social assistance, where contributions are not precedent to the benefit, we believe that the recognition of liabilities and expenses based on the satisfaction of eligibility criteria under the obligating event approach would reflect the substance more appropriately than other approaches. For any social benefit scheme in the social security system conditional on contributions, the insurance approach would be an appropriate starting point for discussion.

Our current accounting practices for the public pension system in Japan have been designed on a “pay-as-you-go” basis. The Government of Japan has recognized assets (cash and deposits for investments) that it has been decided to appropriate as a funding source for future pension benefits, including reserves funded by some of insurance premiums paid by the participants in the past. The bulk of the amounts corresponding to the assets have been recognized as a liability as “public pension deposits”. The portion of deposits that have become due is reclassified as “payables” in the liability. The Government has adopted the notion that it should distribute the amounts deposited by participants to those eligible to receive the benefits, and accordingly expenses corresponding to liabilities are not be recognized.

Notwithstanding our practices, we believe payables would be recognized at the time “(ii) A claim is approved”, as discussed for the Specific Matter for Comment 8. It would therefore be possible to consider this to be the point of recognition of liabilities.

These accounting practices also appear to be based on the notion that “social benefits can be accounted for by applying the analogy of an executory contract” in paragraph 5.32 under the Social Contract Approach, as well as the concept of a “point of recognition” described in paragraphs 5.36 and 5.37. Several jurisdictions seem to have adopted the “pay-as-you-go” principle. We believe that it would be important to clarify the issues and reasons why the social contract approach has not been adopted, in order to obtain the consensus of stakeholders in developing the exposure draft. For example, we encourage the IPSASB to discuss relevant matters in detail, including inconsistencies with the conceptual framework or the difficulties faced by individual public sector entities in recognizing liabilities.

We believe that no approaches other than the above could currently exist.

#### **Preliminary View 2**

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

We agree with Preliminary View 2. As discussed in our comment on the Specific Matter for Comment 2, we encourage the IPSASB to continue certain discussions on the social contract approach.

### **III. Comment on Chapter 4 of this CP (Obligating Event Approach)**

#### **Specific Matter for Comment 4**

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

- (a) Key participatory events have occurred ;
- (b) Threshold eligibility criteria have been satisfied ;

- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; 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 the reasons for your views.

We assume that if we adopt the obligating event approach for every type of social benefit, the obligating event would not occur at the same point. Specifically, obligating events for social benefits and their timing requiring participation in a scheme differ from obligating events for social benefits not requiring participation.

Social benefits requiring participation in a scheme include social security, such as a pension scheme. The pension scheme in Japan requires all nationals to participate when they reach the age of 20. The eligibility to receive benefits requires at least 25 years of contributions and a participant age of 65 or over. Those who participate in the scheme certainly expect that they will receive the benefits in the future. We thus believe that an obligating event appropriately occurs at either of “(a) key participatory events occurs” or “(b) the threshold eligibility criteria are satisfied”. The point at which participants reach the age of 20 would be considered to fall under (a), while the elapse of at least 25 years from the participation would fall under (b). Those who satisfy the 25-year condition would be able to receive the benefits upon reaching the age of 65. We assume that the “present obligations” have been incurred.

Paragraph 4.36 of this CP includes “[Reaching] a pensionable age” as an example of a “threshold eligibility criterion” being met. We do not agree that age should be treated as a threshold eligibility criterion similar to other eligibility criteria. Everybody ages at the same rate, nothing can be done discretionarily to stop the process of aging, and aging can never be reversed. For example, for those who satisfy the criteria for the contributions for at least 25 years, obligations for social benefits could be recognized, and the obligations could thus be measured based on statistical mortality. “Age,” therefore should be an eligibility criterion separate from (b) proposed in this CP.

For your information, under the public pension scheme in Japan, public pensions are currently accounted for as a social insurance scheme basically funded on a “pay-as-you-go” basis. The duty of the Government of Japan to pay the pensions is not triggered by the payment of insurance premiums, but it is triggered when an individual become eligible to receive a pension. As such, the government does not account for the duty to pay the public pensions as a liability. The National government of Japan discloses estimated amounts equivalent to liabilities in the notes to its financial statements as supplementary information. This estimated amount is reviewed based on “fiscal verification” procedures every five years.

Social benefits not requiring participation in a scheme in Japan include social assistance such as ‘livelihood assistance’ (through which the government guarantees a minimal standard of living). For these social benefits, the government must determine whether an applicant meets the eligibility criteria for the receipt of benefits by obtaining necessary information when the individual claims the benefit. Hence, it may be impracticable to recognize any obligation at either of the points, (a) or (b). The obligations would not be completely recognized. We therefore believe that an obligating event occurs when “(c) The eligibility criteria to receive the next benefit have been satisfied” and “(d) A claim has been approved.” Furthermore, the benefit payment policy of a social benefit not requiring participation in a scheme is more likely to suddenly change than a policy requiring participation in a scheme, during a change of government. In light of this, (d) would be preferable.

We discussed the strengths and weaknesses of each sub-option in the process of reaching the above conclusion. We enumerate them below.

Strengths and weakness of the sub-options when social benefits require participation in a scheme

	<b>Strengths</b>	<b>Weaknesses</b>
(a)	Participants’ expectations are specifically presented that on participation in a scheme, they will receive pensions in the future, as such expectations will be recognized as liabilities in the financial statements.	Due to early recognition, the uncertainty in estimating or measuring the obligations would be greater.
(b)	Participants’ expectations are specifically	Some degree of uncertainty would arise in the

	presented that even if individuals did not reach their eligible age for pensions, they will receive pensions in the future by satisfying eligibility criteria, as such expectations will be recognized as liabilities in the financial statements.	estimate in measuring the obligations especially when individuals did not reach their eligible age, though such uncertainty will be less than in (a) above.
(c)	Cases where pensioners would survive at a certain point could be considered one of the eligibility criteria. The measurement as well as recognition by the government of liabilities would be made with more accuracy.	If the government was highly stable, the timing of recognition of “present obligations” would become too late in consideration of the definition of liabilities in the Conceptual Framework.
(d)	Same as above	In addition to the above factor, the examination of claims might incur significant costs.
(e)	Demands by law would be aligned with the timing of the recognition for accounting purposes. Measurement would be highly accurate.	Same as above

Strengths and weakness of the sub-options when social benefits require no participation in a scheme

	<b>Strengths</b>	<b>Weaknesses</b>
(a)	N/A	There is no assumption for participation in a scheme.
(b)	Individuals or households requiring social assistance would be universally eligible to receive social benefits, and the fact would be reflected for accounting purposes through the recognition of liabilities.	In practice, the government would need judgments to determine whether individuals or households have satisfied the eligibility criteria.
(c)	It may be easy at a practical level to recognize liabilities when individuals asserting their claims apply for social benefits.	Certain liabilities might be recognized even when individuals not qualified for claims file applications for social benefits.
(d)	When the contents of an application for a	In practice, the examination of claims might

	claim are confirmed to be accurate, liabilities could be recognized. Higher accuracy would be attained.	incur significant costs.
(e)	Demands by law would be aligned with the timing of recognition for accounting purposes. Measurement would be very accurate.	If the government was highly stable, liabilities might have arisen at the time of (d), so the recognition of liabilities at this point would be too late.

We believe that since the legal framework for social benefits may differ from one jurisdiction to another, obligating events depend on the legal framework of each jurisdiction. A future IPSAS should incorporate the fact that obligating events might occur at different points. However, as the comparability will be reduced accordingly, we recommend that the IPSASB discuss the possibility of grouping various patterns of frameworks. It would also be useful to require any public entity applying the IPSASs to disclose the timing of the obligation recognition for each of the main social benefit schemes.

**Specific Matter for Comment 5**

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

Please explain the reasons for your views.

For the obligating event approach, we separately discussed the schemes requiring and not requiring participation. As a result, obligating events for the scheme requiring the participation may occur at either (a) or (b), as commented on in the “Specific Matter for Comment 4.” On the other hand, obligating events not requiring the participation may occur at (d). While participation in a scheme does not necessarily require contributions, contributory schemes generally require participation in the schemes. So obligating events may occur earlier for contributory schemes than for non-contributory schemes.

**Specific Matter for Comment 6**

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 the reasons for your views.

With regard to social benefits arising from exchange transactions, we believe that they should be accounted for within “(a) In accordance with a future IPSAS on social benefits” so that any issues that are not clearly specified in other standards would be addressed early for accounting purposes. However, in cases where under a scheme the benefits are expected to be paid shortly after the obligations are recognized, they would not need to be considered as relevant issues.

We cited the example of our school lunch system for public schools as social benefits arising from exchange transactions in the Specific Matter for Comment 1. The other examples are earthquake insurance (a fund established by the contributions paid by building owners and the subsidies granted by the government) and the government’s assistance system for subsidizing charges for nursery schools, nursing and caring services, and the users of private taxis in regions with undeveloped public transportation.

**Preliminary View 3**

Under the obligating event approach, 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 benefits.

We agree with Preliminary View 3 of the IPSASB.

**Specific Matter for Comment 7**

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

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

Please explain the reasons for your views.

We propose “(d) Another approach.”

If scheme assets are tied to liabilities for social benefits and are clearly separated from other assets, they should be included in the presentation of a social benefit scheme. If the separation of scheme assets from other assets is unclear due to the nature of the framework, the classification of assets for accounting purposes are likely to be difficult.

#### **IV. Comment on Chapter 5 of this CP (Social Contract Approach)**

##### **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:

(i) A claim becomes enforceable; or

(ii) A claim is approved?

(b) Measure this liability at the cost of fulfillment?

Please explain the reasons for your views.

For question (a), we favor “(ii) A claim is approved.” With this, the amounts of obligations should be clear, as the liabilities are legally determined. For question (b), we agree with the measurement at the cost of fulfillment, as we refer to issues included in the paragraph 4.82 of the CP for the obligating event approach.

#### **V. Comment on Chapter 6 of this CP (Insurance Approach)**

##### **Specific Matter for Comment 9**

Do you agree with the IPSASB’s conclusions about the applicability of the insurance approach?

Please explain the reasons for your views.

We agree with the IPSASB’s conclusions. As described in the paragraph 6.21 of the CP, when large amount of contributions are paid into a scheme, the insurance approach would be appropriate for the measurement of the liabilities and expenses of the scheme, as it would provide reliable measurements of the contributions.

##### **Specific Matter for Comment 10**

Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:

(a) Any expected surplus should be recognized over the coverage period of the benefit; and



(b) Any expected deficit should be recognized as an expense on initial recognition?

Please explain the reasons for your views.

We object to the proposal that “(b) Any expected deficit should be recognized as an expense on initial recognition.” Our objection is due to the fact that in consideration of the long-term nature of a social benefit scheme, it would be more appropriate for public-sector entities such as central and local governments to recognize expected deficit over the coverage period, rather than recognizing it temporally as any expense, and the recognitions would be consistent with the recognition of expected surplus. However, the expected deficit would be useful for decision-making. It would thus be preferable to disclose it separately.

**Specific Matter for Comment 11**

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and 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 the reasons for your views.

We agree with “(b) Recognize the deficit as an expense over the coverage period of the benefit.” This would achieve the consistency of recognition points between a scheme fully funded by contributions and a scheme not fully funded by contributions.

However, as we discussed in the Specific Matter for Comment 10, the components of liabilities should be presented in detail if financial statements are used for deciding revision of the insurance premium. In addition, when the planned amount of subsidy from another public sector entity is determined at the initial recognition, we propose that the receivables from the planned subsidy should be recognized as scheme assets unlike (c) above. But for the purpose of the presentation, the subsidy would be offset

and presented as a part of future cash flow.

**Specific Matter for Comment 12**

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

Please explain the reasons for your views.

We acknowledge that third parties will only rarely assume liability for public sector insurance. It would thus be inappropriate to use the assumption price measurement basis for measuring liabilities. In principle, the cost of fulfillment should be used as the measurement basis.

**Specific Matter for Comment 13**

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

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

Please explain the reasons for your views.

We agree with the proposals in this CP on this issue.

As the paragraph 6.61 of the CP discusses, when the percentage of benefits provided to non-participants becomes greater, the scheme becomes less of a social insurance scheme and more like social assistance. Hence, the application of an insurance approach becomes inappropriate. Furthermore, when the link between the benefits and funding sources is unclear, the application of the accounting for insurance approach would necessarily give rise to various difficulties. It is essential to clarify the link between the benefits and funding sources.

**Specific Matter for Comment 14**

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 the reasons for your views.

We agree with the proposals in this CP on this issue. The notion of the discount rate discussed from paragraphs 91 to 95 in IPSAS 25 could be widely applied to the benefits of public sectors, and not limited to employee benefits. It would thus be reasonable to determine the discount rate used for the insurance approach by the same method used to determine the discount rate under the standard.

**Specific Matter for Comment 15**

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?

Please explain the reasons for your views.

We support the proposals for subsequent measurement and significant amendment.

We basically believe that there will be “no requirements which should not be applied to the public sector” among the requirements on the above in the Exposure Draft 2013/7 “Insurance Contract” issued by the International Accounting Standards Board (IASB).

Yours sincerely,

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EKONOMISTYRNINGSVÄRKET

Date	Your date
January 29, 2016	July 2015
Reference number	Your reference number
3.4-110/2016	
Our reference	
Ingemar Härneskog and	
Anne-Marie Ögren	

## Comments on Consultation Paper Recognition and Measurement of Social Benefits

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the Consultation Paper, Recognition and Measurement of Social Benefits.

ESV is the government agency responsible for financial management and development of GAAP in the Swedish central government.

### Specific Matter for Comment 1

We agree about the scope of the CP. We also believe that the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits.

This is very much in line with how Sweden has regarded these questions. We have generally built our routines and regulations on classification of social benefits (transfers and grants) in agreement with the SNA as much as possible. This of course makes it easier to report and classify for everyone involved, and also to without much recalculations or adaptations use the accounting information for statistical purposes.

### Specific Matter for Comment 2

We support, as the IPSASB considers in Preliminary View 2, the obligating event approach as the primary approach. In a few cases the insurance approach could be appropriate.

The obligating event approach shows the most natural solutions from a general accounting practice point of view. The social contract approach includes some good thoughts, but also several problems which the CP describes. The insurance approach is applicable only in few cases where the systems or schemes are very similar to that of an insurance company.

### Specific Matter for Comment 3

We have not found any social benefits transactions which could not be addressed by the options set out in the CP.

#### **Specific Matter for Comment 4**

In our view, the obligating event should in most cases arise when a claim is enforceable. That is in practice the point where Sweden has recognized the liability so far.

However, in Sweden the difference between the points c), d) and e) is in most cases very small, since most social benefits are paid out every month or even twice per month. This means that the eligibility criteria for e.g. old age pensions or child allowances are measured automatically by the turn of the month, and no claim has to be made. Hence the effect of applying point c) would be that the benefits for a period from the first day of the month up to the day of payment would be recognized as a liability, but the cost for each coming month would not change more than marginally. In some cases point c) or d) might be the most appropriate, but we are not able today to describe these cases and it would not lead to a major difference.

Generally the problem is of course the possibility for the government, sometimes through the parliament, to change the law or ordinance regulating a certain social benefit. When this is possible the “liability” would not meet the definition of a liability, since it can be settled in another way than with a cash transfer. For this reason we believe that sustainability reporting, disclosures and supplementary information and in some cases maybe contingent liabilities should be applied. This is an important difference for the obligations of this type in the public sector, compared to a business or other private law agreement between two parties. Of course when a public entity is a party in a business agreement, the liabilities should be recorded in the same way as those of any other unit.

#### **Specific Matter for Comment 5**

We believe that the obligating event should not occur earlier for contributory schemes than non- contributory schemes. If it did, this would implicate that you apply the point b) threshold eligibility criteria, where the liability is recognized when an individual has joined the system (by paying contributions).

#### **Specific Matter for Comment 6**

Social benefits provided through an exchange transaction should be covered in some way in the future IPSAS on social benefits. This could be obtained by referring to another IPSAS.

#### **Specific Matter for Comment 7**

In our view scheme assets should be included in the presentation in all cases, as long as there are designated and funded assets. This would normally occur only for contributory schemes, but technically the government can set aside a part of general taxation for a specific scheme.



EKONOMISTYRNINGSVÄRKET

### **Specific Matter for Comment 8**

We choose not to comment on this matter since the social contract approach will probably not be used.

### **Specific Matter for Comment 9**

We agree on the overall conclusions about the applicability of the insurance approach. However we have not been able to go into details concerning this approach, since it will not be very common.

### **Specific Matter for Comment 10-14**

Since we have not gone into details concerning the insurance approach, we choose not to comment on these matters.

### **Concluding remarks**

We believe that it is of great importance that information on social benefit commitments, not agreeing with the conceptual framework definition of an obligation, is provided. For this purpose separate sustainability reporting and sometimes disclosures in the annual report will be appropriate. The Swedish Pension agency annually produces a separate report, the Orange report, where future contributions are calculated as an asset (<https://secure.pensionsmyndigheten.se/23539.html>). This report is intended to show the sustainability of the old age pension system in Sweden, and it is a valuable complement to the financial reports.

*Senior Advisors Ingemar Härneskog and Anne-Marie Ögren have prepared the comments given in this report.*

*Yours sincerely,*

A handwritten signature in black ink, appearing to read 'Pia Heyman', is written over a horizontal line. Below the signature, the name 'Pia Heyman' is printed in a standard font.

Pia Heyman

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29 January 2016

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Dear John,

## **Re.: Consultation Paper: Recognition and Measurement of Social Benefits**

The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with our comments on the Consultation Paper "Recognition and Measurement of Social Benefits" (hereinafter referred to as "the CP").

This letter includes general comments and then explains our views concerning each of the three preliminary views of the IPSASB. We respond to the 15 Specific Matters for Comment (SMCs) in the appendix.

### **General comments**

We support the IPSASB issuing a Consultation Paper on accounting for social benefits following the recent completion of the Conceptual Framework (CF). Accounting for the provision of social benefits in general is an extremely complex, and highly political topic that is of key significance for the public sector in most jurisdictions. Because there is relatively little scope for comparing the provision of social benefits with the predominantly exchange transactions common to the private sector, there remains an urgent need for the IPSASB to develop public sector-specific accounting solutions in this area. We agree that it is important that the IPSASB focus on the objectives of financial reporting identified in the CF (summarized here as accountability and informing decision-

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Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
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making), rather than follow constituents' political preferences that may diverge therefrom.

We also agree with the IPSASB that the information portrayed in a report on the long-term sustainability of an entity's finances in accordance with Recommended Practice Guidance (RPG) 1 "Reporting on the Long-Term Sustainability of an Entity's Finances" serves one part of users' information needs that an entity's financial statements are unable to satisfy. However, such voluntary reporting fulfils a different purpose to that of a set of financial statements prepared in accordance with the IPSASs; being merely supplementary thereto. It remains important that an entity's financial statements include the necessary information so as to faithfully represent the financial position of the entity at the balance sheet date and its operations and cash flows for the period then ended, including an appropriate reflection of the entity's social benefits schemes.

Whilst the design of individual social benefit schemes may vary widely within a jurisdiction as well as between jurisdictions, in many countries the provision of social benefits to individuals and households accounts for a highly significant proportion of total government expenditure and is thus of particular interest to financial statement users. Financial statement users also need to be informed as to the nature of different social benefit schemes as well as their potentially varying impacts on the entity's financial position. This may particularly be the case where, due to shifting demographics, users have a specific interest with respect to social benefit schemes funded by the contributions of future generations; schemes which may often result in a deficit in ownership interests.

In this context, whilst not applicable to all social benefit schemes, in regard to many schemes potential beneficiaries may – as at the end of an entity's financial reporting period – have certain rights, or valid expectations, to receive a specific benefit in the future. As we discuss in our responses to SMC 2 and SMC 4, some of these rights and expectations potentially give rise to (constructive) liabilities. In addition to information about the recognition and measurement of any such liabilities, users also need information about the funding of individual social benefit schemes. For example, when a scheme is funded by past contributions that have been earmarked for the purpose, does that scheme, or part thereof, constitute in substance a fully self-funded insurance scheme, or will the scheme instead have to be funded from future increased contributions or from transfers from other income sources, such as general taxation? In many cases, the entity may – analogous to recognition of future taxation income in IPSAS 23, "Revenue from Non-Exchange



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Transactions (Taxes and Transfers)” – at the period end not have a right to such income, because, in the absence of an enforceable contract, individuals’ ongoing abilities to make contributions are dependent on various external factors, e.g., continuing employment etc.; furthermore, an entity’s gross income from contributions may be sensitive to demographical changes in the population.

There currently seems to be a growing acceptance in some federal states in Germany of the role accruals accounting can play in budgeting for public sector expenditure (i.e., the ability of accruals accounting and accruals budgeting to inform decision making by revealing the entire magnitude of a proposed measure, rather than just the impact on the forthcoming budget).

However, we are informed that this is tempered by some discomfort particularly in regard to entities more familiar with the cash accounting basis. The initial recognition of liabilities in regard to certain schemes for which expenditure may be anticipated to reduce over time due to demographic developments (e.g., child support schemes when birthrates are in decline) could be higher on initial recognition than in subsequent periods. If a cash-based budgeting mindset is transferred to accruals accounting in such cases, this phenomenon may create a perception that an ongoing decline in (initially) high liabilities “frees up” an entity’s capacity to increase borrowings from other sources. In addition, first time adoption may be an issue when public focus has historically been placed upon management’s annual achievement of a balanced budget. Certainly in Germany, many social benefit schemes in the public sector are designed to operate on a so-called “pay as you go” basis, such that the current contributors fund the current beneficiaries rather than contributing funds earmarked and invested specifically for their individual future benefits (see CF 2.1 3). Since this type of design generally becomes an issue in terms of public perception in the light of anticipated demographic changes, such as those seen currently in countries in the developed world, portraying information to give a faithful representation in such circumstances becomes even more important. Presenting less useful information e.g., in order to make an entity’s financial position look more palatable, would be a disservice to decision makers as well as to other financial statement users.

Whilst this has not been specifically addressed in the SMCs, we believe that the objectives of a future IPSAS on social benefits quoted in the CP ought to be expanded to include cash flows in subsection (b).

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Preliminary View 1

**Social Benefits** are benefits provided 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.

Social benefits are provided to mitigate social risks in the following circumstances:

- 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 in the event of the occurrence of the specified social risks; and
  - Households could make contributions to a scheme to accumulate future entitlements to benefits, with the benefits being provided following the occurrence of the specified social risk.”
- (b) **Social Benefits in Cash** are social benefits paid in cash, by or on behalf of a public sector entity, 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 or on behalf of 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 or on behalf of 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** is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).
- (f) **Social Security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole,

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*or large sections of the community. Social security is imposed and controlled by a government entity.*

- (g) **Social Assistance** *is the provision of social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.*

We generally agree with the IPSASB's preliminary view as to the descriptions cited above. However, in responding to SMC1, we provide comments on the definition of social insurance, since we believe that the insurance approach, whereby expected future liabilities are offset by expected future contributions, should be applied for schemes that are fully self-funding such that the level of benefits can be aligned to future contributions to which the entity will be entitled. We suggest that further clarification is needed to prevent (mis)application of the insurance approach to social benefit schemes that are, in substance, subsidized from other sources. Furthermore, for a particular scheme, there may be a component that is fully funded by an insurance mechanism (expected contributions will cover expected expenditures) but another part is expected to be covered by transfers from other sources of income, such as general taxation (the social assistance component). In terms of financial statement presentation, it is important that in these cases the insurance component and social benefit component be clearly distinguished from one another (much like certain financial instruments that have both a debt and equity component that need to be disclosed separately in the financial statements).

We would also like to emphasize that pension obligations on the part of a public sector entity for that entity's own current and former employees should not fall within this project (see para. 2.18 and 2.34 of the CP). Consequently, the differentiation between social security (covered in this project) and social insurance arising from an employer-employee relationship (e.g., civil servant pensions covered in IPSAS 25, Employee Benefits) needs to be very clear, to prevent misunderstandings.

### Preliminary View 2

*The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.*

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We share the IPSASB's view that the social contract approach is unlikely to meet the objectives of financial reporting, and refer to our response to SMC 8.

Preliminary View 3

*Under the obligating event approach, 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 benefits*

We share the IPSASB's view that under the obligating event approach liabilities in respect of social benefits should be measured using the cost of fulfillment.

We hope that our comments will be useful in taking this project forward, and would be happy to discuss any aspects of this letter.

Yours truly,

Klaus-Peter Feld  
Executive Director

Gillian G. Waldbauer  
Head of International Affairs

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## APPENDIX 1:

### Specific Matters for Comment

#### 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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?*

*Please explain the reasons for your views.*

#### *(a) Scope of the CP*

We note that the IPSASB intends to address the issue of accounting for expenditure on items termed collective goods and services (e.g., national security) in a separate project on non-exchange expenditure, and support the proposed exclusion from this narrow-scope project at this time.

We further note that IPSASB intends to address other (related) issues including presentation and disclosure matters after the IPSASB has reviewed responses to this consultation, and look forward to contributing to further discussions in due course.

On this basis, whilst we agree that the scope of this CP is generally appropriate, we believe that it should not exclude social benefit contributions or benefits in kind (para. 6.12), where these are merely an alternative to cash transfers but otherwise equivalent.

We appreciate the fact that as this Consultation Paper purposely has a narrow scope, it is important to have the particular issues addressed before advancing the project further.

#### *(b) Definitions*

With one exception, we accept that there is likely to be merit in a future IPSAS using the definitions already established in Government Finance Statistics (GFS), due to the fact that these should be familiar to many constituents. We

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agree that it would not be appropriate for the IPSASB to create different terminology or to devise different definitions without good reason.

In our opinion it needs to be clear that for a social benefit scheme (or component of a scheme) to meet the definition of social insurance the scheme must: a) be designed as self-financing; b) actually prove to be self-funding over time, i.e. it is not, in substance, subsidized through transfers from other sources of revenue; and c) cover a specific risk or a similar set of risks. The IPSASB should be careful not to create a form of quasi-insurance; rather individual schemes need to be analyzed and, where applicable, insurance components separated from components that are subsidized by funding external to the scheme, such that the latter can be accounted for accordingly as social assistance.

The IDW is not sufficiently familiar with the differences between IPSASs and GFS, but believes the Board will need to consider the different objectives of IPSAS and GFS (CF introduction, paragraphs 23-24) in exploring any need for further amendment to the GFS definitions.

### Specific Matter for Comment 2

*(a) Based on your review of Chapters 4 to 6 , which approach or approaches do you support?*

- i. The obligating event approach;*
- ii. The social contract approach;*
- iii. The insurance approach*

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

*(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.*

**(a) Support for Specific Approaches**

In our view, the range of different social benefits scheme constructs will generally mean that no single approach will be appropriate for the recognition



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and measurement of all social benefits scheme liabilities. Consequently, the characteristics of a particular social benefit scheme need to be considered in determining which approach best fulfils the objectives of GPFS (general purpose financial statements) and potentially GPFR (general purpose financial reports) for that particular scheme or, in some cases, component of the scheme, since many social benefit schemes exhibit different component characteristics and by their design may constitute a mix of social insurance and social assistance.

In our view, the recognition and measurement of liabilities for social benefits that constitute social assistance would generally lend themselves to an obligating event approach. Indeed, under the obligating event approach some cases may be clear cut – e.g., a legal obligation exists at the balance sheet date. In other cases the determination of when the entity has little or no realistic alternative to avoid an outflow of resources will be less clear, and so the characteristics of a particular benefit scheme should guide the determination as to the existence of a realistic alternative to avoid an outflow of resources. We discuss this below in more detail in our consideration below of each of the alternatives put forth in the CP and in responding to SMC 4.

In contrast, only those social benefit schemes (or components thereof) that effectively operate in a way akin to commercial insurance contracts (social insurance) would lend themselves to an approach similar to the insurance approach under IASB ED/2013/7 “Insurance Contracts”. Such “true” social insurance schemes are self-funding exchange transactions, as any short-term deficits represent borrowing by the scheme, repaid once the scheme comes into surplus. Careful distinction will be needed to differentiate between such social insurance schemes and similar schemes that, in contrast, consistently run at a deficit to be covered by general government income or borrowing (social assistance). The latter represents, in substance, a subsidy as opposed to a tide-over loan as would be the case for a “true” social insurance scheme. We suspect that some schemes may exhibit both an insurance component and a subsidized component, which would need to be identified for accounting purposes.

We comment on three approaches discussed in the CP as follows:

*(i) The obligating event approach*

We agree that this approach is in line with the IPSASB's CF. We also believe that this approach is able to deliver faithful representation for non-contributory schemes as well as contributory schemes that do not constitute insurance schemes because they are – in substance – subsidized in full or in part. For



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schemes designed to be funded on an intergenerational basis this approach can provide important information as to the extent of commitments at the period end, including the magnitude of the liability passed to future generations.

*(ii) The social contract approach*

We appreciate the fact that the CP discusses the social contract approach in detail. As noted in our covering letter, we agree with the IPSASB that it would not provide useful information to users, particularly where there is an inter-generational financing intent inherent in a social benefit scheme. We therefore do not support this approach to accounting for social benefit schemes.

*(iii) The insurance approach*

We agree that the insurance approach may be appropriate when a scheme is, to all extent and purpose, an insurance scheme. In determining whether this is the case in respect of an individual scheme, substance over form should prevail, and, as discussed in our response to SMC 1, the scheme would need to fulfil specific criteria in order to differentiate between insurance schemes (or insurance components) and subsidized schemes (or social assistance components).

Since, in comparison to the obligating event approach, the insurance approach ultimately results in less liability being presented in the statement of financial position than might be the case under the obligating event approach, we are concerned as to the potential for misapplication of the insurance approach, particularly when – in substance – such schemes are (wholly or in part) subsidized.

Whilst we appreciate that there may be social benefit schemes that share some characteristics of the insurance found in the private sector, we are not convinced as to the applicability of this in all but “clear cut” insurance arrangements for the following reasons:

- Schemes which only allow benefits to be drawn by contributors may exhibit some characteristics of commercial insurance, but are not generally one to one with the private sector insurance in terms of individualization of the underlying calculations, there may be a hidden social assistance component (i.e., there may be a propensity for less well-off individuals and households to receive more than they would contribute etc.)
- Where in substance shortfalls and excesses are covered by e.g., general taxation rather than their representing short-term borrowings, the scheme will not yield profits that can be released over a coverage period

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or losses that would be recognized immediately. Shortfalls or excesses may constitute short-term borrowing on the part of the scheme or subsidization. Differentiation between the two may be complex.

- Whereas private sector insurers have a contractual right to receive contributions, the government will generally not have a similar basis for offsetting future contributions
- Since many contributory schemes are designed to be financed on an inter-generational basis, adopting an insurance approach to account for such schemes would likely not lead to appropriate information
- Calculations are extremely complex and, necessarily, often based on assumptions; both of which lead to high costs for the preparer and reduced reliability that in turn impacts their informative value to the users of financial statements.

(b) Additional Approaches

We are not aware of additional approaches that the IPSASB ought to consider.

Specific Matter for Comment 3

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

The IDW is not aware of further social benefit transactions requiring different solutions.

Specific Matter for Comment 4

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

- (a) Key participatory events have occurred;
- (b) Threshold eligibility criteria have been satisfied;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; or

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*(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.*

*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 the reasons for your views.*

In our view, the time line for determining an obligating event will need careful assessment on a case by case basis, as it would ultimately need to be based on factors including an evaluation of the terms governing the specific social benefit scheme. Given the public sector mandate for expenditure, legal aspects should generally be key factors in determining when an obligating event arises. However, such determination may also need to be made under the premise of substance over form, particularly where a consideration of legal form alone might give rise to misleading information.

We therefore believe that 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. We discuss a few illustrative examples as follows:

### **Obligating Event**

Some social benefit schemes, especially participatory schemes, will have terms that denote the point in time at which recipients have specific legal or quasi-legal rights to benefits – in our opinion, the establishment of these rights will constitute an obligating event. E.g. for a state pension scheme, making a first contribution on joining the workforce may entitle the individual to a (initially very small) pension on reaching retirement age – in order to be faithfully representative in such cases, the recognition and measurement of any liability at period end can only reflect the specific policy in place at that explicit point in time (see first three sentences of para. 4.20 of the CP); for a child support scheme, the birth of a child may obligate the state to pay support throughout a minimum specific period etc. an argument that the state might abolish such a scheme should not impact the accounting at period end, as it does not change the policy that existed at that date.

Under the insurance approach, social benefit schemes with insurance components inherently place an obligation on the entity to compensate contributory participants in the event that pre-specified circumstances arise. In

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such cases, the establishment of the scheme would be the obligating event, not the occurrence of each individual event giving rise to a compensation settlement.

When benefits mitigate an unanticipated event that has affected members of the general population, e.g., a major earthquake or flood, an obligating event may first occur when claims become enforceable, although it may be appropriate to consider additional factors such as valid expectations stemming from the entity's track record in determining whether – in substance – an entity has little or no realistic alternative to avoid settling the obligation at an earlier point in time, as discussed below.

### **Potential Revision of Social Benefits Policy**

Entire social benefit schemes can change over time. However, an assumption that a government can change a past policy to avoid or change obligation will generally not affect the policy in place during a past period or at a particular point in time. On this basis, we do not believe that anticipation of possible policy revisions impacts whether at period end the entity has a liability. Indeed, a change in policy would be reflected as a non-adjusting post balance sheet event reflected in the financial statements for the period in which change occurred. Overall, only policy changes that have been approved by the appropriate body (in some cases, a legislative body) that are not subject to undue legal risks (e.g. serious constitutional challenges) and implemented on a permanent basis such that they are not likely to be reversed should be given recognition in the financial statements.

Taking Germany as an example:

- We suggest that it would be extremely unrealistic to anticipate that any German government in power in the near future would be able to obtain the necessary voting majority for an outright abolishment of the state-paid pension scheme; whereas it has recently proven somewhat easier (even if not without difficulty) to change the eligibility criteria (raising retirement age) and the amounts payable (decreasing or increasing entitlements relative to inflation).
- In other cases entire social benefit schemes have been phased out relatively recently (state paid disability pension) and new benefits phased in (elderly care insurance, childcare premium for new parents).
- There are real constitutional limits on the ability of governments to reduce certain kinds of benefits that are enforced by constitutional courts, and obtaining the political majorities to change constitutions has proven to be largely illusory.

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### **Valid Expectations**

Various cultural or jurisdictional aspects may also influence public expectations in regard to individual social benefit schemes to different degrees. The issue is whether expectations existing at period end constitute valid expectations or not.

For example, the occurrence of a major disaster prior to the period end (past event), may give rise to valid public expectations (obligating event) because the entity has established a track record in similar situations in the past and there has been no indication that the entity will not provide assistance, thus the entity has little or no realistic alternative to avoid the outflow of resources.

Where an entity has no such track record, it might be appropriate to consider whether the Board could draw on the IASB term “substantially enacted” (IAS 37.50) as the obligating event, where the stage reached in the approval process for the expenditure is virtually certain to gain a legal backing. However, in some cases, political situations have proven to be fluid, and matters enacted at one stage are reversed again after elections of new governments or through successful constitutional challenges, so some degree of caution should be exercised in assessing whether there is objective evidence in such situations.

A further factor in many such cases will be whether a lack of available information precludes measurement in line with the QCs identified in the IPSASB’s CF. To some extent this issue mirrors considerations in the private sector as to the expected vs. incurred loss model. The relative importance attached to individual QCs has to be weighed up (faithful representation, verifiability). It is possible that the incurred loss model would be viewed as more appropriate in the public sector, especially as other GPFRs can deliver supplementary information e.g., on the long-term sustainability of a public sector entity’s finances.

### **Specific Matter for Comment 5**

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

*Please explain the reasons for your views.*

From the viewpoint of the reporting entity the legislation at the reporting date (i.e., specific characteristics of the social benefit scheme) and not a scheme’s status as contributory vs non-contributory would ordinarily govern the obligating event.

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We do not believe that whether a social benefit scheme is a contributory scheme or not can, when viewed in isolation, be considered a suitable criterion for determining the point in time at which an obligating event occurs. We refer to our response to SMC 1 where we explain in further detail what we believe to be relevant criteria.

In our view, the level of funding of a social benefit scheme from so called earmarked contributions likely increases the public's expectations as to the government's obligation to provide benefits. However, this is not clear cut, since expectations regarding a non-contributory social benefit scheme may be similar based on the past performance of the government or possibly an overall perception of its track record as a welfare state.

#### *Specific Matter for Comment 6*

*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 the reasons for your views.*

In our view, where a social benefit scheme not already covered elsewhere in the suite of IPSASs has earmarked assets or is otherwise designed and operating as a fully-funded discrete scheme such exchange transaction could be addressed in a future IPSAS on social benefits.

As noted in our covering letter, we suggest IPSASB clarify that pension schemes for civil servants who are government employees already fall under IPSAS 25, "Employee Benefits", as we are aware that there is some confusion on this issue.

#### *Specific Matter for Comment 7*

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

- (a) In all cases;*
- (b) For contributory schemes;*
- (c) Never; or*



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*(d) Another approach (please specify)?*

*Please explain the reasons for your views.*

We refer to our covering letter in which we discuss the need to meet financial statement users' needs for information in regard to social benefit schemes. In particular we suggest that specific disclosure is needed where the ability of the government to ensure contributions to specific schemes may not be enforceable such that, analogous to IPSAS 25, an asset is not recognized. For example, contributions as deductions of a percentage of remuneration from employment will not be enforced if an individual ceases employment altogether.

As explained in our covering letter, we believe that the features of individual social benefit schemes need to be disclosed to provide sufficient transparency in meeting financial statement users' needs. We support the insurance approach in the case of social security insurance schemes. Where there are scheme assets or contributions earmarked for a specific scheme in the absence of an insurance component these need to be presented separately rather than offset against liabilities. However, in some cases specific assets may not be earmarked for individual schemes as such, as benefits will be fulfilled from general funding. In other cases contributions may be earmarked, although these may not be aligned to the exact amount of benefit potentially available to a particular individual.

#### *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:*

- i. A claim becomes enforceable; or*
- ii. A claim is approved?*

*(b) Measure this liability at the cost of fulfillment?*

*Please explain the reasons for your views.*

Given its inability to provide information about the intergenerational impact of social benefit schemes, we do not believe that the social contract approach is appropriate in regard to the types of social benefits falling within the narrow scope of this project. We therefore do not support the social contract approach, as its application will not result in information that can fulfil the accountability and decision-usefulness objectives of GPFS and GPFRs.

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We therefore do not believe IPSASB should pursue this approach further within this narrow-scope project.

*Specific Matter for Comment 9*

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

We agree that the insurance approach under IASB ED/2013/7 Insurance Contracts, discussed in the CP, may be appropriate in accounting for certain social benefit schemes or components thereof that are in substance insurance schemes (but not subsidized insurance schemes). However, as noted in our responses to SMCs1, 2 and 4, we believe that careful consideration is needed in determining whether a specific scheme or component of a scheme represents insurance as opposed to a partly subsidized contributory scheme i.e., social assistance. For example, it may be difficult to distinguish between imputed contributions made on behalf of a recipient and general subsidization of a particular scheme. We urge the IPSASB to tighten the definition of social insurance if this approach is to be considered further, as there is considerable potential for misapplication.

We see merit in applying an insurance approach provided a scheme is both designed to be – and in practice proves to be – self-funding such that a liability to provide benefits is essentially expected to be dealt with within the scheme, rather than from other sources of funding, such as transfers.

*Specific Matter for Comment 10*

*Under the insurance approach, do you agree that where a social security scheme is designed to be fully funded from contributions*

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

*Please explain the reasons for your views.*

Subject to our comments on the need to distinguish social security schemes or components thereof that are fully funded from contributions from subsidized or



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partly subsidized-insurance schemes, we agree that any expected surplus should be recognized over the coverage period of the scheme; and any expected deficit recognized as an expense on initial recognition.

### Specific Matter for Comment 11

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

- (a) Recognize the deficit as an expense on initial recognition;*
- (b) Recognize the deficit as an expense over the coverage period of the scheme;*
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;*
- (d) Offset the planned subsidy and 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 the reasons for your views.*

As explained above, we believe the insurance approach is not generally appropriate for social security schemes that are not designed to be fully funded from contributions. There is considerable potential for misapplication of the insurance approach, since in comparison with the obligating event approach it is likely that a reporting entity would present less liability in the statement of financial position.

In our opinion, individual schemes that are not fully self-funded will need to be analyzed in order to identify whether they comprise a subsidized social assistance component (based on an assessment of substance over form) in addition to a social insurance component.

### Specific Matter for Comment 12

*In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities? Please explain the reasons for your views.*

**Page 19 of 20** to the letter to the IPSASB dated 29 January 2016

In our view, the assumption price measurement basis would be impracticable in the public sector, as it will generally not be as feasible for public sector entities to transfer social benefit schemes at a cost representing the “value” of that individual scheme as might be the case in the private sector. The cost of fulfillment measurement basis is also likely to be more straightforward in terms of calculation. For both these reasons we believe that, the cost of fulfillment measurement basis would be preferable in terms of providing faithfully representative information.

#### Specific Matter for Comment 13

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

*If you disagree, please specify the criteria that you consider should be used. Please explain the reasons for your views.*

We fully agree, and refer to our comments elsewhere in this letter in respect of the need for the IPSASB to provide a robust definition of social insurance. Since the insurance approach may ultimately result in less liability being presented in the statement of financial position than might be the case under the obligating event approach, we are concerned as to the potential for misapplication of the insurance approach, particularly where schemes may be (wholly or in part) subsidized so that they represent social assistance in substance. In assessing whether a scheme is in substance subsidized or not, it will be important for both the design of the scheme and actual operation of the scheme to be assessed.

#### Specific Matter for Comment 14

*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 the reasons for your views.*

We see no reason to suggest that the same approach as that used in IPSAS 25, “Employee Benefits” would not be appropriate.

**Page 20 of 20** to the letter to the IPSASB dated 29 January 2016

*Specific Matter for Comment 15*

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76? Please explain the reasons for your views.*

The proposals in IASB ED/2013/7 “Insurance Contracts” remain subject to finalization. In general, other than considerations as to the split between profit and loss and other comprehensive income which is an issue in the ongoing discussion of accounting for insurance in the private sector, the IDW is not aware of any specific reasons why the solution determined for the private sector might not generally be appropriate in this project.

International Public Sector Accounting Standards  
Board

Mr Ian Carruthers, IPSASB Chair  
and Mr John Stanford, IPSASB Deputy Director  
277 Wellington Street West  
Toronto, Ontario M5V 3H2  
Canada

Vice-President

Correspondant

Notre référence

Votre référence

Date  
29 January 2016

E-mail: [ian.Carruthers@cipfa.org](mailto:ian.Carruthers@cipfa.org), [JohnStanford@ipsasb.org](mailto:JohnStanford@ipsasb.org)

Dear Mr Carruthers, dear Mr Stanford,

**Consultation Paper on Recognition and Measurement of Social Benefits**

The Belgian Institute of Accredited Auditors is pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on Consultation Paper on Recognition and Measurement of Social Benefits (the Consultation Paper).

We support the work of the IPSASB to develop high-quality accounting standards and guidance for use by public sector entities in order to enhance accountability and transparency in public sector financial reporting and strengthen public financial management worldwide.

The Consultation Paper on the Recognition and Measurement of Social Benefits addresses a very important topic for Belgian governments and many governments in Europe and around the world. Social benefits represent a significant portion of government expenses and should be fairly and comprehensively reported in government financial statements. We therefore support IPSASB's plan to issue a standard on social benefits in the best possible delays; this will address an important gap in the present set of IPSAS standards.

We provide limited input only to the CP on those questions that we believe are the most crucial for the development of the standard.

On the options for the recognition and measurement of social benefits, we agree with IPSASB's preliminary view that a combination of the obligating event approach and insurance approach may be required to reflect social benefits' differing economic circumstances. We however do not support the social contract approach which would in our view not provide information that is useful for accountability and decision-making objectives of financial reporting.



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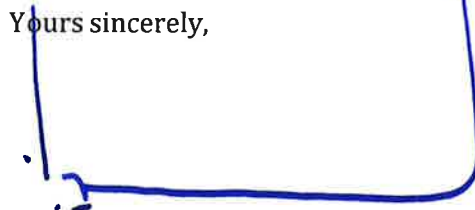
On the obligating event approach, we encourage the IPSASB to develop illustrative examples for various types of social benefits that are commonly granted by governments as well as clear guidance on recognition principles (recognition of social benefit expenses over time versus at a specific point in time).

Similarly, in the case of contributory schemes, we recommend that the IPSASB develop clear guidance on those benefits to which the obligating event approach should be applied and those to which the insurance approach should be applied.

We also do support IPSASB's view that application of the insurance approach is only appropriate where there is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.

If you would like to discuss any of the above matters in more detail, please contact Thierry Dupont, Vice Chairman of the Belgian Institute of Accredited Auditors, Boulevard Emile Jacqmain 115/1, 1000 Brussels (+32 2 512 51 36) or Patrice Schumesch, Chair of the IPSAS/EPAS working group of the Belgian Institute of Accredited Auditors (+32 2 710 4028).

Yours sincerely,



Thierry DUPONT  
Belgian Institute of Accredited Auditors



Ref #544475

31 January 2016

Technical Director  
International Public Sector Accounting Standards Board  
545 Fifth Avenue, 14th Floor  
New York, 10017 USA

Dear Sir/Madam

**SAICA SUBMISSION ON THE IPSASB's CONSULTATION PAPER ON THE  
RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS**

For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by the Accounting Standards Board in South Africa.

Our comments are reflected in the Accounting Standards Board's comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.

We thank you for the opportunity to provide comments on this consultation paper.

Yours sincerely

**JULIUS MOJAPELO**  
Project Director: Public Sector and Assurance



CH-3003 Berne, FSIO

***By electronic submission***

Mr. Paul Mason  
International Public Sector  
Accounting Standards Board  
529 Fifth Avenue  
New York, NY 10017  
USA

Our Ref.: 012.5-03/2012/01146 29.01.2016 Doknr: 207  
Official in charge: Beatrice Solida / Sob  
Berne, 28 January 2016

**Re: Consultation Paper IPSAS Recognition and Measurement of Social Benefits  
FSIO response to IPSAS Board (by 31 January 2016)**

Dear Mr. Mason

On 1 January 2016 the legal foundations in Switzerland were changed: in future the social insurances OASI (Old-age and survivors' insurance<sup>1</sup>), DI (Disability insurance<sup>2</sup>), APG (Income compensation allowances in case of service and in case of maternity<sup>3</sup>) and AC (Unemployment insurance<sup>4</sup>) will be included in the federal consolidated financial statements. The standard "Social Benefits" will be of great relevance to us. This document is a response to the IPSAS Board on the subject of the individual comments, and supplements the position paper of the Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP).

If any uncertainties are raised by the English translation, the German response is authoritative.

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<sup>1</sup> AHV – Alters- und Hinterlassenenversicherung (OASI – Old-age and survivors' insurance)

<sup>2</sup> IV – Invalidenversicherung (DI – Disability insurance)

<sup>3</sup> EO – Erwerbsersatzordnung (APG – Income compensation allowances in case of service and in case of maternity)

<sup>4</sup> ALV – Arbeitslosenversicherung (AC – Unemployment insurance)

## 1 Introduction

The Federal Social Insurance Office (FSIO) is the national centre of expertise on policies related to old-age, invalidity and the family. It plans, manages and monitors the corresponding social insurance systems to ensure that they function effectively. The FSIO also initiates and coordinates reciprocal social security agreements with other countries.

The Swiss Confederation spends about one third of its budget on social welfare. In recent years this amounted to about CHF 18 billion.

Further information on the tasks of the FSIO and the individual social insurance schemes can be found at the following websites (not all information is available in English):

<http://www.bsv.admin.ch/index.html?lang=en>  
<http://www.bsv.admin.ch/org/index.html?lang=en>  
<http://www.bsv.admin.ch/themen/internationales/aktuell/index.html?lang=en>  
<https://www.ahv-iv.ch/en/Leaflets-forms/Leaflets/International>

## 2 Basic remarks

In principle we agree with the SRS-CSPCP position. We also take a positive view of the work and objectives of the IPSASB to date.

However, we would like to note that owing to the complexity of the social insurance systems, the large number of parties involved in the Swiss federal system, and in conjunction with the complexity of the existing IPSAS bases and our own incomplete knowledge, we can respond initially only under the reservation of a further and more detailed examination of the material and the effects of the individual requirements.

At the moment we also cannot tell in which cases "recognition and measurement" with its corresponding entry in the "financial statements" could lead to an incorrect judgement, and whether or where pure "disclosure" would be preferable. This also applies in view of the complexity of measuring liability in connection with the understanding and interpretation of these "financial statements" by their recipients.

More detailed examination is likewise needed to determine which of the three *options* could be applied meaningfully. This is also the case with respect to the economic viability of the information expected in the "financial statements" and the administrative effort and expense of providing relevant figures, but especially in order to avoid incorrect interpretations arising from false disclosures. For this reason, we share the SRS-CSPCP view that "a future standard must offer feasible solutions".

Standards for statistical and financial reporting should create added value, improve transparency and be applicable in an economic manner. Against this backdrop, we believe it is important that the regulations governing such standards have a scope that meets these requirements adequately, yet is not too detailed.

## 3 Preliminary View 1 – Scope and definitions

### Chapter 2 – Scope and Definitions



### 3.1 Specific Matter of 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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?*

*Please explain the reasons for your views.*

On a)

The explanations in the CP use the terms “employment-related social insurance” “fully financed by contributions” with reference to the limit of IPSAS 25 employee benefits in a way that is not completely clear to us. As we presently understand it, at the federal level only the PP (Occupational benefit plan) and any other ‘employee benefits’ from the Confederation as an employer must be shown under IPSAS standard 25.

On b)

In our judgement, the *definitions* in the CP do not correspond completely to the definitions used in Switzerland or internationally, which hinders the understanding of the CP. It should be noted in particular that the social insurances often encompass different types of benefits (and different calculation factors: see also Comment 13).

Moreover, the CP only mentions the “invalidity insurance system” in Section A.33; explanations and examples in Appendix A are missing. However, we assume that the specific benefits of the disability insurance have a significant influence on the assessment of the methods. Wherever possible, we have accounted for this starting situation in our comments on the individual questions.

Information about invalidity insurance benefits in English can be found at:

<http://www.bsv.admin.ch/themen/iv/00021/03187/index.html?lang=en>

As mentioned in the SRS-CSPCP position on Specific Matter of Comment 2 (Section 4.1 a), the question arises of how to report social insurances in a *pay-as-you-go system*. As we understand it, the special features of a pay-as-you-go system should be stated precisely in the standard. When are accruals recognized (e.g. if the legal basis for the benefit entitlement changes)? From our present point of view we ask ourselves to what degree the IPSAS standard “Cash Basis” offers further details on accounting for a pay-as-you-go system. What is the difference between the terms “redistribution principle” (see Section 2.18) and “pay-as-you-go” (Sections 4.57 and A.34)? We recommend that a *definition of “pay-as-you-go system”* be included in the future standard. It is for the reason that a suitable approach has to be defined for social insurances that use a pay-as-you-go system.

## 4 Preliminary View 2 – Identifications of approaches

### Chapter 3 – Identification of Approaches

#### 4.1 Specific Matter of Comment 2

*(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

*(i) The obligating event approach;*

*(ii) The social contract approach; and*

*(iii) The insurance approach.*

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

*(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.*

We think it is too early to take a final position on this. We would need to examine the individual approaches more closely with respect to their effects.

In general, in Switzerland there are *legal entitlements* vis-a-vis the social insurance providers (which are generally legally, economically and organizationally separate from the state) to which entitled persons can lay claim independently of parliamentary financial planning. The calculation and payment of the Confederation's contributions to OASI and DI moreover take place on the basis of a clear legal foundation (defined as a percentage of the two insurances' expenses) and not on the basis of a planning decision.

Even if the present status of the insights and discussions suggests that option 2 (social contract approach) is less likely because benefits within the FSIO's jurisdiction are delivered independently of budget decisions, in principle we do not yet want to exclude any option.

As the largest part of the expenses of OASI and DI is "funded by contributions", we share the view that assets must be considered as well as liabilities.

## **4.2 Specific Matter of Comment 3**

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP? If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

It is not possible for us to make a final judgement at this time.

Pension entitlements, for instance in the DI, are reviewed periodically and can be reduced or increased in conjunction with other measures. An examination of how these would be assessed and presented still needs to take place.

## **5 Obligating Event Approach**

### **5.1 Specific Matter of Comment 4**

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

- (a) Key participatory events have occurred;*
- (b) Threshold eligibility criteria have been satisfied;*
- (c) The eligibility criteria to receive the next benefit have been satisfied;*
- (d) A claim has been approved;*
- (e) A claim is enforceable; 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 the reasons for your views.*

We cannot comment adequately on this point at this time.

As explained above (see Comment 2), it is generally the case in Switzerland that legal entitlements exist, but that they must be claimed by the person who holds the entitlement.

In the case of DI, we must also assume a more complex starting point: the individual systems provide more than just cash benefits, they also provide other types of benefits, both individual (e.g. medical or occupational measures or aids) and collective (subsidies for benefits from organizations) in addition to pension benefits. Assessments of the resulting obligations would likewise need to be examined further and in greater detail. Even the federal old-age and survivors' insurance (OASI) provides other benefits (such as aids) in addition to its main benefit of pensions.

## 5.2 Specific Matter of Comment 5

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

*Please explain the reasons for your views.*

In every case, the payment of benefits takes place on the basis of investigations and decisions made by the responsible authority. We assume that valuation and accounting will not take place for a general and abstract entitlement; rather, only events that are ultimately obligating (on the basis of a decision by an authority or court) will be valued. It is not (yet) possible for us to make further statements on this matter.

## 5.3 Specific Matter of Comment 6

*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 the reasons for your views.*

We can only respond to this question and provide any examples when we better understand the various aspects of "exchange transaction".

## 5.4 Specific Matter of Comment 7

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

*(a) In all cases;*

*(b) For contributory schemes;*

*(c) Never; or*

*(d) Another approach (please specify)?*

*Please explain the reasons for your views.*

Our understanding is that "assets" and "liabilities" basically have to be recognised at the same time and for the same time period.

# 6 Social Contract Approach

## 6.1 Specific Matter of 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:*

*(i) A claim becomes enforceable; or*

*(ii) A claim is approved?*

*(b) Measure this liability at the cost of fulfillment?*

*Please explain the reasons for your views.*

On a): Fundamentally only obligations that are based on a legally effective decision should be recognised in the financial statements.

On b) Different factors can have an influence on the measurement. Examples include an increase in life expectancy, changes in the assessment basis or discretionary decision (as described in Section 4.84). It is important that the "cost of fulfillment" be ascertainable according to simple, constant principles. We would first need to examine in greater detail whether this is possible.

## **7 Insurance approach**

### **7.1 Specific Matter of Comment 9**

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

We agree with the SRS-CSPCP position.

We cannot yet sufficiently judge the consequences of the statements in the CP.

### **7.2 Specific Matter of Comment 10**

*Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:*

*(a) Any expected surplus should be recognized over the coverage period of the benefit; and*

*(b) Any expected deficit should be recognized as an expense on initial recognition?*

*Please explain the reasons for your views.*

We understand the statements in a) and b) with reference to the "principle of prudence".

The financial effects and (any) political consequences of choosing a) or b) are not estimable at present. We also cannot yet judge whether the "insurance approach" in the future IPSAS standard "Social Benefits" should be set up according to the standard applicable for private insurance, and/or where any deviations are necessary.

We do not understand the SRS-CSPCP position that surpluses and deficits balance out over a long period of time. Further, it should be considered that contrary to the situation in private insurance, social insurances are not oriented toward the maximization of profitability and primarily economically motivated decisions, but focus on the sustainable financing of benefits under the rubric of the solidarity principle in society and, in the long run, are dependent on political decisions.

In our view, greater clarification will be necessary to determine which elements from a standard applicable to private insurance can or should be taken over in an "insurance approach" of a future IPSAS standard on Social Benefits (in any adaptation), and/or where any deviations will be necessary.

### **7.3 Specific Matter of Comment 11**

*In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;*

*(c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;*

*(d) Offset the planned subsidy and 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 the reasons for your views.*

The financial effects need to be examined according to these different methods in order for us to make a well-founded statement.

## **7.4 Specific Matter of Comment 12**

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

*Please explain the reasons for your views.*

As stated at the beginning, we have not had time to examine the CP sufficiently, and for this reason we cannot adequately assess Comment 12. According to our understanding of Sections 6.38 ff and 6.43 – “For other social security schemes, ... 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 scheme. ....” – either the “cost of fulfillment measurement” or “assumption price measurement” could be more applicable, depending on the category of social insurance.

## **7.5 Specific Matter of Comment 13**

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

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

*Please explain the reasons for your views.*

“The scheme” in the OASI and DI is not entirely “straightforward” – either in its financing (solidarity contributions, federal contribution) or in its benefits with respect to features such as minimum and maximum pensions, splitting, parental credits and care credits, or caps (for married couples). We cannot currently judge whether the two criteria are enough.

## **7.6 Specific Matter of Comment 14**

*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 the reasons for your views.*

The first pillar (OASI, DI, APG) contains elements unknown to occupational pension schemes. Accordingly, a more detailed analysis of IPSAS 25 and/or a comparison between the occupational pension schemes and the first pillar would be necessary in order to be able to make a statement on this.

In the case of benefits provided by OASI and DI, a determination of obligations based on the “discount rate” in line with IPSAS 25 would be possible in principle, but the consequences would especially need to be reviewed against the backdrop of its pay-as-you-go financing. We cannot presently comment on other benefits (such as Family Allowances in Agriculture).

## **7.7 Specific Matter of Comment 15**

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?*

*Please explain the reasons for your views.*

Subsequent measurement must also be assessed under consideration of the administrative work and expense and feasibility in terms of time.

Aspects such as materiality and group/individual valuation also play a role in our view.

The legal bases for entitlement can change (quickly). How should one proceed in such a case during subsequent measurement to avoid making false statements?

## 8 Additional Comments about Annex A

We see the following 'additional comments' on Annex A:

A.29: We request the same amendment as SRS-CSPCP.

Add: "... It is a state-run scheme. Non-working and self-employed people must also compulsorily contribute to it. The Swiss central government finances 19.5% of the outgoing annual payments." ~~It acquires this sum through direct federal taxes and value-added taxes (VAT) as well as the taxes on tobacco products and alcohol and gambling casinos.~~ This contribution 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 scheme and an amount from gambling casinos.

A.30: We request the same amendment as SRS-CSPCP.

Add: "...record. However other factors are also taken into account to set the amount of the benefits.

A.31: We request the same amendment as SRS-CSPCP.

Add: ".... Early withdrawal is possible from 62 (women) resp. 63 (men). Withdrawal can be postponed until the age of 70. In such cases the retirement pensions are actuarially reduced or increased."

A.35: We request the same amendment as SRS-CSPCP.

" .... out of kilter. To face up to such difficulties, a smoothing fund (buffer fund) has been established. Presently it amounts to the equivalent of more than 100% of the annual outgoing payments." ~~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 and alcohol. This amount .....to the scheme.~~

A.35: We request the same amendment as SRS-CSPCP.

Add: "Therefore, in case of ..... no default option. However a smoothing fund has been established that currently amounts to more than 100% of the annual outgoing payments. If the financial situation gets worse, the Executive should submit to the Parliament the necessary amendment to the existing act in order to balance the budget of the scheme."

Yours sincerely,

Federal Social Insurance Office  
AHV, Occupational Pension and Supplementary Benefits Domain



Colette Nova  
Vizedirektorin



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The Technical Director

IPSASB

New York

26<sup>th</sup> January, 2016

Dear Sir.

## **Comments on Consultative Paper: Recognition and Measurement of Social Benefits**

Thank you for giving us the opportunity to comment on your Consultative Paper: **Recognition and Measurement of Social Benefits**. We submit herewith our comments and proposals for your perusal.

### **Comment 1**

**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?**

**Response:** The scope of this CP is appropriate to the extent that it covers all other benefits that are not covered by another IPSAS, and also all kinds of social benefit that may arise in different jurisdiction. For example, this CP does not cover concessionary student loans which is deemed as a benefit as it is covered under financial instruments.

**(b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?**

**Response:** Yes. The definition in Preliminary View 1 provides an appropriate basis for IPSAS on social benefits as it highlights the key elements that constitute social benefits. However, in addition to the key word 'protect', the definition can incorporate 'improve' as benefits go to improve the standard of living of individuals and the populace as a whole. Thus, the definition of social benefits should include both 'protection' and 'improving' standard of living.

ICAG is a member of:



*Address all correspondences to: The Chief Executive Officer*



## Comment 2

**(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?**

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

**Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.**

**Response:** We support both the obligating event approach (Approach 1) and the Insurance approach (Approach 3) for the following reasons:

- a. Approach 1 gives specific timelines and suffices for general social benefits. Social benefits can be seen as obligations/liabilities. Thus once an obligating event arises, the entity is liable to pay social benefits. The Consultative Paper expounds on “present obligation” which is key in the definition of liabilities to include non-legally binding obligations. To avoid contention, events which may give rise under non-legally binding obligations have been characterized. With both, there should be little or no realistic alternative to avoid an outflow of resources. Recognizing an obligation in the financial statements is further characterized by five distinct points the IPSASB put forth, thus social benefit obligation is recognized if any of the five points are met.
- b. Approach 3 comes handy for other complex situations and takes into consideration future occurrences and liabilities. The insurance approach would be best suited for contributory schemes where the provision of social benefits are received conditional on participation in a scheme, that is, whereby the recipients contribute or contributions are made on their behalf. Accounting for this will be similar to insurance accounting where individuals/households make contributions and receive benefits when risk occurs. The social benefit approach will fall short where as is the case, some recipients of social benefits do not pay taxes.
- c. Approach 1 supports the timely recognition of social benefits whiles approach 3 focuses on the accuracy of measurement of these social benefits.

**(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.**

**Response:** We are unaware of any additional approaches for accounting for social benefits



### **Comment 3**

**Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?**

**If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.**

**Response:** We are unaware of any social benefits transactions that have not been discussed.

### **Comment 4**

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

- (a) Key participatory events have occurred;**
- (b) Threshold eligibility criteria have been satisfied;**
- (c) The eligibility criteria to receive the next benefit have been satisfied;**
- (d) A claim has been approved;**
- (e) A claim is enforceable; 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 the reasons for your views.**

**Response:** An obligating event under the obligating event approach can arise at any point because when any one of these points are met expectation is created that a benefit will be paid. Also, as there are different kinds of benefits with varying eligibility basis, this presupposes varying eligibility points. However, when the key participatory events have occurred, a future IPSAS should specify that an obligating event has arisen under the obligating event approach.

Depending on the facts and circumstances it can also be either option (a) or (b). (a) is sufficient for recognition not measurement. However the other options occur much later down the line for recognition.

### **Comment 5**

**In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach? Please explain the reasons for your views.**

**Response:** We do not believe that one can conclusively say so one way or another. There is no clear answer as the obligating event depends on the terms of contributory or non-contributory scheme. While it is easy to have the opinion that obligating events occur earlier for contributory benefits than non-contributory benefits, in our opinion terms of the social policy will further set the tone on whether or not there is an obligation.

#### **Comment 6**

**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 the reasons for your views.**

**Response:** A social benefit provided through an exchange transaction be accounted for in accordance with other IPSASs. A social benefit can be accounted for under social benefits for as long as there is no other IPSAS that specifically covers its accounting treatment. So for example, concessionary loans given to University students, in exchange, they would have to work once a week at the university offices. These loans would be accounted for under financial instruments, IPSAS 29.

#### **Comment 7**

**In your view, under the obligating event approach, when should scheme assets be included in the presentation of a social benefit scheme?**

- (a) In all cases;**
- (b) For contributory schemes;**
- (c) Never; or**
- (d) Another approach (please specify)?**

**Please explain the reasons for your views.**

**Response:** In all cases whether contributory or non-contributory scheme assets should be set aside. We believe this is the proper presentation which matches the liabilities with the assets set aside to satisfy them. Scheme assets should be included in the presentation of a social benefit for contribution schemes as it informs on the financial standing/viability of the scheme.

#### **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:**

- (i) A claim becomes enforceable; or**
- (ii) A claim is approved?**

**(b) Measure this liability at the cost of fulfillment?**  
**Please explain the reasons for your views.**

**Response:**

- A) Under the social contract approach, a public sector entity should recognize an obligation in respect of social benefits once a claim becomes enforceable.
- B) Liability should be measured at the cost of fulfilment which will be the cost of providing the benefit.

**Comment 9**

**Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?**  
**Please explain the reasons for your views.**

**Response:** Yes we agree with the IPSASB's conclusions about the applicability of the insurance approach. The insurance approach is applicable to contributory schemes, where the individual contributes an amount for coverage in case he/she becomes a social risk, in which case he would be eligible for social benefits.

**Comment 10**

**Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions?**

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

**Please explain the reasons for your views.**

**Response:** We agree that where a social security benefit is designed to be fully funded from contributions:

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

We agree with this concept because it follows the typical principles of conservatism, and also it provides useful information about the performance of the scheme for which major decisions can be made.

#### **Comment 11**

**In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;**
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;**
- (d) Offset the planned subsidy and 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 the reasons for your views.**

**Response:** We believe that under the insurance approach the appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions is recognized as an expense on initial recognition.

#### **Comment 12**

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

**Please explain the reasons for your views.**

**Response:** Under the insurance approach, an entity should use the assumption price measurement basis for measuring liabilities. This approach more closely follows IPSAS recognition related to discounted cash flows and so would be more in line with conventional reporting frameworks.

#### **Comment 13**

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

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

**Please explain the reasons for your views.**

**Response:** We agree with this proposition stated above.

#### **Comment 14**

**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 the reasons for your views.**

**Response:** Yes we 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. We agree because this is consistent with typical accounting reporting procedures and therefore not only easier to implement but more easily understandable by society since that is what is occurring for IPSAS implementing entities.

#### **Comment 15**

**Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76? Please explain the reasons for your views.**


**Response:** Under the insurance approach, we support the proposals for subsequent measurement set out in paragraphs 6.73–6.76.

#### **Conclusion**

We hope the IPSASB find this letter helpful in further developing the Consultative Paper. We are committed to helping the Board in whatever way we can to build upon the results of this Consultative Paper. Please do not hesitate to contact us should you wish to discuss any matters raised in this submission.

Thank you.

Yours faithfully,



Fred N. K. Moore  
(Chief Executive Officer)



Cour des comptes



À Paris, le 29 janvier 2016

**Comité consultatif  
sur la normalisation des comptes publics**

*Le Président*

IPSASB  
International Public  
Sector Accounting Standards Board  
529 Fifth Avenue  
New York NY 10017

**Objet: IPSAS Board Consultation Paper (CP) on « Recognition and Measurement of Social Benefits »**

In the Consultation Paper (CP) on « Recognition and Measurement of Social Benefits », the IPSAS Board rightly considers that *“social benefits accounts for a sizeable proportion of most governments’ expenditures”*.

The Consultative Committee of the French Financial Jurisdictions on Public Sector Accounting Standards expresses following views on the above mentioned Consultation Paper. Two subjects are specifically mentioned in the present answer:

- the proposed definition of social benefits;
- the accounting approach.

**1 – The Definition of Social Benefits**

The proposed definition for social benefits is: *“benefits payable to individuals*

*and households, in cash or in kind, to mitigate the effect of social risks.”*

Two concerns should be taken into account:

- “*social risks*” is a very imprecise concept; in the CP, those risks are defined as “*events or circumstances that may adversely affect the welfare of individuals or households either by imposing additional demands on their resources or by reducing their income.*” That definition can cover a number of situations, that should more precisely be described in the CP;
- the issues addressed in the CP could concern other entities than individuals or households, for example transfers to business enterprises or other public entities; in France, notions like “transfers” and “intervention expenses” are currently used, with similar accounting approaches to social benefits; those issues should be addressed in the CP.

## 2 – The Proposed Accounting Approaches

The IPSAS Board proposes three different accounting approaches for social benefits:

- The obligating event approach;
- The social contract approach;
- The insurance approach.

The social contract approach is of theoretical interest but seems to be difficult to apply, given the fact that social benefits are generally paid after the verification of eligibility criteria. The insurance approach might be applied to social benefits whose entitlement is subject to prior contribution by their beneficiaries, but many benefits are not contributory and when they are, they are seldom proportional to those contributions.

As a consequence, the obligating event approach is the one that seems to be suitable; the « *eligibility criteria met to receive next benefit* » event (“c”), is the most appropriate obligating event; in some rare cases, when the evaluation of received claims cannot be conducted with sufficient reliability, the “*approved claim*” (“d”) can be chosen as the obligating event.

Lastly, the Consultation Paper does not mention the major issue of contingent liabilities linked to social benefits. To this respect, the “obligating event” approach should be completed with an analysis of the relevant elements that should be mentioned in the notes to the financial statements, in order to be consistent with IPSAS 19 requirements.

Our detailed comments follow this letter.



Raoul BRIET



## **Annex: detailed comments**

### **Question 1 (paragraph 2.50)**

*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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?*

*Please explain the reasons for your views.*

(a) No, a broader reflection should be engaged about the notions of « Transfers » and « Intervention expenditure », in order to be consistent with IPSAS 23 requirements.

(b) Cf. our above mentioned remarks in the cover letter.

### **Question 2 (paragraph 3.4)**

*(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

*(i) The obligating event approach;*

*(ii) The social contract approach; and*

*(iii) The insurance approach.*

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

*(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such*

*approach(es) and explain the strengths and weaknesses of each.*

(a) The social contract approach is of theoretical interest but seems to be difficult to implement, given the fact that social benefits are generally paid after the verification of eligibility criteria. The insurance approach might be relevant for some specific social benefits, in particular those financed by dedicated contributions, but it is not the general case.

As a consequence, the obligating event approach is the one that seems to be suitable.

(b) No.

### **Question 3 (paragraph 3.4)**

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

Cf. our above mentioned remarks on the necessity of covering broader notions (“transfers” and “intervention expenditures”).

### **Question 4 (paragraph 4.69)**

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

- (a) Key participatory events have occurred;*
- (b) Threshold eligibility criteria have been satisfied;*
- (c) The eligibility criteria to receive the next benefit have been satisfied;*

The existence of contributory benefits has no consequence on the accounting approach, because the payment of the contribution by the individual or household is then taken into account within the “eligibility criteria” analysis for granting the social benefit.

**Question 6 (paragraph 4.80)**

*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 the reasons for your views.*

The relevant issue is the consistency between the future IPSAS on social benefits and IPSAS 23.

**Question 7 (paragraph 4.91)**

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

- (a) In all cases;*
- (b) For contributory schemes;*
- (c) Never; or*
- (d) Another approach (please specify)?*

*Please explain the reasons for your views.*

*(d) A claim has been approved;*

*(e) A claim is enforceable; 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 the reasons for your views.*

The « *eligibility criteria met to receive next benefit* » event (“c”) is the most appropriate obligating event; in some rare cases, when the evaluation of received claims cannot be conducted with sufficient reliability, the “*approved claim*” (“d”) can be chosen as the obligating event.

Nevertheless, the Consultation Paper does not mention the major issue of contingent liabilities linked to social benefits. To this respect, the “obligating event” approach should be complemented by an analysis of the relevant elements that should be mentioned in the notes to the financial statements, in order to be consistent with IPSAS 19 requirements.

#### **Question 5 (paragraph 4.76)**

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

*Please explain the reasons for your views.*

In France, the general principle is the non-assignment of receipts to expenditures for social benefits paid by the central Government. Social security funds are financed by social contributions and taxes which are allocated to them by the central Government, but do not either assign receipts to expenditures within themselves.

If some specifically identified and accurately assessed assets are dedicated to the coverage of social benefits liabilities, it seems suitable to include them in the scheme's presentation disclosed in the notes to the financial statements.

**Question 8 (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:*

*(i) A claim becomes enforceable; or*

*(ii) A claim is approved?*

*(b) Measure this liability at the cost of fulfillment?*

*Please explain the reasons for your views.*

Not relevant.

**Question 9 (paragraph 6.24)**

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

The insurance approach induces that the level of each individual contribution is linked with the individual's risks. That system is not relevant for social benefits in France.

**Question 10 (paragraph 6.35)**

*Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:*

*(a) Any expected surplus should be recognized over the coverage period of the benefit; and*

*(b) Any expected deficit should be recognized as an expense on initial recognition?*

*Please explain the reasons for your views.*

Not relevant.

**Question 11 (paragraph 6.37)**

*In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;*

*(c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;*

*(d) Offset the planned subsidy and 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 the reasons for your views.*

Not relevant.

**Question 12 (paragraph 6.43)**

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

*Please explain the reasons for your views.*

Not relevant.

**Question 13 (paragraph 6.63)**

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

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

*Please explain the reasons for your views.*

Not relevant.

**Question 14 (paragraph 6.72)**

*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 the reasons for your views.*

Not relevant.

**Question 15 (paragraph 6.76)**

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?*

*Please explain the reasons for your views.*

Not relevant.





## **ICAS RESPONSE TO IPSASB**

### Recognition and Measurement of Social Benefits

29 January 2016

## Introduction

ICAS (The Institute of Chartered Accountants of Scotland) is a professional body for more than 20,000 Chartered Accountants across the UK and internationally. We are an educator, examiner, regulator and thought leader. Our Public Sector Committee is a broad based committee of ICAS members with representation from across the public sector. ICAS's Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first.

We welcome the opportunity to comment on this consultation.

## Key messages

We agree that there is a gap in international public sector accounting standards for transactions which involve social benefits and welcome IPSASB's efforts to take this project forward to help strengthen the reporting of financial position in government financial statements.

A principles based approach is essential given the myriad nature of social benefit schemes and legal frameworks. It is also the corner stone of high quality accounting standards. We would therefore welcome greater clarity of the principles underpinning a standard on social benefits. These could include the following:

- Supporting simpler, transparent and meaningful information for readers;
- Proper application of materiality;
- Alignment with IFRS principles, avoiding unnecessary specialism and new definitions; only diverging from IFRS where there is a clear, justifiable need of a uniquely public sector matter that is material, adversely impacts the true and fair view and is not covered by IFRS.

The application of a social benefits standard sits best at national, i.e. whole of government accounts level, not below. We suggest that this is clarified going forward.

The implications for going concern are material. These will also need to be considered and justified. Governments with credit ratings, access to capital markets and tax raising powers should be able to demonstrate a form of either going concern or pending default. We believe it is important that each country explains clearly and succinctly in its Strategic Report (or equivalent high level narrative commentary preceding the financial statements) what its obligations are and how it intends to fund them as they fall due. How these liabilities have been treated in the financial statements also needs to be clearly referenced and explained in the accounting policies.

We would add that accruals accounting is only part of the overall picture. Financial planning and sustainability reporting should also be given greater priority.

Discussion is still at a conceptual stage and we would welcome further information and examples to inform an impact assessment and support informed discussion on the potential consequences of different options for practical implementation.

Our responses to the detailed questions are in Annex A.

Any enquiries should be addressed to Alice Telfer, Assistant Director, Business Policy and Public Sector, at [atelfer@icas.com](mailto:atelfer@icas.com).

## ANNEX A

### Responses to detailed questions

#### **Specific Matter for Comment 1 (following paragraph 2.50)**

*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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?*

*Please explain the reasons for your views.*

We are supportive of the scope.

#### **Chapter 3 – Identification of Approaches**

##### **Specific Matter for Comment 2 (following paragraph 3.4)**

*(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

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

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

We are supportive of the preliminary view which supports a combination of approaches i and iii.

*(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.*

We are not aware of any additional approaches.

##### **Specific Matter for Comment 3 (following paragraph 3.4)**

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

No, we are not aware of any social benefits transactions that have not been discussed in the consultation paper.

##### **Preliminary View 2 (following paragraph 3.4)**

*The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.*

We agree with this assessment.

#### **Chapter 4 – Option 1: Obligating Event Approach**

##### **Specific Matter for Comment 4 (following paragraph 4.69)**

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

- (a) Key participatory events have occurred ;*
- (b) Threshold eligibility criteria have been satisfied ;*
- (c) The eligibility criteria to receive the next benefit have been satisfied;*
- (d) A claim has been approved;*
- (e) A claim is enforceable; 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 the reasons for your views.*

Given the variety of different forms of social benefits and legislative frameworks that are in existence, some degree of flexibility is essential. This remains a matter of professional judgement related to which event best represents the trigger point for meeting the definition of a liability. Our initial impressions are that a difference in timing exists between planned and unplanned benefits, with the latter being a later recognition trigger due to the inherent level of uncertainty. A one size fits all option is not a feasible solution and decisions need to be made on a case by case basis, or at best, category by category basis. In general terms options b and c would be the earliest point (given the high level uncertainty in option a) and options d and e are likely to be too late to recognise a liability.

##### **Specific Matter for Comment 5 (following paragraph 4.76)**

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

*Please explain the reasons for your views.*

Generally, yes, as it creates a reasonable expectation, however the exact terms and nature of the scheme would need to be considered to confirm this is appropriate.

##### **Specific Matter for Comment 6 (following paragraph 4.80)**

*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 the reasons for your views.*

We are supportive of option b where the characteristics of exchange transactions are addressed by another standard.

##### **Preliminary View 3 (following paragraph 4.91)**

*Under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfilment. The cost of fulfilment should reflect the estimated value of the required benefits.*

##### **Specific Matter for Comment 7 (following paragraph 4.91)**

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

- (a) In all cases;*
- (b) For contributory schemes;*
- (c) Never; or*
- (d) Another approach (please specify)?*

*Please explain the reasons for your views.*

Where scheme assets are earmarked, we would support option (a) as we believe this gives a more balanced picture of the financial position. This should be presented gross, not netted off.

**Chapter 5 – Option 2: Social Contract Approach**

**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: (i) A claim becomes enforceable; or  
(ii) A claim is approved?

- (b) Measure this liability at the cost of fulfilment?

*Please explain the reasons for your views.*

We are not convinced this approach would support transparent reporting, appropriate application of prudence or effective management of resources.

**Chapter 6 – Option 3: Insurance Approach**

**Specific Matter for Comment 9 (following paragraph 6.24)**

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

We agree with the proposal to align with existing insurance approach where appropriate.

**Specific Matter for Comment 10 (following paragraph 6.35)**

*Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:*

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

*Please explain the reasons for your views.*

We agree.

**Specific Matter for Comment 11 (following paragraph 6.37)**

*In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;  
(c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;  
(d) Offset the planned subsidy and 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 the reasons for your views.*

Based on the limited information available, our preliminary thoughts are that option b would appear to be the most representative of the scheme and therefore best represents the economic reality.

**Specific Matter for Comment 12 (following paragraph 6.43)**

*In your view, under the insurance approach, should an entity use the cost of fulfilment measurement basis or the assumption price measurement basis for measuring liabilities?*

*Please explain the reasons for your views.*

We support the use of the cost of fulfilment basis.

**Specific Matter for Comment 13 (following paragraph 6.63)**

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

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

*Please explain the reasons for your views.*

We agree.

**Specific Matter for Comment 14 (following paragraph 6.72)**

*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 the reasons for your views.*

Yes, we agree with this proposal on the basis of consistency.

**Specific Matter for Comment 15 (following paragraph 6.76)**

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?*

*Please explain the reasons for your views.*

We are supportive of these proposals which are consistent with the IASB (Insurance Contracts).

Consultation Paper *Recognition and Measurement of Social Benefits*

# **response to consultation**

31 January 2016



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/ 160131 SC0223

International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th Floor  
Toronto  
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CANADA  
Submitted electronically

January 2015

Dear IPSASB secretariat

**Consultation Paper *Recognition and Measurement of Social Benefits***

CIPFA is pleased to present its comments on this Consultation Paper, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

**General comment**

CIPFA welcomes the publication of this paper which takes forward the development of the appropriate accounting treatment for a key category of non-exchange transactions which differentiate the conduct of the public sector from profit seeking entities. This is a crucial issue which needs to be addressed before IPSAS can be seen to cover all of the major aspects of public sector financial reporting. Timely completion of this project will help further establish IPSAS as the pre-eminent standards for public sector reporting

CIPFA agrees with the preliminary views set out in the Consultation Paper, subject to one drafting comment on the definition of social risk.

**Specific matters for comment**

Responses to the specific matters for comment are provided in an attached Annex.

I hope this is a helpful contribution to the Board's development of standards and guidance on Social Benefits. If you have any questions about this response, please contact Steven Cain (e: [steven.cain@cipfa.org](mailto:steven.cain@cipfa.org), t: +44(0)20 7543 5794).

Yours sincerely

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## ANNEX

### Responses to Specific Matters for Comment

#### 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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

(a) CIPFA agrees that the proposed scope is appropriate. Concentrating on individuals has the effect of focussing on a coherent set of issues to help achieve a resolution, and probably addresses the more urgent gap in IPSAS standards. Broadening the scope to encompass both exchange and non-exchange transactions may make the development process more straightforward, and should help the Board to develop a treatment which reduces problems relating to edge cases.

The other types of expenditure pose different reporting challenges and it makes sense to deal with them separately. Moreover, while collective goods and services are an important category of public sector expenditure, it is less clear to us that there is a significant gap in current reporting, and perhaps the main issue is in connection with the non-financial assets linked to this expenditure, which is substantially dealt with through the inclusion of service potential in the recognition of public sector assets.

Even the reduced scope will stimulate significant debate on this important topic, and keeping the discussion focussed will help the Board to avoid undue delay.

(b) The definitions in Preliminary View 1 generally provide an appropriate basis for an IPSAS on social benefits. However, we suggest that the word 'additional' should be deleted from the definition of social risks. As drafted, the implication is that social risks only arise where there is a change in the welfare of a household or individuals. This articulation may not be helpful if applied to circumstances which reflect long term poverty, or the circumstances of individuals born into conditions of deprivation. Social risks may also be subject to environmental factors and factors arising from technological innovation or societal change.

### **Specific Matter for Comment 2**

(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?

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

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.

(a) CIPFA supports further development of approaches (i) and (iii).

While the social contract approach highlights aspects of the delivery and financing of social benefits in some jurisdictions, we do not consider that it would provide a useful view of the economic substance while remaining consistent with the approach to recognition and measurement of liabilities in the context of the IPSASB conceptual framework.

For non-contributory schemes, the obligating event approach looks to be a good fit with the IPSAS's Conceptual Framework definition of a present obligation. For schemes with a contributory element which safeguards the contributor against social risks which may or may not be realised, the insurance approach may provide appropriate information.

(b) CIPFA is not aware of any additional approaches that the IPSASB should consider.

### **Specific Matter for Comment 3 (following paragraph 3.4)**

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?

If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

CIPFA is not aware of any types of transactions which should have been discussed in the CP that have been omitted.

## The Obligating Event Approach

### Specific Matter for Comment 4

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

- (a) Key participatory events have occurred ;
- (b) Threshold eligibility criteria have been satisfied ;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; 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 the reasons for your views.

Within the UK context, satisfaction of eligibility criteria per (c) is a strong indicator that there is an obligation. Especially for non-contributory benefits.

We are wary of taking criterion (a) as the determinant of obligation. In considering criterion (b), care needs to be taken to recognise the correct obligation, and whether this relates only to the next benefit, or to a broader liability. (The question of how that liability should be measured is, of course, a separate matter).

In the light of the above, we consider that criterion (c) should be the starting point, but at this stage we are wary of narrowing down the discussion to a single criterion. We can see that there is a distinction between recognition criteria relating to risks which are relate to unplanned events, such as unemployment, sickness and accidents, and those which relate to events which are planned and eventual receipt is highly likely. Full consideration of this issue may also depend on which transactions are considered to fall under the obligating event approach and which under the insurance approach.

### Specific Matter for Comment 5

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

Please explain the reasons for your views.

We note that contribution is not explicitly listed in the events in SMC4. We presume that contribution events might be considered to be within (a) key participatory events.

In the context of the social benefit arrangements in the UK, CIPFA is not convinced that an obligating event could ever occur earlier for contributory benefits; contribution itself would need to be taken together with another event in order to trigger recognition.

However, we would note that social benefit arrangements in other countries might be constructed very differently and operate within very different legal and regulatory frameworks. It might also be appropriate to consider whether obligations might be recognised for aggregates of potential beneficiaries in advance of events which trigger individual entitlement.

## The Obligating Event Approach (continued)

### Specific Matter for Comment 6

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 the reasons for your views.

Per our response to SMC 1(a), CIPFA agrees with the IPSASB's proposal to focus on social benefits, but not to require that these arise purely from non-exchange transactions.

Our preliminary view is that it will probably be best to provide guidance on these social benefits in the same IPSASs as for non-exchange social benefits, because this will be more practical than providing guidance on when schemes with a contributory element do or do not have the substance of exchange transactions.

### Specific Matter for Comment 7

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

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

Please explain the reasons for your views.

CIPFA's preliminary view is that this information should be provided where the assets are irrevocably associated with the scheme and are material to the understanding of a significant social benefit scheme.

## The Social Contract Approach

CIPFA does not support further consideration of the Social Contract Approach

## The Insurance Approach

### Specific Matter for Comment 9

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?

Please explain the reasons for your views.

This is a new approach and it is more difficult to evaluate it given the potential range of implementations of social insurance outlined.

However, CIPFA agrees with the approach proposed by the Board as a basis for further work to inform the development of an IPSAS exposure draft.

The reasoning set out by the Board is detailed and covers a range of scenarios which may be realised very differently in different jurisdictions. The points made by the Board appear valid and we have not identified any problems based upon the examples provided or other consideration by CIPFA.

### Specific Matter for Comment 10

Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:

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

Please explain the reasons for your views.

CIPFA agrees with this treatment.

## The Insurance Approach (continued)

### Specific Matter for Comment 11

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and 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 the reasons for your views.

In CIPFA's view and based on our understanding of social benefit programmes developed in the United Kingdom, the fact that a social benefit programme is not designed to be fully funded raises a significant challenge as to whether the social insurance approach should be applied, and in general we would not expect this to be appropriate.

However, it may be that in other countries, the combination of scheme implementation and the relationship with law and expectations may operate so that the social insurance approach is a realistic representation of the economic substance. Depending upon the specific circumstances, any of the approaches (a) to (d) might potentially be applicable.

### Specific Matter for Comment 12

In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities? Please explain the reasons for your views.

CIPFA's preliminary view is that the cost of fulfilment basis should be used.

### Specific Matter for Comment 13

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

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

Please explain the reasons for your views.

CIPFA agrees with these criteria, which will help ensure that the Insurance approach is applied to arrangements for which it will produce useful information.



## **The Insurance Approach (continued)**

### **Specific Matter for Comment 14**

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 the reasons for your views.

CIPFA agrees with the use of the same discount rate as that used for IPSAS 25, in line with the reasoning set out by the Board at 6.64 to 6.71 of the CP.

### **Specific Matter for Comment 15**

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?

Please explain the reasons for your views.

CIPFA supports the proposals for subsequent measurement.



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January 28, 2016

ICAN/R&T/ED/JAN/2016

The Technical Director  
IPSASB  
529 Fifth Avenue, New York  
NY 10017  
USA

Dear Sir,

**RE: RESPONSE TO CONSULTATION PAPER- RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS**

The Institute of Chartered Accountants of Nigeria has considered the above Consultation Paper and is pleased to submit comments as follows:

**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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?*

*Please explain the reasons for your views.*

**Comment:**

- a) Yes, the scope of this Consultation Paper (CP) is appropriate.

**Reason(s):**

The Consultation Paper focuses on aspects of Public Sector Reporting i.e., social risks and benefits, not covered by other Standards. It captures the recognition and measurement of social benefits, which may or may not arise from exchange transactions but were preceded by social risks.

Whilst IPSAS 19 excludes social benefits arising from non-exchange transactions, IPSAS 25 deals with social benefits arising from exchange transactions. The Consultation Paper covers social risk, recognition and measurement of social benefits not covered by the aforementioned Standards.

The inclusion of other transfers in kind and collective goods and services within the scope of this Consultation Paper will pose a challenge in recognition and measurement of the obligation and social benefits on the part of the relevant entities.

- b) Yes, the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits.

**Reason(s):**

A review of some of the examples of social benefits in Appendix A and practices within our jurisdiction illustrates the adequacy of the CP's definitions of the various categories of social benefits and thus provides an appropriate basis for IPSAS on social benefits.

**Specific Matter for Comment 2**

- (a) *Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

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

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefits.*

- (b) *Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.*

**Comment**

We recommend a combination of the Obligating event and Social insurance approach. Considering the nature of social benefits, obligating event approach and social insurance approach may work under different circumstance. Under some schemes, such as contributory schemes, social insurance approach may be more suitable than obligating event approach. Hence, it is appropriate that different approaches may apply to different categories of social benefits.

*Bm*





The social contract approach, however, may not be suitable due to its weaknesses. One of such weaknesses to the implementation of the social contract is that it does not cover cases where the beneficiaries do not need to contribute or meet an eligibility criterion. The social contract approach raises issues when non-legally binding obligations are involved.

### Specific Matter for Comment 3

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefit transactions that have not been discussed in the CP, and which could not be addressed by one or more options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

#### Comment:

No. In our opinion, the approaches suggested by IPSASB in the CP are broad enough to address all forms of social benefit transactions.

### Specific Matter for Comment 4

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

- (a) Key participatory events have occurred;*
- (b) Threshold eligibility criteria have been satisfied;*
- (c) The eligibility criteria to receive the next benefit have been satisfied;*
- (d) A claim has been approved;*
- (e) A claim is enforceable; 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.*

*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 the reasons for your view.*

#### Comment:

Under the obligating event approach, an attempt to set or choose one of the sub-options as the standard point for the recognition of obligation would not be flexible enough to accommodate numerous circumstances of social benefit in various jurisdictions.



Examples of diversity of condition or circumstances include:

- i. **unavoidability of factors** e.g. that a child born will grow in age and will ultimately receive certain social benefits at some point in time for people of certain age;
- ii. **contingency of factors** that certain social benefits may or may not be recognized or paid under certain conditions occurring or not;
- iii. **discretionary power of government**, as may be for some social benefits that need to be approved by government to be valid as obligation; and
- iv. **enforceability**, among others, for legal obligations.

*Unavoidability of factors* may correspond to Point (a) *Key participatory events have occurred*; *contingency of factors* corresponds to Point (b) *Threshold eligibility criteria have been satisfied* and Point (c) *The eligibility criteria to receive the next benefit have been satisfied*; Point (d), *A claim has been approved*, is ideal for *discretionary power of government*; and enforceability is covered by Point (e), *A claim is enforceable*. These are some of the broader considerations that could be made. The CP could stipulate initial and subsequent recognition and measurement criteria to be met as obligating events on social benefits.

Consequently, we are of the opinion that differing circumstances will necessitate a choice of the recognition criteria for determining when an obligating event arises.

This will imply adoption of any of the various criteria or a combination of them.

#### Specific Matter for Comment 5

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

*Please explain the reasons for your views.*

#### Comment:

In our view, an obligating event occurs earlier in non-contributory scheme than in contributory under the Obligating Event Approach.

#### Reason(s)

Paragraph 4.28 (a) recognizes “key participatory events have occurred” as the first point for recognizing obligation in the financial statements. This criterion does not need or involve any contributory action by the participants of the scheme. The occurrence of key participatory events necessitates the recognition of obligation.

In view of the Five distinct Points (in paragraph 4.28) at which a case can be made for recognizing an obligation in the financial statements, subsection (b), that is, ‘Threshold eligibility criteria have been satisfied’ corresponds to the earliest condition under which obligations can be recognized in the financial statements for contributory schemes.

Consequently, we conclude that obligating event is most likely to occur earlier in non-contributory than in contributory schemes.





#### Specific Matter for Comment 6

*In your view, should 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 example you may have of social benefits arising from exchange transactions.*

*Please explain the reasons for your view.*

#### Comment:

In our view, social benefits provided through an exchange transaction may be accounted for in accordance with future IPSAS to the extent that it is not related to employee-employer benefits as covered under IPSAS 25. Presently, existing IPSAS do not cover social benefits that arise to mitigate social risk. Examples are social security and social assistance.

#### Specific Matter for Comment 7

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

- (a) *In all cases;*
- (b) *For contributory schemes;*
- (c) *Never; or*
- (d) *Another approach (please specify)?*

*Please explain the reasons for your views.*

#### Comment:

In our view, under the obligating event approach, scheme assets should be included in the presentation of a social benefit scheme **in all cases** (whether contributory or non-contributory).

#### Reason(s):

This is to preserve the objectives of financial reporting as encapsulated in the conceptual framework. Presenting the scheme assets will avail users of relevant information on the sustainability or otherwise of the scheme. It will also have impact on both the reporting entity and other decision makers.

#### 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:*
  - (i) *A claim becomes enforceable; or*
  - (ii) *A claim is approved?*
- (b) *Measure this liability at the cost of fulfillment?*

*Please explain the reasons for your view.*

**Comment:**

- a) A public sector entity should recognize an obligation in respect of social benefits at the point at which a claim becomes enforceable.

**Reason(s):**

In our environment, the factors that make a claim enforceable may not only be legal, but also social and political. It is also important to note that under the social contract approach, liability would not arise until legal entitlement has been established (i.e., legal obligation created).

Consequently, it is more appropriate to recognize an obligation when a claim becomes enforceable.

- b) Yes, liability should be measured at the cost of fulfillment.

**Reason(s):**

It is our opinion that a social contract creates a legal obligation and it is prudent for the relevant entity to recognize the liability at a cost of fulfilling the obligation.

**Specific Matter for Comment 9**

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

**Comment**

We agree with IPSASB conclusion on the "across board" applicability of the insurance approach for three reasons:-

- (i) Liquidity;
- (ii) Level of imputed contribution; and
- (iii) Allocability (the quality or state of being allocable or assigned). Where the scheme's contribution are in kind, the scheme has a high level of imputed contribution but not involving cash transfer; or the scheme involves contribution which have no reliable basis for allocation to individual schemes; and another conditions may be required for recognition of social benefit. These conditions are, especially, the case in social assistance where beneficiaries are not expected to make any cash contribution to the scheme.

**Specific Matter for Comment 10**

*Under the insurance approach, do you agree that where a social security scheme is designed to be fully funded from contribution?*

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

*Please explain the reasons for your views.*



### Comment

We agree with IPSASB on the issue of the treatment of any expected surpluses or deficits on unsubsidized schemes as the Board's suggested treatment is in line with the accrual concept and is a prudent approach to financial reporting.

### Specific Matter for Comment 11

*In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security scheme that is not designed to be fully funded from contribution?*

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

*Please explain the reason for your views.*

### Comment

We agree with the first approach, i.e. "Recognize the deficit as an expense on initial recognition". This aligns with the Prudence principle – deficit is already incurred and should be recognized and expensed immediately. This is to allow for consistent treatment of all deficits irrespective of the nature of the scheme. The reason is tandem with the objective of financial reporting and provides useful information to users of financial statements.

### Specific Matter for Comment 12

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

*Please explain the reasons for your views.*

### Comment

Cost of fulfillment measure is the most prudent approach as the assumption of price measurement is based on a risk factor that is subject to relative determination. We consider the cost of fulfillment approach as the best estimate for measuring the liability.



*BH*



### Specific Matter for Comment 13

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

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

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

*Please explain the reasons for your views.*

### Comment

We agree with IPSASB regarding the criteria for determining the appropriateness of the insurance approach.

### Reason(s)

- When the link between contributions payable and the benefits is complex and does not relate directly, the exercise of judgment contained in the Consultation Paper (CP) is considered appropriate.
- Consideration of allocability of contribution levy is a critical factor as it makes clear to users of financial information how the contribution will be applied. We consider it adequate and sustainable in view of the objective of the related scheme.
- Furthermore, a consideration of the substance of the scheme will enable the entity differentiate between a social insurance and social assistance. This is considered important owing to different treatments required and will ensure that objectives of financial reporting are met.

### Specific Matter for Comment 14

*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 the reasons for your views.*

### Comment

We 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.

### Reason(s)

The discount rate as specified in paragraph 91 of IPSAS 25 Employee Benefits is a rate which is determined based on verifiable variables. This discount rate is the rate for financial instrument which has similar characteristics with that offered under the insurance contract. It considers the tenor of a government bond or

corporate bond. The tenor of the bonds and discount rates recommended in this Consultation Paper is arrived at by choosing the rate from the market. This reflects the time value of money of the instrument similar to the financial instrument contract under the insurance approach.

Where there is neither deep government bond nor corporate bond market, extrapolation is used to estimate the discount rate by using the current market rate of the appropriate term to discount shorter term payments.

The method of determining or estimating discount rate under IPSAS 25 is objective and sustainable and should be used to reflect the time value of money under the insurance approach.

#### **Specific Matter for Comment 15**

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73-6.76?*

*Please explain the reasons for your views.*

#### **Comment**

Yes, we support the proposals for subsequent measurement set out in paragraphs 6.73 – 6.76.

The paragraphs consider the appropriate treatment when there is a change or modification of the terms of a social insurance scheme. This change or modification may lead to a rise in the obligation to provide additional benefits, or reduced obligation to provide benefits or a “no change at all” in the obligation to provide benefits.

The modification in social insurance schemes under the insurance approach conveyed in paragraph 6.76 of the Consultation Paper reflects similar circumstance as the defined benefit obligation under IPASAS 25. While IPSAS 25 is for exchange transactions, the principle of management of the benefits is the same. Paragraph 65 of IPSAS 25 maintains that defined benefit liability is arrived at by considering the present value of the defined benefit obligation, among other items.



The present value of the defined benefit obligation reflects the effects of changes in all variables that affect existing benefit schemes. It is the same as the reflection of the net effect of treatment of subsequent measurement of insurance approach as outlined in paragraph 6.73 (bullet point three (3)). Therefore the proposals of paragraphs 6.73 – 6.76 are supported.

We thank the Board for giving our Institute an opportunity to contribute to the Consultation Paper.

Yours faithfully,  
for: Registrar/Chief Executive



**Ben Ukaegbu, PhD, ACA**  
Director, Technical & Education





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31 January 2016

Dear Sir/Madam

## **COMMENT ON CONSULTATION PAPER: Recognition and Measurement of Social Benefits**

We welcome the opportunity to comment on Consultation Paper: *Recognition and Measurement of Social Benefits*.

The IPSAS Board (IPSASB) has prepared a Consultation Paper (CP) which highlights the possible accounting treatments for social benefits. The CP identifies three broad approaches to accounting for social benefits. The approaches are summarized below:

**Option 1:** The obligating event approach considers social benefits by reference to the definition of a liability in the Conceptual Framework. Obligations to pay social benefits are seen as other obligations (in principle). The key issue of this approach is to determine when a present obligation arises. A present obligation only arises at either one of the five recognition points:

- Key participatory events, whereby some but not all of the eligibility criteria are met;
- Threshold eligibility criteria;
- Eligibility criteria to receive benefit is met;
- Claim to receive next benefit is approved; or
- Claim to receive next benefit is approved and payment date has arrived.

**Option 2:** The social contract approach, previously referred to as the executory contract accounting model. This approach highlights the obligation of the Public Sector entity to provide goods, services and cash transfers to individuals/households; and the corresponding rights of such individuals/households to receive those benefits. A present obligation only arise once claims for social benefits become enforceable or are approved.

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The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

**Option 3:** Insurance approach is a new approach which recognises and measures social benefits based on insurance accounting. The approach also recognizes a right to future receipts resulting from the provision of that coverage. Complex issues arise under this approach in respect of partially subsidised schemes and significant changes to the terms of schemes.

The preliminary view of the IPSASB is that of a combination of Option 1 (Obligating event approach) and Option 3 (Insurance approach) in respect of social benefits. The IPSASB is of the view that Option 2 (Social contract approach) is unlikely to meet the objectives of financial reporting.

The detailed comments to the matters highlighted in the CP are discussed in the Annexure below.

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely

KPMG Services Proprietary Limited

A handwritten signature in black ink, appearing to read 'W. Roetz', is positioned above a faint, dotted rectangular box.

Per : Werner Roetz  
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Reporting Accounting and Assurance Solutions  
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## ANNEXURE A – DETAILED RESPONSES

### CHAPTER 2: SCOPE AND DEFINITIONS

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

The other key definitions are as follows:

**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.

**Social benefits** are provided to mitigate social risks.

**Social Benefits in Cash** are social benefits paid in cash, by or on behalf of a public sector entity, that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.

**Social Benefits in Kind** are goods and services provided as social benefits to individuals and households by or on behalf of a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.

**Reimbursements** are cash payments made as a social benefit by or on behalf of a public sector entity to compensate a service provider or an individual or household for all or part of the expense

**Social Insurance** is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).

**Social Security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.

**Social Assistance** is the provision of 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

- 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. **Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?**

In our view, we agree with the scope of the CP. We agree that collective goods need to be excluded from the scope of social benefits as they relate to goods and services provided to the entire population or a segment of the population such as national defense, fire protection etc. To add on, collective goods and services are consumed automatically by all or part of the population and are not normally subject to the satisfaction of the eligibility criteria.

We also agree with the abovementioned definitions.

## CHAPTER 3: IDENTIFICATION OF APPROACHES

### Preliminary view

#### Specific matter for Comment 2

- a. **Based on your review of Chapters 4 to 6, which approach or approaches do you support?**
  - (i) **The obligating event approach;**
  - (ii) **The social contract approach; and**
  - (iii) **The insurance approach.**
- b. **Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach (es) and explain the strengths and weaknesses of each.**

We favor the obligating event approach because it supports the view that a present obligation needs to exist before a social benefit is recognized. This approach is also consistent to that of the Exposure Draft ED/2015/3: *Conceptual Framework for Financial Reporting* published by the International Accounting Standards Board (IASB). The ED/2015/3 defines a liability as a present obligation of the entity to transfer an economic resource as a result of past events. To add on, in our view, the recognition point of a social benefit should occur when the **eligibility criteria is met**. The recognition points whereby the **key participatory events are identified and when not all of the eligibility criteria are met** or the **threshold eligibility criteria** are not ideal as this could lead to premature recognition of social benefits. On the other hand, the points

whereby the **claim to receive next benefit is approved and payment date has arrived** could also result in the late recognition of social benefits.

This obligating event approach is also consistent to that of the ED/2015/3 which states that an entity has a present obligation to transfer an economic resource if it has no practical ability to avoid the transfer and the obligation has arisen from past events.

In our view, the social contract approach is not ideal because it states that a present obligation only arises once claims for social benefits become enforceable or are approved. It ignores instances whereby obligations are not legally enforceable as a consequence of a contract or legislation. This is not consistent to the ED/2015/3 which states that obligations can also arise as a result of customary practices, published policies or specific statements that require the transfer of an economic resource.

We also do not favour the insurance approach which recognises and measures social benefits based on insurance accounting as it could be complex to grasp. It is also our understanding that the IASB is in the process of replacing the standard on insurance accounting. Therefore, it might not be a feasible exercise for the IPSASB to adopt the insurance approach as the principles therefore could differ according to the guidance that will be provided by the IASB.

### **Specific matter for Comment 3**

- a. Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?**

No we are not aware of any social benefits transactions that have not been addressed by this CP.

### **Specific matter for Comment 4**

- a. In your view, at what point should a future IPSAS specify that an obligating event arises under the obligating event approach?**

Refer to our responses to comment 2 where we explain the appropriate point to recognise an Obligating event.

### **Specific matter for Comment 5**

- a. In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach? Please explain the reasons for your views.**

We do agree that an obligating event occurs earlier for contributory events than non-contributory benefits under the obligating approach because we accept the view that 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. Such expectations are stronger than for non-contributory schemes that are primarily funded from general taxation.

#### **Specific matter for Comment 6**

**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?**

We are of the opinion that a social benefit provided through an exchange transaction should be accounted for with other IPSASs as the scope of the IPSAS on social benefits will only cater for social benefits provided through a non-exchange transaction.

#### **Preliminary view**

#### **Specific matter for Comment 7**

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

- a. In all cases,**
- b. For contributory schemes;**
- c. Never; or**
- d. Another approach (please specify)?**

In our view, the scheme assets should be included in the presentation of a social benefit for contributory schemes because the scheme is financed by contributions.

### **Chapter 5 – Option 2: Social Contract Approach**

#### **Specific matter for Comment 8**

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

- a. Recognize an obligation in respect of social benefits at the point at which:**
  - i. A claim becomes enforceable; or**
  - ii. A claim is approved?**
- b. Measure this liability at the cost of fulfillment?**

In our view, under the social contract approach, a public sector entity should recognise an obligation when the claim becomes enforceable because an obligation can be recognized earlier than when the claim is approved.

To add on the liability should be measured at the cost of fulfillment as the historical cost and fair value might not be determined easily.

**Specific Matter for Comment 9 (following paragraph 6.24)**

**Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?**

**Please explain the reasons for your views.**

We agree with the IPSASB's conclusions that the insurance approach is not appropriate for all social benefits and would have to be used in conjunction with another approach due to the different characteristics of social benefits.

In our view, it would be inappropriate to combine the revenue and expense streams into a single measurement model in the public sector.

**Specific Matter for Comment 10**

**Under the insurance approach, do you agree that where a social security scheme is designed to be fully funded from contributions:**

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

Should the IPSASB pursue the insurance approach, we agree that any surplus should be recognized over the coverage period of the scheme, and that any deficit should be recognized immediately.

**Specific Matter for Comment 11**

**In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;
- c. Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- d. Offset the planned subsidy and 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 the reasons for your views.**

Should the IPSASB pursue the insurance approach, we recommend that a deficit of a social security benefit that is not designed to be fully funded from contributions, be recognized as an expense on initial recognition (this reflects an onerous contract).

**Specific Matter for Comment 12**

**In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities? Please explain the reasons for your views.**

In our view, the cost of fulfillment measurement basis should be used as it reflects the cost that the entity will have to incur to settle the obligation. The assumption price measurement basis is more applicable to insurance type schemes where the entity is able to charge contributions that compensate for its risks.

**Specific Matter for Comment 13 (following paragraph 6.63)**

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

We do not recommend using the insurance approach in these instances as the accounting approach does not support the economic substance of the arrangement.

**Specific Matter for Comment 14**

**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?**

Yes we support this proposal because using the same discount rate as the one determined in IPSAS 25 allows consistency with statistical reporting and reflects a risk free rate.

**Specific Matter for Comment 15**

**Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?**

Should the insurance approach be pursued, we agree with the proposals for subsequent measurement.



International Labour Office  
Bureau international du Travail  
Oficina Internacional del Trabajo

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Standard Board  
529 Fifth Avenue  
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**United States of America**

**Comments of the International Labour Office on the  
Consultation Paper on Recognition and Measurement of Social Benefits of the  
International Public Sector Accounting Standards Board**

Dear Sir/Madam,

I am pleased to hereby submit comments on the above-mentioned Consultation Paper on behalf of the International Labour Organisation (ILO).

I share some key background elements relevant to the ILO. As the oldest international organization of the United Nations system since 1919, the ILO is a tripartite organisation whose core mandate for social justice focuses on all policy aspects relevant to the world of work. More specifically, it has a Social Protection Department that acts as an international policy and technical reference in the area of social protection systems, including non-contributory and contributory social security for all risks across the life cycle. It is responsible for developing new international policy standards, submitted to all member states, and to support their technical implementation. More recently, all countries unanimously adopted the Recommendation No. 202 on Social Protection Floors (2012) which provides guidance to countries in gradually extending and reforming their systems. Other important normative instruments include Convention No. 102 on Minimum Standards of Social Security (1952) and other specific ones on the different risk areas of social protection throughout the life cycle. A detailed list is provided in Annex.

In the field of practice relevant to social security, the ILO has a long tradition of developing actuarial and statistical methodologies applied by governments and their social security institutions all around the world. The ILO has produced over time a series of references publicly

available. In the field of technical assistance, the ILO has delivered actuarial valuation and financial reviews to more than 120 countries. As part of its mandate, the ILO is committed to develop national capacities, namely in the field of social protection and social security policy-making and financial governance. In practice, the ILO actuarial models for social security valuations are applied and delivered to social security institutions as well as different line ministries. It has cumulated experience to operate in respect of the wide range of life contingencies (old-age, death, invalidity, work-related injury and death, sickness, unemployment, maternity, family benefits, etc.).

Our general comments on the IPSAS-B Consultation Paper on Recognition and Measurement of Social Benefits are as follows:

**(1) Objective and scope for the measurements of social benefits**

Under sections 2.31 to 2.50, it is understood that the main purpose for measurement of social benefits falling in the category of “non-exchange transactions” is to provide the general public with transparent and useful information on the size and the financial situation related to social benefits. As the paper indicates, these social benefits in general often refer to a sizable proportion of the public expenditure in many countries and their delivery is the primary objective of many governments. This is an objective which the ILO welcomes as each country adopts its own social objectives and it needs to ensure the regular and sustainable financing that will enable delivering the social benefits expected in the long-term through its decisions and laws.

It is noted that the selection of social benefits in the scope of the Consultation Paper is restricted to in cash and in kind social security benefits whereas your definition of “social security” is further explained as contributory social insurance that arise outside of an employer-employee relationships providing benefits to the community as a whole, or large sections of the community, and imposed and controlled by a government entity. ILO welcomes that further work at a later stage will embrace the accounting of the social benefits not covered here.

As highlighted in your historical perspective of previous similar projects submitted for public consultation, the ILO suggests carefully exploring the relevance of accounting for social benefits, namely when they fall under the general mandate of the state and are subject to regular revisions in line with political and conjuncture elements.

**(2) Non-recognition of non-contributory social benefits in public accounts**

The ILO appreciates that the project does not address what it considers as non-contributory social benefits that are usually financed from general revenues through annual budget laws and allocations which are in many ways similar to other public expenditure and budgetary items (such as education) and are the subject of potentially substantial adjustments in the future depending on

the decisions of successive governments. Their discounting beyond a short- to medium-term horizon could be of limited reliability. We therefore welcome that such social benefits should not be recognized in the framework of public sector accounting.

### (3) **Selective recognition of social benefits in public accounts**

We take note of the detailed definitions and nuances when addressing contributory social benefits, namely social insurance benefits, and which are consistent with GFSM 2014 and SNA 2008. This will assist in bringing coherence across the different practices areas. From our experience, social security / social insurance benefits (other than for public sector and government employees) are paid in return of social insurance contributions, earmarked specifically for specific benefits to be paid in the future conditional to the occurrence of certain risks and contingencies. They are usually managed through separate public or semi-public administrations such that inclusion into government budgeting frameworks varies across countries.

The ILO notes how countries adopt at different points in time parametric or structural reforms when the financial sustainability as measured by actuarial estimates indicate a current or projected financial disequilibrium. This is especially relevant for long-term benefits such as old-age, invalidity and survivors' pensions whose assessment require a long-term horizon extending for decades and with complex time lags between the time periods during which contributions are paid and the period over which benefits are paid out. While the reflection of the financial position of such long-term benefit schemes is important for public finances, care must be exercised not to distort the picture of their true financial position by adopting coherent accounting approaches in line with actuarial techniques. One element of concern is the adoption of accounting methodologies that will reflect the effect of adopted reforms on the future financial position of the social security

The situation of short-term social benefits may be different and would not require to be reflected into public accounts.

### (4) **Measurement of contributory social benefits in public accounts**

ILO feels it is important to raise to your attention that the accounting treatment of contributory social benefits should be based on an open group approach taking into account cumulated assets and future income.

More specifically, it is worth pointing how “accrued rights” in respect of people (usually workers) under contributory social security provide expectations towards future benefit entitlements that are clear. It is difficult to envisage such accrued rights to benefit entitlements and the provisions and rules governing them could be modified without breaking the rule of law. Therefore the assessment of their discounted value requires actuarial estimates that can be reasonably expected to materialize if assumptions match the observed developments in future.

These accrued rights in many countries have been defined to be financed over time through contributions with objectives for more or less “advance funding” (i.e. accumulation of assets) which reflect the socio-economic objectives of each country. It is important to reflect this income source as it is implied to be required towards meeting at least the accrued rights.

However, for future benefit entitlements that will stem from rights to be gained in the future only, it is clear that the legal provisions of social security governing their eligibility and calculation method for individual benefits as well as their level and framework for collecting contributions could be amended in the future. Such amendments normally are the result of thorough actuarial assessments based on projection frameworks which define the long-term “financial sustainability” of the social security scheme. These future amendments normally revolve around increasing the income (e.g. level of contribution rates collected from insured members/workers and their employers) and/or adjusting future benefits (e.g. their level and eligibility). This means that future rights to benefit accruals could reasonably be expected to be modified in line with the financial sustainability framework regularly reviewed with the advice of social security actuaries. The above points made indicate an open group methodology would be more adequately reflecting the financial position of the social security/social insurance scheme.

It is noted that some of the proposed methods for social benefits in the Consultation Paper follow the methods generally applied to private pension arrangements which are not consistent with social security pensions. The ILO discourages the option for the Obligor Event.

Social insurance schemes are usually compulsory and deemed as permanent entities. They allow future contributions, including not only those of current contributors but also those of future contributors, to finance accrued liabilities through inter-generational transfers, based on the nature of compulsion and solidarity principle. The method of accumulating or not accumulating assets is a policy decision taken by politicians and can change over time. There are social insurance schemes that are designed to have benefit outlays match contribution income on a pay-as-you-go basis, with small contingency reserves, or other schemes operated on a partially-funded system with reserves smaller than those required for full-funding system (ILO understands “full-funding” to mean that cumulated assets are always equal to cumulated rights at any point in time, a reality usually valid for defined-contribution schemes but not so valid for other forms of social security benefit design and funding strategies). This is a political choice reflecting the social and economic objectives of a country. For example, full funding objectives are considered economically undesirable by some countries and affecting domestic consumption while it is not for others. It is therefore inappropriate to measure liabilities of social insurance schemes on a termination basis (closed-group).

In order to assess the financial position as a reflection of financial sustainability of a social security schemes, an open-group approach is deemed appropriate, i.e. in line with the “insurance approach” of the Consultation Paper modified for the Open group approach such that all expected future income, mainly represented by future contributions and their income from investments, as

well as future expenditure, mainly represented by future benefits, should be taken into account, by properly discounting expected future financial cash flows.

An open-group insurance approach would allow reflecting the financial position of all future adopted reforms affecting social insurance schemes, for example retirement age increases, benefit amendments as well as contribution rate increases.

(5) **In summary,**

There are other methodological dimensions, namely with respect to projection methods, assumptions. The ILO has been informed of the comments prepared by the Social Security Committee of the International Actuarial Association (IAA) and we express our agreement with the comments separately submitted by the IAA. These reflect the views of some of the best social security actuaries in the world who direct the work of social security financial governance.

The ILO recommends further reflections and additional in-depth technical research and exchanges with the actuarial and social security pension financing professions based on concrete evidence-based and national examples. This additional work is necessary to ensure the best information is made available for the public and policy-makers. I would be pleased to propose that we organise a discussion to further share views and constructively collaborate with the IPSASB on this important endeavour in the future. Thank you for this opportunity to share views and wishing you good success in the continuation of this project.

Yours faithfully,

Anne Drouin  
Chief  
Public Finance, Actuarial and Statistics Services Branch  
Social Protection Department

*(signed original by post)*



## **Annex**

### **Up-to-date list of International Labour Standards relevant to Social Security**

The complete system of International Labour Standards (ILS) is accessible at the following link:

<http://www.ilo.org/global/standards/lang--en/index.htm>

More specific to social protection and social security are the following ILS:

- *Income Security Recommendation, 1944 (No. 67);*
- *Medical Care Recommendation, 1944 (No. 69)*
- *Social Security (Minimum Standards) Convention, 1952 (No. 102);*
- *Equality of Treatment (Social Security) Convention, 1962 (No. 118);*
- *Employment Injury Benefits Convention, 1964 (No. 121) and Recommendation, 1964 (No. 121);*
- *Old-Age, Invalidity and Survivors' Benefits Convention, 1967 (No. 128) and Recommendation, 1967 (No. 131);*
- *Medical Care and Sickness Benefits Convention, 1969 (No. 130) and Recommendation, 1969 (No. 134);*
- *Maintenance of Social Security Rights Convention, 1982 (No. 157) and Recommendation, 1982 (No. 167);*
- *Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) and Recommendation, 1988 (No. 176);*
- *Maternity Protection Convention, 2000 (No. 183) and Recommendation, 2000 (No. 191).*
- *Social Protection Floors Recommendation, 2012 (No. 202)*

## STATE OF ISRAEL MINISTRY OF FINANCE

31 January 2016

### **The International Public Sector Accounting Standards Board**

#### **Consultation Paper: *Recognition and Measurement of Social Benefits***

Dear Sir/Madam,

We appreciate the opportunity to respond to the International Public Sector Accounting Standards Board's (hereinafter: "**IPSASB**" or "**Board**") Consultation Paper *Recognition and Measurement of Social Benefits* (hereinafter: "**CP**"). We strongly support the IPSASB's efforts to advance the discussion on the possible accounting treatments for social benefits.

We acknowledge that this response does not follow the guidance for respondents provided in the CP. Nevertheless, we wanted to share our views as a general paper because of the importance of this project.

The CP identifies three approaches for the recognition and measurement of social benefits. Based on these approaches, we recognize that the Board's intention is to bring social benefits on-balance, while today a significant portion of the social obligations is reported as a stand-alone report.

Our comments on the approaches discussed in the CP are provide below:

#### **1. The obligating event approach**

Under the obligating event approach, a liability is recognize in the financial statements as the obligating event occurs, without recognition of any asset representing the future tax revenues.

In our view, the overall effect of recognizing the future deficit without the recognition of the future tax revenues, might contradict the objectives of financial reporting by public sector entities and might result in a misleading presentation. Particularly, we cast doubts on whether this approach satisfies the faithful representation criteria as a qualitative characteristic of information set out in the Conceptual Framework, which forms the basis of the obligating event approach.

In addition, we believe that recognizing a liability for all future benefits, as required under the first and the second sub-options (i.e. key participatory events and threshold eligibility criteria sub-options) might create practical difficulties in measuring the liability and will be subject to a significant uncertainty. This raises

## STATE OF ISRAEL MINISTRY OF FINANCE

the question whether the recognition criteria set out in the Conceptual Framework is satisfied for those liabilities.

Moreover, as the government has the ability to avoid paying the benefits by modifying the relevant legislation, it appears that only the fourth and the fifth sub-options (i.e. the approved claim and the enforceable claim sub-options) will satisfy the recognition criteria.

### 2. Social Contract Approach

In our view, the underlying model of the social contract approach, under which there is kind of an executory contract between the government and its citizens (i.e. the government provides social benefits to the citizens and the citizens provide the government taxes and other resources of finance, effectively offsets the government's obligations), is an appropriate model, reflecting the current economic reality. Under the social contract approach, by applying analogy to the executory contract accounting model, the government will recognize no liability for social benefits (unless the contract has become onerous), until an enforceable (or approved) claim in respect of the benefits exists.

We believe that the accounting treatment for social benefits under the social contract approach faithfully represents the economic circumstances arising in respect of social benefits, as that approach reflects the fact that the benefits are effectively financed/subsidized by tax receivables, and that the payment of benefits by the government is highly dependent on taxes paid by the citizens. In other words, we believe that the government's obligation to provide benefits and the sources effectively finance this obligation (taxes) should not be regarded as separate elements, and therefore our view is that measuring the liability at zero (unless the contract is onerous) is the most appropriate approach. This accounting treatment is appropriate also because the government has the ability to avoid paying the benefits (for example, by modifying legislation).

Regarding the approaches considered by the board in respect of when the liability should be recognized (i.e. when a claim for social benefits becomes enforceable or when the claim is approved) – it should be noted that we support the second approach (when the claim is approved). This is because, in our view, that approach results in a better matching between cost (social benefits) and revenue (taxes), and is more consistent with the guidance of IPSAS 23 *Non-Exchange Transactions (Taxes and Transfers)*, under which revenue from taxation should be recognized when the taxable event occurs (and not at the legal date of receipt).

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### 3. Insurance Approach

Under the insurance approach, it appears<sup>1</sup> that for fully funded schemes, the government should recognize an expected surplus or deficit only for the period in which the legislation cannot be revised. Any expected deficit should be recognized immediately as an expense. Any expected surplus should be recognized over the coverage period of the scheme.

Complexity might arise for schemes not designed to be fully funded from contributions (i.e. subsidized through taxation) – the CP identifies three approaches regarding the recognition of the unsubsidized portion as an expense.

Considering the fact that the insurance approach provides a partial solution only (i.e. that approach does not provide an extensive solution for all social benefits) and the significant complexity that might arise under this approach, we don't support the insurance approach. Particularly, as the Israeli government has the ability to revise the relevant legislation at any time, it appears that the insurance contract is not relevant under these specific circumstances. Considering that the board's objective is to develop an extensive accounting model for social benefits, covering a wide variety of benefits and schemes, it is possible that the insurance approach is not/less relevant for other countries also, where the circumstances are similar to the circumstances in Israel, as mentioned above.

**In light of the above, our view is that the social contract approach is the most appropriate approach to recognizing and measuring social benefits. In any case, we believe that adoption of any one of the approaches might be a long process, since the variety of social benefits and the expected social and accounting complexities associated with such adoption.**

Regards,

Uzi Sher  
Senior Deputy to the Accountant General  
Chief Accountant

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<sup>1</sup> This can be concluded from the example included in the CP.



2 February 2016

Mr John Stanford  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017 United States of America

Dear John

## **Consultation Paper: Recognition and Measurement of Social Benefits**

The New Zealand Treasury welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board on the Consultation Paper: Recognition and Measurement of Social Benefits.

IPSASB is to be commended for its efforts in tackling this project that is a very important aspect of public sector accounting, covering issues that are often contentious.

Since its previous consideration of this issue, the IPSASB has developed its conceptual framework, including its views on the users of financial reports and their information needs. We encourage the IPSASB to make use of this work; it is reflected in many of our comments.

We have attached our responses to the specified matters for comment.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'N Haslam', written over a light blue circular watermark.

Nicola Haslam  
Manager, Fiscal Reporting

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## ATTACHMENT

### 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) Do the definitions proposed for Social Benefits, Social risks, Social Benefits in Cash, Social Benefits in Kind, Reimbursements, Social Security and Social Assistance provide an appropriate basis for an IPSAS on social benefits?

Treasury appreciates the efforts of the IPSASB to ensure that the project is not too unmanageably wide, and that alignment occurs as much as possible with the GFS. However, we believe that the proposed scoping is:

- Insufficiently clear
- Creates boundary issues with other standards (both current and proposed)
- Invites the possibility that transactions with similar economic substance will be treated differently.

### *Insufficiently Clear*

Clarity issues in the scope of the proposed definitions involve:

- reliance on the term "social risks" which means that only benefit payments made to address "events or circumstances that may adversely affect the welfare of individuals and households" (per GFS definition) are included within the scope. There seems little rationale to exclude benefit payments being made to take advantage of opportunities. Such a distinction would require preparers and auditors to debate this distinction, for example whether a job seeker benefit provides an opportunity to the recipient or reduces their risk. Such debates have little merit in affecting accounting treatment.
- the distinction is unclear between social benefits in kind (in scope) and other transfers in kind (not in scope).
- the proposed definition of social benefits being limited to benefits being provided to individuals and households, whereas the proposed definition of social benefits in kind brings into scope the reimbursement for the costs incurred for the provision of benefits in kind, which may be paid to corporates.
- the distinction between collective i.e. benefit payments related to public goods and services, and households i.e. benefit payments for the benefit of households is conceptual rather than an operationally practical distinction. Most public goods have private aspects and vice versa.

### *Boundary Issues*

As a consequence of the insufficient clarity of the definitions, if they stand, preparers and auditors will be trapped into resource wasting debates as to whether items are in or out of scope, and thus whether the putative Social Benefit standard applies, in contrast to IPSAS 19, or the standard that results from the non-exchange expense standard or some other standard.

### *Possibility of dissimilar treatments*

Not only are such avoidable costs unwelcome, the risk is exacerbated that transactions with similar economic substance will be treated differently and that transactions with dissimilar

economic substance will be treated the same, leading to reduced reliability and understandability of the financial statements.

In seeking a way to meet the IPSASB's desire to have a manageable project, the Treasury suggests that it would be helpful to focus less on the community purpose of the expenditure, and more on the economic impact of the expenditure on the entity reporting, i.e. on the rights and obligations for the entity arising from social benefit. It seems to the Treasury that this would be more in accordance with IPSASB's own conceptual framework.

There are a limited number of possibilities under this approach:

- Social benefits may be distributed with no residual rights retained by the public sector entity. Most income support payments will be in this category. If the *ex ante* criteria is met, the benefit is income to the beneficiary and the public sector entity has no rights or controls over how the beneficiary will spend it.
- Social benefits may be distributed with implicit *ex post* residual rights retained by the entity. This is most often effected through grant payments. If the grant is not used as intended, then the relationship between the grantor and grantee may change in the future, but any resulting consequences are not explicit at the time of the grant.
- Social benefits may be distributed with some explicit *ex post* residual rights retained by the entity. This is most often effected through a voucher system. The *ex ante* criteria are required before a voucher is issued, but only if the voucher is used *ex post* as intended, will the voucher be reimbursed by the public sector entity.
- Social benefits may be distributed without transferring any rights to the recipient. The individual recipient has little or no say in what services are provided, when or at what price. In such cases the in-kind services are controlled directly by the public sector entity. This may for example be the case with health and education services (and provides a much better basis for their exclusion if that is what IPSASB desires).

The economic substance of these four sets of transactions is different. It is feasible and practical to differentiate them. The IPSASB could clearly and validly decide which of these transactions should fall within this "Social Benefits" project and which of these transactions should be covered by the "Non-exchange expenses" project.

In terms of alignment with GFS, the Treasury suggests that the distinctions made in the GFS literature (e.g. to respond to social risks or to encourage social benefit, between social assistance and social security, between households and sectors supporting households etc) are matters of classification of items that may have a similar economic impact on the reporting entity. Consistency with the classification system of GFS should certainly be encouraged, but consistency with the classification decisions that statisticians make should not drive the scoping of IPSAS projects.

If the approach we are recommending is taken, then a revised title, to better reflect the IPSASB's scope, would be suggested. e.g. Transfer Expenses



## 2. Do you support?

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

**With reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.**

Treasury supports the inclusion in the statement of financial position of enforceable legal claims. Treasury also supports the inclusion in the statement of financial position of non-legally binding obligations where the nature of the promise, and the existence and effectiveness of commitment devices sufficiently reduce the reporting entity's discretion to avoid future outflows of resources, so that the reporting entity is effectively asserting that benefit recipients currently have a valid present expectation of receiving the benefit and the entity has a current obligation to them.

Treasury's view this is that long term fiscal reports provide information on current policies, and the balance sheet provides information on current resources, and current claims to those resources. In essence, it is the Treasury's position that the long term fiscal report provides information on the state of the "social contract" whereas the statement of financial position should limit itself to reporting the current financial position.

The Treasury considers there are grave dangers to the credibility of the information on the statement of financial position if its scope is expanded to provide information on future obligations (or outflows) based on current policies. Simple recognition of a social obligation in accordance with a broadly defined set of criteria in an international accounting standard is likely to provide a misleading view the impact of social benefits on the entity's financial performance and financial position.

Such a misleading view of the financial position arises because of scope issues which mean there would likely be inclusion of long term liabilities for some but not all social benefits, because of the complexity of different structural arrangements internationally and because of the exclusion of future taxation revenues expected to fund the future social benefit payments.

The Treasury considers that insurance accounting should be used where there are significant cash contributions in respect of a scheme, and these can be reliably measured, where the substance of the scheme is that the public sector entity accepts an obligation to provide compensation if risks crystallizes from those contributions, and where there is a clear link (although not necessarily a one-for-one relationship) between the benefits paid by a social security scheme and the revenue that finances the scheme.

Therefore, the Treasury considers elements of each option, should be applied as appropriate in the financial statements and in long term fiscal reports.

We address the conceptual merits and weaknesses of the options; the extent to which they address the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit, in our responses to the specific matters for comment below.



**3. Are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?**

No

**4. At what point should a future IPSAS specify that an obligating event arises under the obligating event approach? Is this when:**

- (a) Key participatory events have occurred;**
- (b) Threshold eligibility criteria have been satisfied;**
- (c) The eligibility criteria to receive the next benefit have been satisfied;**
- (d) A claim has been approved;**
- (e) A claim is enforceable; or**
- (f) At some other point.**

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

The Treasury considers that the IPSASB's approach in determining the event that creates a present obligation should be guided by its recently published Conceptual Framework.

That framework states that "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."

If the benefit is payable under law (i.e. a legal obligation), then it should be recognised as a present obligation at the point it becomes legally enforceable. In the case of income support being paid to beneficiaries, this would be at point (e) in the Consultation Paper. We note that depending on the legal or statutory documentation, this may in fact happen at point (b), (c) or some other point.

If the benefit simply arises from government policy (i.e. a non-legally binding obligation), under the Conceptual Framework it becomes important to determine the point at which the reporting entity has little or no realistic alternative to avoid the obligation.

The challenging issue in the public sector is that **current** policies establish **future** obligations; policies simply set criteria that, if met, will result in an outflow of resources.

The financial position of an entity whose policy provides for a \$10,000 pension is not substantively different where the eligibility criteria are met either one day before or one day after the reporting date. This was the problem encountered in ED 34, which sought to differentiate between the costs of those who had already met the threshold eligibility criteria, and those that had not. Any proper consideration of the financial effect of the policy requires all the costs that are expected to arise from the policy to be taken into account. The interest of users, whether

they were resource providers or service recipients was the cost of the policy, not the cost of a contrived obligation. The proposals in ED 34 were therefore correctly rejected.

The further challenging issue in the public sector is that current policies are subject to change.

As a consequence of the very power of government, it is not possible for a current government to bind a future government. In most situations therefore the government has leeway to avoid at least part of the obligation. To address what the institutional economic literature describes as the "commitment problem" of governments, there have developed a number of commitment devices aimed at reducing the government's flexibility. The Conceptual Framework refers to two of these in paragraph 5.25

- The nature of the promise can be made in such a way that makes a policy change less likely (e.g. permanent legislative authority, requiring a super majority to change, is much less able to be changed than an annual budget determination)
- The establishment of funding arrangements can make it more difficult for a government to make changes, or at least to divert money contributed or set aside for the benefit, to other purposes.

Other constraints on policy change include:

- The premium placed on the reputation for credible and consistent policy making, and for not exercising the power to change in an arbitrary manner
- The use of contracts between government and individual households where some performance or consideration can be ascribed, enforced by the courts.

A critical point to note about these commitment devices is that they reduce rather than eliminate the government's discretion to avoid future outflow of resources. Their effectiveness in part depends on the operation of political, legal, economic and social institutions within the country.

The way the question is framed suggests there is one 'standard' recognition point where the discretion is so reduced that the government has in fact "little or no discretion" and a liability should be recognised. However, given the varying power of the commitment devices available, and the fact that the efficacy of countries' political, legal, economic and social institutions may vary considerably, the Treasury is doubtful that it will be possible to get to a generally accepted international position on such a recognition point. The difficult history of this project, as outlined in section 1 of the Consultation Paper supports such a view.

Treasury therefore takes the view that "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".

The recognition point will depend on the nature of the promise, and the existence and effectiveness of commitment devices that reduce the government's discretion to avoid future outflow of resources. This suggests that, for material social benefit categories, the financial statements should disclose the nature of the promise and the existence of commitment devices to increase the likelihood that future outflows will occur. On the basis of those disclosures, the reporting entity should report whether it takes the view that service recipients currently have a valid expectation that they have a **present** right to resources and the government has a **present** obligation to them. When, but only when, the reporting entity asserts that point has been reached should a social benefit liability be reported.

If the IPSASB does not accept these arguments, the Treasury would still caution the IPSASB against using (d) as a recognition point. That would open the way to the entity influencing its expense recognition by speeding up or slowing down its approval processing. This would not be countenanced for any other activity, and should not be countenanced for social benefits.



Recognising this, the Treasury has prepared some internal guidance on this issue which is repeated below for consideration by the IPSASB. It is predicated from the view that recipients have met eligibility criteria when they have no further substantial acts to complete before receiving the assistance.

"Determining whether there are "substantial acts to complete" may require judgement. Some types of assistance may involve a series of substantial events. For example, funding may increase as other financial support for a project is obtained. If a grant recipient has raised \$75,000 externally at the reporting date and has a deed of agreement from the Government for one-for-one funding up to \$100,000, then the Government should only recognize an obligation for its \$75,000 at the reporting date, even if it is likely that \$100,000 will be raised, and an additional \$25,000 will become owing. Conversely, if the only act required prior to receipt of the assistance, is the completion of necessary paperwork, this should not be regarded as a "substantial act to complete".

**5. Does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach?**

Treasury does not consider that the means by which a liability is funded necessarily changes the nature and timing of the liability. It would be a strange policy that recognised liabilities earlier if there is an income stream set aside to pay for them. That would lead to all manner of perverse outcomes.

However we consider that contributory arrangements may act as a commitment device, reducing the discretion to avoid outflows. Where contributory arrangements exist, we believe it would be worthwhile to identify their existence, and their impact on the government's discretion to avoid outflows, as a required disclosure in explaining the accounting policy adopted as to when the obligating event occurs.

**6. 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?**

Treasury observes that

- (a) Social benefits are currently proposed to be defined as benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks (IPSAS Consultation Paper), and
- (b) Insurance is a contract under which one party accepts significant risk from another party by agreeing to compensate the second party if a specified uncertain future event adversely affects that party. (from IASB ED ED/2010/8 Insurance Contracts).

It follows therefore that if a contract is an exchange transaction, then social benefit provided through an exchange transaction is insurance. That would lead to the conclusion that social

benefits provided through an exchange contract should be reported under an insurance standard. Treasury considers this to be appropriate.

If the IPSASB wants to establish the accounting for benefit provided through an exchange transaction with a future IPSAS on social benefits, it must provide a reason for breaking out of that logic. It would either need to develop a different definition for insurance in the public sector to the private sector, or to provide a reason why the exchange should not be treated as an exchange. Treasury submits that there is little benefit in pursuing either of those paths. Rather Treasury would welcome a separate Social Benefits (or Transfer Expenses) standard and an Insurance Standard out of this project.

**7. When should scheme assets be included in the presentation of a social benefit scheme:**

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

To the extent a liability is reported for future outflows, both the expected gross outflows (particularly for service recipients) and the expected net outflows (particularly for resource providers) will provide useful information. This suggests that scheme assets should be included to the extent they exist.

Treasury observes that the term "scheme assets" may need consideration. The Consultation Paper simply notes that "in some cases a separate fund exists or there are earmarked assets". We note that both New Zealand and Australia have established sovereign wealth funds intended to be used to defray a part of expected future costs due to demographic changes. Such funds are of a different nature than funds of contributors money, held in trust for their use, that are similar to the scheme assets covered by IPSAS 25 *Employee Benefits*.

Treasury notes that one of the difficult issues discussed in the Consultation Paper is the measurement of the liability, and the related assumptions over the present value of both the outflows and the inflows from scheme assets. We would urge the IPSASB to ensure a consistent approach is followed for pensions, insurance and any other long term liability measurement.

**8. Under a social contract approach, should a public sector entity recognize an obligation in respect of social benefits at the point at which:**

- (i) A claim becomes enforceable; or
- (ii) A claim is approved?
- (b) Measure this liability at the cost of fulfilment?

Treasury's assessment of the IPSASB's discussion of the Social Contract approach is that it has considered the analogy of using an executor contracts approach, has identified some difficulties with this approach, and has therefore rejected it.



Treasury acknowledges the difficulties raised: that the social benefit recipient group is not the same as the resource provider group, the challenge of portraying the government as an agent of taxpayers when the government controls the taxation process, and that the relationship between social benefits and taxes is insufficiently robust to determine whether an onerous contract exists.

Nevertheless, in considering the best approach to providing information on the rights and obligations between a government and its citizens, the Treasury suggests that the nature of their relationship (often described as the social contract) warrants serious attention beyond the narrow determination as whether an executor contract notion can be applied. We consider that rather than looking just at previous literature on executor contracts, the IPSASB should also look to best apply its own conceptual framework. Only by doing so, can the IPSASB best determine how the financial statements and long term fiscal reports can best be integrated to inform the government, and its resource providers and service recipients as to the state of its redistributive activity.

The IPSASB has released a recommended practice guideline on long term fiscal reports that has the objective of providing "information on the impact of current policies and decisions made at the reporting date on future inflows and outflows ... The aim of such reporting is to provide an indication of the projected long-term sustainability of an entity's finances over a specified time horizon in accordance with stated assumptions."

On the other hand, the IPSASB's conceptual framework states that "Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources."

The IPSASB needs to reflect on how such statements should interact together, to best provide users with information on the performance and sustainability of the public sector's redistributive activity, and the liquidity, solvency and capacity of that redistributive activity to adapt (paraphrasing para:2.11 of the Conceptual Framework).

In Treasury's view this is best achieved if the long term fiscal reports provide information on current policies, and the statement of financial position provides information on current resources, and currently enforceable claims to those resources. In essence, it is the Treasury's position that the long term fiscal report provides information on the state of the "social contract" whereas the balance sheet should limit itself to reporting the current financial position.

The Treasury considers there are grave dangers to the credibility of the information on the statement of financial position if its scope is expanded to provide information on future obligations (or inflows) based on current policies:

- Reporting requirements will be regarded as unbalanced if only part of the redistributive impact of current policies is reported (e.g, transfers but not taxes, current recipients but not future recipients)
- The ability of the statement of financial position to reflect the extent to which resources are available to support future service delivery activities would be significantly impaired.

- Social policies are constantly being amended as changes in the 'social contract' occur, impacting the likely range of outcomes. The statement of financial position would no longer be able to be regarded as being reliable.
- The financial performance statement would tell a less understandable and coherent story of financial performance. Financial results would be driven primarily by changes in actuarial assumptions rather than management actions and decisions (e.g. through changes in discount rates and other changes in assumptions). As a result, assessments of the financial performance of the reporting entity would be more difficult.

**9. Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?**

Treasury understands from the Consultation Paper that IPSASB's conclusions about the applicability of the insurance approach are:

- It is not appropriate to apply insurance accounting to unfunded social assistance schemes.
- If contributions received are to be treated by governments as general taxation, accounting for such schemes using the insurance approach may still provide useful information.
- Where contributions are for several schemes and there is no appropriate basis for allocating contributions to individual schemes and any allocation would be arbitrary, the use of the insurance approach would not be appropriate.
- The insurance approach may be appropriate where there are significant cash contributions in respect of a scheme, and these can be reliably measured.
- The insurance approach may provide useful information in respect of:
  - Schemes where imputed contributions involve a cash transfer;
  - Schemes where there is a low level of imputed contributions not involving a cash transfer; and
  - Schemes involving contributions treated as general taxation where there is a reliable basis for allocating the contributions to individual schemes.
- The insurance approach will not provide useful information in respect of:
  - Schemes involving contributions in kind;
  - Schemes where there is a high level of imputed contributions not involving a cash transfer; and
  - Schemes involving contributions (including those treated as general taxation) where there is no reliable basis for allocating the contributions to individual schemes.

The Treasury is in agreement with those views for the purpose of general purpose financial reporting, for the reasons stated in the Consultation Paper.

We note that where future expected outflows under current policies can be used as a proxy for social harm that a government wishes to reduce, an insurance accounting approach can provide



a useful measure for performance management purposes. The New Zealand government currently prepares such a measure to assess the outcome of its efforts to reduce working age welfare. In this case however, the measure of the "liability" is determined as a way of quantifying or providing a proxy for the social harm outcome, rather than as a determination of an entitlement or obligation. We would note, for example, that in our measurement an allowance is made for jobseekers who have recently accepted a job, given our experience that a portion is recycled back into welfare. Such individuals would not be currently eligible for any job seeker benefits.

Thus some information the IPSASB regards as not useful, can in fact be useful for management performance purposes. Treasury agrees however, that it would not be useful for reporting current rights and obligations.

**10. Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:**

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

The Treasury sees no reason for there to be a different treatment for social insurance than for other insurance. Therefore we consider that adopting the same approach as the IASB is proposing has merit.

Further, as noted in question 13. below, Treasury notes that it is common for insurance schemes to determine the liability at a greater level than the mean expectations (e.g. at 75% likelihood of adequacy), and then to fund on that basis so as to increase the likelihood of solvency. This might be regarded as a circumstance where the contribution is designed to exceed the expected benefits paid. If a risk adjustment is allowed or permitted, then again it would be appropriate to recognise any surpluses over the coverage period.

However as discussed below, we do not believe such risk adjustments are appropriate.

**11. Under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;**
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;**
- (d) Offset the planned subsidy and 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**

Treasury considers that offsetting the liability is tantamount to a misrepresentation of the liability and accordingly rejects those two options outright. Consistent with the private sector, and as a representation of the claims expected to be incurred against the contributions received, Treasury prefers option (a).



**12. Under the insurance approach, should an entity use the cost of fulfilment measurement basis or the assumption price measurement basis for measuring liabilities**

The Treasury supports the cost of fulfilment approach as the most appropriate basis for insurance liabilities. This is consistent with the measurement of most other liabilities.

We note that the main difference in these approaches occurs as an assumption price would require the addition of a risk margin to the cost of fulfilment. Effectively, the cost of fulfilment should provide a best estimate of the net present value of the costs that will be met whereas the assumption price adds a prudential margin that inflates that estimate, to an amount another party would require to assume the liability.

We understand the importance of this prudent approach in the private sector, particularly given the criticality of the solvency of private sector insurers to their going concern assumption. We believe that for state-owned or guaranteed insurance schemes a more appropriate amount to use in assessing the financial position of the scheme is a 'best estimate' rather than (for example) an estimate that is designed to be greater than the actual outcome in 75% of cases. If additional funding to cover underestimated liabilities is needed, and if that funding can be recouped through increasing the level of future taxes/levies/fees, then an accounting approach driven by going concern based on solvency at any point of time is no longer appropriate.

If this approach is taken, then it follows that any accounting for unearned premium deficiencies to reflect unexpired risk premiums would also no longer be required. Not only would that be helpful, it would make insurance obligations more understandable, and better able to be budgeted and reported against.

**13. Are the following criteria for determining whether the insurance approach appropriate, in those cases where the link between contributions and benefits is not straightforward:**

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

Treasury agrees with IPSASB's views that the insurance approach should only be used where that is the substance and the link is clear.

This is based on our understanding that a clear link is established when:

- The revenue financed from the scheme comes from the recipients covered or from exacerbators of the risk that is being covered
- The scheme ensures that revenue generated by the scheme is used for the purposes of the scheme.

Treasury does not consider that the link has to be so strong that only contributors to the scheme can receive benefits from the scheme.

**14. 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?**

As noted previously, Treasury considers it important that a consistent approach is followed for pension obligations, outstanding insurance claims incurred, and any other long term liability measurement.

**15 Under the insurance approach, do you support the proposals for subsequent measurement?**

Yes.



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ALEKSANDRA POPOVIC  
SWEDISH NATIONAL AUDIT OFFICE

DNR: DNR 5.1.1-2015-1318  
DATUM: 2016-01-29

## Social Benefits – The Swedish National Audit Office comments

First of all we would like to congratulate the IPSASB for taking on this project and taking steps forward a more transparent reporting on social benefits in the public sector.

The Swedish National Audit Office (Swedish NAO) does not have a standard-setting role as regards accounting. Our role as Supreme Audit Institution is to audit financial statements and promote transparency as well as create conditions for accountability. Public sector financial reporting constitutes an important basis for decision-making and accountability. We consider that investigating the possibilities of accounting for financial commitments to a greater extent than is the case today to be very positive. It is also a commendable ambition to create common conditions for a higher degree of consistency within and between states to a greater extent than is the case today. The financial and debt crises that have arisen have demonstrated deficiencies in public sector financial reporting and this work may contribute to more adequate accounting for public commitments.

We share the objective and purpose of the IPSASB concerning the need to make existing public commitments visible. It is also important to clarify that financial statements cannot take care of complete sustainability reporting of various social security schemes. We propose that the IPSASB clarifies these components in the future work.

The Swedish NAO wishes to highlight the need to consider the incentives this type of proposal may conceivably trigger. For example there may be a risk that governments create structures in which these social benefits are placed in Funds that lie outside the remit of public sector accounting and auditing. This would affect decision-making, transparency and the ability to require accountability.

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Accounting for social benefits is a complex area and we note a quantity of different forms and structures both for different types of support within a country as well as in an international comparison. An international standard should be principles-based and allow some degree of flexibility for accounting for social benefits, so as best to capture the various designs that exist. Too detailed standards increase the risk that the standard will not be globally applicable. Thus it may be appropriate to use different models for the social benefits that exist in a country. However, it is extremely important that the financial statements show which model has been selected, how the commitments are measured as well as disclosing the reliability of the data and assessing any uncertainties.

The premises for our position are:

- Transparency in the Government's financial statements – in accordance with ISSAI 12, we as a Supreme Audit Institution must promote increased transparency and opportunities for accountability
- Auditability – in other words the audit aspects of the IPSASB's proposals and whether they can affect our ability to comply with generally accepted auditing standards (in accordance with the ISSAIs)

We do not intend to submit comments of a technical nature at the detailed level. Our response is based more on a discussion of principles proceeding from the two points mentioned above.

## Definition of social benefits

There are both advantages and disadvantages to adopting the same definition in IPSAS as in Government Financial Statistics (GFS). The advantage is an increase in comparability between statistical reporting and the financial statements, which was a problem. However, this should not be at the expense of reducing the value of the financial statements. In this case we do not consider that such a risk exists. The definition in the GFS, which is what the IPSASB proposes, seems to be reasonable.

However, it is a matter of interpretation when a particular benefit is considered to constitute a "social risk". Every country has its unique form of transfers to households to address social risks and in some countries it may be the case that a larger proportion is dealt with through employment, for example as in the USA. A standard should be

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principles-based so that it can be adapted to various conditions prevalent in these countries and our assessment is that the proposed definition allows this. Since all countries report their statistical outcome, which is based on the common definition in GFS, in all likelihood this should facilitate definition and interpretation of what is a social benefit. The proposal to exclude general central government commitments, such as defence, infrastructure, education, health etc. seems reasonable, as well as social benefits regulated through employment.

## Approach for accounting for social benefits

The IPSASB proposes three different methods for recognition and measurement of social benefits:

- The Obligor Event Approach
- The Social Contract Approach
- The Insurance approach.

The Swedish NAO agrees with the IPSASB's preliminary position that the Obligor Event Approach and the Insurance Approach seem to be the most relevant. However, we wish to emphasise that explanations and background to the Social contract were vaguely described, which has in part entailed some difficulties in discerning the major differences between the Social Contract Approach and the Obligor Event Approach. The main reason for our assuming that the Social Contract Approach is probably not relevant is that it is strictly based on both parties, that is the State and citizens, having obligations that are on an equal footing, such as the State providing support in the form of social benefits as long as citizens meet their obligations in the form of paying tax. Our assessment is that this is a weak link and the question of whether the State can renounce its obligations if citizens do not pay their taxes is not sufficiently investigated. The State probably has a greater responsibility in purely legal terms. The Obligor Event is based on the existence of legislation as grounds for the commitment, which in purely legal and judicial terms are more fixed. However, essentially it is difficult to see the actual difference between these two models.

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### *The point at which an obligation arises*

From our perspective as an audit institution we would mainly like to highlight the importance of clarifying when an obligation can be considered to arise (the point in time) and the criteria that must be met when it is to be reported as a memorandum item in the balance sheet.

The Swedish NAO's point of departure is that the obligations reported in the balance sheet must meet the requirements of generally accepted accounting principles and that an audit must be possible to conduct in accordance with generally accepted auditing standards. Under the Obligor Event Approach the IPSASB presents five different points in time (a-e below) for when an obligation may arise. Under the Social Contract Approach two alternatives are presented. These two coincide with (d) and (e) below.

a) Key participatory events occur

Assumes that a regulatory framework exists stipulating that citizens can expect payment in various situations such as when they fall ill or become unemployed. The obligation (liability or provision) is then to be recorded on the basis of what the Government can "expect" in the form of payments in coming years. We consider that this option is not clearly described and it is difficult to derive the exact point in time for when an obligation arises. It appears as though this option means that agencies must estimate outgoing payments based on historical data and future forecasts of probable outcome.

b) Eligibility criteria initially met

Assumes that a liability/provision arises when a person becomes unemployed (the event as such), retires, reports sick etc. without having applied for payment of any benefit. This requires the Government to make an assessment of a recipient's expected longevity. The liability/provision is based on the number of citizens (in the current situation) who with some degree of certainty can expect payment based on historical payment trends and provisions established in laws/ordinances.

c) Eligibility criteria met to receive next benefit

Assumes that a liability/provision arises when criteria for receiving the next benefit payment are met (seen over time). This means that the liability is only

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recognised until it is time for the next payment. This requires regular revaluation of the liability.

d) Claim approved

Assumes that the liability/provision is established when the application for benefit has been received and approved.

e) Payment date arrived

Assumes that the liability/provision is established when there is a payment decision and the date of the payment has arrived.

The information in a balance sheet must be considered to be *timely, relevant, faithfully presented, understandable and verifiable*<sup>1</sup> and at the same time must be weighed against the information needs that exist for accountability. Relevant and material information of a financial nature that may influence decision-making may not be withheld from citizens and other stakeholders. However, it is of very great importance that this information is reliable, verifiable and can be audited by an independent external auditor.

Whether an obligation exists or not is mainly dependent on the certainty/probability existing in the underlying event/requirement. The strength/certainty determines the time and also whether the obligation should be classified as a liability or a provision. This means that the options listed above a)-e) may all be relevant, depending on the circumstances in the respective countries, but also the circumstances relating to the structure of a particular benefit.

We would like to highlight three parameters that may be relevant to take into consideration in future development of criteria for when an obligation should be identified and reported as a memorandum item:

1. *Political stability*

For an obligation to be classified as a liability/provision there must be some degree of certainty in the obligation. Whether the party bearing the potential liability/provision (in this case the Government/State) can withdraw from the obligation is thus one of the decisive factors. The argument used by the IPSASB in the CP assumes that there is

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<sup>1</sup> Conceptual Framework IPSAS



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certain stability in the public administration and that there is an implied commitment/obligation on the part of the State to offer social support (in certain given situations) as well as an expectation on the part of the citizens of receiving support. This is generally true. The premise is that the clearer it is established in laws and ordinances the lower the probability of the Government being able to withdraw from such a commitment, which we also consider reasonable. However, it is the case that there is currently a major element of turbulence in the economy, which means that changes in the social insurance systems may be made on an annual basis. One example is the refugee flows in the EU that may entail rapid measures and changes in the systems throughout the entire EU area and there is also turbulence in other parts of the world. Any future standard should allow for the possibility of political turbulence and that the Government's ability to withdraw from obligations may increase. Major changes in the systems mean that governments/states will find it "more difficult" to proceed from historical data as a basis for relevant estimates of obligations as well as that promised obligations will not be paid. In more turbulent economies the point of time options e) or d) be more relevant.

## *2. Financing form*

In the situations in which a social benefit is fully or partly financed through fees that can clearly be traced to individual level, there is probably a higher degree of certainty in the obligation. This means that it is possible to recognise the obligation at an earlier stage than for d) and e).

## *3. Design and terms*

In the cases where social benefits are designed on the basis of an insurance-like model (or accumulated funds) that is self-financed, it would appear more probable to be able to establish liability for future payments at an earlier stage and estimate future payment flows for payments in coming years.

A liability should be confirmed when the degree of certainty is sufficiently high. The standard should allow a number of alternative proposals of appropriate times and where the reporting entity makes an estimate of the most appropriate time, taking into account certainty/probability and verifiability. From an auditing perspective it is decisive that the data and accounts presented are transparent, verifiable and reliable, which in principle means that a person other than the person who prepared the accounts should with a

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relatively high degree of probability, be able to arrive at the same conclusions. The greater the uncertainty factor in the accounting the more extensive and clearer requirements should be made of the party preparing the accounts to clearly report assumptions and underlying material.

*Specific comments on the IPSASB's option regarding the time at which an obligating event should be considered to arise and be recognised:*

*Option a)* appears to be the most unclear and there is greater uncertainty as to the reliability of underlying data for the accounts. In our opinion the option is not compatible with requirements of the Conceptual Framework concerning qualitative characteristics (relevance, verifiability etc.).

*Option b)* it is not clear to us where the great difference is between options a) and b).

*Options c), d) and e)* all three may be relevant depending on what type of benefit and degree of basic certainty of the benefit structure (i.e. if it is based on laws, ordinances, contracts, eligibility for payments and for receiving the benefit).

Stockholm 2016-02-02



Margareta Åberg  
Auditor General



Aleksandra Popovic  
Audit Director



Federation of European Accountants

Ian Carruthers  
Chairman  
IPSASB  
IFAC  
Submitted via website

Brussels, 4 February 2016

Dear Chairman,

**Subject: IPSASB Consultation Paper - Recognition and Measurement of Social Benefits**

The Federation of European Accountants (FEE) is pleased to provide you with its comments on the above mentioned Consultation Paper (CP).

FEE welcomes the publication of this CP as the IPSASB's latest initiative to drive forward the debate on the appropriate accounting treatment of social benefits. The treatment of social benefits has long been seen as a crucial public sector-specific accounting issue and the lack of an IPSAS dealing with this matter has been held out by some parties as a reason that IPSASs as a whole are not suitable for adoption. Consequently, we believe timely completion of this project is of crucial importance, which is one of the reasons that we support IPSASB's decision to limit the scope of the CP to exclude exchange transactions and collective goods and services.

The provision of social benefits constitutes a significant proportion of government expenditure in most developed countries. The demographics of many developed countries show an ageing population and a decreasing birth rate – this will simultaneously increase the need for many types of social benefit whilst reducing the tax base with which to pay for them. Consequently, FEE regards the proper accounting and disclosure of the ongoing costs of providing social benefits as a vital element in the crucial public debate on the sustainable funding of public sector services.

It is primarily for this reason that FEE does not support the social contract approach outlined as an option in the CP. This approach, where recognition is based on strict legal entitlement and where future payments of benefits are matched to future taxation receipts (even if the obligation arises from past events), would not achieve the objective of making public sector liabilities more transparent. Additionally, the concept of intergenerational solidarity that underpins the social contract approach may not be appropriate for those countries where a falling population is predicted.

We believe that it is important that all public sector bodies properly disclose their financial liabilities arising out of past events – this is crucial information for all stakeholders and will also assist these bodies in their management of resources. For this reason, FEE supports the IPSASB's preliminary view that a combination of the obligating event approach and the insurance approach (for certain contributory schemes) is the best method to meet the objectives of public sector financial reporting.

However, the obligating event approach is not without its complications, particularly in respect of determining the point at which an obligation should be recognised in the financial statements. FEE considers that there may not be one specific point of recognition that is suitable for all types of social benefits. For example, we consider that there are good reasons for recognising liabilities under pension schemes at an earlier point than accident benefit schemes.

Additionally, there are so many national variations in the way that particular types of social benefits (such as state pensions) are administered that it may not be feasible to provide firm rules applicable in all countries. In many cases the accounting treatment will be significantly influenced by the exact legal terms of the scheme, but the IPSASB could provide invaluable assistance by providing a principles-based framework for deciding on the most appropriate point of recognition, backed up by real-world examples.

FEE also considers that the legal form and rules of a social benefit scheme impact on other areas – for example, in the treatment of deficits arising in schemes accounted for under insurance rules that are partially funded by contributions and partly out of tax revenues. In this instance, we are not convinced that the option to write off anticipated losses as an expense at the inception of the scheme will provide the most meaningful information for users of the financial statements, despite being consistent with the treatment of anticipated losses under IPSAS 25.

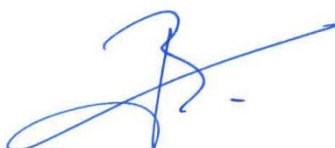
In this case, we believe that it will be necessary to consider in detail the exact legal conditions relating to the scheme in order to ascertain the most suitable treatment of the anticipated losses. In other cases it may even be appropriate to identify the separate components of the scheme when determining the most appropriate accounting treatment – for example, an insurance element that is embedded within a scheme.

For further information on this letter, please contact Paul Gisby, Manager, from the FEE team on +32 2 893 33 70 or via e-mail at [paul.gisby@fee.be](mailto:paul.gisby@fee.be).

Yours sincerely,



Petr Kriz  
FEE President



Olivier Boutellis-Taft  
FEE Chief Executive

## Annex 1 - Detailed responses to questions

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### Specific Matter for Comment 1(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?*

- (1) FEE thinks that the scope of the CP, already having been the subject of considerable debate within the IPSASB, is appropriate. We consider that, in particular, collective goods and services pose different accounting challenges to the provision of the benefits dealt with in this CP and agree that these issues should be dealt with separately. We also welcome the closer alignment to Government Finance Statistics that this restriction of scope brings.
- (2) From a practical point of view, restricting the scope of the project should assist with its more timely conclusion. Concluding the social benefits project in the shortest time possible is especially important at a European level, where it has been argued that the lack of an IPSAS on social benefits reduces the applicability and usefulness of the IPSAS suite of standards as a whole.

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### Specific Matter for Comment 1(b)

*Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?*

- (3) FEE believes that the definitions in Preliminary View 1 do provide an appropriate basis for an IPSAS on social benefits.

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### Specific Matter for Comment 2(a)

*Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

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

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

- (4) We support the IPSASB's preliminary view that a mixture of the obligating event approach (option i) and the insurance approach (option iii) will provide the best solution.
- (5) For non-contributory schemes, the obligating event approach seems best to fit with the IPSAS's Conceptual Framework definition of a "present obligation": i.e. "a legally binding obligation or non-legally binding obligation, which an entity has little or no realistic alternative to avoid". It also fits better with IPSAS 19's 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 settle that obligation" and with private sector accounting standards, particularly IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
- (6) When considering the recognition of a liability, the IPSASB takes the approach that it is not dependent upon considerations as to whether the government in question will have adequate funding to settle the liability in the future. In this respect, the obligating event approach appears to be more in keeping with this approach than the social contract approach.

- (7) Regarding schemes with a contributory element, it seems eminently sensible to use well established insurance accounting principles for schemes where the funding is either totally or partially from direct contributions from the recipient households.

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#### Specific Matter for Comment 2(b)

*Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.*

- (8) We are not aware of any additional approaches.

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#### Specific Matter for Comment 3

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

- (9) FEE is not aware of any other types of social benefits transactions not discussed in the CP and that would not be addressed by one or more of the options set out in the paper.

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#### Specific Matter for Comment 4

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

- a) Key participatory events have occurred;*
- b) Threshold eligibility criteria have been satisfied;*
- c) The eligibility criteria to receive the next benefit have been satisfied;*
- d) A claim has been approved;*
- e) A claim is enforceable; 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 the reasons for your views.*

- (10) FEE's opinion is that it will be extremely difficult to establish the same recognition criteria for all forms of social benefits and still produce meaningful information. In our opinion, different forms of social benefits will produce different legitimate expectations for the potential beneficiaries, often influenced by the legal form underlying the social benefit in a particular country.
- (11) For example, for a non-contributory basic state pension funded out of tax receipts and subject to no eligibility criteria apart from reaching the age of retirement, it could be argued that the key participatory event is birth. However, where the criteria include a requirement to have worked a certain number of years or the amount received varies by the number of years worked, it may be more appropriate that the key participatory event is the individual's entry into the job market. This is why we believe that the Standard should be flexible enough to allow the preparers to use the most suitable option for each social benefit scheme.

- (12) FEE believes that the recognition criteria for those events that could be regarded as “unplanned”, such as unemployment, sickness, and accidents, are different than for those where benefits can be seen to accumulate over time and where eventual receipt is more probable. Pensions are the best example of these. For “unplanned” events, we gravitate towards recognising a liability at a later stage, such as **“when threshold criteria have been satisfied”** or **“the eligibility criteria to receive the next benefit have been satisfied”**, depending on the unique scheme requirements for the benefit in question.
- (13) For benefits such as accident benefits, it would be possible to recognise a liability when **“key participatory events have occurred”** – i.e. when the individual is born, attains a certain age or has satisfied some other key eligibility requirement for the scheme in question. However, there is a good argument that, there is no past event from which a present obligation arises as the triggering event (the accident) has not yet occurred. Additionally, the calculation of the liability using this eligibility criterion would require the exercise of so many assumptions and estimates that the resulting liability could provide little in the way of meaningful information for the various users of the financial statements. These are the reasons why FEE prefers the application of the **“when threshold criteria have been satisfied”** or **“the eligibility criteria to receive the next benefit have been satisfied”** eligibility criteria for such schemes.
- (14) We will now proceed to discuss each of the options presented in the CP to highlight strengths and weaknesses of each approach.

**Key participatory events have occurred (option a)**

- (15) In some respects, it could be argued that realising a liability at this point is the best theoretical approach and best conforms to the CF’s definition of a liability. However, there are issues with choosing this threshold.
- (16) One issue with this approach is defining the key participatory event. For unemployment benefits, for example, one could argue that being warned of impending redundancy is the key participatory event. On the other hand, there is also a theoretical argument for saying that entering into the jobs market is the key participatory event because it opens up the possibility of claiming such benefits at some point in the future.
- (17) Another issue regards the large degree of uncertainty present, which would be greater the earlier the key participatory event occurs. Just because the individual has an expectation of receiving a benefit, it does not necessarily mean that all of the necessary criteria will eventually be fulfilled. This would lead to a liability being recognised when no actual obligation exists. Also, recognition at this stage introduces significant issues in measurement – it would probably require many actuarial assumptions and it is debateable in such circumstances whether the information produced would be useful to the users of public sector financial statements.

**Threshold eligibility criteria have been satisfied (option b)**

- (18) In many circumstances, FEE believes this would be the earliest practical point at which a liability can be recognised reliably. Firstly, this would probably be the first point where the government body in question becomes aware that a claim is probable.



- (19) Secondly, as mentioned above, we have some doubts as to how meaningful provisions primarily based on actuarial assumptions would be. We agree with the comments in para 4.37 that when the eligibility criteria have been met the government no longer has a realistic alternative to avoid the payment. Because there is more certainty, the measurement issues are greatly reduced over option (a), albeit there are still measurement issues that would require actuarial assumptions in respect of benefits that have requirements for periodic reassessment of eligibility, as highlighted in para 4.38.

**The eligibility criteria to receive the next benefit have been satisfied (option c)**

- (20) This option has the advantage of making the measurement of the liability easier, but runs the risk of understating the potential liability as at least some proportion of the population claiming such benefits will continue to satisfy the next periodic assessment of eligibility. This option may be more applicable to schemes where considerable uncertainty exists as to the proportion of claimants likely to satisfy the periodic review criteria, especially if such criteria become more onerous with the effluxion of time.

**A claim has been approved (option d)**

- (21) FEE believes that, in most circumstances, using this option will result in a liability being recognised too late. In many cases, the difference in timing between this and (b) above is merely due to administrative processes. Depending on the efficiency of the administration involved, the time delay between submission of a claim that meets the eligibility criteria and the approval of the claim can be quite significant and it is quite possible that at least some element of the benefit would be paid in arrears. FEE considers that once it becomes possible that an accounting treatment would result in a liability being recognised (even partly) in arrears then the recognition of the liability is too late.

**A claim is enforceable (option e)**

- (22) Whilst we appreciate the legal certainty that this sub-criteria would bring, the negative points made in (d) above apply even more keenly under this option so this would not be our preferred option.
- (23) FEE has not identified any other options for recognition in addition to those presented by the IPSASB.

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**Specific Matter for Comment 5**

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

*Please explain the reasons for your views.*

- (24) In our opinion, adding a contributory element increases the legitimate expectation of the individuals who contribute that a future benefit could or will be received. Consequently, where there is a material level of contribution (i.e. more substantial than an annual subscription or processing charge), we believe that this could justify the recognition point being brought forwards (i.e. more towards (a) above rather than (b)). However, the legal terms of the scheme would need to be considered as they may contain provisions that defer the obligating event even if the scheme member has enhanced (and possibly mistaken) expectations that a benefit could be received.

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### Specific Matter for Comment 6

*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 the reasons for your views.*

- (25) As mentioned under Comment 1(a), FEE agrees with the IPSASB's pragmatic solution of splitting social benefits arising from non-exchange transactions from those arising from exchange transactions, not least to expedite development of the social benefits standard. We also believe that there are good reasons to keep the two types of transactions separate in future IPSASs.
- (26) We believe that social benefits provided through exchange transactions are likely to have an earlier recognition point than with non-exchange transactions as individuals paying contributions will have a greater legitimate expectation of receiving benefits in future. It is also more likely that contributory schemes will be discretely funded or have earmarked assets, thereby changing the focus of the main accounting issues.
- (27) The examples of social benefit schemes provided through exchange transactions that FEE has identified have the characteristics of either a pension scheme or an insurance scheme. For those that have the characteristics of a pension scheme, it would seem appropriate that *IPSAS 25 Employee Benefits* could either be amended to include such schemes or be used as a basis for a separate standard.
- (28) For those schemes with the characteristics of insurance schemes, it would be logical to use the accounting approach detailed in this CP (in chapter 6) as the basis for a separate standard.

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### Specific Matter for Comment 7

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

- a) *In all cases;*
- b) *For contributory schemes;*
- c) *Never; or*
- d) *Another approach (please specify)?*

*Please explain the reasons for your views.*

- (29) FEE believes that option (a) ("In all cases") is the most appropriate where there exist separately earmarked assets for a particular scheme – subject to the assets in question fulfilling the recognition criteria. To recognise the liabilities of a scheme without recognising its corresponding assets is not logical and would lead to a misrepresentation of the financial position of the scheme and its potential future costs. In our opinion, such assets and liabilities should be presented separately in the financial statements and not offset.

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### Specific Matter for Comment 8(a)

*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:*
  - (i) *A claim becomes enforceable; or*
  - (ii) *A claim is approved?*

*Please explain the reasons for your views.*

- (30) Although recognising the argument that future social benefit payments will be paid out of future tax receipts, and also the concept of intergenerational solidarity, FEE does not believe that the social contract approach would enhance either public sector accounting transparency or the management of public sector resources. It appears that the social contract approach's principle function is to provide a conceptual basis for public sector bodies to defer recognising a liability until the last possible moment.
- (31) Many developed economies, including those in the European Union, are facing a future of an ageing and shrinking population, heralding a prospect of funding increasing social benefits costs from a shrinking tax base. These are long term problems that need to be addressed as soon as possible, and FEE believes that appropriately recognising liabilities for social benefit programmes will provide greater transparency and inform the public debate on whether such programmes are fiscally sustainable in the future and how they will be funded.
- (32) On a more technical point, the social contract approach requires that future taxation will cover future benefits payable, which appears to be contradictory with the IPSASB's Conceptual Framework – a point specifically made by the IPSASB in point 5.25 of the ED.
- (33) Therefore, FEE does not support the social contract approach and consequently does not intend to comment on the point at which an obligation should be recognised under this approach.

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### Specific Matter for Comment 8(b)

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

- b) *Measure this liability at the cost of fulfilment?*

*Please explain the reasons for your views.*

- (34) Although FEE doesn't intend to comment in detail on the social contract approach, we note that the issue of measurement has not been specifically addressed in respect of the obligating event approach. Consequently, FEE wishes to state that its preferred method for measuring social benefits (unless specifically stated otherwise) is at the cost of fulfilment at the point in time when the liability has to be settled and discounted as appropriate.

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### Specific Matter for Comment 9

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

- (35) IPSASB is proposing that the insurance approach is appropriate where there are significant cash contributions from individuals. They emphasise that this approach is not suitable for all social benefit schemes and would only be used in conjunction with another method. FEE agrees with the use of the insurance approach in these circumstances and believes that the IPSASB is correct to limit the scope of this approach to contributory schemes only. In addition, FEE believes that, in some circumstances, it may be appropriate to separately identify an insurance component within a scheme, since the insurance approach should not be misapplied so as to account for non-insurance schemes or components of schemes.
- (36) These conclusions in this ED are in line with current private sector developments in insurance accounting and it seems logical to treat social benefit schemes that have the characteristics of a funded insurance scheme in the same manner.
- (37) It may not always be easy in practice to differentiate the characteristics of a funded insurance scheme, subject to the insurance approach, from those of a general social benefit scheme, dealt with using the obligating event or social contract approach. The IPSASB already provides examples of schemes, together with the accounting implications, in Appendix A. It would be useful if the IPSASB could provide an indication within Appendix A of which of these schemes (or separate components of a scheme) would be dealt with by the insurance approach, by the obligating event approach or by the social contract approach.

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### Specific Matter for Comment 10

*Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:*

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

*Please explain the reasons for your views.*

- (38) FEE was broadly supportive of the IASB's ED 2013/7 and agreed with the proposals contained therein for the recognition of surpluses. The immediate recognition of losses on onerous contracts is in line with current accepted accounting practice. Consequently, FEE also agrees with the treatment described above pertaining to the recognition of expected deficits.

## Specific Matter for Comment 11

*In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;*
- c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;*
- d) Offset the planned subsidy and 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 the reasons for your views.*

- (39) FEE appreciates the arguments in favour of option (a), the immediate recognition of an expected deficit, where a social benefit scheme is not fully funded by contributions. As the CP states, this would ensure consistency of accounting treatments for all deficits with deficits on fully funded schemes and also with more general accounting for deficits, such as those arising from onerous contracts.
- (40) However, there is some debate whether the immediate recognition of the expected deficit would actually provide meaningful information for the users of the accounts, particularly where the scheme is new and no contributions have been paid and no entitlement to benefits has yet arisen. In these circumstances, there is a good argument to be made for recognising the expected deficit on initial recognition and then recognising the deficit over the coverage period (option (b)). This would provide more meaningful information as to the annual costs of operating such schemes.
- (41) However, where this accounting treatment is adopted by a scheme that has already been running for some time, we would recommend the immediate recognition of the expected deficit insofar as it could be identified as arising out of past contributions, with the remaining deficit to be recognised as a cost over the remaining term of the contract.
- (42) FEE also believes that the legal nature and terms of the scheme may be of importance in this question. For example, where the scheme permits contributions to be raised to cover deficits there may not be a liability to be recognised even if a public sector body is required to cover any eventual deficit of the scheme. However, this may not be the case if it becomes apparent that a deficit could not practically be funded by raising contributions, at which point the question of how to treat the deficit becomes critical. Also, the terms of the scheme may permit the cancellation of the scheme or reduction in benefits in certain circumstances, which may allow the public bodies to avoid paying, or reduce the amount of, the deficit.
- (43) FEE does not support Options (c) and (d), not least because they run contrary to the general approach of not recognising an asset until its receipt is virtually certain.

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### Specific Matter for Comment 12

*In your view, under the insurance approach, should an entity use the cost of fulfilment measurement basis or the assumption price measurement basis for measuring liabilities?*

*Please explain the reasons for your views.*

- (44) In accordance with the view expressed in the response to Comment 8(b) above, FEE's view is that the cost of fulfilment measurement basis is the most appropriate to use in these circumstances. Establishing the assumption price may be very difficult for schemes predominantly run by government bodies as there may be little in the way of an alternative market that is able or is willing to take over the provision of such services.

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### Specific Matter for Comment 13

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

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

- (45) FEE agrees with the criteria stated in the CP.

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### Specific Matter for Comment 14

*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 the reasons for your views.*

- (46) FEE supported the approach to the discount rate incorporated in IPSAS 25, and, in particular, that reference should be made to yields on both government stocks and on high quality corporate bonds. We see no reason to adopt a different approach in this CP.

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### Specific Matter for Comment 15

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?*

*Please explain the reasons for your views.*

- (47) This CP proposes adjustments for relevant decisions on initial measurement:
- At the end of the reporting period, the carrying amount of a social insurance scheme would reflect the future cash flows, measured at that date, and the remaining expected surplus or 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 scheme. 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.
- (48) This is in accordance with the current IASB proposals on insurance contracts and FEE supports the proposals.



NZ ACCOUNTING  
STANDARDS  
BOARD

11 February 2016

Mr John Stanford  
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277 Wellington Street West  
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Submitted to: [www.ifac.org](http://www.ifac.org)

Dear John

***Recognition and Measurement of Social Benefits***

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the International Public Sector Accounting Standards Board's (IPSASB's) Consultation Paper *Recognition and Measurement of Social Benefits* (the Consultation Paper).

The Consultation Paper was issued for comment in New Zealand and, as a result, you may also receive comments directly from New Zealand constituents.

We are pleased the IPSASB has made progress on the social benefits project and has produced a comprehensive Consultation Paper. The recognition and measurement of social benefits is a very important issue for most governments and implementation of some proposals in the Consultation Paper could change the face of government's financial reporting.

In responding to this Consultation Paper we have challenged ourselves to form a common view on the conceptual basis that should underlie the accounting for social benefits. The NZASB supports the IPSASB's preliminary view that a combination of the obligating event approach and the insurance approach may be required to reflect the different economic circumstances arising in respect of social benefits. We also agree with the IPSASB's preliminary view that the social contracts approach is unlikely to meet the objectives of financial reporting.

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The basis for the recognition of social benefits should remain consistent with the Conceptual Framework definition of a liability; therefore, social benefits should only be recognised for present obligations arising from a past event. Identifying the relevant past event is critical to determining the point in time when a present obligation arises and the nature/extent of that obligation. We therefore strongly encourage the IPSASB to consider carefully the boundary between a present obligation and a future obligation when developing the standard on the recognition of social benefits.

We note that the application of the obligating event approach and the insurance approach to social benefits could lead to governments recognising large liabilities in their financial statements (that is, where they have determined they have a present obligation for future payments of social benefits).

Notwithstanding our support for consistency with the Conceptual Framework definition of a liability, we would have concerns about the usefulness of financial statements that are dominated by large liabilities for present obligations of estimated future payments of social benefits without any disclosure or consideration of the way in which those liabilities will be funded. The Conceptual Framework would not allow for the recognition of an asset representing a government's right to raise future revenues in the form of taxes, because this would require accounting for a future event. It is our view that providing information on social benefit liabilities alone, without corresponding information about how they will be funded, would not provide useful information to users of financial statements and would not meet the objectives of financial reporting.

Therefore, whilst we accept that applying the definitions of elements and the recognition criteria in the Conceptual Framework may lead to the recognition of present obligations for future social benefit payments at an earlier point than is current practice for most governments, any accounting requirements should be developed with reference to the entire Conceptual Framework – not just the sections on elements. In our view it is also essential that we consider the objectives of General Purpose Financial Reporting (GPFR) and its inherent limitations.

The Conceptual Framework for GPFR is intended to provide information about past events and transactions that have occurred and their impact on an entity's financial position from year to year. GPFR is not intended to meet the needs of users who require information in relation to the long term impact of events and transactions that have yet to occur and users may need to look to other sources for information on such events and transactions. The IPSASB will need to consider the most appropriate form to report long-term social benefit information. We do not consider GPFR should provide information on both present and future obligations. We note the usefulness of long term fiscal sustainability reporting in providing comprehensive information on the impact of current policies on future fiscal position and developing policy responses to fiscal issues.

Our responses to the Specific Matters for Comment are set out in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact Lisa Kelsey ([lisa.kelsey@xrb.govt.nz](mailto:lisa.kelsey@xrb.govt.nz)) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kimberley Crook', written in a cursive style.

Kimberley Crook

**Chair – New Zealand Accounting Standards Board**

## APPENDIX

### Response to Specific Matters for Comment

#### Specific Matter for Comment 1 (following paragraph 2.50)

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) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

Please explain the reasons for your views.

#### Specific Matter for Comment 1(a)

The scope of benefits considered in the Consultation Paper is narrower than the previous consultation paper and exposure draft. Although this has made it easier for the IPSASB to focus on a specific set of social benefits and has made the project more manageable, it also creates boundary issues, especially with the non-exchange expenses project. The boundary is important if there is different accounting between social benefits and non-exchange expenses.

The accounting treatment should be consistent for similar transactions and events, irrespective of the project in which the IPSASB has chosen to consider the transaction or event. Given the desirability of consistent accounting for similar types of benefits (regardless of whether they address a social risk) it might have been better to deal with all non-exchange expenses in one project. For example, social benefits in kind and other transfers in kind give rise to the same issues. The scope of the Consultation Paper creates an artificial boundary between social benefits and non-exchange expenses. We encourage the IPSASB to monitor the direction of these two projects so that there is consistent accounting where appropriate.

In order to engage with the proposals in the Consultation Paper, we have applied the Consultation Paper's proposed scope and definition to social benefits in New Zealand. We used the Government Finance Statistics classifications for social benefits in New Zealand to guide this process.

Nonetheless, we have found distinguishing between social benefits, as defined in the Consultation Paper, and other non-exchange expenses quite difficult in practice. It has been hard to differentiate expenses within the scope of this project from expenses associated with other ongoing activities of the government such as education, housing etc.

The Consultation Paper (paragraph 2.28) notes that the universal provision of services such as education and health is considered to be an ongoing activity of the government. In the System of National Accounts, providing these services does not give rise to an obligation prior to the delivery of services. This is an interesting concept as a primary purpose of the government is the provision of cash, goods and services for community and social benefit. We don't recognise liabilities for future obligations for ongoing activities because they are not present obligations. Any proposals to recognise liabilities for social benefit obligations must explain why those obligations are present obligations rather than future obligations. This means that we need to consider what is different about this subset (social benefits) of government promises to households and individuals.

We can illustrate some of the difficulties we have experienced in determining what would fall within the scope of the Consultation Paper by looking at New Zealand Superannuation and education. New Zealand Superannuation, which is a benefit provided to people aged 65 and over, falls within the scope of the Consultation Paper. By contrast, free education for children aged between 6 to 16 is outside the scope of the Consultation Paper. However, both New Zealand Superannuation and free education provide support to individuals so that they can either buy essential services, or receive essential services. We are not sure of the merits of considering these two form of assistance separately.

The Consultation Paper (paragraph 2.27) notes that the System of National Accounts identifies different categories of social benefits with potentially different economic consequences for a public sector entity. The Consultation Paper explains that the differing consequences result in different treatment within the System of National Accounts, and might justify different accounting requirements with a future IPSAS. The Consultation Paper further discusses this in paragraph 2.29 where it considers it possible that different factors may arise in the recognition and measurement of transactions that address specific social risks and those transactions that do not. Although we understand that using the Government Finance Statistics definition of a social benefit has made it easier for the IPSASB to identify a specific group of benefits for consideration in this project, we do not think that this should be used to justify different recognition and measurement requirements for transfers in kind which may be very similar in nature.

#### Specific Matter for Comment 1(b)

The definitions used in the Consultation Paper come from the System of National Accounts and Government Finance Statistics. Some constituents will not be familiar with the statistical definitions and classifications. Therefore, we would suggest that guidance on the definitions and classifications would be required in a standard. In particular, we think that more guidance would be required on “an event or circumstances that may adversely affect the welfare...”. As we have noted above, we found it difficult to apply the definitions in practice.

#### **Specific Matter for Comment 2 (following paragraph 3.4)**

- (a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?
- (i) The obligating event approach;
  - (ii) The social contract approach; and
  - (iii) The insurance approach.
- Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.
- (b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.

## Specific Matter for Comment 2(a)

### *General comments*

We support the IPSASB's preliminary view that a combination of the obligating event approach and the insurance approach may be required to reflect the different economic circumstances arising in respect of social benefits when there is a present obligation and not for future obligations. We consider that the nature of the government's promise in relation to a social benefit can help determine the suitability of an approach and the recognition point within that approach. For example, in relation to the larger social benefits in New Zealand:

- (a) Accident Compensation Corporation (ACC), the promise is for the full life of the claim;
- (b) Unemployment benefit, the promise is either for a year (the next revalidation point) or in the longer term until the individual finds a job; and
- (c) New Zealand Superannuation, the promise is for the whole of the person's retirement from age 65 onwards.

### *Obligating event approach*

We support the obligating event approach for the recognition and measurement of social benefits. In terms of New Zealand social benefits, we can identify benefits where we consider that there is an obligating event that creates a present obligation for the future payments of social benefits. For example, in the case of New Zealand Superannuation (NZ Super), the New Zealand government has indicated that it will accept the responsibility of paying NZ Super from the time that the individual is 65 years old, for the rest of their life. Legislation establishing an entitlement to NZ Super and the eligibility criteria is in place. In addition, based on the current political environment and current policy in New Zealand, individuals are likely to have a valid expectation that, when they reach the age of 65, they will receive NZ Super for the rest of their life.

In this example it is possible to conclude that the government has a present obligation (at least once the individual reaches 65) for all NZ Super benefits to be provided to the individual in future periods. We note that there are differing rationales for arriving at this point, which we discuss further below.

We accept that applying the definitions of elements and the recognition criteria in the Conceptual Framework could lead to the recognition of a liability for all future NZ Super payments to individuals from the age of 65. This would result in the recognition of a substantial liability (based on actuarial calculations and assumptions) in the financial statements. Some would argue that this information is useful to users of financial statements as it shows clearly the obligations of the government. The counter argument to this is that reporting large liabilities without the corresponding information on how these large liabilities are to be funded is of limited use to the users of financial statements and does not meet the objective of financial reporting.

The proposals in the Consultation Paper focus on one part of the puzzle, the outflows. The picture is incomplete without the inflows as well. Comprehensive information about future inflows and outflows is provided in long term fiscal reports, as described in *RPG 1 Reporting on the Long-Term Sustainability of an Entity's Finances*. Long term fiscal sustainability reporting is a very important tool

and the most appropriate way of providing comprehensive information on the impact of current policies on future fiscal position and developing policy responses to fiscal issues. A number of jurisdictions (Australia, Canada, Denmark, Germany, New Zealand, Norway, Sweden, Switzerland, UK and USA) provide these reports, some because they have a statutory requirement to do so and others on a voluntary basis.<sup>1</sup> Given the importance of this information, and the need for balanced information about inflows and outflows, we would encourage the IPSASB to think about both sides of the picture before finalising any standards-level requirements. We would also encourage the IPSASB to continue to promote the importance of long-term fiscal reporting and, in the longer term, to reconsider whether the requirements in RPG 1 should be incorporated in a standard.

In preparing our response to this Consultation Paper we have reflected on the ways in which various types of information about social benefit obligations is used in New Zealand, and whether such information should be included in general purpose financial reports. As a starting point we acknowledge the importance and usefulness of information about social benefit obligations. Certain government departments in New Zealand (for example, the Ministry of Social Development<sup>2</sup>) use actuarial based information of estimated future liabilities as a management tool to ascertain if policy decisions and reforms are working. The information used by the Ministry of Social Development is based on those assumptions that provide the most useful information to the Ministry – these differ from the assumptions that are used in the governments long-term fiscal reporting. Although we acknowledge the importance of such information for policy making and planning, we note that it is tailored to meet the needs of particular users, and we would caution against assuming that it is also relevant to users of GPFR. If the IPSASB were to require more widespread recognition of lifetime payments of social benefits, this could result in the recognition of substantial liabilities in the financial statements. As we are aware from our current reporting of ACC liabilities, such liabilities are sensitive to assumptions and small changes in assumptions can lead to large changes in the amounts reported. The IPSASB would need to carefully consider the usefulness of reporting such large liabilities and the impact of changes in assumptions on reported performance for users of GPFR.

### *Social contracts approach*

We do not support the IPSASB further developing the social contracts approach and agree this approach is not supported by the Conceptual Framework. However, we note that some of the ideas in this approach can be helpful when considering when obligations arise or when obligations should be recognised. For example, the concept of an executory contract can be useful in explaining the relationship between a government that provides social benefits and the expectation that individuals or households will contribute taxes and other sources of finance to support that system of social benefits.

We agree that there would be practical difficulties in applying the social benefits approach (and, in particular, in applying the pure executory contracts model). Some of these difficulties are:

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<sup>1</sup> Office of the Auditor General British Columbia. (June 2015) *Monitoring Fiscal Sustainability*.

<sup>2</sup> Public sector entity responsible for administering social development, senior citizens and veterans' affairs.

- Identifying the counterparty to the executory contract. Whilst individuals may receive social benefits, corporate entities may never receive any social benefits in return for their contributions; and
- Whether a “contract” is onerous at the time that the benefit is approved or payable, as the individual could still be regarded as performing their part of the agreement by contributing taxes.

#### *Insurance approach*

We support the insurance approach for insurance type social benefits (contributory and coverage period type schemes). In New Zealand, the Accident Compensation Corporation applies an insurance accounting approach to its social security scheme. We are happy to provide further details of how the scheme works and the accounting for the scheme if this would assist the IPSASB.

We agree with the IPSASB’s view that the insurance approach may be appropriate where there are significant cash contributions in respect of a scheme, and these can be reliably measured.

#### Specific Matter for Comment 2(b)

We are not aware of any other approaches to accounting for social benefits.

#### **Specific Matter for Comment 3 (following paragraph 3.4)**

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?

If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

We have not identified any other social benefits transactions that have not been discussed in the Consultation Paper. Although, as noted in our response to Specific Matter for Comment 1, we think the definition of social benefits proposed by the IPSASB runs the risk of creating artificial distinctions between what are essentially similar benefits (for example, social benefits in kind and other transfers in kind are effectively the same).



**Specific Matter for Comment 4 (following paragraph 4.69)**

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

- (a) Key participatory events have occurred;
- (b) Threshold eligibility criteria have been satisfied;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; 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 the reasons for your views.

The point at which an obligating event arises depends on the particular benefit and whether it meets the objectives of financial reporting and QCs (mainly relevance, faithful representation and understandability). The nature of the government's promise differs between benefits. In our view, for some benefits, the obligating event is likely to occur at the "threshold eligibility criteria have been satisfied point". We have given examples of differing types of social benefit "promises" in our response to Specific Matter for Comment 2(a). Our comments on the possible points at which an obligating event might occur are noted below.

*(a) Key participatory events have occurred*

We consider that the argument that a present obligation arises as key participatory events occur has some conceptual merit but we also consider that this approach would be difficult to apply. We consider that there are stronger arguments for using point (b) as the obligating event for certain social benefits. Nevertheless, we have considered how sub-option (a) could be applied to NZ Super.

Depending on the nature of the benefit, a present obligation may arise from point (a). For example, with NZ Super, possible key participatory events include when the individual starts working or before the individual reaches the age of 65 and certainly no later than the age of 65. In considering whether a present obligation arises at these points in time, some note that the government's power to amend or repeal legislation before or after the individual becomes entitled to receive NZ Super is not a relevant factor. This is based on the discussion of legal obligations in paragraphs 5.20-5.22 of the Conceptual Framework, whereby sovereign power to make, amend and repeal legal provisions is not a rationale for concluding that an obligation does not meet the definition of a liability.

In addition, even if it is not accepted that the existence of current legislation creates a legally binding obligation, an alternative argument that arrives at a similar conclusion is that a present obligation arises as a consequence of government policy in New Zealand indicating that it has accepted certain responsibilities and the past history of governments in New Zealand, where there has been a

reluctance to change the benefit to individuals who are close to or over the age of 65. Some argue that, as a consequence, individuals have a valid expectation of receiving NZ Super, giving the government little or no realistic alternative to avoid an outflow of resources. The individual can have an expectation that they will receive the benefit prior to the age of 65, and, as the individual gets closer to the eligible age of 65 this expectation becomes stronger (subject to the individual continuing to meet the other key criteria). The assessment of the strength of this expectation is highly judgemental and will depend on the circumstances of each individual. For example, if the individual is not wealthy, their reliance on the future benefit is likely to be greater than for an individual that is wealthy. Once the individual reaches the age of 65 (and assuming that the individual continues to meet the other criteria and based on the legal position at the reporting date), there is no further revalidation required. The individual will continue to receive NZ Super as long as they live. Therefore, for these types of benefits, the obligating event could arise when the key participatory events have occurred.

In forming the above views, particularly in cases where a liability is considered to arise before the age of 65, some arguments are based, in part, on comparisons of NZ Super with employee pensions. For example, under IPSAS 25 *Employee Benefits*, a liability for future pension payments is accrued as and when employees provide services, thereby fulfilling their side of the arrangement. Liability recognition is not delayed until the employee reaches retirement age.

Whilst we understand the conceptual arguments made in the Consultation Paper in support of option (a) we believe this option would be difficult to apply in practice. As discussed above, there may be a series of points at which individuals have a valid expectation that they would receive future benefits. Identifying which key participatory events may contribute to the valid expectation may be difficult.

The unit of account is also an important consideration in the recognition of a liability. If the unit of account is an individual, then it would be easier to identify when the key participatory events have occurred. In the case of NZ Super, it is possible to identify individuals who have started work or who are approaching the age of 65. If the unit of account is a collective group, then it is harder to identify when key participatory events have occurred as there will be many individuals in different stages of their life that make up the group. The unit of account also impacts on whether the key participatory events impact on when a present obligation arises or are more relevant for measurement of the liability rather than recognition.

*(b) Threshold eligibility criteria have been satisfied*

We consider that, for a number of benefits, it may be appropriate to acknowledge the existence of a present obligation from this point. The satisfaction of the threshold eligibility criteria could be regarded as the main past event. If the liability is subject to ongoing eligibility criteria, the NZASB had mixed views on whether this should be regarded as a measurement issue or a recognition issue. A small majority of the NZASB viewed this as a measurement issue. This view is driven by the analogy of employee pensions, liabilities for insurance claims (including insurance claims incurred but not reported) and other factors relating to liability recognition, as discussed in (a) above. For these NZASB members, if the IPSASB concluded that the requirement for the individual to demonstrate that they are eligible (or continue to be eligible) to receive the benefit did impact on recognition (rather than measurement) in the case of social benefits, a rationale would need to be

developed that distinguished social benefit obligations from obligations for employee pensions, insurance claims and other liabilities in which similar factors are considered to impact on measurement rather than recognition

However, a substantial minority of NZASB members consider that, in the case of social benefits, a requirement for the individual to demonstrate that they are eligible (or continue to be eligible) to receive a benefit impacts on recognition rather than measurement. In their view, the satisfaction of eligibility criteria (both initially and on-going) is an important and necessary step to creating a legally binding obligation on the entity to pay the benefit.

For some benefits, however, there are no revalidation requirements. For example, for particular benefits such as NZ Super, there is a single substantive criterion – reaching the age of 65. In this case we consider that there is a present obligation from this point onwards. As noted above, when the individual reaches the age of 65 and meets the other criteria, there is no further revalidation required other than staying alive. Despite acknowledging that the recognition of a present obligation (for all future benefit payments) from this point may be consistent with the definitions of a liability in the Conceptual Framework, we do have concerns about the implications of this approach for the usefulness of the financial statements as a whole (see our comments in the cover letter and our response to Specific Matter for Comment 2).

*(c) The eligibility criteria to receive the next benefit have been satisfied*

As discussed in our response to parts (a) and (b) of this Specific Matter for Comment, we consider that, for some benefits, a present obligation could arise at an earlier point than this. In the case of benefits that are subject to revalidation criteria, the NZASB has mixed views, as discussed above.

*(d) A claim has been approved*

See our response to part (c) of this Specific Matter for Comment. In general, we consider that a present obligation would arise at an earlier point than this.

*(e) A claim is enforceable*

See our response to part (c) of this Specific Matter for Comment. In general, we consider that a present obligation would arise at an earlier point than this.

**Specific Matter for Comment 5 (following paragraph 4.76)**

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

Please explain the reasons for your views.

In our view, the way in which a benefit is funded does not change the point at which an obligating event occurs. However, the way in which a benefit is funded may affect what is recognised. For example, there could be a stronger argument for the recognition of constructive obligations in the case of contributory schemes (that is, if an individual has contributed to a scheme then there is likely to be a higher expectation that the government will honour the promise).

**Specific Matter for Comment 6 (following paragraph 4.80)**

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 the reasons for your views.

In our view, if a social benefit is provided through an exchange transaction, then it should be accounted for under the applicable IPSASs. For example, if an employer pays an insurance premium for an employee then it should account for that benefit in the same way as other employment related expenses.

**Specific Matter for Comment 7 (following paragraph 4.91)**

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

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

Please explain the reasons for your views.

In our view good disclosure and linkage of scheme assets to scheme liabilities would provide useful information to users, and should be encouraged. We would not however expect a net presentation of these items in the statement of financial position unless the public sector entity is legally prohibited from accessing the assets (which may be a rare occurrence).

**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:
  - (i) A claim becomes enforceable; or
  - (ii) A claim is approved?
- (b) Measure this liability at the cost of fulfilment?

Please explain the reasons for your views.

As noted in our response on Specific Matter for Comment 2, we do not recommend the IPSASB further developing the social contracts approach. We have therefore not responded to this Specific Matter for Comment.

**Specific Matter for Comment 9 (following paragraph 6.24)**

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?

Please explain the reasons for your views.

We support the IPSASB continuing to explore the insurance approach for contributory and coverage period type schemes. We agree the insurance approach is not appropriate for all social benefits and the IPSASB would also need to consider other approaches. At this stage we have not commented on Specific Matters for Comment 10-15. We note that the IASB is still working on its project to develop a new standard on insurance contracts. We consider that the IASB's work on insurance might assist the IPSASB in further developing an insurance approach for social benefits, and would encourage the IPSASB to wait until the IASB has concluded its work on that project. However, we do acknowledge that not all of the IASB's thinking will necessarily be applicable in a public sector context. When the IPSASB considers the accounting treatment in the IASB's final insurance contracts standard it will need to take into account differences in insurance schemes between the private and the public sectors. For example, there is a view that the inclusion of a risk margin in the calculation of scheme liabilities is not appropriate in the public sector.

We understand the IASB is also considering whether insurance accounting could be useful when thinking about the measurement of pensions. This work may also be of interest to the IPSASB<sup>3</sup>.

**Specific Matter for Comment 10 (following paragraph 6.35)**

Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:

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

Please explain the reasons for your views.

As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 10.

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<sup>3</sup> ASAF – Research Project: Post-employment benefits. Potential impact of the Agenda Consultation and other IASB projects paper. December 2015. This paper can be accessed at:  
<http://www.ifrs.org/Meetings/MeetingDocs/ASAF/2015/December/1512-ASAF-04C-Research-on-post-employment-benefits.pdf>.

**Specific Matter for Comment 11 (following paragraph 6.37)**

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and 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 the reasons for your views.

As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 11.

**Specific Matter for Comment 12 (following paragraph 6.43)**

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

Please explain the reasons for your views.

As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 12.

**Specific Matter for Comment 13 (following paragraph 6.63)**

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

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

Please explain the reasons for your views.

As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 13.

**Specific Matter for Comment 14 (following paragraph 6.72)**

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 the reasons for your views.

As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 14.

**Specific Matter for Comment 15 (following paragraph 6.76)**

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?

Please explain the reasons for your views.

As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 15.





THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA  
(Set up by an Act of Parliament)

CASLB/G/10

February 11, 2016

Andreas Bergmann  
Chairman,  
International Public Sector Accounting Standards Board,  
International Federation of Accountants,  
277 Wellington Street West,  
Toronto, Ontario M5V 3H2 CANADA

Dear Andreas,

Sub: Comment on Consultation Paper on Recognition & Measurement of Social Benefits.

We are pleased to provide comments on Consultation Paper on Recognition & Measurement of Social Benefits issued by the International Public Sector Accounting Standards Board (IPSASB) of International Federation of Accountants (IFAC). Our comments are enclosed with this letter.

Please feel free to contact us, in case any further clarification in this regard is required.

Thanking you,

Yours sincerely,

(CA. S. Santhanakrishnan)  
Central Council Member & Chairman  
Committee on Accounting Standards for Local Bodies  
Institute of Chartered Accountants of India  
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# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

## Comments on Consultation Paper on Recognition & Measurement of Social Benefits

### Specific Matter for Comment 1 (following paragraph 2.50)

- (i) Is the scope of this CP (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) appropriate?

#### ICAI's view:

Yes, the scope of this CP appears to be appropriate.

- (ii) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

#### ICAI's View:

The definition of social benefits needs to comprise not just benefits provided to mitigate the effect of social risks, but also creation of social *opportunities* for socially or economically disadvantaged individuals or households. In many cases, there may be no real social risk that a benefit mitigates, but it would certainly create social opportunities for development e.g. providing bicycles to girl children so that they attend school. Not providing a bicycle need to necessarily expose a girl child to social risk, but certainly provides enhanced social opportunities for individual development.

It may also be appropriate to include "groups of individuals" and "groups of households" alongwith "individuals and households" as the target recipients of social benefits. In certain cases, governments may provide social benefits to a group rather than an individual/household for efficiencies or better impact. E.g. Self Help Groups in the Indian context, in states such as Kerala, Andhra Pradesh etc.

A definition of who or what constitutes a household may be helpful too

### Specific Matter for Comment 2 (following paragraph 3.4)

- (i) Based on your review of Chapters 4 to 6, which approach or approaches do you support?

- The obligating event approach;
- The social contract approach; and
- The insurance approach

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.



# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

## ICAI's View:

### *Conceptual Merits and Weaknesses*

The obligating event approach is best suited across various categories of social benefits. Treating the obligation to pay social benefits in principle as any other obligation is conceptually sound. When such an obligation arises, especially in the case of social benefits, indeed is a crucial question given that the obligation to pay social benefits is unique. That however is a separate question. The obligating event approach is also simple, making it easier for users of GPFs to understand basis of recognition of social benefits.

The social contract approach in our view is deeply problematic at several levels. Firstly, it is simplistic to argue that there is a one on one relationship between an individual or household on one hand and governments on the other, as far as the obligation to pay taxes and entitlement to receive benefits are concerned. The "social contract" in fact in many cases may not exist as individuals and households liable to taxes may not be eligible for most or many social benefits, and individuals and households eligible for social benefits may at many times not be liable to taxes. Taxation is a tool for governments to raise public finances in general and not specifically towards social benefits alone.

Secondly, the constitutional or legal validity of such a *quid pro quo* like interpretation of social benefits and taxes may not stand scrutiny in many countries. The laws governing taxation are distinct from laws or executive policies of governments governing social benefits. It would be excessive to read across legislations and match obligation of an individual arising out of one set of laws drawn up with one set of objectives, with benefits to which a citizen is eligible under a different set of laws or policies possibly drawn up with wholly different objectives.

The possible simplicity of the social contract approach alone is not in our view reason enough to override the above arguments.

The insurance approach may be appropriate for social benefits that are akin to insurance contracts, though in terms of measurement (and in understanding of such measurement by readers of financial statements) they may be complex. Further they result in differing accounting treatments for different social benefits.

### *Extent to which each option addresses objectives of financial reporting*

GPFs of public sector entities have a particularly diverse group of end-users comprising elected representatives, other policymakers such as bureaucrats, citizens, and intermediaries such as citizen interest groups, domain experts, economists and statisticians etc. Providing such a diverse group of end-users with information that is useful for accountability and decision-making purposes is likely to be best accomplished through an approach that is conceptually sound yet simple to understand. The obligating event approach best meets this criterion.

- (ii) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach (es) and explain the strengths and weaknesses of each.



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## ICAI's View:

The potential for a fair value approach to social benefits, especially on the assets side, needs to be researched further. All approaches in this CP recognise a social benefit as a tangible benefit that is paid out to an individual or household and measure them based on what they cost to the public sector entity/government. However many times the purpose of a social benefit is the social or economic development of individuals and households and not just aiding them to mitigate any immediate social risk. For example, giving a bicycle to a girl child may be measured at the cost of a bicycle, but the socio-economic substance of this social benefit includes better attendance at school, better health and nutrition (arising out of another social benefit, the mid-day meal scheme), better employability and therefore better economic prospects. This value of a social benefit is not covered under this CP and is crucial information for users of GPFRs of a public sector entity. A method or a set of principles to measure the net present value of the future socio-economic benefit that accrues to the individual or household from a social benefit therefore will greatly enhance the quality of GPFRs and its utility (even if only as disclosures).

### Specific Matter for Comment 3 (following paragraph 3.4)

- (i) Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?

If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions

## ICAI's View:

None, primarily because the obligating event approach is comprehensive and capable of addressing ANY social benefit.

### Specific Matter for Comment 4 (following paragraph 4.69)

- (i) In your view, at what point should a future IPSAS specify that an obligating event arises under the obligating event approach? Is this when:
- Key participatory events have occurred ;
  - Threshold eligibility criteria have been satisfied ;
  - The eligibility criteria to receive the next benefit have been satisfied;
  - A claim has been approved;
  - A claim is enforceable; or
  - 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 the reasons for your views.



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## ICAI's View:

In our view, a conceptually sound recognition principle would be c above, the eligibility criteria to receive the next benefit have been satisfied. However, we believe this description can be made simpler, more meaningful and less misleading. In our view, the core distinction between b and c is the aspect of periodic validation that is part of c but not part of b. This aspect needs to be brought out appropriately in the nomenclature for the obligating event purported to in c.

Given the diverse nature of social benefits, a higher bar as in d above should be permitted, provided there is adequate justification in a particular case on why recognition is more appropriate when a claim is approved rather than when eligibility criteria is met. E.g. in certain cases where the validated eligibility criteria under c does not provide a good basis for quantifying the liability, d may need to be invoked, with appropriate notes justifying the same. At the earliest instance where quantification under c becomes possible, a change in recognition criteria needs to be effected. This may be required in large universal schemes in jurisdictions where identification of individuals or households based on eligibility may not be reasonably accurate.

## Specific Matter for Comment 5 (following paragraph 4.76)

- (i) In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach?  
Please explain the reasons for your views.

## ICAI's View:

In our view, an obligating event does not occur earlier for contributory benefits than non-contributory benefits under the obligating event approach.

Firstly, whether a benefit is contributory or non-contributory is purely a matter of how a social benefit scheme is funded and does not determine the timing of the obligating event. Secondly, we agree with the IPSASB view that 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 third criterion is a defining one, that the entity must have little or no realistic alternative to avoid an outflow of resources.

Whether a scheme is contributory or otherwise, the public sector entity or government can through legislation or executive order amend various aspects of a social benefit scheme, both nature and amount of benefit. That a scheme is contributory does not in any manner change that prerogative of the public sector entity/government.

That said, it needs to be however recognised that in most cases, contribution is likely to commence only after eligibility criteria is established.

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## Specific Matter for Comment 6 (following paragraph 4.80)

- (i) In your view, should a social benefit provided through an exchange transaction be accounted for:
- In accordance with a future IPSAS on social benefits; or
  - In accordance with other IPSASs?
- Please provide any examples you may have of social benefits arising from exchange transactions.  
Please explain the reasons for your views.

### ICAI's View:

Prima facie, there is a strong case to recommend a above. If the principal nature of a transaction is the granting or paying of a social benefit, then it ought to be accounted for as such, irrespective of whether the grant/payment happens through an exchange or non-exchange transaction. Equivalence in value (which is the distinguishing factor between exchange and non-exchange transactions) alone does not merit overlooking the "social benefit" nature of a transaction. E.g. if market labour rates are paid by government in an employment guarantee scheme which is run as a social benefit, then it would qualify as an exchange transaction but needs to be accounted as a social benefit.

## Specific Matter for Comment 7 (following paragraph 4.91)

- (i) In your view, under the obligating event approach, when should scheme assets be included in the presentation of a social benefit scheme:
- In all cases;
  - For contributory schemes;
  - Never; or
  - Another approach (please specify)?
- Please explain the reasons for your views.

### ICAI's View:

We are in agreement with paragraphs 4.89 and 4.90 of the CP. In our view, scheme assets need to be included in all cases where the social benefit schemes are funded through a separate fund or through earmarked assets. This will provide useful information to end users of GPFRs.

## Specific Matter for Comment 8 (following paragraph 5.38)

- (i) In your view, under the social contract approach, should a public sector entity:
- Recognize an obligation in respect of social benefits at the point at which:
    - A claim becomes enforceable; or
    - A claim is approved?
  - Measure this liability at the cost of fulfillment?
- Please explain the reasons for your views.



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## ICAI's View:

Our view on why the social contract approach is flawed in principle is elucidated in an earlier paragraph above. Our response below needs to be read against that backdrop.

Recognition of an obligation under social contract approach needs to happen when a claim becomes enforceable. The underpinning rationale for the social contract approach is that there is a mutual obligation (as a contract) between an individual/household on one side and a public sector entity/government on the other.

The claim approval basis only considers one side of the above mutual obligation i.e. that of the individual/household being eligible to receive a social benefit, and the government being obligated to pay the same once the claim is approved. This does not factor in the other leg of the mutual obligation, that of the individual/household being obligated to pay taxes and other dues. The claim enforceability criterion considers both as a claim could be reckoned to be enforceable only when the other leg of the contract is fulfilled.

### Specific Matter for Comment 9 (following paragraph 6.24)

- (i) Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?

Please explain the reasons for your views.

## ICAI's View:

Yes, we are in agreement with the IPSASB's conclusions about the applicability of the insurance approach, which are elaborated in paragraphs 6.1 to 6.24 of the CP. We find the reasoning laid out in the CP to be fully consistent with the conceptual framework, specifically on the below grounds

- The Insurance approach provides useful information that enhances the verifiability and understandability (two of the "quality of information" criteria or attributes) of financial information to users of GPFs.
- By giving information on cash flow positions and projections, it provides useful information on liquidity and solvency
- Disclosures under the insurance approach also throw light on performance of the reporting entity, especially on how well it has managed the resources it is responsible for and
- It aids users in meeting the accountability purpose (out of the "decision-making and accountability purposes")

### Specific Matter for Comment 10 (following paragraph 6.35)

- (i) Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:
- a. Any expected surplus should be recognized over the coverage period of the benefit; and





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- b. Any expected deficit should be recognized as an expense on initial recognition?  
Please explain the reasons for your views.

## ICAI's View:

Yes, we agree with this view articulated in paragraphs 6.33 and 6.34 of this CP. Where a social security benefit is designed to be fully funded through contributions, any expected deficit should be recognised as expense on initial recognition to indicate to users the deviation from the design/the expectation. This information speaks to both the accountability and decision-making purposes of GPFs referred to in the Conceptual Framework.

On a above, while we are in agreement with the principle, it may be useful to disclose the surplus at every reporting period as additional information in the notes.

## Specific Matter for Comment 11 (following paragraph 6.37)

- (i) In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions:
- Recognize an expense on initial recognition;
  - Recognize the deficit as an expense over the coverage period of the benefit;
  - Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
  - Offset the planned subsidy and 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
  - Another approach?

## ICAI's View:

We believe recognising the expense on initial recognition would be appropriate. However we are not clear if the reasoning provided in the CP, that all deficits would be accounted for consistently irrespective of design of the scheme, is adequate. In fact, it is the design of the scheme that provides rationale for using the insurance accounting in the first place. Wouldn't the expense be on initial recognition even under the obligating event approach?

## Specific Matter for Comment 12 (following paragraph 6.43)

- (i) In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities?

Please explain the reasons for your views.

## ICAI's View:

The liability of the public sector entity to meet the social benefit obligation should be measured at cost of fulfilment. However risk adjustment needs to be made in respect of



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expected contributions from participants, based on past trends and other reasonably valid assumptions. From the CP, it is not clear why under the cost of fulfilment basis, a risk adjustment to contributions is not required. Cost of fulfilment of the public sector entity will obviously increase if participants do not contribute as expected.

## Specific Matter for Comment 13 (following paragraph 6.63)

- (i) 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 scheme is that of a social insurance scheme; and
  - There is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.
- If you disagree, please specify the criteria that you consider should be used.  
Please explain the reasons for your views.

### ICAI's View:

Agree. The CP defines social insurance as "the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient". The two criteria specified above both directly relate to this definition. It may be useful however to add a third criterion that benefits shall be paid to participants, again arising from the definition of social insurance.

## Specific Matter for Comment 14 (following paragraph 6.72)

- (i) 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 the reasons for your views.

### ICAI's View:

Yes, we support this proposal. We agree with the rationale outlined in paragraphs 6.64 to 6.72.

## Specific Matter for Comment 15 (following paragraph 6.76)

- (i) Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73-6.76?
- Please explain the reasons for your views

### ICAI's View:

Yes, we agree with this proposal.



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.  
Washington, DC 20548

February 11, 2016

Ian Carruthers, Chair  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, ON M5V 3H2 Canada

Dear Mr. Chairman,

**International Public Sector Accounting Standards Board Consultation Paper:  
*Recognition and Measurement of Social Benefits***

This letter provides the U.S. Government Accountability Office's (GAO) comments on the International Public Sector Accounting Standards Board's (IPSASB) Consultation Paper (CP) entitled *Recognition and Measurement of Social Benefits*. The CP builds on IPSASB's previous work and develops new ideas for consideration. As such, the CP advances the discussion of possible treatment for social benefits and considers matters such as the scope of a future standard on social benefits and related definitions, the extent to which liabilities of social benefits arise, and the recognition and measurement of any such liabilities.

Overall, we strongly support the recognition of a liability for social benefits in the financial statements when all eligibility requirements to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative. In addition, we believe it is important to make appropriate disclosures in the financial statements, general purpose financial reports, or both to help users assess the sustainability of social benefit schemes and their impact on a public sector entity's financial performance and financial position. Such disclosures could include the following:

- the funding status of the social benefits;
- potential actions that may be taken if benefits are projected to exceed dedicated revenue sources; and
- expected cash flows of the social insurance schemes or fiscal sustainability reporting under Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*.<sup>1</sup>

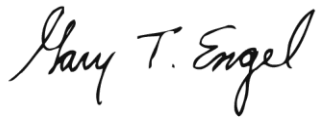
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<sup>1</sup>RPG1 provides information on the effect of current policies and decisions on future inflows and outflows and supplements information in the financial statements.

It is also our view that the recognition and measurement of non-exchange revenues directly related to the funding of non-exchange social benefits should be consistent (1) across all social benefit schemes and (2) with the IPSASB's current project on non-exchange revenues.

We believe that this CP represents important progress on significant issues related to the recognizing and measuring social benefits. We support this work and appreciate the opportunity to provide comments, which are included in the enclosure. Please contact Robert Dacey, Chief Accountant at (202) 512-7439 or [dacey@gao.gov](mailto:dacey@gao.gov) or me at (202) 512-2600 or [engelg@gao.gov](mailto:engelg@gao.gov) if you have questions on GAO's perspectives.

Sincerely,

A handwritten signature in cursive script that reads "Gary T. Engel".

Gary T. Engel  
Managing Director  
Financial Management and Assurance  
Enclosure

**Enclosure: GAO Comments on the International Public Sector Accounting Standards Board's Consultation Paper, *Recognition and Measurement of Social Benefits***

**Specific Matter for Comment 1 (following paragraph 2.50)**

- (a) In your view, is the scope of this Consultation Paper (CP) appropriate? (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs)?**

**Response:**

We believe that it is important that the International Public Sector Accounting Standards Board's (IPSASB) position for recognizing and measuring non-exchange social benefits is conceptually consistent with the position that the board will take relating to its current project for recognizing and measuring other non-exchange expenses. The objective of the non-exchange expenses project is to develop a standard(s) that will provide recognition and measurement requirements that are applicable to non-exchange transactions, with the exception of social benefits. As the board develops these two standards, it is essential that they are consistent to avoid differences in the recognition treatment for conceptually similar programs and the user confusion that would likely result. We urge the board to consider the extent to which the standards for non-exchange social benefits and other non-exchange expenses should be developed in tandem.

- (b) In your view, do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits? Please explain the reasons for your views.**

**Response:**

We do not have specific comments on the definitions.

**Specific Matter for Comment 2 (following paragraph 3.4)**

- (a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?**
- (i) The obligating event approach;**
  - (ii) The social contract approach; and**
  - (iii) The insurance approach.**

**Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.**

**Response:**

Overall, we support the obligating event approach and believe that it is an appropriate accounting treatment for the recognition and measurement of the wide range of non-exchange social benefits. Specifically, as discussed more fully in our response to Specific Matter for Comment 4 below, we support recognition of a liability for non-exchange social benefits when all of the eligibility criteria to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative. We believe that this obligating event approach, supported by appropriate disclosures in the financial statements and/or the general purpose financial reports (GPFR), best achieves the objectives of financial

reporting and provides information about the public sector entity that is most useful to users of financial statements and GPFs for accountability and decision-making purposes.

With respect to the social contract approach, we have concerns that it is difficult to analogize this approach to the executory contract model and it may not fully meet the objectives of financial reporting. Further, the “approved claim” sub-option (d) under the obligating event approach would yield results similar to the alternative sub-option of the social contract approach discussed in the CP, whereby liabilities are recognized when all eligibility criteria are met and claims are approved.

With respect to the insurance approach, the present obligation and therefore a liability for social benefits is calculated based, in part, on estimates of future benefits for which all eligibility criteria to receive the next benefit would not have been satisfied. Consequently, we do not support the insurance approach. In addition, as noted in the CP, the insurance approach is most suited to contributory benefits and cannot be used for all types of social benefits schemes, such as those for noncontributory benefits. Therefore, we have concerns that the application of both the insurance approach and obligating event approach could result in different outcomes for conceptually similar programs. Further, in our view, recognition and measurement of dedicated non-exchange revenues specifically associated with the funding of social benefit schemes should be consistent (1) across all social benefit schemes and (2) with the IPSASB’s current project on non-exchange revenues.

**(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.**

**Response:**

We are not aware of any additional approaches to accounting for social benefits.

**Specific Matter for Comment 3 (following paragraph 3.4)**

**Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP? If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.**

**Response:**

We are unaware of any social benefits transactions that have not been discussed in the CP and that could not be addressed by one or more of the options set out in the CP.

**Specific Matter for Comment 4 (following paragraph 4.69) (Part 1)**

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

- (a) Key participatory events have occurred;**
- (b) Threshold eligibility criteria have been satisfied;**
- (c) The eligibility criteria to receive the next benefit have been satisfied;**

- (d) A claim has been approved;**
- (e) A claim is enforceable; 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.**

**Response:**

It is our view that an obligating event arises and therefore a liability would be recognized for non-exchange social benefits under the obligating event approach when all eligibility criteria to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative. We believe that an entity has an obligation to provide non-exchange benefits at this obligating event, for both noncontributory and contributory social benefit schemes. If the beneficiary fails to meet any of the eligibility criteria, the beneficiary would not be entitled to receive a benefit. In the United States, for example, one of the eligibility criteria for receiving monthly Social Security payments is that the beneficiary is alive. Consequently, we do not believe that there is a present obligation and a liability until all eligibility criteria to receive the next benefit are met, including approval of the benefit claim where such approval is more than merely administrative.

If claim approval is merely administrative, it would be insignificant to the recognition treatment of an obligation. If claim approval is more than administrative and the public sector entity exercises judgment in approving the claim by determining whether the beneficiary meets all of the eligibility criteria to receive the next benefit, then there is no obligation until such approval is finalized. An example of a social benefit scheme where approval typically is more than administrative is a disability scheme where the public sector entity determines whether the beneficiary meets the disability eligibility criteria. In addition, it is our view that revalidation is an eligibility criterion that needs to be met before a present obligation is incurred.

Non-exchange social benefits and other non-exchange transactions are unique to public sector entities and are fundamentally different from exchange transactions. Although beneficiaries may have expectations that benefits will be provided in the future, it is our view that a valid expectation does not occur until a beneficiary has met all eligibility criteria to receive the next benefit, including approval of the benefit claim where such approval is more than merely administrative. Although past practice may indicate that the government has accepted a responsibility to provide social benefits, a public sector entity has a realistic alternative to avoid an outflow of resources, for example, by modifying legislation, until all eligibility criteria to receive the next benefit have been satisfied. Beneficiaries should be on notice of social benefit eligibility criteria and the public sector entity's ability to subsequently change the criteria and benefits.

Non-exchange social benefits differ from employer-provided social benefit plans, which are considered exchange transactions. Under a typical non-exchange social benefit program, the individual does not exchange his or her taxes and/or contributions for a benefit from the public sector entity. Rather, collectively the citizenry pays taxes to fund social benefits for those that meet eligibility criteria. Accordingly, the compulsory payment of taxes by an individual and the subsequent receipt of social benefits by that same individual in a typical social benefits scheme constitute separate non-exchange transactions. For example, in the United States, the compulsory payment of Social Security taxes does not entitle an individual to a benefit in a legal, contractual sense, and benefits paid to an individual are not directly based on taxes paid



by that individual. Therefore, in those programs, the U.S. government has an obligation for the benefits only when all eligibility criteria to receive the next benefit have been satisfied.

Further, recognizing a liability for social benefits only when all eligibility criteria to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative, provides information that is most consistent with the objectives of financial reporting and qualitative characteristics. This approach is straightforward, is easy to understand, is simple to calculate, can result in information being reported in a timely manner, and can be verified.

It is our view that the creation and recognition of a present obligation or liability for social benefits before all eligibility criteria have been met (referred to herein as future benefits) do not represent present obligations. Further, the recognition of future benefits does not reflect the true nature of social benefit programs, the extent of the government's responsibilities for these and other programs, or the government's ability to revise these responsibilities. Just as future government spending on programs, such as defense, that is relatively certain to continue is not a present obligation of the government, future social benefits spending is also not a present obligation. Consequently, we do not support the accounting treatment for recognition of liabilities for social benefits when key participatory events have occurred (sub option (a)) or when threshold eligibility criteria have been satisfied (sub option (b)).

In addition, it is our view that the recognition of future social benefits would result in an inconsistency between the costs of services recognized during the year and the services provided during the year. The statements of financial position and of financial performance provide information for assessing the costs of providing goods and services during the period. Generally, a public sector entity has little exchange revenue and no profit motive, but instead has the goal of providing services collectively chosen to improve the well-being of its citizens. Accordingly, the accounting treatment for recognizing costs should be consistent with the delivery of related services year by year. Thus, costs can be associated with program delivery and analyzed in relation to outputs, outcomes, and relevant performance measures. These measures could assist in improving (1) resource allocation and program management, (2) the effectiveness and efficiency of service delivery, (3) the accountability to citizens for service delivery during the year, and (4) the adequacy of revenues to cover services provided during the year.

Recognition of future social benefits without recognition of the future tax revenues related to the public sector entity's power to tax would not provide relevant information, would diminish significantly the relative size and importance of other liabilities and expenses shown on the financial statements, and would include long-term estimates that may be highly uncertain. Also, such estimated liabilities may be subject to significant volatility based on changes in underlying assumptions and would not provide information that is useful for accountability purposes. In addition, to the extent that a social benefit scheme is not sustainable based on dedicated tax revenues or other contributions, the amounts of social benefits that would be provided are also highly uncertain and may not be reliably estimable. Further, the time horizon for recognizing a liability for social benefits may be difficult to determine.

Social benefit programs, as currently structured, may be clearly unsustainable (as are Social Security and Medicare (Part A) in the United States), and reforms in these programs are a near certainty. For example, under current law, the trust funds for Social Security and Medicare Part A are projected to be exhausted in the future, after which only a portion of current benefits could be paid. However, it is not possible to predict what specific actions the government will

undertake to modify or change future benefits or taxes. Consequently, the inherent uncertainty surrounding agreement and settlement for amounts of future social benefits does not lend itself to recognizing a liability and expense for future benefits.

We have concerns about whether there is sufficient utility to financial statement users in recognizing social benefit obligations based on key participatory events or threshold eligibility. A public sector entity typically has significant discretion in determining whether to continue or to modify social benefits. Therefore, recognizing liabilities for social benefits based on the threshold eligibility and continuous entitlement sub approaches might not represent a likely or even reasonable policy option for policymakers or users to consider. Further, recognizing a liability for future social benefits does not faithfully represent an entity's financial position or performance and presents a misleading view of the entity's financial position. For these reasons, we do not believe that it is prudent to recognize, in the financial statements, future social benefits that have yet to be delivered and consequently do not support the key participatory events or threshold eligibility sub approaches.

We also believe that it is important that there are appropriate disclosures in the financial statements or GPFRs to provide the users with information for assessing the sustainability of the social benefit schemes, which could include the following:

- the funding status of the social benefits;
- potential actions that may be taken if benefits are projected to exceed dedicated revenue sources; and
- expected cash flows of the social insurance schemes or fiscal sustainability reporting under Recommended Practice Guideline 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*.

We believe that it is also important to disclose the nature and amount of any assets held to pay social benefits (reported under other IPSASB standards).

We agree that financial statements cannot satisfy all users' needs on social benefits, as noted in the CP. General purpose financial reports prepared in accordance with RPG 1 would provide information about expected obligations to be settled in the future, including obligations to individuals who have not met the eligibility criteria for a scheme, or who were not currently contributing to a scheme that would entitle them to future benefits. Such obligations do not meet the definition of a present obligation, and so are not recognized in the financial statements. In accordance with RPG 1, reporting would also include information about expected resources to be realized in the future that will be used to finance social benefits, or the right to tax. Because the entity does not currently control these resources, they are not recognized in the financial statements.

Therefore, in addition to disclosures providing information about the sustainability of social benefit schemes in the financial statements, a report or statement of fiscal sustainability with estimates of future costs, including social benefits, and future revenues, including dedicated revenues, would help provide a comprehensive perspective of the government's financial condition and its ability to continue to provide and finance social benefits.

It is our view that "financial condition" is a forward-looking indicator that should provide predictive information about a government's long-term capacity to sustain and finance its current programs, including social benefits—information that is not conveyed in the financial statements. For example, financial statements do not reflect an asset for the government's right to tax. Consideration of future taxes and other receipts are critical to assessing financial condition. In addition, the financial statements do not provide sufficient information for users to

assess the extent that financial burdens have or will be passed on by current year taxpayers to future taxpayers without related benefits. Many countries face long-term challenges, including demographic and socioeconomic change with rapid increases in the old-age dependency ratio, that will affect future fiscal health, level of spending for goods and services, and level of future receipts. Consequently, it is critical that the future impact of these challenges be considered when making a comprehensive assessment of a government's financial condition.

In conclusion, governments establish eligibility criteria for determining whether and when an individual is entitled to receive a benefit. Accordingly, a liability should not be established and recognized until the beneficiary meets all of the eligibility criteria to receive the next benefit, including approval of the benefit claim where such approval is more than merely administrative. We do not consider estimates for future benefits to be present obligations because these future benefits have not been established by the government as present obligations and can be modified or eliminated by the government if it so chooses. Moreover, recognition of future social benefits as a liability may result in a substantial inconsistency between costs and delivery of services to the public.

#### **Specific Matter for Comment 4 (following paragraph 4.69)**

**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 the reasons for your views.**

##### **Response:**

We do not support a view 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. Further, we believe that recognizing a present obligation or liability for social benefits when all of the eligibility criteria to receive the next benefit have been satisfied, including approval of the claim where such approval is more than merely administrative, provides an appropriate basis across the wide range of different types of social benefit schemes. While we are not aware of any examples, if a legal obligation would arise before all of the eligibility criteria to receive the next benefit have been satisfied, it would be appropriate to recognize a liability for the amount that was legally obligated.

#### **Specific Matter for Comment 5 (following paragraph 4.76)**

**In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach? Please explain the reasons for your views.**

##### **Response:**

We make no distinction between the treatment of obligating events for contributory and noncontributory social benefits. For contributory and noncontributory social benefits, we hold the view that an obligating event can only occur when each requirement of the eligibility criteria to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative. At that point, the entity has an obligation to provide social benefits. If the beneficiary fails to meet any of the eligibility criteria to receive the next

benefit, the beneficiary would not be entitled to receive a benefit. Funding does not affect the obligation.

It is important to use a consistent accounting approach for recognizing non-exchange revenues across the broad range of social benefit schemes to avoid inconsistent recognition treatment among similar programs. Public sector entities have significant flexibility in determining how they will generate non-exchange revenue. For example, a public sector entity determines whether social benefits and other programs will be funded solely through dedicated taxes, fees, and/or contributions; solely through general tax revenues; or some other combination. In addition, although the public sector entity may use different types of non-exchange revenues, such as taxes and contributions, it should account for these non-exchange revenues and recognize them consistently. Also, the public sector entity can decide whether to raise tax revenues, reduce benefits, or borrow/issue debt to finance its programs, including social insurance benefits. This is true whether the social benefit scheme is designed to be fully funded from contributions or not. Further, social benefit schemes may communicate that benefits depend on the availability of funding or other caveats that may limit the payment of benefits. We do not believe that the contributory nature of a social benefit scheme affects a beneficiary's expectation of receiving benefits. Consequently, we do not believe that funding from contributions affects when a present obligation occurs for social benefits. We do believe that it is important to recognize dedicated non-exchange revenues consistently across all social benefit schemes and consistent with the IPSASB's current project on non-exchange revenues.

As noted above, we also support disclosures to assist users in assessing the sustainability of the social benefit schemes, such as the funding status of the social benefits, potential actions to be taken if benefits are projected to exceed dedicated revenue sources, and expected cash flows of the social insurance. We believe that it is also important to disclose the nature and amount of any assets held to pay social benefits (reported under other IPSASs). In addition, the inclusion of a report or statement of fiscal sustainability with estimates of future costs, including social benefits, and future revenues, including dedicated revenues, would be an appropriate solution to provide a comprehensive perspective of the government's financial condition and its ability to continue to provide and finance social benefits.

#### **Specific Matter for Comment 6 (following paragraph 4.80)**

**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 the reasons for your views.**

#### **Response:**

We hold the view that non-exchange transactions relating to social benefits have significantly different accounting considerations related to recognition of the obligating event and measurement of the obligation than social benefits provided through exchange transactions. We believe that social benefits provided through an exchange transaction should be accounted for in accordance with other IPSASs rather than be included in the social benefits IPSASs that account for the recognition and measurement of non-exchange transactions. Further, we are not aware of any exchange social benefit schemes.

**Specific Matter for Comment 7 (following paragraph 4.91)**

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

- (a) In all cases;**
- (b) For contributory schemes;**
- (c) Never; or**
- (d) Another approach (please specify)?**

**Please explain the reasons for your views.**

**Response:**

We believe that any scheme assets should be reported according to other IPSASB standards, with any restrictions on the use of such assets disclosed.

**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:**
  - (i) A claim becomes enforceable; or**
  - (ii) A claim is approved?**
- (b) Measure this liability at the cost of fulfillment?**

**Please explain the reasons for your views.**

**Response:**

If the IPSASB determines that the social contract approach is appropriate, a present obligation should be recognized at the point at which a claim is approved, or when all eligibility criteria to receive the next benefit are met in cases where claim approval is merely administrative.

**Specific Matter for Comment 9 (following paragraph 6.24)**

**Do you agree with the IPSASB's conclusions about the applicability of the insurance approach? Please explain the reasons for your views.**

**Response:**

With respect to the insurance approach, the present obligation and therefore a liability for non-exchange social benefits, whether subsidized or not, is calculated based, in part, on estimates of future benefits for which all eligibility criteria to receive the next benefit would not have been satisfied. For the reasons noted in our response to Specific Matter for Comment 4 above, an obligating event does not arise and therefore a liability would not be recognized until all eligibility criteria to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative.

In addition, recognizing the net liability (subsidy) for a scheme without recognizing as an offsetting asset the right to future tax or other revenue that will finance that liability does not faithfully represent the overall financial position of an entity. The entity generally would reform the programs (e.g., increase taxes or contributions, decrease benefits) to bring revenues and expenses in line. Consequently, while such approach would be appropriate for an exchange

program, we do not support the insurance approach for recognizing non-exchange social benefits. Also, as noted in the CP, the insurance approach cannot be used for all types of social benefits, and therefore we are concerned that the application of both the insurance approach and the obligating event approach could result in different outcomes for conceptually similar programs. In addition, non-exchange revenues related to social benefit schemes should be consistently recognized across all social benefit schemes. Further, we think that recognition of liabilities under the obligating event approach appropriately addresses the economic circumstances of the various types of social benefit schemes.

**Specific Matter for Comment 10 (following paragraph 6.35)**

**Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:**

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

**Please explain the reasons for your views.**

**Response:**

For the reasons noted in our response to Specific Matter for Comment Response 9 above, we do not support the insurance approach. However, if the IPSASB determines that the approach is appropriate, we believe that any expected surplus or deficit should be recognized over the coverage period of the benefit.

**Specific Matter for Comment 11 (following paragraph 6.37)**

**In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;**
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;**
- (d) Offset the planned subsidy and 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 the reasons for your views.**

**Response:**

For the reasons noted in our response to Specific Matter for Comment 9 above, we do not support the insurance approach. However, if the IPSASB determines that the approach is appropriate, we believe that it would be appropriate to offset the planned subsidy and 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.

**Specific Matter for Comment 12 (following paragraph 6.43)**

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

**Please explain the reasons for your views.**

**Response:**

Yes. Regardless of the approach used, the cost of fulfillment is an appropriate measurement basis.

**Specific Matter for Comment 13 (following paragraph 6.63)**

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

**If you disagree, please specify the criteria that you consider should be used.  
Please explain the reasons for your views.**

**Response:**

For the reasons noted in our response to Specific Matter for Comment 9 above, we do not support the insurance approach. Further, we believe that non-exchange revenues should be accounted for consistently across social benefit schemes and other non-exchange transactions.

**Specific Matter for Comment 14 (following paragraph 6.72)**

**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 the reasons for your views.**

**Response:**

If the IPSASB determines that the insurance approach is appropriate, we agree that the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25.



**Specific Matter for Comment 15 (following paragraph 6.76)**

**Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76? Please explain the reasons for your views.**

**Response:**

For the reasons noted in our response to Specific Matter for Comment 9 above, we do not support the insurance approach and have no comments on this Specific Matter for Comment.



Mr John Stanford  
Deputy Director  
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International Federation of Accountants  
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CANADA

Dear Mr Stanford

**Consultation Paper - Recognition and Measurement of Social Benefits.**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board on Consultation Paper “*Recognition and Measurement of Social Benefits*”.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC acknowledges the efforts of the International Public Sector Accounting Standards Board (IPSASB) in seeking to enhance measurement and reporting of long term social benefit liabilities. However is of the view that the proposed options involving recognising social benefit liabilities are still not the optimal solution for addressing the objectives.

HoTARAC is unequivocally of the view that, long term fiscal sustainability reporting is a more appropriate mechanism for assessing the implications of long term obligations to provide social benefits, as it requires consideration of social benefits outside the scope of the Consultation Paper (CP), and future taxation revenues, even if these items are not regarded as assets or liabilities.

The attachment to this letter sets out general comments and specific responses to the questions in the CP. If you have any queries regarding HoTARAC’s comments, please contact Peter Gibson from the Australian Department of Finance on +61 2 6215 3551 or by email [peter.gibson@finance.gov.au](mailto:peter.gibson@finance.gov.au).

Yours sincerely

David Nicol  
Chair  
Heads of Treasuries Accounting and Reporting Advisory Committee  
February 2016

## General Comments

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) acknowledges the efforts of the International Public Sector Accounting Standards Board (IPSASB) in seeking to enhance measurement and reporting of long term social benefit liabilities but is of the view that:

- The proposed options involving recognising social benefit liabilities are not the optimal solution for addressing the objectives.
  - Importantly, not all social benefits long term liabilities can be measured reliably. While age pensions could be forecasted, other social benefits such as unemployment benefits may be more complex and difficult to reliably determine over the long term. Forecasting a future outflow is different from reliably measuring a liability.
  - HoTARAC is unequivocally of the view that, long term fiscal sustainability reporting is a more appropriate mechanism for assessing the implications of long term obligations to provide social benefits as it requires consideration of social benefits outside the scope of the Consultation Paper (CP), and future taxation revenues, even if these items are not regarded as assets or liabilities.
- **Objectives CP “Recognition and Measurement of Social Benefits”**  
The CP “Recognition and Measurement of Social Benefits” provides the following objective for a future IPSAS on social benefits (which will include presentation and disclosure, as well as recognition and measurement):  
**“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, and the key features of the operation of the scheme; and**  
**(b) The impact of social benefits provided on the entity’s financial performance and financial position.”**

### *Objective (a)*

HoTARAC’s view is that objective (a), while promoting an understanding of the drivers underlying social benefits, is not traditional financial statement information. HoTARAC is particularly concerned that in some countries, the extent and complexity of social benefits would mean that such disclosures will result in information which is too voluminous and or/too complex for the vast majority of users to be able to use effectively.

HoTARAC is also concerned that the proposed expansive collection information on social benefits could impose significant costs on governments particularly in an environment where public sector agencies are required to become more efficient and are operating in fiscally constrained environments.

### *Objective (b)*

HoTARAC’s view is that objective (b) is imprecise as to its intent, and that even if read narrowly to mean the impact on operating statement and balance sheet, is unachievable from the proposal.

### *Strategic Objectives Clarity*

Firstly, the CP could benefit from providing clearer strategic objectives as well identification of the key problem that would be addressed as a result of this body of work and what may constitute a vision for success. In the current proposal, it is unclear as to which strategic

objective is being targeted. Is it that the reporting and inclusion of long term social benefit liabilities in financial statements would provide improved information about:

- fiscal sustainability issues of social benefit commitments of governments, or
- would enable better international comparison of social benefit commitments of governments, or
- is it intended to enable improved assessment of specific social benefits schemes in jurisdictions through efforts to standardise recording of liabilities?

As the means of addressing each of these implies different accounting and/or disclosure, the objectives need to be better defined.

There is no doubt information about long term social benefit obligations would help governments to better understand fiscal risks including their capacity to fund social benefits in the future as well changes they may need to consider to ensure the programs are sustainable. However, any long term social benefits liabilities that is disclosed would need to meet qualitative tests of reliability, comparability, verifiability and be provided on a timely basis to support accountability and decision making objectives of financial reporting.

Secondly, the objectives proposed in the CP will only partially provide users information about social benefits obligations due to adoption of a narrower scope in this project than previous works, the scope being limited to benefits paid only to individuals or households in cash and in-kind to mitigate effect of social risks. Furthermore, it should be recognised that there are different structures through-which social benefits are provided. The scope of this project includes social assistance and social insurance, but excludes employment-related social insurance, other transfers in kind and collective goods and services. Consequently, partial disclosure of social benefit obligations could present an unjustifiably positive fiscal outlook, resulting in users making incorrect social policy choices and resources allocation decisions.

- **Adoption of GFS classification and definition social benefits**

IPSASB's adoption of the GFS classification and definitions for social benefits, which is essentially intervention or social protection provided to relieve households and individuals of the burden of a defined set of social risks, is a positive step in achieving alignment between reporting frameworks. However, in practice this results in a significant number of government expenditures such as in health and education not being included as they are deemed to not address social risks, i.e. they do not affect the household budget. The inclusion of part of social assistance obligations could present a more positive financial position of a government that is an unfaithful representation of information, and may mislead users into committing to new policy priorities or amending policies.

Additionally, the exclusion of future taxation revenues and only the inclusion of long term liabilities for some social benefits would present a misleading view of the financial health of a government. This is a direct contravention of objective (b) proposed in the CP. It could be argued that governments have inherent sovereign right to raise taxes and to not include the right to raise taxes as an asset would seem to be an inconsistency in the accounting policy being proposed. However, the inclusion of both social benefit liabilities and the taxation revenue may also render the financial information rather meaningless due to the resulting almost zero net result.

- **3 Options - Recognition Long Term Social Benefits**

The three options proposed for recognising long term social benefit liabilities include: Obligating Event; Social Contract; and Insurance respectively suit specific social benefit regimes.

### *Obligation Event Option:*

Under the Obligor Event option, a number of sub options could be deemed as obligating events that could result in a present obligation for recognising social benefit liabilities. The earlier the obligating event, the greater the liability will be. In the Australian context only in very limited circumstances are income-support social benefits provided on a “set and forget” basis. Consequently, the most appropriate obligating event that results in social benefit liabilities for most social benefits in Australia would be the “Eligibility Criteria Met to Receive Next Benefit”. Application of this sub option would result in recognition of future benefits based on citizens continuing to meet the eligibility criteria requirements for social benefit payments. However, application of the liability definition to other benefits, other contexts and other countries may result in a different outcome.

### *Social Contract Option*

Under the social contract option, there is an imputed social contract between state and citizens under which citizens agree to pay taxes to enable the state to provide social benefits and it is analogous with executory contracts under which the net position is recognized (possibly nil). It would be complex and difficult to determine legally binding obligations for the broad demographics even with actuarial analysis. Therefore any liabilities could only be recognised when claims are enforceable and have to be paid or claims are approved and yet to be paid. In the Australian context while there is a broad societal principle of a “safety net” support for all citizens, it would be difficult to impute that this would constitute formal binding obligations for social benefits under the social contract option.

### *Insurance Approach Option*

Under the Insurance Approach option, this may be suited to contributory and exchange-based social benefits schemes. Even so, HoTARAC is concerned that mandatory application of these principles will be costly - the application of insurance accounting will require complex accounting calculations including Net Present Value (NPV) of future cash flows for benefits payments as well as for contributions received, determination of discount rates for calculation of NPV and accounting treatment of potential deficits over coverage periods. Further complexities associated with subsidised and unsubsidised schemes are also to be considered. In the Australian context, a very limited number of social benefits are provided on a contributory basis. For these schemes, often the insurance approach or a quasi-insurance approach for accounting for liabilities is already applied.

Given that each option has a better fit to a particular type of social benefit scheme, it would be logical to suggest that the application of options would depend on the type of social benefit scheme in the jurisdiction. As already noted, different countries have different schemes so any efforts to standardise calculation and disclosure of social benefit liabilities will be complex and costly particularly as different countries have different systems for administering and reporting social benefits.

### • **CP paragraph 2.19 - Revalidation**

HoTARAC would like to make a particular point in respect of revalidation. The CP in paragraph 2.19 suggests that the legal form varies between countries and retrospective changes to entitlements are permissible in some countries. However, to HoTARAC, the CP seems to imply that revalidation of eligibility would result in *prospective* recalculation of obligations for social benefits, and this is used to justify the existence of a liability until the next revalidation point.

In practice in Australia for most income-support social benefits, when an individual's circumstances change, social benefits have to be recalculated *retrospectively*. For example, a change in an individual's income (or a policy change) may result in the family benefits paid being recalculated for the full year, and they may be required to repay all or part of the benefit actually received. This in effect can mean that the individual's entitlement to benefits could be retrospectively removed and this would then put the individual in a position where they were never entitled to the benefits. This potential outcome is fundamental to understanding HoTARAC's view, that in such cases the maximum liability that could be recorded is the entitlement to the next payment through meeting all the substantive eligibility criteria.

- **Recognition of Liability**

Related to the discussion on paragraph 2.19 above is that HoTARAC notes that it is important to record as liabilities only obligations that have a present (legal or constructive) obligation and that are expected to result in an outflow of resources. All these elements must be present to recognise a liability. Some of the methods discussed under the obligating event approach and the views expressed in support of them appear to lack all of these elements and in extreme cases, propose recognition of a liability purely on the basis that it is possible to actuarially calculate some future (but not present) obligation.

Recognition of a liability based on a constructive obligation is problematic. The practical application of the definition in both public and private sector has led to inconsistencies that do not provide a clear practical guide to when a constructive obligation exists. There is some discussion in the CP that a constructive obligation might exist for social benefits because there is some general expectation within the community that benefits will be paid. HoTARAC is of the view that this expectation is more akin to some overall political or societal expectation, that in many cases does not result in an unavoidable obligation necessary for recognition of a liability, in the way that the term constructive obligation is intended to operate in the for-profit sector. It is particularly difficult to impute a constructive obligation in circumstances where the government retains and exercises the right to alter social benefit schemes through legislation, since the government certainly does not view the obligation as unavoidable<sup>1</sup>.

In conclusion, on the basis of the points made above and if the objective is the need for governments to be cognisant of long term fiscal sustainability, the inclusion of long term social benefit liabilities and commensurate right to taxation revenues should be retained within long term sustainability reporting. In the Australian context the Intergenerational Report (Long Term Fiscal Sustainability Report) produced periodically has provided government with useful insights into fiscal sustainability issues around social benefits with a number of policy changes ensuing to address the issues such as increased workforce participation for the working age population and increasing pension eligibility age for older citizens.

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<sup>1</sup> In Australia there have been over 200 amending pieces of legislation passed by the Australian (national) parliament to Social Security legislation alone since 1945. This legislation deals with only a sub-set of the social benefits provided by the Australian Government.

## **Response to Specific Questions in the Consultation Paper on Recognition and Measurement of Social Benefits**

### **Questions (a) and (b) - Information**

#### **Chapter 2 – Scope and Definitions Preliminary View 1 (following paragraph 2.50)**

**Social Benefits** are benefits provided 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.

Social benefits are provided to mitigate social risks in the following circumstances:

- 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 in the event of the occurrence of the specified social risks; and
- Households could make contributions to a scheme to accumulate entitlements to future benefits, with the benefits being provided following the occurrence of the specified social risk.

(b) **Social Benefits in Cash** are social benefits paid in cash, by or on behalf of a public sector entity, 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 or on behalf of 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 or on behalf of 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** is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).

(f) **Social Security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.

(g) **Social Assistance** is the provision of social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.

### **Question**

#### **Chapter 2 – Scope and Definitions Preliminary View 1 Specific Matter for Comment 1 (following paragraph 2.50)**

(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?

HoTARAC considers the proposed scope is problematic. HoTARAC describes this issue as “problematic” as it does not believe recognition of liabilities in financial



statements is appropriate for non-cash social benefits (refer our above general comments about long-term fiscal sustainability).

The adoption of a narrow definition of Social Benefits as “Benefits provided to individuals and households, in cash or kind, to mitigate the effect of social risks” results in exclusion of some key social assistance provided to citizens by governments such as health and education. The CP posits that a large number of government expenditures such as universal health care and education services do not address social risks, i.e. they do not affect the household budget. In practice expenses incurred for health care and education can significantly affect household budgets.

In Australia, health care is available to all citizens. Citizens are reimbursed through the health care system set amounts for particular medical conditions covered under scheme. Under the CP, these costs for health care would be excluded. However, sickness allowance payments made as social assistance would be included. Two scenarios are provided below to explain the complexities that may arise in implementation of this proposal.

Scenario 1 - A person may be ill and unable to work for a period but the person is employed and so his/her house budget is essentially not affected. The individual would receive health care reimbursements (Medicare rebate) through the health care system but this form of social assistance in kind would be deemed out of scope under the scope and definitions proposed in the CP.

Scenario 2 - In another scenario, a person who is medically unwell and receives social assistance such as sickness allowance payment would be considered to be within scope because the sickness allowance is a form of social assistance provided to an individual to meet medical costs. However, medical bills incurred on the person's behalf by government as well as the Medicare rebate to the individual would be deemed out of scope under the proposals in the CP.

Two social benefits that are in substance the same, both providing social benefits for medical reasons to citizens, will be treated differently for recognition of liabilities. The health care rebate could collectively represent significant transfers from government as social assistance but the liabilities will be excluded under the current proposal, however, the sickness payment will have its liabilities recognised. The two scenarios could cause confusion for constituents and users of financial statements.

If the purpose of this paper is to provide information about government's future obligations for social assistance, then all forms of social assistance should be comprehensively considered. Partial information about some social benefit liabilities in financial statements could present an unjustifiably favourable financial position and mislead users into making incorrect policy and resource allocation decisions.

**Question**

**Chapter 2 – Scope and Definitions Preliminary View 1 Specific Matter for Comment 1 (following paragraph 2.50)**

**(b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits? Please explain the reasons for your views.**

HoTARAC considers the definitions in Preliminary View 1 do not provide appropriate basis for an IPSAS on recognising liabilities for social benefits.

The definitions included in this CP are largely aligned with definitions in the Government Financial Statistics (GFS), are logical and achieve greater consistency, and thus are a reasonable basis of analysis. GFS uses these definitions to classify schemes.

**Question**

**Chapter 3 – Identification of Approaches Specific Matter for Comment 2 (following paragraph 3.4)**

(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?

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

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

HoTARAC is of the view that the application of the approaches would depend on the type of social benefit scheme. There is no one single type of social benefit scheme that would imply that one of the approaches adopted is universally better than another. (The obligating event approach sub option “Eligibility Criteria Met to Receive Next Benefit” is most appropriate for most social benefit schemes provided in Australia).

HoTARAC broadly agrees with the high-level conceptual analysis of the three methods in the discussion paper. (HoTARAC disagrees with some of the detail, particularly on the obligating event approach). HoTARAC agrees that while the social contract approach is a suitable analogy in many cases, application of it is difficult to reconcile with accounting concepts.

In the general comments to its response, HoTARAC noted that recognition of liabilities under any approach does not achieve the two specific objectives set in the paper. The high-level objectives of financial reporting set in the conceptual framework (information for decision making and accountability) are too general to determine precise recognition and measurement rules.

The last question HoTARAC finds too imprecise. Any of the methods would be expected to provide some degree of “useful information about the different types of social benefit”, as long as disclosure is sufficiently disaggregated. However, whether they do this in a way that enables “assessment of financial performance or financial position” is unlikely (and HoTARAC’s view is that in most cases it does not).

HoTARAC is also concerned about whether the benefits provided from this project are outweighed by the costs.

**Background information**

**Obligating Event**

In the Australian context there very limited circumstances that allow for social benefits recipients to be assessed only once with benefit payments guaranteed for all future periods i.e. “set and forget”. In other words, revalidation of eligibility is periodically done with onus placed on benefit recipients to advise social-benefit-

Under these conditions liabilities should only be recognised up to the next assessment period i.e. eligibility criteria is met to receive next approved payment. Perhaps the only exemptions would be in limited cases of manifest disabilities where the condition is irreversible and where once eligible the social welfare payment may not be reassessed however, reassessments of the social welfare recipient's circumstances for any changes in care arrangements and care providers would continue to be done.

Furthermore, governments can change policies at any time with the changes requiring reassessment of future liabilities at potentially high costs including for audit and assurance of the estimated future liabilities and the underlying assumptions.

### *Social Contract*

### Insurance Approach

The application of insurance accounting will require complex accounting calculations including Net Present Value of future (NPV) cash flows for benefits payments as well as for contributions received, determination of discount rates for calculation of NPV and accounting treatment of potential deficits over coverage periods. The CP outlines some of the complexities associated with subsidised and unsubsidised schemes.

The CP in paragraph 6.10 notes that it is not appropriate to apply insurance accounting to unfunded social assistance schemes where there are no contributions. In such schemes, the only cash flows would be for benefit payments as there would be no receipts. As such, some variant of the obligating event approach could be applied instead. HoTARAC is of the view that the insurance approach would be best suited to social benefits that are provided on unsubsidised and purely contributory-based arrangements.

In the Australian context, most social benefits are not contributory based but are fully funded by government through taxation revenue. Universal tax funded schemes that are non-contributory based and are on non-exchange arrangements cannot be accounted for using insurance approach.

**Question**

**Chapter 3 – Identification of Approaches Specific Matter for Comment 2  
(following paragraph 3.4)**

**(b)** Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach/(s) and explain the strengths and weaknesses of each.

HoTARAC is not aware of any other approaches to accounting for social benefits. IPSASB has identified approaches to accounting for benefits that are out of scope of the CP (e.g. employee benefits, financial instruments).

Some countries are looking into investment approaches for managing social welfare obligations, such in New Zealand and to a limited extent in Australia as announced in May 2015 Budget. The investment approach seeks to target support services and appropriate interventions as a means to reduce the relative costs of social welfare programs. However, this approach is not consistent with accounting concepts for application in financial statements.

**Question**

**Specific Matter for Comment 3 (following paragraph 3.4)**

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?

If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

HoTARAC is not aware of any other social benefits not discussed in this CP noting that that some benefits not considered were identified as being out of scope for this project.

**Question**

**Preliminary View 2 (following paragraph 3.4)**

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

HoTARAC does not support the introduction of a combination of the obligating event option and insurance option if this means a hybrid form of accounting. Instead we suggest that IPSASB recommends one or the other option depending on the nature of social benefit scheme being provided in the country. Other than this comment, HoTARAC agrees with the IPSASB analysis.

#### **Question**

#### **Chapter 4 – Option 1: Obligor Event Approach Specific Matter for Comment 4 (following paragraph 4.69)**

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

- (a) Key participatory events have occurred;
- (b) Threshold eligibility criteria have been satisfied;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; 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 obligator 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 the reasons for your views.

HoTARAC is of the view that an obligator event giving rise to a liability can arise at different points depending on the nature of the social benefit and the legal and societal frameworks under which the benefit arises. However, HoTARAC notes that the definition of a liability needs to be met, and that definition does not include all possible future obligations.

HoTARAC would prefer if IPSASB could provide illustrative examples in the new standard to demonstrate situations when an obligator event can occur at each of the proposed points. Judgement should be executed by the reporting entity to determine such point that gives rise to an obligator event with the help of such examples. HoTARAC has provided some examples in the Australian Context where the obligator event arises at point (c).

#### **Background information**

In Australia, despite the existence of a broad safety net policy, social welfare benefits are only provided when individuals meet specific eligibility criteria. The obligator event most appropriate to the Australian context is “Eligibility Criteria Met to Receive Next Benefit”. This sub option provides greater certainty about recipients and the amounts that are due to be paid.

In the Australian context, the unemployment benefit, Newstart Allowance, is paid to those who are unemployed and are searching for work. This benefit is paid from general taxation revenues and is not an unemployment insurance type of scheme. Income support payments are periodically reassessed and eligibility for income support payment is revalidated and approved based on the individual’s financial circumstances and participation in mandatory job search activities. Under these circumstances it would be inappropriate to recognise liabilities:

- For the current period of unemployment, beyond the period of current entitlement (normally the next payment period); or
- For any subsequent future period of unemployment.

The Age Pension in Australia has income and assets tests applied. The asset test limits are updated in January, March, July and September each year and could result in changing the pension amount that a person could be entitled to. Essentially these ongoing tests imply that even the Age Pension is not a “set and forget” payment and revalidation of eligibility is inherently structured in the administration of the pension payment.

In Australia, in very limited circumstances where someone is a blind pensioner or if there are manifest disabilities the eligibility conditions may not be required to be revalidated. However, the individual’s respective care provider arrangements would be periodically reviewed and potentially result in changes to social assistance payments. With financial information requiring audit assurance, the “Eligibility Criteria Met to Receive Next Benefit “ would be traceable and verifiable.

#### **Question**

##### **Specific Matter for Comment 5 (following paragraph 4.76)**

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

Please explain the reasons for your views.

HoTARAC considers 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. HoTARAC agrees that in most circumstances the obligating event will occur earlier where the scheme is contributory, but only because in such circumstances it would be usual for a legal or constructive obligation to arise as a result of the contribution. Therefore, it could be argued that for contributory benefits the obligating event arises earlier, that being, participation in the scheme.

#### **Background information**

For contributory benefits, based on participation information and the benefit policy, it would be easier to determine who benefit recipients are, when payments may be due for particular social risks during the coverage period and potential payment amounts as is done for insurance schemes. The contributions itself give rise to an obligating event because there is genuine eligibility that results from participation and an expectation of payments when events that result in social risks occur. As such under contributory benefits, the obligating event arises earlier, that being, participation in the scheme.

In non-contributory schemes, it is far more complex to determine who the recipients would be particularly for social benefits such as unemployment benefits where individuals may have periods of full employment followed by periods of unemployment. Policies can be amended by governments at any time including decisions to cease certain payments even though in practice this may not often happen due to political pressures. Any long-term liability calculations for non-contributory benefits would have to be supported by numerous assumptions and raise concerns about quality and reliability of the estimated liabilities. The costs associated with validating assumptions alone may outweigh any perceived benefits. As well as this,

the long-term liability information is unlikely to provide users information about efficiency or effectiveness of the social assistance systems.

**Question**

**Specific Matter for Comment 6 (following paragraph 4.80)**

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 the reasons for your views.

A social benefit provided through an exchange transaction should be accounted for as an exchange transaction. Some schemes that are of an insurance nature might be considered exchange schemes, where the individual makes a contribution and in exchange receives a right of similar value to make a claim on the scheme. Accident insurance might be an example of this.

HoTARAC notes that IPSAS does not presently have a standard dealing with insurance contracts, and this might suggest it is expeditious to include such requirements in a standard dealing with social benefits.

**Question**

**Preliminary View 3 (following paragraph 4.91)**

Under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfilment. The cost of fulfilment should reflect the estimated value of the required benefits.

Specific Matter for Comment 7 (following paragraph 4.91)

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

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

Please explain the reasons for your views.

Any liabilities resulting from social benefits should be measured at the cost of fulfilment in all cases except:

- Those in exchange transactions; or
- Those where there is a definite plan in place to settle the liability by transferring it to another party.

HoTARAC agrees with the rationale of this view, as set out in the CP – that a “fair value” exit price for most social benefits would not be representative of the amount the government is obligated to.

Scheme assets should be included in the presentation of a social benefit scheme where they are explicitly available to the scheme administrator to apply to obligations under the scheme. This should apply in all circumstances, although further consideration



might need to be given where the link between holding the assets and payment of benefits is more tenuous.

**Question**

**Chapter 5 – Option 2: Social Contract Approach 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:

- (i) A claim becomes enforceable; or
- (ii) A claim is approved?

(b) Measure this liability at the cost of fulfilment?

Please explain the reasons for your views.

HoTARAC does not support a social contract approach in the form outlined in the CP. However, from a general principles approach, it would seem that liability should only be recognised when a claim is approved. The approval of a claim legitimately gives rise to an obligation to make a payment to an individual or a household and it can be reliably measured.

Liability should be measured at cost of fulfilment.

**Question**

**Chapter 6 – Option 3: Insurance Approach Specific Matter for Comment 9 (following paragraph 6.24)**

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?

Please explain the reasons for your views.

HoTARAC broadly agrees with IPSASB's conclusions.

The insurance approach may be more appropriate for unsubsidised schemes and may not provide useful information in respect of:

- Schemes involving contributions in kind;
- Schemes where there is high level of imputed contributions not involving a cash transfer; and
- Schemes involving contributions (including those treated as general taxation) where there is no reliable basis for allocating the contributions to individual schemes.

Given that the insurance approach is based on determination of net present value of cash flows, application of the insurance option to any schemes where there are contributions in kind could be costly and difficult to implement in practice for use in financial statements. If contributions were to be imputed, there may not be any cash contributions to recognise. Where contributions from taxation relate to a single scheme, application of the insurance approach will inform users as to whether:

- (a) the scheme is subsidised by general taxation,
- (b) the scheme is fully funded by contributions or,
- (c) the scheme is generating a surplus that is being used to finance other government expenditure.

However if the taxation revenue funds several social assistance schemes, the insurance approach would be useful only if there is an appropriate basis for allocation of contributions to respective schemes.

**Question**

**Specific Matter for Comment 10 (following paragraph 6.35)**

Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:

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

Please explain the reasons for your views.

HoTARAC is of the preliminary view that recognition of surplus over coverage period would correctly reflect surpluses over the period when it is likely to be realised. Recognising the surplus upfront can be misleading and incorrectly indicate to information users that funds are available for other activities. Expected deficits should generally be recognised as they arise, similar to onerous contracts.

However, HoTARAC believes that these concepts need to be considered more fully, as there may be legitimate exceptions to these principles in some circumstances.

**Question**

**Specific Matter for Comment 11 (following paragraph 6.37)**

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and 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 the reasons for your views.

Refer to the answer in the previous question - Specific Matter for Comment 10 (following paragraph 6.35)

**Question**

**Specific Matter for Comment 12 (following paragraph 6.43)**

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

Please explain the reasons for your views.

HoTARAC considers that the cost of fulfilment measurement basis is most appropriate for all approaches to social benefits, except as set out in the answer to Specific Matter for Comment 7.

Assumption price is the amount that an entity would rationally be willing to accept in exchange for assuming an existing liability. There are usually no third parties who would be interested in assuming the social benefit liabilities in public sector. Therefore, cost of fulfilment would be appropriate.

However in exchange based insurance schemes, assumption price could be used if there are ready and willing parties to purchase or assume the liabilities.

**Question**

**Specific Matter for Comment 13 (following paragraph 6.63)**

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

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

Please explain the reasons for your views.

HoTARAC agrees but notes that in some circumstances it might be difficult to determine whether the substance of a scheme is insurance or some other form of social risk management.

**Question**

**Specific Matter for Comment 14 (following paragraph 6.72)**

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 the reasons for your views.

HoTARAC agrees a discount rate to reflect time value of money is necessary. However, HoTARAC notes that government bonds can be negative at times and volatile over the long term. Therefore, it would prudent to take into account a range of factors in determining discount rates used to reflect time value of money.

**Question**

**Specific Matter for Comment 15 (following paragraph 6.76)**

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?

Please explain the reasons for your views.

HoTARAC agrees in principle, as it is consistent with IASB's proposals for insurance contracts. However, in practice this could be complex to implement and administer for the public sector.



## Consultation Paper – Recognition and Measurement of Social Benefits

ICAEW welcomes the opportunity to comment on the *Recognition and Measurement of Social Benefits* consultation paper published by the International Public Sector Accounting Standards Board (IPSASB) in July 2015, a copy of which is available from this [link](#).

This response of 12 February 2016 has been prepared on behalf of ICAEW by the Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. Comments on public sector financial reporting are prepared with the assistance of the Faculty's Public Sector Development Committee. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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## MAJOR POINTS

### Importance of the project

1. ICAEW supports the work of IPSASB and the board's vision of high quality global public sector accounting standards. The development of an accounting standard for social benefits will make an important contribution to the realisation of this vision. It deals with a public sector accounting and financial reporting topic of crucial importance.
2. Governments are naturally wary of adopting accounting standards that will result in the recognition of significant liabilities. It is therefore particularly important to reach a consensus about which accounting solutions are reasonable, cost effective and capable of being applied consistently to the myriad of social benefit schemes in place across the world.

### A principles-based social benefits standard

3. Given the very wide range of circumstances to which the standard will need to apply, any future standard on social benefits must, above all, be principles-based. A rules-based approach would not be a workable solution. The new standard also needs to be underpinned firmly by IPSASB's conceptual framework (CF) to allow for successful implementation.

### More detailed empirical evidence is needed

4. The complexity of the issues underlying accounting for social benefits should not be underestimated. IPSASB has made a good start, but we strongly recommend that the board now gathers further detailed empirical analysis regarding the following aspects:
  - The different benefits available from governments and how these are administered;
  - The degree of clarity of the link between the benefits paid by a social security scheme and the revenue that finances the scheme;
  - The materiality of benefits that are fully funded;
  - Specific laws and regulations that will impact on the recognition criteria for social benefits;
  - The scope of the benefits to be covered. Empirical evidence will help with the scoping of the standard.
5. The empirical analysis should be further developed along the lines of Appendix A of the current consultation paper (CP), to include a reasonable spread of countries and types of social benefits. The empirical evidence may be difficult to obtain in some instances. It could take some time to accumulate and will require assistance from national authorities and other key stakeholders. But this is a crucial step to facilitate international acceptance of a new standard, as well as for ensuring a good quality end product.
6. We therefore recommend that IPSASB carry out field analysis for all the options outlined in the CP, to allow both preparers and users of the accounts to gain an appreciation of how the accounting and financial reporting would work in practice. This might be achieved through a questionnaire approach to accountancy institutes or other parties in a range of jurisdictions, which could be fairly limited in number as long as it was reasonably representative of the breadth of types of social benefit that a new standard might cover. This could also form the basis for any future attempt at cost: benefit analysis, which should be based on real world data with good coverage, both in terms of different types of benefits

and different funding mechanisms. The empirical evidence gathered will be the core data to underpin this analysis.

7. It would help IPSASB if the sample of countries selected included those where some work has already been done on these issues, to determine the social benefit disclosure when the three options outlined in the CP are applied. Exploring the impact by applying the five different obligating event points for the obligating event approach option, for example, would inform the debate on the suitability of the various trigger points, and indeed the option as a whole.
8. ICAEW would be pleased to offer IPSASB assistance in liaising with relevant UK institutions should this course be followed, and assuming that the UK is one of the countries analysed.

## RESPONSES TO SPECIFIC QUESTIONS

### Specific Matter for Comment 1(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?**

**Please explain the reasons for your views.**

9. The scope of the CP is reasonable. The relatively narrow definition of social benefits should facilitate a timely conclusion to this important project and capture the essence of what social benefits entail.
10. The definition in the CP makes no distinction between social benefits that are exchange transactions and those that are non-exchange transactions (with the exception of employee benefits), although those benefits provided through exchange transactions are more likely to be covered by other standards. The final standard should be explicit as to whether it only relates to non-exchange transactions or to both (as made clear in the original 2008 definition (2.8)). If exchange transactions are included, the issue of whether they should be dealt with by this or another standard will need to be considered. It will therefore be of the upmost importance for IPSASB to complete the work it is doing on the standards on exchange and non-exchange transactions to ensure that the suite of standards meets the financial reporting needs of government entities.
11. The gathering of empirical evidence and the carrying out of detailed case studies as described above will inform decisions about the scope and definitions to be applied to the new standard. The detailed case studies should apply different scope criteria to assess the varying impact that social benefit liabilities have on the statement of financial position.

### Specific Matter for Comment 1(b)

**Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?**

12. The definitions are an appropriate basis for an IPSAS on social benefits, although as noted above, it is not very clear in the CP whether the proposed IPSAS on social benefits relates to social benefits that are purely non-exchange. For example, the definition of social benefits would include employee benefits (which are exchange transactions), but these are only excluded from scope as they are covered by another standard. Whether exchange transactions are included or not, and if they are, the basis on which they are dealt with by other standards rather than this standard (or vice versa) should be clarified.



## Specific Matter for Comment 2(a)

Based on your review of Chapters 4 to 6, which approach or approaches do you support?

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

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

13. We note that the IPSASB's preliminary view is that a combination of Option 1 (the obligating event approach) and Option 3 (the insurance approach) would provide the most useful financial reporting.
14. At this stage in the standard's development we do not believe that there is sufficient information to favour one approach over another, at least not definitively. As noted above, it would be highly desirable for the board to carry out more empirical research on the different social benefits available and their funding mechanisms, to enable stakeholders in different jurisdictions to assess the impacts the various options may have on a jurisdiction's financial statements.
15. We therefore encourage IPSASB to carry out a detailed case study for a fairly small sample of countries to assess the impact of the three options outlined in the CP. The information provided on the social benefit landscape in various countries in Appendix A of the CP is very helpful, but we would like to see more detailed analysis in order to facilitate the debate.
16. We have set out below a number of observations for each of the options. While we are not yet able to draw firm conclusions at this stage of the debate about the relative merits of any single option or multiple options, we hope that these observations will be useful to the further development of this project.

## Obligating Event Approach

17. The obligating event approach is consistent with the definition in the CF of a 'present obligation', which is 'a legally binding obligation or non-legally binding obligation which an entity has little or no realistic alternative to avoid'. The approach would be more easily understood by users and easier for preparers to apply than the insurance approach, whilst meeting the qualitative characteristics of the CF. However, the difficulty of articulating when an obligating event arises in the case of government bodies that have wide-ranging rights to amend social benefit promises at will, or at least through a statutory mechanism controlled by them, should not be underestimated.
18. We agree with paragraphs 4.89 and 4.90 of the CP that separately identifying scheme assets would potentially increase the usefulness of social benefits disclosure by allowing users to assess the financial health of certain benefits. It would be interesting to know how many benefits in practice are underpinned by earmarked assets or are supported by a separate fund; we are not aware of any in the UK, but other examples may be found which might be illuminating. We note that future contributions receivable do not meet the definition of an asset and cannot therefore be recognised as an asset.
19. It is perhaps worth noting that state pensions in the UK appear to be hypothecated, but in reality are not underpinned by a fund. National insurance contributions which fund the state pension are paid into the same pool alongside other taxation such as income tax. As such, some benefits may appear to be funded or supported by assets when in fact they are not.

20. If early recognition criteria are adopted, government accounts would contain very large liabilities which might be difficult to measure due to the inherent uncertainty surrounding the recognition of an obligating event and all of the assumptions required to underpin the calculations, although for some obligations, such as state pensions, the portfolio effect and actuarial input may give some reasonable basis for estimation. Some numbers, however, may be rendered somewhat meaningless, with large year on year movements which will be difficult to explain or understand. Governments will of course be placed under political pressure to justify such large obligations even if such obligations will be funded from future revenues, so disclosures and explanations will be key.
21. Finally, we recognise that the obligating event approach will involve the exercise of a high degree of judgement (for early obligating events such as *key participatory events have occurred* and *threshold eligibility criteria have been satisfied*), making international comparisons potentially problematic.

### Social Contract Approach

22. The social contract approach appears logical in that many citizens pay taxes and in return are entitled to receive social benefits, although the social contract means some citizens may benefit while never paying in to the system. It is important however, that recognising social benefit liabilities (and unfunded pension liabilities) is potentially one-sided and hence misleading without recognising the government's right to levy taxes on future income to meet these obligations. The social contract approach takes that consideration into account.
23. Under the social contract model, liabilities will not arise until claims for social benefits become enforceable or are approved. This concept would be more easily understood by users of the accounts and will reduce uncertainty with regards to recognition and measurement. Furthermore, this option could probably be applied to most benefits and be fairly quickly implemented, although it will tend to understate liabilities that are expected to be paid on the basis of historical data and reasonable estimations of the future.
24. The social contract approach is based on the concept that governments and individuals are engaged in an executory contract under which the state recognises present obligations when entitlements are established and individuals discharge their performance obligations to contribute taxes and other sources of finance which allow governments to meet these obligations. The question is whether the extent of connection or disjunction between social benefits and funding them makes any difference: many social benefits are merely funded from the proceeds of general taxation, which may bring into question the rationale for the executory contract approach. Many citizens claim benefits without having paid taxes to pay for them. However, the extent of hypothecation may not be particularly relevant to the outcome.

### The Insurance Approach

25. We agree with the view expressed in paragraph 6.21 that social benefits may be accounted for under the insurance approach if they possess the characteristics of an insurance contract and, very importantly, where the contributions form a substantial part of the benefit and can be reliably measured.
26. The insurance approach requires a well-defined contractual boundary, meaning that guidance would be needed to determine the start and end dates for the contract, how this approach could be applied to aggregate groups of people and on what benefits would meet the eligibility criteria. It would be most helpful to find some examples to assess the types of benefits that would be suitable for this approach.

27. The insurance method could lead to meaningful disclosures, where users can assess the funding levels of different benefits, including any shortfalls, making financial reporting more transparent. The insurance concept would work for those countries that have designated welfare funds earmarked for specific benefits, or a small pool of benefits, to which the funding could be allocated in a meaningful way. The concept would also work for those countries that provide insurance products that are mandatory, such as accident or medical insurance.
28. We note that, where successive governments change the allocation of funds depending on their policies, some benefits may oscillate between being sufficiently funded to allow the insurance approach to be applied to being insufficiently funded not to allow that approach.
29. We also have some concerns that this approach could end up being too complicated to apply in practice, once all the nuances of specific benefits are analysed. It will be interesting to see whether the outcome of the IASB's IFRS 4 Phase II project has a bearing on this question.

#### Other issues

30. Finally in this context, we have two more general observations. Firstly, whatever approach is adopted, given the very wide range of circumstances to which it will need to apply, any future standard on social benefits must be principles-based and firmly rooted in the CF. Secondly, it should be noted that obligations which do not meet the recognition criteria are captured in the Statement of Long-Term Fiscal Sustainability. The effect that differing recognition points have on this statement should also be taken into consideration.

#### Specific Matter for Comment 2(b)

**Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.**

31. We are not aware of any additional approaches to accounting for social benefits. However, we think that an important element of any of the approaches will be a disclosure framework to accompany the primary information. Disclosures should be seen as part of the overall package to aid users' understanding of the financial statements.

#### Specific Matter for Comment 3

**Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?**

**If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.**

32. We are not aware of any further transactions that have not been discussed in the CP.
33. As set out in paragraphs 4 to 8, we think it would be helpful to use a small number of jurisdictions to carry out case study examples to see how each of the proposed approaches would operate in practice. This will help to inform the debate as the standard is developed and may help to give constituents insight into how the proposals would affect their own social benefit arrangements.

## Specific Matter for Comment 4

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

- a) Key participatory events have occurred;
- b) Threshold eligibility criteria have been satisfied;
- c) The eligibility criteria to receive the next benefit have been satisfied;
- d) A claim has been approved;
- e) A claim is enforceable; 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 the reasons for your views**

- 34.** Social benefits are not contractual, and so a great deal of the conceptual debate on this issue would seem closely connected with the view one takes of constructive obligations, as defined by IFRS, in a public sector context and as an overlay to the effect of legal obligations. As we have seen, the interpretation of IAS 37 in the private sector has led to some difficulties and counter-intuitive outcomes, for example around levies, and for this reason the development of an accounting approach for non-exchange expenses is necessary, including social benefit transactions. This is less significant in relation to the private sector, which does not generally have many transactions which have the characteristics of non-exchange transactions.

### **a) Key participatory events have occurred**

- 35.** This option ostensibly fits with the CF guidance on the definition of a liability, although there is a debate to be had as to whether in all circumstances it genuinely reflects the point at which an obligation arises, unless a very wide view is taken of constructive obligations. It does not, in any case, appear to be sufficiently practical or desirable for the following reasons:
- Recognising a liability at early participatory events such as birth or entry to the job market does not necessarily mean that a liability will materialise, possibly resulting in the recording of a liability where there is none. This may be a unit of account measurement issue rather than a recognition issue, as it may be possible to take a broader portfolio approach, recognising (based probably on historical data) that only a certain proportion of potential recipients will actually be in a position to claim their entitlement.
  - Recognition of liabilities for such early participatory events increases the uncertainty around measurement: actuarial assumptions become central in the determination, increasing the cost of the exercise and making it difficult to explain to users of the accounts.
  - The extent of estimation will also potentially affect the comparability between jurisdictions if historical data does not exist or there is insufficient expertise to produce actuarial assumptions and apply them correctly.

36. For these reasons, it seems more likely that key participatory events are more appropriately reflected in the Statement of Long-Term Fiscal Sustainability, which includes projected inflows and outflows related to the provision of goods and services and programmes providing social benefits using current policy assumptions over a specified time horizon.
37. It is also worth bearing in mind that IPSASs operate in a highly political environment, and choosing this option would mean the earliest possible recognition of a liability. Liabilities would potentially be very large and countries would be likely to find it very unpalatable to have to recognise such obligations, particularly under conditions of austerity. If it is pursued, therefore, it will need to be very clearly demonstrated that it is the best approach. We are not convinced at this stage that is evident.

**b) Threshold eligibility criteria have been satisfied**

38. This option will have a recognition point that is most consistent with the CF. The CP states that once eligibility criteria have been met, a government no longer has a realistic alternative to avoid an outflow of resources (see paragraph 4.37). Political inertia will support the concept of constructive obligations, yet these remain difficult to define and as recent events in Greece have demonstrated, do not always stand the test of time.
39. Measurement will be easier than in option (a) above, but a number of assumptions will be required to assess the recipient's ongoing eligibility. This point is made in paragraph 4.38. Our main concern with this option relates to recognition, since a highly detailed level of information is required. People that are technically eligible to receive benefits do not always choose to do so, or there could be a large time lag. We feel that in practice this approach may be difficult to implement with any degree of accuracy unless highly-developed real-time information systems are available.

**c) The eligibility criteria to receive the next benefit have been satisfied**

40. This option is similar to (b), in the sense that threshold eligibility criteria have to be met but the provision is restricted until the next assessment for eligibility. This has the advantage of being easier to measure, and reduced liabilities may make adoption of IPSASs more appealing to governments. However, many claimants would continue to be eligible for benefits and thus there is a distinct risk that liabilities under this option would be understated.
41. The option may be applicable for some benefits under circumstances where there is large uncertainty as to future eligibility, such as phasing out of a benefit or significantly changing the terms of conditions of existing benefits. More meaningful information may be presented under this option than under other options where estimation of future eligibility is too onerous.

**d) A claim has been approved**

42. Although this option has the benefit of certainty and verifiability, the liabilities recorded would be an underestimate of total obligations.
43. The gap between this option and option (b) above is in effect the administrative process of handling the claim. It infers, however, that entitlement is not a given unless and until approved by the payer (i.e. the government), but this is not in line with the CF and would not meet the qualitative characteristics therein.

**e) A claim is enforceable**

44. The same issues apply as in (d) above, but are amplified

**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 the reasons for your views**

45. Yes, we think the obligating event could arise at different times because the legal specifications will differ in each jurisdiction, but so will expectations and circumstances leading to constructive obligations. The relationship between current legal obligations and future potential obligations that could be argued to be constructive obligations is a complex one, as noted above. Given the need to account for a vast array of jurisdiction-dependent scenarios, it is as discussed above imperative that any future standard is principles-based.
46. On the legal side for example, one country may have a non-contributory state pension scheme that is available to all who reach pensionable age. In this case, one could argue that birth is the obligating event. But if a government has the right to terminate or vary the prospective benefit, does the obligating event depend more on whether a constructive obligation exists? Most countries will have some eligibility criteria, such as a minimum amount of years worked, in which case entering the work force may be a suitable recognition point. But if there is a history of changing the point at which entitlement begins, is there really an obligation? This example perhaps shows that IPSASB may not be able to find a 'one size fits all' solution and that the focus should be on developing high level, principle-based standards, underpinned by a wide range of real life examples.
47. The determination of the obligating event is critical, but other factors may come into play in working out what would be most viable for public sector reporting. We feel that there are some key criteria that can be used in evaluating each approach to assess the relative merits against accuracy, practicality and usability:
  - **Accuracy:** identification of the obligating event and subsequent measurement are crucially important; while in general we support a principles-based approach and the exercise of professional judgement, the more assumptions and professional judgement are needed in this area, the greater the risk that faithful representation will not be achieved. It should also be noted that due to different local laws and administrative arrangements, outcomes will be different and may affect comparability on an international basis, and the extent of variability of outcome dependent on local factors may have a substantial impact on users' views of the benefits of the information.
  - **Practicality:** the development of the benefits standard must take practical issues in consideration, especially with regards to costs of producing the financial statements, system requirements and political impacts.
  - **Usability:** how useful and understandable will the benefits figures and disclosures be under each option? We feel that calculating an amount for the future provision of social benefits should just be the starting point for disclosure purposes, with more emphasis on the disclosure of assumptions and sustainability management, where governments indicate their expectations on how they will fund commitments made. Therefore, much more emphasis should be given to the Statement of Long-Term Fiscal Sustainability and how it relates to the amounts recognised in the financial statements.

### **Specific Matter for Comment 5**

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

**Please explain the reasons for your views**

48. We agree with paragraph 4.73 that states that existence of an obligation is not affected by the funding of that obligation. Individual benefits would need to be reviewed to determine the recognition point. We would be reluctant to generalise and say that contributory benefits have an earlier obligating event than non-contributory benefits. The specific terms and conditions would need to be taken into account when making the decisions of when an obligating event takes place.

### **Specific Matter for Comment 6**

**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 the reasons for your views.**

49. As discussed in paragraphs 4.78 and 4.79, there appear to be two broad types of exchange benefits: pension schemes and social insurance schemes. Social benefits that have the characteristics of employee benefit schemes (even though they do not relate to employees) should be accounted for as per IPSAS 25.
50. In general, we believe that social benefits could be split into two types, those that are contractual in nature and those that are not. Contractual social benefits that display characteristics such as contributions that are linked to specific benefits could then be accounted for using the insurance approach, with all other types of social benefits accounted for using either the obligating event or social contract approach.
51. We would welcome clarification from IPSASB regarding the definition of exchange transactions, especially in the context of social benefits. The 2008 definition of social benefits (2.8, p20) clearly stated that social benefits were non-exchange transactions, yet 4.78 states that the definition of social benefits in this CP does include benefits arising from exchange transactions.

### **Specific Matter for Comment 7**

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

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

**Please explain the reasons for your views.**



52. The wording in paragraph 4.90 leads us to assume that scheme assets are already recognised in the financial statements but, at present, they are not necessarily separately identified. However, assets should only be separately identified as scheme assets where they are clearly earmarked and assigned to individual schemes. Therefore we would support option (a), in all cases.
53. To recognise liabilities without separately identifying assets that are clearly earmarked and assigned to individual schemes could give a misleading picture. Furthermore, from a political perspective, showing the assets in relation to the liability would reflect the funding position of the scheme. The question would nevertheless arise as to whether a gross or net presentation is appropriate.
54. Scheme assets will apply mainly in the context of contributory schemes, where the contribution can be accurately apportioned to a specific benefit or where non-contributory schemes have earmarked assets.

#### Specific Matter for Comment 8(a)

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:
  - i) A claim becomes enforceable; or
  - ii) A claim is approved?

Please explain the reasons for your views.

55. We believe that this approach has some merit. The main advantages are that users of the accounts would be able to more easily understand this concept, and its relative ease of application. This approach could potentially apply to a large number of benefits and be implemented more quickly than the other options.
56. We do however acknowledge the arguments made against this approach. Our concerns are that this approach would not recognise a liability until very late in the process, potentially under-reporting liabilities. Furthermore, this may mask the funding gap between benefits payable and taxation receivable to fund those benefits, which would not assist governments in managing their long term obligations effectively. Nor would it allow meaningful scrutiny by users of the accounts.
57. As described in paragraph 38, we believe that the recognition point – *threshold eligibility criteria have been met* – most fits with the CF. We believe that the social contract approach, as described in the CP, has recognition criteria that are not in line with the definition of a liability. In answer to this question, we would opt for the earliest recognition point, a claim is approved, but remain sceptical that this would lead to high quality financial reporting.

#### Specific Matter for Comment 8(b)

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

- b) Measure this liability at the cost of fulfilment?

Please explain the reasons for your views.

58. Our preferred method for measuring social benefits, unless specifically stated otherwise, is the cost of fulfilment, discounted as appropriate.

### **Specific Matter for Comment 9**

**Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?**

**Please explain the reasons for your views.**

- 59.** We agree with the points made in paragraphs 6.21, 6.22, 6.23 and 6.24 regarding the applicability of the insurance approach.
- 60.** We believe that there will be some social benefits that will meet the criteria to be accounted for using an insurance approach. In the UK it is less obvious that this methodology could be easily applied since the links between benefits and the taxation to pay for them are tenuous. We would welcome more empirical research in this area to ascertain the usefulness of insurance accounting for social benefits. In particular we have concerns surrounding the boundary of insurance contracts, such as the identification of start and end dates of the contract and its application to aggregate groups of people, as highlighted in 6.31.
- 61.** We agree with the CP that not all benefits would be suitable to be accounted for using the insurance approach and that a combination of approaches will most likely be the best overall solution.

### **Specific Matter for Comment 10**

**Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:**

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

**Please explain the reasons for your views.**

- 62.** The above accounting treatment for fully funded social benefits would follow current accepted accounting standards, and we agree with this treatment.
- 63.** The potential difficulty in defining the start and end date for an insurance contract would impact the calculation for cash flows, which in turn would influence the profitability of the contract. Furthermore, a key part of revenue recognition of insurance products is the amortisation of the contractual service margin, which is open to many judgements. The fact that IASB's revised insurance standard has not yet been finalised will not help in the formulation of the social benefits insurance approach and IPSASB may wish to consider what effect IFRS 4 phase II could have on the development of this approach.

### Specific Matter for Comment 11

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;
- c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- d) Offset the planned subsidy and 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 the reasons for your views.

64. We believe that the insurance approach will only be applicable in those circumstances where social benefits meet the criteria of an insurance-type benefit which includes the need for the benefit to be fully funded.
65. As we stipulate throughout this response, we would like to see more examples of application to the various types of existing social benefits and related administrative arrangements, in order to come to a firm view as to the most appropriate accounting treatment.

### Specific Matter for Comment 12

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

Please explain the reasons for your views.

66. See the response to comment 8(b). We support the cost of fulfilment as the measuring basis for social benefit liabilities; the assumption price may be difficult to determine in the absence of an alternative market.

### Specific Matter for Comment 13

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

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

Please explain the reasons for your views.

67. We agree with the above criteria but we have concerns about how often there is a clearly defined link between contributions and benefits paid and therefore consider that these schemes are not prevalent. The question itself is probably symptomatic of the real world whereby in those cases where the link between contributions and benefits is not straightforward, the insurance approach would not apply.

- 68.** It would help to see relevant examples, to assess how such benefits (especially significant benefits as a state pension) are funded from a clearly defined and visible funding stream and the consequential impact on the accounting.
- 69.** Other key criteria in determining whether the insurance approach is appropriate include the following:
- Cash flows are within the boundary of the insurance contract, ie the government can compel the recipient to pay the premiums, and the government has a substantive obligation to provide the recipient with benefits;
  - Start and end dates need to be reliably identifiable;
  - It must be possible to apply an aggregated approach; and
  - Estimates of future cash flows must be adjusted for time value of money, using discount rates that reflect the characteristics of the cash flows.

There will need to be a lot more guidance surrounding these issues.

#### **Specific Matter for Comment 14**

**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 the reasons for your views.**

- 70.** We support the proposal above that discount rates should be determined in the same way as for IPSAS 25.

#### **Specific Matter for Comment 15**

**Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?**

**Please explain the reasons for your views.**

- 71.** The CP proposes the following requirements for subsequent measurement that are based on IASB's proposals for insurance contracts:
- At the end of the reporting period, the carrying amount of a social insurance scheme would reflect the future cash flows, measured at that date, and the remaining expected surplus.
  - 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 scheme. 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.

As the above subsequent measurements are in accordance with IASB proposals, we support them in order in the interests of IPSAS and IFRS alignment.

- 72.** New terms and conditions may be put in place for new entrants, in which case the CP proposes to account for these arrangements as two separate schemes (6.75, p.66). This seems sensible, but could potentially make the allocation of funding to the schemes even more onerous.

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**14 February 2016**

### **Recognition and Measurement of Social Benefits**

I am Denise Juvenal this is pleased to have the opportunity to comment on this consultation. This is my individual commentary for IFAC-IPSAS about Recognition and Measurement of Social Benefits.

**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 and Specific Matters for Comment in this Consultation Paper are provided below. Paragraph numbers identify the location of the Preliminary View or Specific Matter for Comment in the text.**

#### **Chapter 2 – Scope and Definitions**

##### **Preliminary View 1 (following paragraph 2.50)**

**Social Benefits are benefits provided 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. Social benefits are provided to mitigate social risks in the following circumstances:**

- 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 in the event of the occurrence of the specified social risks; and**
- **Households could make contributions to a scheme to accumulate entitlements to future benefits, with the benefits being provided following the occurrence of the specified social risk.**

**(b) Social Benefits in Cash are social benefits paid in cash, by or on behalf of a public sector entity, 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 or on behalf of 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 or on behalf of 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 is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).**

**(f) Social Security is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.**

**(g) Social Assistance is the provision of 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 (following paragraph 2.50)**

**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?**

Yes. The scope of this CP (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) is appropriate.

**(b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits? Please explain the reasons for your views.**

Yes. The definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits. However, I understand that Social Benefits depends of Government Programs by citizens, independent if federal, state or local government.

Although, I observe complexity to integrate internationally, so, I suggest for the Board's if agrees, that consults in the Key International Regulators and International Organizations, to know which is percentage of national budget the countries spend with social benefits in each area by region, for this, can be option to mitigate impact of social risks in the Financial Statements for public sector and to attend IPSASs.

### **Chapter 3 – Identification of Approaches**

#### **Specific Matter for Comment 2 (following paragraph 3.4)**

**(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?**

**(i) The obligating event approach;**

**(ii) The social contract approach; and**

**(iii) The insurance approach. Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.**

I support points (i) The obligating event approach and (ii) The social contract approach because I agree with arguments of Discussion Paper elaborated by IPSASB, so I understand that evaluate social risk is complex considering the clarification in the Financial Statements of Public Sector.

I believe that these points are prominent for Economies, for example the Organization for Economic Co-operation and Development - OECD in 2001, elaborated the "Human and Social Capital are Keys to Well-Being and Economic Growth"<sup>1</sup>, as in October 2015 the OECD published "Country Risk Classification"<sup>2</sup>, is unclear for me if includes social risks, so, can be an option for mitigate risks for application the IPSAS for social benefits. I do not know in relation option (iii) The insurance approach considering intricacy of application in country, because this point can be useful in some countries.

I agree with points discussed by IPSASB-IFAC, as follows:

<sup>1</sup> <http://www.oecd.org/social/humanandsocialcapitalarekeystowell-beingandeconomicgrowth.htm>

<sup>2</sup> <http://www.oecd.org/trade/xcred/crc.htm>



3.2 The CP considers the options in this order because options 1 and 2 could be applicable to all social benefits, whereas option 3 is limited to contributory social benefits.

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

**(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.**

No. I do not have other additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS.

**Specific Matter for Comment 3 (following paragraph 3.4)**

**Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP? If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.**

I believe do not have one or more options for social benefits transactions that have not been discussed in the CP.

**Preliminary View 2 (following paragraph 3.4)**

**The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.**

I agree with arguments of IPSASB for option 1 (obligating event approach) and (for some or all contributory schemes), and option 2 (social contract approach), so, I have doubt in relation option 3 (insurance approach) because, in my opinion, is unclear clarification net present value with this point cited - page 31 - "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."

However, I suggest for the Board's consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector.

#### **Chapter 4 – Option 1: Obligating Event Approach**

##### **Specific Matter for Comment 4 (following paragraph 4.69)**

**In your view, at what point should a future IPSAS specify that an obligating event arises under the obligating event approach?**

**Is this when:**

- (a) Key participatory events have occurred ;**
- (b) Threshold eligibility criteria have been satisfied ;**
- (c) The eligibility criteria to receive the next benefit have been satisfied;**
- (d) A claim has been approved;**
- (e) A claim is enforceable; 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 the reasons for your views.**

In my opinion, I described my observations, as follows:

<b>Description</b>	<b>Strengths and Weaknesses</b>	<b>Important Points of Exposure Draft</b>	<b>Comments about future IPSAS specify that an obligating event</b>
(a) Key participatory events have occurred	Strengths	4.33 - ... "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)."	I think that is important because which options the government will choose for this expectation. I think that all procedures has been elaborated by government can impact his point, considering uncertainty.
(b) Threshold eligibility criteria have been satisfied ;	Strengths	4.38 - ... " Under the eligibility criteria to receive the next benefit sub-option, continuing eligibility requirements (including revalidation) affect the recognition of a liability. Under the threshold	I think that is important because which options the government will choose for this expectation. I think that all procedures has been elaborated by government can

Description	Strengths and Weaknesses	Important Points of Exposure Draft	Comments about future IPSAS specify that an obligating event
		eligibility criteria sub-option, these only affect the measurement of the liability”	impact his point, considering uncertainty.
(c) The eligibility criteria to receive the next benefit have been satisfied;	Weaknesses	4.43 -... “Under this suboption, the present obligation is for future benefits to be provided 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.”	I understand that this point depends of fact can be occur, a probability. In positive results be determined by law to explain more implementation for this point.
(d) A claim has been approved;	Weaknesses	4.50 – “A liability would be recognized if a claim in respect of the benefits relating to the period has been approved, even if the recipient could not enforce the provision of the benefits at the reporting date because the due date has not arrived.”	I understand that this point depends of fact can be occur, a probability. In positive results be determined by law to explain more implementation for this point.
(e) A claim is enforceable; or	Strengths	4.53 - ... “A government always has the ability to avoid settling such an obligation, for example by modifying eligibility criteria or amending legislation.”	I think that is important because which options the government will choose for this expectation. I think that all procedures has been elaborated by government can impact his point, considering uncertainty
(f) At some other point.	Weaknesses	4.56 - ... “. Where a recipient of a social benefit has satisfied all eligibility criteria and the claim has been approved, but the transferring entity is not yet legally obliged to provide the benefits the term “approved claim” is used.”	I understand that this point depends of fact can be occur, a probability. In positive results be determined by law to explain more implementation for this point.

**Specific Matter for Comment 5 (following paragraph 4.76)**

**In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach? Please explain the reasons for your views.**

I do not know, because an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach depends of laws that probability the government elaborate to attend this point 4.76, I suggest for the Board’s,

if agrees, consults Regional and National Regulators for this, with agreement of Key International Regulators, this subject is complex.

**Specific Matter for Comment 6 (following paragraph 4.80) 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 the reasons for your views.**

I do not know, because I cannot consider if IFAC-IPSASB has information or clarification to attend letters “a” and “b” with aspect from exchange transactions. However, I suggest for the Board’s consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.

**Preliminary View 3 (following paragraph 4.91)**

**Under the obligating event approach, 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 benefits.**

**Specific Matter for Comment 7 (following paragraph 4.91)**

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

- (a) In all cases;**
- (b) For contributory schemes;**
- (c) Never; or**
- (d) Another approach (please specify)? Please explain the reasons for your views.**

I understand that under the obligating event approach, should scheme assets be included in the presentation of a social benefit scheme in all cases, letter “a”, because in relation measured using the cost of fulfillment – value in liabilities requires for all.

**Chapter 5 – Option 2: Social Contract Approach**

**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:**
  - (i) A claim becomes enforceable; or**
  - (ii) A claim is approved?**

**b) Measure this liability at the cost of fulfillment? Please explain the reasons for your views.**

I agree with arguments in relation Social Contract Approach in relation recognize an obligation in respect of social benefits at the point, so, if I consider (i) A claim becomes enforceable, I believe that exist law for regulamentation the obligation, in other fact point (ii) A claim is approved, I understand could exist law or legislation to provide contract enforcement to new rules.

**Chapter 6 – Option 3: Insurance Approach**

**Specific Matter for Comment 9 (following paragraph 6.24)**

**Do you agree with the IPSASB’s conclusions about the applicability of the insurance approach? Please explain the reasons for your views.**

Yes, I agree with the IPSASB’s conclusions about the applicability of the insurance approach. I suggest for the Board’s consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.

**Specific Matter for Comment 10 (following paragraph 6.35)**

**Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:**

- (a) Any expected surplus should be recognized over the coverage period of the benefit; and**
- (b) Any expected deficit should be recognized as an expense on initial recognition? Please explain the reasons for your views.**

Yes, I agree that where a social security benefit is designed to be fully funded from contributions for letter a any expect surplus should be recognized over the coverage period of the benefit, so I suggest for the Board’s consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.

**Specific Matter for Comment 11 (following paragraph 6.37)**

**In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit 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 benefit;**
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;**
- (d) Offset the planned subsidy and 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 the reasons for your views.**

In my view letter d is appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions, because in the government general taxation there is restrict for some activities to develop, is important specific law or rules of each activities and taxation.

I suggest for the Board's consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.

#### **Specific Matter for Comment 12 (following paragraph 6.43)**

**In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities? Please explain the reasons for your views.**

I think that this point need to clarify in relation method use for measurement basis or the assumption price measurement basis for measuring liabilities, because in this case the government can be regulator of laws for organizations and companies or elaborate application of this procedures in it.

I suggest for the Board's consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.

#### **Specific Matter for Comment 13 (following paragraph 6.63)**

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

**If you disagree, please specify the criteria that you consider should be used.  
Please explain the reasons for your views.**

Yes, I agree in those case 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 scheme is that of a social insurance scheme and there is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.

**Specific Matter for Comment 14 (following paragraph 6.72)**

**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 the reasons for your views.**

Yes, I 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.

I suggest for the Board's consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.

**Specific Matter for Comment 15 (following paragraph 6.76)**

**Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76? Please explain the reasons for your views.**

Yes, I support the proposals for subsequent measurement set out in paragraphs 6.73 – 6.76.

I suggest for the Board's consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.

Thank you for opportunity for comments this proposal, if you have questions do not hesitate contact to me, [rio1042370@terra.com.br](mailto:rio1042370@terra.com.br).

Best Regards,

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## The Danish comments to the Consultation Paper, *Recognition and Measurement of Social Benefits*

### IPSASB

First of all, we would like to thank IPSASB for the opportunity to comment on the Consultation Paper “Recognition and Measurement of Social Benefits”. Below is the answer, with primary focus on the points that have given rise to considerations.

### General comments

Currently, the recognition criterion for social benefits in Denmark is transaction-based.

In Denmark, like in many other countries, social benefits are paid or subsidized by tax from individuals and entities. The social benefits are financed through general taxation and therefore the amount of taxation specified for social benefits cannot be separated from other taxation; additionally there is no recognition of future taxes.

Furthermore, social benefits are paid as gross payments that are taxed this leads to a consideration how to measure an obligation. If a method of net valuation shall be used, it will require information about the specific part of the benefit, the part that does not contain future taxation.

If social benefits should be recognized and measured as an obligation, following one of the models in the Consultation Paper, the revenue and expenses related to social benefits would differ. The accounting then is to estimate an obligation for future social benefits, but the financing generated through taxation is not estimated at the same time.

The obligation related to social benefits, will always contain estimated values that can be difficult to review. This can stipulate a rise in administration costs that has to be compared to the increased information in the financial statement. We are not sure if these initiatives will improve the financial statement enough, compared to the related administration costs.

If more obligations are implemented in the financial statement, here among social benefits, the expenditure policy might need to be reconsidered for EU member states.

Furthermore, the definitions in this CP have been sought to align with the existing definitions in government finance statistics (GFS). However, the recognition suggested in this CP is not in line with the current form of recognition in the GFS. For instance sub-option A in the obligating event approach will recognize the





social benefit at a very early point of time, while the GFS focus at the point of time when the transaction occurs. This would yield a need for adjustment between the financial statement and the GFS.

Additionally from the year 2017 the Danish GFS will recognize obligations for civil service pension schemes ('tjenestemandspension') and pre-retirement schemes ('efterløn') within a supplement table to Eurostat.

The convergence between IPSAS and GFS is a potential issue to be considered, in the general approach to the implementation of a standard for social benefits.

### **Comment 1 (chapter 2, paragraph 2.50)**

Generally, the definitions in this CP on Social Benefits can be agreed upon. However, to the definition of "Social Risk", there have been some challenges related to some Danish social benefits, here among the Danish student grants scheme ('Statens Uddannelsesstøtte'). This is a benefit granted by the government for active students, due to their participation in educational schemes. The "Social Risk" is difficult to identify, as the benefit arguably has similarities to an employee relationship. The student, sort of, contributes in kind by studying, which can be compared to working. On the other hand, the benefit is meant to minimize the risk of future unemployment, or current risk of maintaining an appropriate level of welfare while studying, which is within the CP scope. The Danish student grants scheme and similar benefits have been suggested as within scope.

Furthermore, there have been some challenges related to the categorizing (in or out of scope) of some Danish injury benefits, due to considerations whether the benefits correlate to an employment relationship or not. Danish injury insurance is provided either by a private insurance company, or through the employment relationship. The question arises, when the Danish government is the (former) employer, for instance the veterans-scheme of The Danish Ministry of Defense. It is debatable, whether this would be categorized as a social benefit or part of an employer-employee relationship. These injury benefits have been suggested as being outside of scope, primarily based on the employment status.

Social benefits are defined as services paid in cash or kind. Unemployment benefits are examples of a set of benefits, where the services are delivered to the individual as cash or kind. The cash can be received by unemployed individuals available to the workforce, when specific criteria have been met. One criterion is that the individual must attend certain programs with the purpose of getting a job. These programs can be seen as benefits in kind but the value is difficult to measure. The same schemes are registered as subsidies by the Danish GFS.

Social benefits in kind are generally difficult to measure; there are no similar benefits to compare, the administration costs cannot be divided among the partici-



pants, and the number of participants is unknown until the day the program is initiated.

## **Comment 2 (chapter 3, paragraph 3.4)**

### The obligation event approach

Generally, the obligation event approach is supported as being useful for recognition of social benefits.

However, not all sub-options within the approach are found equally applicable. The uncertainty of the obligation event to arise is often unpredictable in sub-option A and B. No Danish benefits have been identified to be possibly recognized in accordance to sub-option A, at the same time very few benefits are able to be recognized with the use of sub-option B.

Sub-option C, D and E are more applicable for recognition, but in most cases, sub-option E appears expedient for implementation, due to concerns related to measurement. If the obligating event approach is implemented sub-option E is to prefer.

For further explanations see comment 4-7.

### The social contract approach

The social contract approach cannot be supported.

Due to the argumentation in the CP we support that the social contract approach cannot be used for recognition of social benefits in a reliable way.

### The insurance approach

Generally, the insurance approach is supported as being useful for recognition of social benefits with contribution.

However, very few Danish schemes involve contribution therefore the usability of the approach will be rather limited in Denmark. For measurement of the insurance approach, rather complicated actuarial calculations are required. It is uncertain how these calculations can have the sufficient reliable precision, and thus measure up to the correlated administration costs.

For further explanations see comment 9-15.



### **Comment 3 (chapter 3, paragraph 3.4)**

ATP (The Danish Labor Market Supplementary Pension)<sup>1</sup> has given rise to some considerations, due to the nature of the contribution payment. In general the contributions are issued by the employee (1/3) and by the employer (2/3). The two contributions are dependent of each other and will not be paid separately. The employee part of the contribution is considered as within scope in accordance to this CP, but the employer part is considered as out of scope. This generates the question; how the ATP scheme is to be treated in accordance of being both in and out of scope? The Danish GFS does not categorize ATP as a social benefit, as the ATP is categorized outside the public sector.

Under certain conditions the Danish government will provide the employer part of the contribution in accordance to the ATP scheme, when the individual is unemployed. In this scenario, the contribution will be issued by the unemployed (1/3) and by the government (2/3). Thus, the question arises, whether the contribution made by the Danish government is to be recognized as a contribution or as a subsidized transfer? It also has to be clarified if the 2/3 contribution is within scope, when the government ensures the payment?

### **Comment 4 (chapter 4, paragraph 4.69)**

As a general consideration, the sub-options are rather open for interpretation, which has to be further clarified, if the obligating event approach is implemented. Hence, the different member states could expectedly have differing views on the meaning and effect of these. The following considerations thus relate to the Danish immediate interpretation of the sub-options.

In order to separate and comment on each sub-option, a suggested Danish model was constructed to clarify the identification and criteria leading to one sub-option or another. This decision-model is to be found in appendix 1.

A viable method could be to implement more than one sub-option, in order to strengthen the usability of the obligating event approach, due to the diversity of the social benefits. In addition, the insurance approach would be fitting for the contributory benefits; hence our model generally focuses on non-contributory social benefits. If contributory benefits were to be governed by the obligating event approach, earlier occurrence of recognition for the unsubsidized part might be suggested.<sup>2</sup>

For the obligating event approach, sub-option D and E has consequently been seen as the most commonly fitting to find use in DK<sup>3</sup>. The Danish analysis suggests that, for approximately 80% percentage of the social benefit schemes, it

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<sup>1</sup> ATP is described in the CP appendix A, point A9-A11

<sup>2</sup> See our answer in comment 5

<sup>3</sup> Appendix 1, The Danish social benefit decision-model



would be optimal to use sub-option D or E. As an additional note, in respect to the specific benefit, the belief is both times of recognition might be appropriate. However, the measurement would in many cases share identical characteristics; several schemes in Denmark grant the individuals with a single payment, executed at the time of application approval.

The beliefs presented in the reports paragraph 4.66 – 4.68 is generally shared, hence in almost all cases, sub-option A and B are found inferior to sub-option C, D and E. The early recognition of a liability, pre all the applicable eligibility criteria's have been satisfied, are considered at high risk of providing misleading information.

a) Key participatory events have occurred

The usability of sub-option A is disagreed upon.

The early recognition is considered valuable, in order to specify the entity's financial state and provide useful information to the users of the financial statements. However, too early recognition of a social benefit might have a larger negative impact as such an approach easily could be misleading due to the, in most cases, dynamic nature of the benefits. Hence, the usage of approach A is opposed, as this would be at a high risk of initiating unreliable financial information.

In general the recognition criteria of an obligation are not seen to be met in sub-option A, while the obligating event most likely has not occurred due to the argumentation above. It is not found justified for the individual to have a legitimate expectation to receive social benefits without any expected social risk.

b) Threshold eligibility criteria have been satisfied

The sub-option B is can be used under rare circumstances but is not supported.

As above stated, early recognition can be valuable, but only if it governs a reliable financial statement. In order to implement sub-option B, it is found as a requirement, that the social benefit scheme has simple static criteria's and is almost unchangeable. Furthermore there should be rarely or no expected law changes related to the scheme (see appendix 1). It is considered that, very few Danish social benefits would be fitting to present accurate and reliable financial information at this early point of recognition.

This sub-option is not fully supported, but there are some social benefits, which are able to be recognized under this sub-option. These are retirement benefit ('folkepension') and child-youth benefit ('børne-unge ydelse'). Child-youth benefits are awarded to all households with child/children below the age of 18 years. Due to the nature of these schemes, individuals most likely consider an approval for guaranteed, when all eligibility criteria have been met.



Generally sub-option B is expected to be inferior to sub-options C, D and E, as it is assumed most social benefits would require all applicable eligibility criteria to be fulfilled. This correlates with the dynamic nature of most of the Danish social benefits. Therefore this sub-option cannot be supported.

c) The eligibility criteria to receive the next benefit have been satisfied

Sub-option C can be supported under some circumstances.

Generally the point of recognition in the sub-options C, D and E is agreed upon as possibly expedient and able to grant the individual with a valid expectation to receive the benefit, in correlation with the individual criteria of the social benefit.

Hence, sub-option C can be an expedient approach, when some factors have been considered and fulfilled. For the usability of both sub-option C and D, the valid expectation is found to correlate with the frequency or expectancy of law changes (see appendix 1).

The considerations in the reports paragraph 4.46 is generally supported, hence this recognition approach could be used for benefits with complex dynamic criteria, where the approval of an individual's claim is solely an administrative process. Due to the fact some benefits do not require a true exercise of judgement by an entity, sub-option C's strength is considered to be a faithful representation of these financial statements. However, a limited amount of the Danish social benefits, are governed by a solely administrative process.

An example of a benefit which can be recognized in accordance to sub-option C is the Danish student grants scheme (however see comment 1 about the Danish student grants scheme).

d) A claim has been approved

The sub-option D is supported for recognition.

As above stated, sub-option D is considered expedient and suitable for granting the individual with a valid expectation to receive the benefits, in correlation with the individual criteria of the benefit.

Hence, where the grant of a social benefit requires true exercise of judgement by the entity, the recognition in sub-option D would represent a more faithfully expression of the financial statements, than sub-option C. In accordance to the analysis, a large portion of the Danish schemes would be recognized under sub-option D.

The measurement of the obligation arising from this sub-option is difficult. It can be administrative complicated to calculate and value all approved claims from



databases. In addition, most of these benefits are granted for a short period of time or constitutes a one-time payment.

e) A claim is enforceable

The sub-option E is supported for recognition and measurement.

Sub-option E is found expedient and capable of granting the individual with a valid expectation to receive the benefits. This sub-option has its strengths, when law changes are expected to occur frequently, for instance when the area is governed by high political attention.

The analysis suggests that a large portion of the Danish schemes would be recognized under sub-option E.

A large portion of Danish social benefits are only given for a shorter period (for instance a month) and to receive the next benefit, the individual has to make a new application or otherwise prove the criteria are still met. Due to this the measurement of an obligation in the balance sheet, will present the problem that the obligation cannot at the same time represent the obligation on the balance day and the expected future payments on the benefit scheme. This problem combined with the GFS-convergence is the main reason why the sub-option is supported.

General comments for the obligation event approach

The Danish analysis suggests that an obligating event can arise at different points in accordance to its format. As earlier stated, we believe sub-option D and E will be the generally most fitting approach for the Danish social benefit schemes. When including the measurement considerations sub-option E would be preferable. However, different sub-options might be useful to implement, for the different kinds of social benefits they seem to fit. This should depend on the characteristics of the scheme, as have been analyzed and can be seen in the Danish decision model in appendix 1. This does not support a view, where the different social benefit schemes, should be able to shift between sub-options.

As long as the chosen point of recognition, i.e. the sub-option, protects the faithful expression of the financial statement, it is found potentially usable. This is considered to be the scenario for all sub-options, except for sub-option A and B.

**Comment 5 (chapter 4, paragraph 4.76)**

In correlation to the Danish analysis, it is suggested the insurance approach is implemented in addition to the obligating event approach, hence covering contributory social benefits. However, comment 5 is addressed for the sake of completeness, if the insurance approach is not supported. If this is the case, the obli-



gating event would be expected to occur at an earlier point of time, when considering contributory benefits.

In Denmark contributory benefits could be divided into two different groups; savings related benefits and insurance related benefits, where savings related would be expected to have an earlier point of recognition.

The presence of contribution is generally found suitable to cause earlier recognition, as contribution is found to increase the individual's valid expectation to receive a future benefit. Due to the individuals' contribution, it will be less likely for the entity to avoid payment, even for benefits only provided several years into the future. This would be expected, even in areas where the law, historically, has suffered from numerous ongoing changes.

For an example of this, the Danish contributory scheme pre-retirement benefit ('*efterløn*') was modified in recent years. The Danish government did not just adjust the conditions of all scheme-participants from day one instead participants had the opportunity to utilize the benefit within 5-6 years with unchanged conditions. In addition to this, all participants were given the option to withdraw their entire contribution.

#### **Comment 6 (chapter 4, paragraph 4.80)**

No Danish social benefits arise from exchange transactions, in accordance to the definition in IPSAS 9, due to the lack of approximately equal value.

Only one social benefit is closely related hereby, but the format of the scheme, is like placing money in a bank with a favorable interest. Thus, this social benefit is considered outside the definition of an exchange transaction.

#### **Preliminary View 3 (following paragraph 4.91)**

The estimated value of cost of fulfillment appears expedient for usage, when measuring liabilities in respect of social benefits governed by the obligating event approach.

#### **Comment 7 (chapter 4, paragraph 4.91)**

It is considered as necessity for scheme assets to fulfill some requirements, in order to recognize these in the presentation of a social benefit scheme. The scheme assets must be deduced from contribution and separated from other assets, for instance in a specific fund.

Danish non-contributory schemes have no earmarked assets. The assets cannot be identified as subsidized to a specific benefit, as general taxation is not divided among these schemes.





This supports comment 7 (b).

**Comment 8 (chapter 5, paragraph 5.38)**

The social contract approach is not considered appropriate for recognizing and measuring social benefits.

The argumentation in this CP is agreed upon and supported.

**Comment 9 (chapter 6, paragraph 6.24)**

IPSASB's conclusions related to the applicability of the insurance approach are generally supported, corresponding to the definitions in paragraph 6.21-6.24. The considerations about significant and reliable measured cash contribution as an essential requirement are found convenient.

For Denmark, the insurance approach would find usage for a small amount of benefits, due to having few benefits with contribution. In Denmark, general taxation cannot be identified as allocated for an individual scheme, hence general taxation will never be seen as contribution. This correlates to the definition in this CP paragraph 6.23.

**Comment 10 (chapter 6, paragraph 6.35)**

In Denmark, there is currently one unsubsidized scheme, ATP (The Danish Labor Market Supplementary Pension).

ATP pensions are adjusted in accordance to the financial resources of the scheme therefore the benefit will never yield a surplus or a deficit for recognition.

**Comment 11 (chapter 6, paragraph 6.37)**

It has earlier been suggested that the Danish contributory social benefits can be divided into two different categories; savings related and insurance related. For an example of savings related there is the benefit for pre-retirement ('efterløn'), for an example of insurance related there is the benefit for unemployment with a connection to the labor market ('dagpenge').

The perception of the benefit seems important, whether a deficit can be recognized as an expense in general.

A deficit is not expected as possible for recognition for the insurance related schemes, as 'dagpenge'. It would require the individual to have entered unemployment, and even then, the coverage period is unknown.





Recognition of a deficit, when the scheme in question is savings related, seems more likely to gain ground. However, this area needs further clarification, whether the additional deposits would stipulate contribution or subsidize. If these deposits are defined as contribution, a deficit can arise. If instead it is to be seen as subsidize, the subsidize will rise, hence there will be no deficit.

#### **Comment 12 (chapter 6, paragraph 6.43)**

The assumption price approach is generally disliked, due to an entity's possibility of adjusting the risk, the same risk as would be implemented in the calculation. Additionally the view in paragraph 6.43 is acknowledged, hence the approach is found inappropriate for the public sector, where there is no third party that might assume the liability. This approach would most likely not support a faithful representation of the scheme.

Cost of fulfillment is generally found appropriate, as this approach represents the best estimate for the cost that is expected to occur. Therefore, this approach is considered more likely to support a faithful representation of the scheme and to support controlling.

#### **Comment 13 (chapter 6, paragraph 6.63)**

In accordance to the definition of social insurance in paragraph 2.18, it is unclear, how contributions paid by other than the participators, as mentioned in paragraph 6.53, will be within this definition. Furthermore it is not clear, whether such contributions are initiated by employers, in such case it is defined as out of scope in paragraph 2.18.

In correlation to above stated considerations, the criteria for determining whether the insurance approach is appropriate should, suggestively, be more exact. On the other hand, the insurance approach is not believed sensible to implement.

#### **Comment 14 (chapter 6, paragraph 6.72)**

The implementation of a discount rate to reflect the time value of money, has deduced some considerations.

It is considered important, that the chosen discount rate is based on a reference rate which is initially known. The entity should have the opportunity to choose a rate, which is not from the market of financial instruments. For instance, a rate used in other calculations made by the government could be usable, as long as it reflects the time value of money. This generally approves the approach in IPSAS 25.

The rate should be relevant for the specific benefit hence there could be a consideration, when the benefits show similarities to savings or insurance. Different



categories of contributory benefits might be more rightfully presented through usage of individual reference rates.

**Comment 15 (chapter 6, paragraph 6.76)**

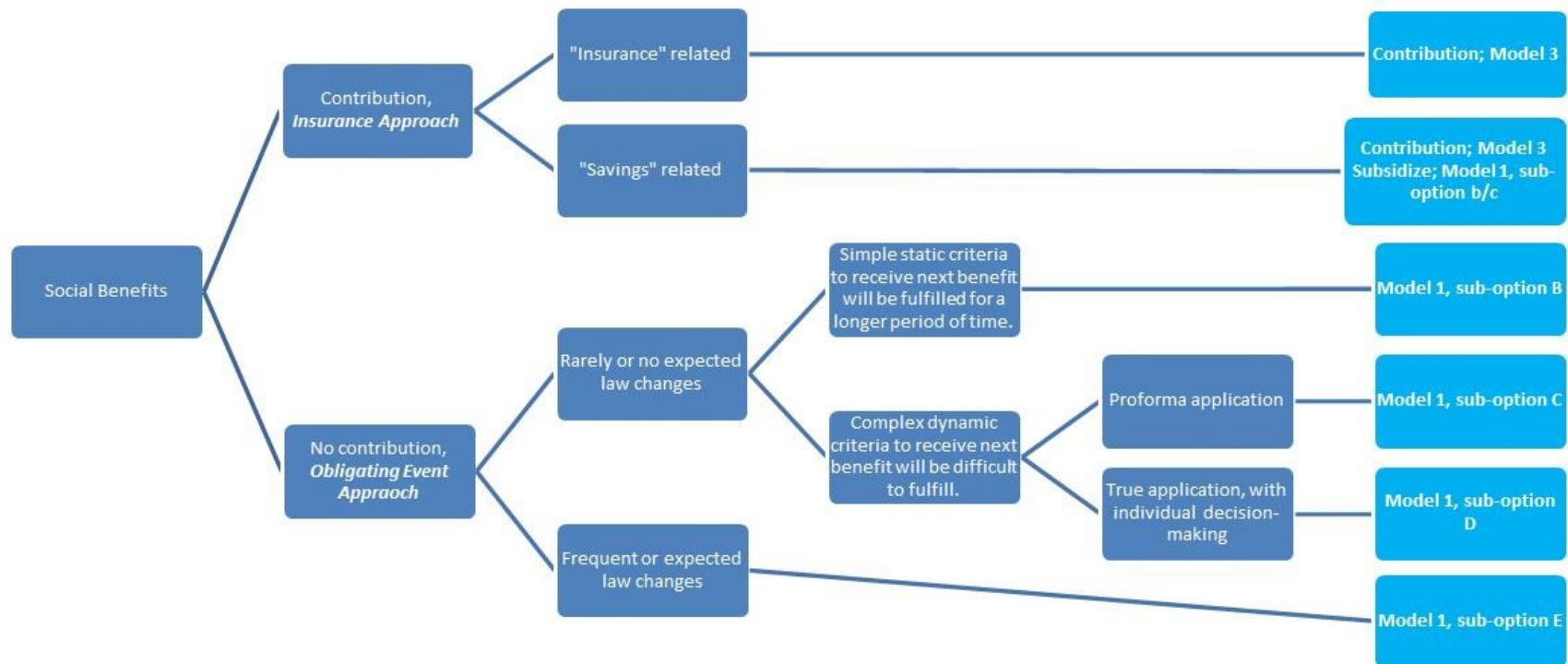
In correlation to the considerations about savings related and insurance related contributory benefits, it might be necessary to distinguish between the categories, when applying the subsequent measurement, in paragraph 6.76.

Generally it is found necessary to divide the obligation into two or more schemes, when a modification changes the contributory amount, in order to finance the new appearance of the scheme. This should make it possible to identify the additional required earmarked funds.

However, for the savings related, the obligation should instead be adjusted, if there is a general presumption that the savings would be repaid to the participant that contributed.



## Appendix 1. The Danish Social Benefits Decision Model



We have constructed a decision tree for categorization of social benefits. The decision model describe the earliest suggested point of recognition.

Expecting the usage of the Insurance Approach, thus contributory schemes will be handled by this model, non-contribution schemes will be handled by the Obligating Event Approach.

### **Insurance approach (contribution)**

Social benefits with a contribution can be divided into two groups; insurance related and savings related. The contributions can be recognized recording to the insurance approach, but the recognition regarding the subsidies will differ.

### **Obligating event approach (no contribution)**

For the further sub-option categorization, the decision tree has implemented the obligating event definition:

1. Indication to others that the entity will accept certain responsibilities
2. Creation of a valid expectation
3. Little or no realistic alternative to avoid an outflow of resources

### The frequency or expectancy of law changes

Social benefits of high political interest, where law changes have been frequent or expected (for instance due to shifting governments) are categorized here. Here we believe that recognition should only happen for the legal obligations, when the payments due date has arrived. We consider recognition before this date at a very high risk for providing misleading information.

### The static/dynamic nature of social benefits criteria

Social benefits eligibility criteria should be categorized with information of:

1. The transparency of these
2. The expectancy the criteria will be fulfilled for a longer period of time
3. The possibility of calculating the benefit period pre initiation

Unless the social benefit can be said to be extremely static and almost unchangeable, we disagree that sub-option A and B will be an expedient approach in order to represent valid information for the entity's financial performance.

Our analysis indicates that almost no Danish social benefits would be fitting to present accurate and reliable financial information at this early point of recognition.

### The format of the application

We generally agree to the considerations in the reports paragraph 4.46.

When benefits do not require a true exercise of judgement by the entity, we believe the sub-option C faithfully would represent these financial statements. Where the grant of a social benefit requires true exercise of judgement by the entity, we believe sub-option D would represent a more faithful expression of the financial statements.