

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Toronto, Canada

**Meeting Date:** September 20–23, 2016

**From:** Paul Mason

## Agenda Item 7

For:

☐ Approval

☒ Discussion

☒ Information

### SOCIAL BENEFITS

<b>Project summary</b>	To identify the circumstances and manner in which expenses and liabilities of certain social benefits of governments arise. The project will also consider how they should be recognized and measured in the financial statements.	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Instructions up to June 2016 meeting</a>	<a href="#">7.1.1</a>
	<a href="#">Decisions up to June 2016 meeting</a>	<a href="#">7.1.2</a>
	<a href="#">Project roadmap</a>	<a href="#">7.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Scope of the social benefits project</a>	<a href="#">7.2.1</a>
	<a href="#">Obligating Event</a>	<a href="#">7.2.2</a>
	<a href="#">Presentation and Disclosure</a>	<a href="#">7.2.3</a>
<b>Other supporting items</b>	<a href="#">Staff summary of responses to Consultation Paper, <i>Recognition And Measurement Of Social Benefits</i></a>	<a href="#">7.3.1</a>
	<a href="#">Respondents comments to Consultation Paper, <i>Recognition And Measurement Of Social Benefits</i>, discussing presentation issues</a>	<a href="#">7.3.2</a>

# Agenda Item

## 7.1.1

### INSTRUCTIONS UP TO JUNE 2016 MEETING

Meeting	Direction	Actioned
June 2016	Have regard to the IASB's work on discount rates when considering how social benefits shall be measured.	To be discussed at a future meeting.
June 2016	Develop a paper setting out the IASB's latest thinking on insurance accounting.	To be discussed at a future meeting.
June 2016	In determining when a scheme could be considered fully funded, have regard to the issues identified by IPSASB members - commercial substance, "looks and feels" like insurance, user needs/accountability and whether the insurance approach should be mandatory or optional.	To be discussed at a future meeting.
June 2016	Review the IASB's latest position for the insurance standard to identify any guidance that helps determine when a scheme could be considered as "fully funded".	To be discussed at a future meeting.
June 2016	Consider wider issues of asset and revenue presentation, including: <ul style="list-style-type: none"> <li>• Sovereign wealth funds;</li> <li>• Whether the presentation should be a gross presentation or net presentation; and</li> <li>• How similar considerations are addressed in other IPSASs.</li> </ul>	To be discussed at a future meeting.
June 2016	Consider how to account for contributions and the interaction with certain sovereign wealth funds in developing the future ED.	To be discussed at a future meeting.
June 2016	Consider the following issues in developing the issues paper on when an obligating event can occur: <ul style="list-style-type: none"> <li>• The correlation between the key participatory event and the insurance approach;</li> <li>• The impact on preparers and readers of the financial statements;</li> <li>• The different public interest lenses addressed; and</li> <li>• What examples and flow charts / decision trees will be required to assist users?</li> </ul>	Agenda Item <a href="#">7.2.2</a> (examples and flow charts / decision trees will be discussed further at a future meeting).
June 2016	Undertake further work on the scope, taking into account the following issues identified by the IPSASB in its discussions: <ul style="list-style-type: none"> <li>• Whether benefits are provided generally or specifically;</li> <li>• Whether a definition of social risks is required, and if so how this should be framed to fit an accounting framework as opposed to an economic/statistical framework; and</li> <li>• The extent to which the scope can or should be aligned with GFS.</li> </ul>	Agenda Item <a href="#">7.2.1</a> .

Social Benefits (Instructions up to June 2016 meeting)  
*IPSASB Meeting (September 2016)*

Meeting	Direction	Actioned
March 2016	Reconsider the definitions once a decision on the scope of the project has been made	Initial discussion in Agenda Item <a href="#">7.2.1</a> .
March 2016	Explore alternatives for the project scope that might address the IPSASB's concerns, taking the transfer of goods and/or services to individuals and households as a starting point.	
March 2016	Consider the analysis of responses to other SMCs in evaluating options for the project scope.	
June 2015	All directions given in the June 2015 meeting or earlier were reflected in the Consultation Paper, <i>Recognition and Measurement of Social Benefits</i> .	

### DECISIONS UP TO JUNE 2016 MEETING

Date of Decision	Decision
June 2016	In principle, the ED should refer users to the forthcoming IFRS on insurance.
June 2016	The ED should permit or require the insurance approach in a more limited range of circumstances than proposed in the CP.
June 2016	Under the obligating event approach, assets should be presented as part of a social benefit scheme in all circumstances in which specific assets could be identified.
June 2016	Under the obligating event approach, social benefits should be measured using the cost of fulfillment measurement basis.
June 2016	Exchange transactions covered by other IPSASs should be excluded from the scope of the ED.
June 2016	The definition of an obligating event in the future ED should not distinguish between contributory and non-contributory benefits, but that guidance and examples should discuss how the payment of contributions could provide evidence that an obligating event had occurred.
June 2016	The ED should recognize that the obligating event will depend on the nature of the social benefit or the legal framework under which the benefit arises.
June 2016	No amendments to the approaches in the CP are required to address transactions not discussed in the CP.
June 2016	Following the decision not to proceed with the social contract approach, there is no need to resolve the related accounting issues.
June 2016	To include the obligating event approach and insurance approach in the ED on social benefits, but not to proceed with the social contract approach.
March 2016	The scope of the project should focus on individuals and households.
June 2015	All decisions made in the June 2015 meeting or earlier were reflected in the Consultation Paper, <i>Recognition and Measurement of Social Benefits</i> .

### SOCIAL BENEFITS PROJECT ROADMAP

Meeting	Objective: IPSASB to consider:
September 2016	<ol style="list-style-type: none"> <li>1. Decision on scope of project (including initial discussion on definitions)</li> <li>2. Decision on when an obligating event may occur</li> <li>3. Initial discussion on disclosures</li> </ol>
December 2016	<ol style="list-style-type: none"> <li>1. Draft ED: Scope</li> <li>2. Draft ED: Definitions</li> <li>3. Draft ED: Recognition</li> <li>4. Draft ED: Measurement</li> </ol>
March 2017	<ol style="list-style-type: none"> <li>1. Review previous sections of ED</li> <li>2. Draft ED: Disclosure</li> <li>3. Draft ED: Application Guidance</li> <li>4. Draft ED: Illustrative Examples</li> </ol>
June 2017	<ol style="list-style-type: none"> <li>1. Review of full draft ED</li> <li>2. Approval of ED</li> </ol>
September 2017	Consultation Period
December 2017	
March 2018	<ol style="list-style-type: none"> <li>1. Review of Responses</li> <li>2. Initial discussion on issues raised</li> </ol>
June 2018	<ol style="list-style-type: none"> <li>1. Discussion of issues raised</li> <li>2. Review first draft of proposed IPSAS</li> </ol>
September 2018	<ol style="list-style-type: none"> <li>1. Review of draft IPSAS</li> <li>2. Approval of IPSAS</li> </ol>

### Scope of the social benefits project

#### Questions

1. The IPSASB is asked to agree the scope of the social benefits project.

#### Detail

2. The IPSASB considered the review of responses to SMC 1 and PV 1, dealing with the scope of the social benefits project and the related definitions at its March 2016 meeting. IPSASB members may wish to refer to the [March 2016 meeting papers](#) for further details.
3. While a majority of respondents supported the scope of the project as set out in the CP, a significant minority raised concerns. The main areas of concern raised by respondents are summarized below:

Issue	Detail
Definition of social risk.	A number of respondents considered that the definition of social risk was difficult to apply in practice, and that it was therefore difficult to differentiate between social benefits and certain other non-exchange expenses of government.
The proposed boundary might lead to different accounting treatments for transactions that have the same economic substance.	Some respondents considered that social benefits in kind and other transfers in kind give rise to the same issues. These respondents considered that the scope of the CP creates an artificial boundary between social benefits and non-exchange expenses.

4. At its March 2016 meeting, the IPSASB agreed that the scope of the project should focus on benefits provided to individuals and households, but did not come to any further conclusions. The IPSASB directed staff to explore alternatives for the project scope that might address the IPSASB's concerns, taking the transfer of goods and/or services to individuals and households as a starting point.
5. At the June 2016 IPSASB meeting, staff presented revised proposals, which extended the scope to include "social transfers in kind that address social risk" (see the [June 2016 meeting papers](#) for further details). The IPSASB debated the proposals. In general, the IPSASB was not minded to extend the scope as proposed, but did not reach any further conclusions.
6. The IPSASB instructed staff to undertake further work in this area, taking into account the following issues identified by the IPSASB in its discussions:
  - Whether benefits are provided generally or specifically;
  - Whether a definition of social risks is required, and if so how this should be framed to fit an accounting framework as opposed to an economic/statistical framework; and
  - The extent to which the scope can or should be aligned with GFS.

*Whether benefits are provided generally or specifically*

7. At its June 2016 meeting, the IPSASB considered staff proposals that would have extended the scope of the project to include social transfers in kind that address social risks. This extension would have covered services provided directly by governments to recipients, for example, health care and education. The IPSASB considered that services such as universal health care and education were better suited to the non-exchange expenses project, and instructed staff to consider a distinction based on whether benefits are provided generally or specifically.
8. Staff considers that there are no conceptual differences between a liability that arises from benefits provided to specific individuals or households and a liability that arises from universal benefits that are provided to the population generally. In both cases, a liability arises when there is “a present obligation of the entity for an outflow of resources that results from a past event.”
9. However, the distinction between social benefits and non-exchange expenses is not a conceptual distinction, but a practical one. Social benefits and non-exchange expenses exist on a continuum, and any boundary between the two will be to some extent artificial. The IPSASB acknowledged this in developing the CP, but noted that a boundary needed to be drawn in order for the project to be manageable.
10. Staff considers that there will be practical advantages from distinguishing a liability that arises from benefits provided to specific, identifiable individuals or households from a liability that arises from universal benefits that are made generally available. This is because different measurement issues will arise in each case.
11. Where benefits are provided to specific individuals or households, any resulting liability can be measured by reference to that individual's or household's entitlement to the benefit. An entity's total liability for a particular benefit will be the best estimate of the sum of the liabilities in respect of each individual or household.
12. Conversely, in the case of universal benefits that are made generally available, such as a universal free education system or a universal free health care service, any liability cannot be determined by calculating the liability for each individual or household. Rather, liabilities will arise from the entity's provision of services. Such liabilities will not vary directly with individuals' or households' entitlement to those benefits, and so will require the use of different measurement approaches.
13. Staff considers that excluding universal benefits that are made generally available from the scope of the social benefits project will simplify the project. This is because the benefits that remain in the scope of the project can all be measured by reference to an individual's or household's entitlement to the benefit.

*Whether a definition of social risks is required*

14. At its June 2016 meeting, the IPSASB instructed staff to consider whether a definition of social risks is required and if so how this should be framed to fit an accounting framework as opposed to an economic/statistical framework.
15. Staff considers that a definition of social risks is required for this project. Staff noted at the June 2016 meeting that a definition of social risks is necessary to distinguish social benefits from other ongoing activities of government.

16. For example, within GFS, risks associated with natural disasters etc. are not social risks. Transfers made in response to these types of event address risks, but not social risks. Staff considers that this distinction is helpful, and in line with the IPSASB's desire to maintain a narrow definition of social benefits.
17. The definition of social risks has proved problematic for both IPSASB members and respondents. In part, this appears to stem from the different way accountants and economists/statisticians think about risk. Consequently, staff considers that the definition of social risks will need to depart from the wording the various GFS manuals and reflect an accountant's view of risk. Staff also considers that guidance regarding the definition will be required.

*The extent to which the scope can or should be aligned with GFS*

18. At its June 2016 meeting, the IPSASB instructed staff to consider the extent to which the scope of the social benefits project can or should be aligned with GFS.
19. The approach in the CP was to seek to align, as far as possible, the definitions of social benefits and social risks with those in GFS. Following the discussion at the June 2016 meeting, staff considers that this approach is unlikely to result in definitions that provide clarity for preparers and users of financial statements. This reflects the discussion on social risk above.
20. However, the range of schemes classified as social benefits in GFS seems (with the exception of some universal services) to be broadly aligned with the range of schemes that the IPSASB considers should be covered by the scope of the project.
21. Having a Social Benefits standard whose scope is broadly aligned with GFS will assist preparers and users, and many stakeholders welcomed this alignment in their responses to the CP. Consequently, staff considers that aligning the scope of the project with GFS as far as possible, without relying on the definitions in GFS, is desirable. Staff also considers that it will be important for preparers and users to be clear about any differences between the scope of the project and the definition of social benefits in GFS.

*Terminology*

22. In the terms and descriptions used in the CP and GFS, the same or similar words can appear a number of times. For example, the CP refers to "collective goods and services"; this includes services such as defense and street lighting which are not social benefits. GFS also describes social benefits as being provided collectively. This refers to the fact that benefits are organized for the benefit of the population as a whole, or for a large section of the population, and individual risk is not taken into account.
23. Staff considers that the use of "collective" and "collectively" in the above contexts is potentially confusing for those who are not familiar with GFS. Staff has, therefore, sought to use different terminology where possible. However, staff would welcome suggestions for further improving the clarity of the definitions and guidance.

*Definitions of social benefits and social risks*

24. The CP defined social benefits and social risks as follows:



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

**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.

25. Because of the interaction of the definitions of social benefits and social risks, and because some social benefits (such as universal retirement benefits) are designed to mitigate social risks by providing benefits to the population as a whole, staff considers the definition of social benefits also needs to be amended.
26. In addition to the factors discussed above, the scope of the project, and the definitions of social benefits and social risks, will need to reflect the following factors that were discussed at the IPSASB's recent meetings:
- The scope of the project should be limited to benefits provided to individuals and households (decision at the March 2016 meeting);
  - Benefits may be provided in cash or in kind;
  - Social benefits are organized for the benefit of the population as a whole, or for a large section of the population (sometimes referred to as "collective arrangements");
  - Social risks relate to the characteristics or circumstances of individuals or households – for example, age, health, poverty, employment status – and do not include any other risks; and
  - Social benefits are provided as part of the systematic intervention by government.
27. To reflect all these factors, staff proposes the following definitions of social benefits and social risks, as the starting point for the IPSASB's discussions; staff notes that guidance is included in the definitions, and the IPSASB is asked to consider whether this guidance should form part of the definitions or not.

**Social Benefits** are benefits that are:

- (a) Organized for the benefit of the population as a whole, or for a large section of the population;
- (b) Provided to mitigate the effect of social risks;
- (c) Provided as part of the systematic intervention by a public sector entity;
- (d) Provided to specific individuals and/or households rather than made generally available; and
- (e) Provided in cash or in kind.

*Guidance on the definition of social benefits:*

The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to the population as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the criteria that they are provided to mitigate the effect of social risks.

Where benefits are provided to specific individuals and/or households, the level of benefit or service provided varies directly with an individual or household's eligibility. Such benefits are social benefits. Where benefits are made generally available, the level of benefit or service provided does not vary directly, or varies only marginally, with an individual or household's eligibility.

Because social benefits are provided individually, many social benefits will be provided in cash. However, some social benefits may be provided in kind, for example where a government program provides healthcare insurance for those who are unable to afford private healthcare insurance. Where benefits in kind are made generally available, for example a universal healthcare service, these do not meet the definition of a social benefit for the purposes of this [draft] IPSAS<sup>1</sup>.

**Social risks** are events or circumstances that:

- (a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and
- (b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

*Guidance on the definition of social risks:*

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.

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<sup>1</sup> Staff notes such benefits may meet the definition of a social benefit in GFS.

28. Staff considers that these definitions are sufficiently precise to be understandable by users and preparers of financial statements, while maintaining broad alignment, to the extent possible, with the classification of social benefits in GFS, with the exception of some universal services.

*Scope of the project*

29. The effect of this proposed scope, and the definitions of social benefits and social risks, would be as follows:

Within the scope of the project	Outside the scope of the project
<ul style="list-style-type: none"> <li>• Social security (included in the scope of the CP)</li> <li>• Social assistance (included in the scope of the CP)</li> </ul>	<ul style="list-style-type: none"> <li>• Benefits provided to entities rather than individuals or households (for example, grants to charities or grants to companies to promote economic regeneration)</li> <li>• Provision of collective goods and services</li> <li>• Private arrangements (i.e., transactions between a public sector entity and one individual or household)<sup>2</sup></li> <li>• Ad-hoc transfers (for example, in response to disaster relief)</li> <li>• Social transfers in kind that do not address social risks (for example, recreation, cultural or sporting services such as parks, museums and sports facilities)</li> <li>• <i>Universal services such as healthcare.</i></li> </ul>

30. Universal services such as healthcare are italicized as this is the area of difference with GFS. Staff notes that universal education services may not be classified as social benefits within GFS. For example, the European System of Accounts 2010 (ESA) states (in paragraph 22.111) that:

“In principle, education is not included as a risk or need unless it is a support to indigent families with children.”

The other GFS manuals are silent on this matter.

31. The extent of the variance from GFS will vary from country to country, depending on the extent of any universal healthcare.
32. Staff considers that the proposed scope addresses the concerns raised by the CAG members. IPSASB members will recall that CAG members recommended to the IPSASB that the scope of the project should not be expanded, but that the narrow scope of the project in the CP should be maintained. The CAG was concerned that expanding the scope of the project, as proposed at the June meeting, would make the project more complex and less manageable.

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<sup>2</sup> These arrangements are described as individual arrangements in GFS; staff has instead used the term “private arrangements” to avoid confusion with the use of individuals and households in the definitions.

**Decisions required**

33. Does the IPSASB support the staff proposals regarding the scope of the project, and the definitions of social benefits and social risks?
34. If so, should the guidance on the definitions be included as part of the definitions or included elsewhere in the ED?

# Agenda Item

## 7.2.2

### Obligating Event

#### Questions

1. The IPSASB is asked to agree the points at which an obligating event might arise under the obligating event approach.

#### Detail

2. Respondents were asked to comment on the points (identified by the IPSASB) at which an obligating event might arise under 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.

3. Staff's summary of the responses to SMC 4 is included in Agenda Item 7.3.1 [below](#).
4. At its June 2016 meeting, the IPSASB tentatively decided that a future ED should recognize that the obligating event will be dependent on the nature of the social benefit or the legal framework under which the benefit arises. This was in line with the majority of responses to the CP.
5. This Agenda Item considers which of the obligating events should be included in a future ED on social benefits.

#### *Respondents' views*

6. The following table summarizes respondents' views on the obligating events included in the CP:

Obligating event	Support	Do not support	Did not comment	Total
(a) Key participatory events have occurred	10	21	5	36
(b) Threshold eligibility criteria have been satisfied	18	14	4	36
(c) The eligibility criteria to receive the next benefit have been satisfied	23	8	5	36
(d) A claim has been approved	13	17	6	36
(e) A claim is enforceable	9	21	6	36

7. Further details of the responses received are included in [Appendix A](#) to this Agenda Item.
8. The reasons given by respondents for supporting, or not supporting, a particular obligating event are provided in [Appendix B](#) to this Agenda Item, and referenced in the discussion of each obligating event below.
9. As reported at the IPSASB's June 2016 meeting, most respondents agree that a range of obligating events will need to be included in an ED to reflect the different natures of social benefits or the legal frameworks under which they arise. Despite this, the table above highlights that there is little consensus as to what that range of obligating events should be.
10. For this reason, this Agenda Item focuses on analyzing the various obligating events by reference to the Conceptual Framework, while noting respondents' comments where these provide evidence about a particular obligating event or raise other matters that require consideration.

#### *Recognition of social benefits under GFS*

11. In developing the CP, the IPSASB agreed the recognition and measurement of social benefits should not be aligned with GFS. This is because, under GFS, an expense is recorded only when the payment of the benefits is due. Some information about obligations for future social benefit payments is provided as a memorandum item. The IPSASB did not consider that this approach is consistent with the Conceptual Framework.
12. Extracts from the various statistical reporting manuals covering the treatment of social benefits are included in [Appendix C](#) to this Agenda Item.

#### *Conceptual Framework*

13. In considering the merits of the various possible obligating events, the following provisions of the IPSASB's Conceptual Framework need to be considered.
  - (i) Definition of a liability and associated recognition criteria.
14. The Conceptual Framework defines a liability as:

*A present obligation of the entity for an outflow of resources that results from a past event.* [Paragraph 5.14]

15. The present obligation may be a legally binding obligation (legal obligation), or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Where an obligation is a legal obligation, the Conceptual Framework notes that:

Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability. [Paragraph 5.22]

16. The Conceptual Framework sets out the recognition criteria for liabilities (and other elements) in paragraphs 6.2–6.3:

6.2 The recognition criteria are that:

- An item satisfies the definition of an element; and
- Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

6.3 All items that satisfy the recognition criteria are recognized in the financial statements. In some circumstances, an IPSAS may also specify that, to achieve the objectives of financial reporting, a resource or obligation that does not meet the definition of an element is to be recognized in the financial statements provided it can be measured in a way that meets the qualitative characteristics and constraints. Other resources and other obligations are discussed in Chapter 5, Elements in Financial Statements.

17. Unlike earlier definitions of a liability and their associated recognition criteria, the Conceptual Framework does not refer to standardized probability threshold criteria in determining whether to recognize a liability. In paragraph BC6.5 of the Conceptual Framework, the IPSASB noted that:

The IPSASB formed a view that the adoption of thresholds for recognition purposes risks omitting information that is relevant and faithfully representative, because similar information items may be treated in different ways dependent upon relatively small differences in the probability of a flow of benefits.

18. A consequence of this approach is that obligations that may previously have been disclosed as contingent liabilities, because it was less likely than not that there would be an outflow of resources will now be recognized as liabilities, with the probability of an outflow of resources forming part of the measurement of the liabilities.

(ii) Qualitative characteristics (QCs) and constraints on information

19. The second recognition criteria is that an item can be measured in a way that achieves the qualitative characteristics (QCs) and takes account of constraints on information in GPFRs. The following paragraphs identify, at a high level, how the QCs and constraints relate to social benefits.
20. Financial and non-financial information is **relevant** if it is capable of making a difference in achieving the objectives of financial reporting. Information may have confirmatory value, predictive value, or both. Information may be relevant even if some users choose not to take advantage of it or are already aware of it. Staff considers that information about social benefits will be relevant, but notes that that mix of confirmatory information and predictive information will vary from obligating event to obligating event.

21. Information should be a **faithful representation** of the economic and other phenomena that it purports to represent. This involves depicting social benefits in a manner that is complete, neutral, and free from material error. Information should depict the substance of a social benefit, which may not be the same as its legal form.
22. The information presented in the financial statements should be **understandable**, and should respond to the needs and knowledge base of users, and to the nature of the information presented. Some possible obligating events will require more complex measurement techniques, such as actuarially-based calculations, than others. However, the Conceptual Framework also notes that information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.
23. For information to be useful for accountability and decision-making purposes, information will need to be **comparable**. This will need to be addressed in an ED by providing guidance that results in the same obligating event approach being used to recognize and measure similar social benefits, with different obligating events only being used where the social benefits are dissimilar.
24. Users will need information that is **timely** and **verifiable**. Staff considers that these needs will be dependent on the systems used to collect and process data rather than the choice of obligating event. Staff acknowledges, however, that some possible obligating events are likely to require more complex measurement techniques, and require more data. This will place greater demands on the systems and on preparers.
25. **Materiality** depends on both the nature and amount of the item judged in the particular circumstances of each entity. Staff considers that information about social benefits is likely to be material, due to the nature of social benefits and their significance (in terms of amounts) for most entities that provide them.
26. Providing information about social benefits will incur a cost for preparers. Where complex measurement techniques such as actuarial reports are required, this will increase the cost. The **cost-benefit** constraint requires that these costs do not outweigh the benefits of the information provided to users of the financial statements. Staff considers that, because of the importance of social benefits to users and to the entities that provide them, this constraint is likely to be met.
27. In some cases, a **balance between the qualitative characteristics** may be required. For example, relevance and faithful representation may require complex measurement techniques that reduce understandability. Similar considerations will need to be taken into account when considering the presentation and disclosure of social benefits (see Agenda Item [7.2.3](#)).

#### *Obligating events*

28. The following paragraphs discuss the different obligating events with regards to the respondents' comments and the provisions of the Conceptual Framework.
29. As noted in paragraph 4, the IPSASB has tentatively decided that a future ED should recognize that the obligating event will be dependent on the nature of the social benefit or the legal framework under which the benefit arises. The discussion of the obligating events below is not intended to assess whether an obligating event could be applied to all social benefits, but whether there is a subset of social benefits for which a particular obligating event may be appropriate. Once the IPSASB has agreed which obligating events should be included in a future ED, guidance will need to be developed



as to when each obligating event should be applied. Such guidance will need to reflect the differing legal and jurisdictional aspects of social benefits.

30. In commenting on the obligating events identified in the CP, a number of respondents asked whether a liability can arise over time, rather than at a single point in time (which was the approach suggested by the obligating events discussed in the CP). The possibility of a liability accruing over time is discussed after the obligating events identified in the CP have been considered.
31. At its June 2016 meeting, the IPSASB also requested that staff consider the impact of the different obligating events on preparers and users of the financial statements. Staff was also instructed to consider the different public interest lenses that will be addressed by the different obligating events. Staff considers that, in general, this issue is covered in the discussion of the QCs and constraints above. Where specific issues arise in respect of a particular obligating event, these are discussed in the analysis of that obligating event.

(a) Key participatory events have occurred

32. Respondents provided their reasons for supporting, or not supporting, the 'key participatory events have occurred' obligating event. These reasons are summarized in [Appendix B](#) to this Agenda Item.
33. The first question to consider is whether this obligating event can give rise to an item that meets the definition of a liability, i.e., a present obligation of the entity for an outflow of resources that results from a past event.
34. Obligations may be legal obligations or non-legally binding obligations. Staff notes that the key participatory events have occurred obligating event occurs prior to all eligibility criteria being met. As such, this obligating event will not give rise to a legal obligation.
35. For this obligating event to give rise to a non-legally binding obligation, an entity would have to have little or no realistic alternative to avoid settling the obligation. This would require:
  - (a) The entity to have indicated (including by past practice) that it would provide a social benefit;
  - (b) This indication to give rise to a valid expectation on the part of the potential recipients that the entity would provide the social benefit; and
  - (c) As a result of potential recipients having this valid expectation, the entity having little or no realistic alternative to providing the social benefit.
36. Some respondents do not consider that a non-legally binding obligation would arise; these respondents considered that an entity would have a realistic alternative to providing the social benefit prior to eligibility criteria being satisfied.
37. Some respondents also consider that benefits that are dependent of criteria being satisfied in the future are not present obligations, but future obligations.
38. Staff notes that, in the absence of eligibility criteria, it will be difficult to identify which key participatory event could give rise to a valid expectation.
39. The IPSASB will need to decide whether this obligating event can give rise to an item that meets the definition of a liability. In light of the factors considered above, staff considers this is unlikely; however, the IPSASB may be able to identify circumstances where the definition of a liability might be satisfied.

40. If the IPSASB considers that this obligating event can give rise to an item that meets the definition of a liability, the second question to consider is whether the item can be measured in a way that achieves the QCs and takes account of constraints.
41. Some respondents suggested that reporting long term liabilities in the statement of financial performance without also including the related revenue would not produce useful information.
42. Staff does not support this assertion, because it appears to regard the social benefit and its related financing as a single phenomenon, and therefore considers that reporting the liability without the financing provides an incomplete picture of an entity's financial position. If this were the case, the QC of faithful representation would not be met.
43. However, staff notes that this issue will often arise for social benefits financed through general taxation. Staff considers that the social benefit and the taxation are separate phenomena, and should not be combined. This view is supported by the fact that, in many jurisdictions, the entity that provides the social benefits will not be the entity that receives the taxation revenue. The recognition of a liability in one entity should not be dependent on the recognition of a different asset in another entity.
44. Some respondents noted that, because it would be difficult to determine when this obligating event would take place, any estimates will require significant judgment, which may affect the comparability of the information.
45. Staff acknowledges this issue, but notes that similar difficulties arise in the IPSASB's existing literature, in particular employee benefits. Staff has concluded that, if the IPSASB considers that this obligating event can give rise to an item that meets the definition of a liability, it is likely that the item can be measured in a way that achieves the QCs and takes account of constraints.
46. Staff also notes that, under the Conceptual Framework, measurement uncertainty is dealt with as part of measurement and does not affect recognition. There is no longer a standardized probability threshold criteria in determining whether to recognize a liability (see paragraphs 17 and 18 of this Issues Paper).

#### Comparison with insurance approach

47. In discussing the responses at its June 2016 meeting, the IPSASB also noted that there may be parallels between the key participatory events obligating event and the coverage period under the insurance approach. Staff notes that there are similarities, in that the commencement of the coverage period is the point at which a liability (or asset) would be recognized even if an individual or household was not yet eligible to receive a benefit. Under the key participatory events obligating event, a liability will be recognized prior to all eligibility criteria being satisfied.
48. However, there are also differences:
  - The insurance approach is only applicable to contributory schemes, whereas key participatory events could form the recognition point for non-contributory schemes as well.
  - The coverage period may explicitly include a point beyond which eligibility for the benefit cannot arise. This will not be the case for key participatory events, although it may be implicit in the measurement of a particular benefit.

- The insurance approach includes future contributions in its measurement. The IPSASB has yet to consider how future contributions would be included under the obligating event approach, but it is possible that the recognition of revenue would be different.
- The insurance approach includes all future payments and receipts in measuring the liability (or asset). This approach may be different to the approach under obligating event approach if the IPSASB agrees that a liability might arise over time rather than at a single point (see paragraphs 74–83). Under the insurance approach, recognition is at a single point (the commencement of the coverage period).

49. In light of the differences identified, staff does not propose to investigate these parallels further.

(b) Threshold eligibility criteria have been satisfied

50. Respondents provided their reasons for supporting, or not supporting, the ‘threshold eligibility criteria have been satisfied’ obligating event. These reasons are summarized in [Appendix B](#) to this Agenda Item.
51. This analysis only considers social benefits that will be provided on more than one occasion; where a benefit will only be provided once, this obligating event will be the same as the eligibility criteria to receive the next benefit have been satisfied (discussed below).
52. The first question to consider is whether this obligating event can give rise to an item that meets the definition of a liability, i.e., a present obligation of the entity for an outflow of resources that results from a past event.
53. Obligations may be legal obligations or non-legally binding obligations. This obligating event may give rise to a legal obligation where a beneficiary is not required to undertake any further actions or to meet any further eligibility criteria once the threshold eligibility criteria have been satisfied.
54. Some respondents consider revalidation is a recognition issue, and in some cases consider that staying alive is an implicit eligibility criteria. Staff does not consider that this view is consistent with the conceptual framework; paragraph 5.21 of the Conceptual Framework notes that claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.
55. Where a beneficiary is not required to undertake any further actions or to meet any further criteria, it is possible that this obligating event could give rise to a non-legally binding obligation. Staff has not investigated this further, as staff considers that the fact that there will be circumstances in which this obligating event may give rise to a legal obligation is sufficient to conclude that this obligating event can give rise to an item that meets the definition of a liability.
56. The second question to consider is whether the item can be measured in a way that achieves the QCs and takes account of constraints.
57. Some respondents suggested that reporting long term liabilities in the statement of financial performance without also including the related revenue would not produce useful information. Staff does not support this view for the reasons given in paragraphs 42 and 43 of this Issues Paper.
58. Respondents did not raise the same issues regarding measurement uncertainty and comparability with this obligating event that they raised with the key participatory events have occurred obligating event. Staff considers that, where that this obligating event gives rise to an item that meets the

definition of a liability, that item can be measured in a way that achieves the QCs and takes account of constraints.

59. [Respondent 31](#) comments 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. Staff's view is that this respondent considers that the public interest is best served by reporting benefits provided during the year (for example, pensions paid in the year) rather than by recognizing a liability for future periods.
60. Staff notes that this approach would be inconsistent with the Conceptual Framework; the QC of faithful representation would not be met if items that satisfy the definition of a liability and meet the recognition criteria are omitted from the financial statements.
61. Staff considers that the public interest is best served by reporting all liabilities that meet the recognition criteria. Staff acknowledges that information about the level of social benefits provided in the year will be useful information, but does not consider that this justifies not recognizing liabilities. Staff considers that this information will be available or can be provided elsewhere; for example, some information will be provided in the cash flow statement.

(c) The eligibility criteria to receive the next benefit have been satisfied

62. Respondents provided their reasons for supporting, or not supporting, the 'eligibility criteria to receive the next benefit have been satisfied' obligating event. These reasons are summarized in [Appendix B](#) to this Agenda Item.
63. The first question to consider is whether this obligating event can give rise to an item that meets the definition of a liability, i.e., a present obligation of the entity for an outflow of resources that results from a past event.
64. Obligations may be legal obligations or non-legally binding obligations. This obligating event may give rise to a legal obligation where any requirements regarding the approval of a claim are merely administrative, and do not require the entity to exercise judgment. Where an entity is required to exercise judgment in approving a claim, this obligating event may give rise to a non-legally binding obligation. The majority of respondents consider that this obligating event will be appropriate for some social benefits, typically those where additional eligibility criteria have to be satisfied each time a benefit is provided.
65. The second question to consider is whether the item can be measured in a way that achieves the QCs and takes account of constraints. Respondents did not identify any issues with measuring social benefits using this obligating event, and staff considers that an item meeting the definition of a liability will be capable of being measured in a way that achieves the QCs and takes account of constraints.

(d) A claim has been approved

66. Respondents provided their reasons for supporting, or not supporting, the 'claim has been approved' obligating event. These reasons are summarized in [Appendix B](#) to this Agenda Item.
67. The first question to consider is whether this obligating event can give rise to an item that meets the definition of a liability, i.e., a present obligation of the entity for an outflow of resources that results from a past event. Where a claim has been approved, this is likely to give rise to a legal obligation.

68. The second question to consider is whether the item can be measured in a way that achieves the QCs and takes account of constraints. Respondents did not identify any issues with measuring social benefits using this obligating event, and staff considers that an item meeting the definition of a liability will be capable of being measured in a way that achieves the QCs and takes account of constraints.
69. The major concern raised by a number of respondents regarding this obligating event was that they consider that an obligating event would always occur earlier than the approval of a claim. These respondents consider that requiring the claim to be approved runs contrary to the definition of a liability in the Conceptual Framework that acknowledges that a liability can arise from non-legally binding obligations.
70. Respondents also considered that, from a public interest perspective, this obligating event would not provide a complete depiction of social benefits as it would omit items that met the definition of a liability, and so would not meet the QC of faithful representation.

(e) A claim is enforceable

71. Respondents provided their reasons for supporting, or not supporting, the 'claim is enforceable' obligating event. These reasons are summarized in [Appendix B](#) to this Agenda Item.
72. This obligating event gives rise to an item that meets the definition of a liability that can be measured in a way that achieves the QCs and takes account of constraints for the same reasons as for the claim has been approved obligating event.
73. This obligating event had little support from respondents. The concerns regarding delaying recognition of a liability and the incompleteness of the information raised in respect of the claim has been approved obligating event are seen as even more significant for this obligating event.

(f) A liability accrues over time

74. As noted in paragraph 30 above, a number of respondents consider that a liability may accumulate over time rather than occur at a single point in time. These responses are summarized in [Appendix B](#) to this Agenda Item.
75. For example, a contributory retirement plan may have been established with regulations that entitle a participant to a pension, proportionate to the level of contributions made; a pension will be payable in future even if only one contribution has been made. Each contribution made could be seen as establishing an eligibility for a proportionate future pension that will only vest once the participant reaches retirement age.
76. Staff notes that there may be similarities with the treatment of defined benefit schemes under IPSAS 25 (soon to be IPSAS 39). Under IPSAS 25, a liability is recognized as service is delivered, even though those benefits may not vest until some point in the future. A comparison of the features of a defined benefit scheme and the features of a social benefit where a liability may accrue over time is provided in [Appendix D](#) to this Agenda Item.
77. The first question to consider is whether this obligating event can give rise to an item that meets the definition of a liability, i.e., a present obligation of the entity for an outflow of resources that results from a past event.

78. Obligations may be legal obligations or non-legally binding obligations. In a limited number of schemes, the payment of contributions may give rise to a legal obligation, albeit one that will not vest until some point in the future.
79. Where the payment of contributions does not give rise to a legal obligation, the IPSASB will need to decide whether non-legally binding obligations can accrue over time. Staff considers that the issues to be considered will be similar to those for the key participatory events have occurred obligating event (see paragraphs 35–39 above).
80. The second question to consider is whether the item can be measured in a way that achieves the QCs and takes account of constraints.
81. Staff considers that, where the payment of contributions satisfies the eligibility criteria and gives rise to a legal obligation, it will be possible to measure the accumulating liability in a way that achieves the QCs and takes account of constraints.
82. If the IPSASB decides that non-legally binding obligations can accrue over time, staff considers that it is likely that the item can be measured in a way that achieves the QCs and takes account of constraints, for similar reasons to those given for the key participatory events have occurred obligating event (see paragraphs 40–46 above).
83. Staff notes that accruing a liability over time may partially address some of the public interest concerns raised by some respondents. One issue raised is that recognizing a liability without the matching funding does not provide useful information. Although staff does not agree with this concern, staff notes that where a liability is accrued over time, the liability recognized in a period will be directly related to the contributions received – and presumably recognized as revenue – in the same period.

*Staff conclusions*

84. Based on the analysis of each obligating event above, staff does not support the inclusion of the *key participatory events have occurred* obligating event in a future ED. Staff does not consider that this obligating event will give rise to an item that meets the definition of a liability.
85. Staff considers that the other obligating events discussed above - threshold eligibility criteria have been satisfied; eligibility criteria to receive the next benefit have been satisfied; claim has been approved; claim is enforceable; and a liability accrues over time may, depending on the nature of the social benefit, give rise to an item that meets the definition of a liability and that can be measured in a way that achieves the QCs and takes account of constraints.
86. Staff agrees with the comments made by respondents that an obligating event will usually have occurred prior to a claim being approved or becoming enforceable; staff considers that these obligating events are effectively subsets of the eligibility criteria to receive the next benefit have been satisfied obligating event, where the eligibility criteria include a requirement that the claim is approved, or that the claim is enforceable.
87. Staff considers that these obligating events can be encapsulated by a single recognition principle for social benefits – a liability for a social benefit should be recognized when all the eligibility criteria have been met. There would then be three groups of transactions, with different eligibility criteria, as shown in the table below:

Type of eligibility criteria	Examples
Eligibility criteria are satisfied, and liabilities accrue, over time but entitlement to the benefit has not vested.	Contributory retirement benefits where the benefits are directly proportional to the contributions received, and not dependent on any other criteria.
Threshold eligibility criteria have been satisfied.	Retirement benefits awarded based on residence at retirement age and no further eligibility criteria.
Eligibility criteria to receive the next benefit have been satisfied.	Benefits with ongoing eligibility criteria, such as unemployment benefits.

88. Preparers will need guidance on determining which eligibility criteria should be applied when considering a social benefit. A draft decision tree is included at [Appendix E](#) to this Agenda Item.

### Decisions required

89. Does the IPSASB support the staff proposals that:
- (a) A liability and an expense for a social benefit should be recognized when the eligibility criteria have been met; and
  - (b) There are three categories of eligibility criteria for social benefits:
    - (i) Eligibility criteria are satisfied but entitlement to the benefit has not vested;
    - (ii) Threshold eligibility criteria have been satisfied; and
    - (iii) Eligibility criteria to receive the next benefit have been satisfied.
90. If the IPSASB does not support the staff proposals, the IPSASB is asked to agree which obligating events should be included in a future ED, or alternatively to agree what additional research is required.

## Appendix A to Agenda Item 7.2.2

### Obligating events supported by respondents

The following table shows, in staff's opinion, which respondents support, or do not support, each obligating event.

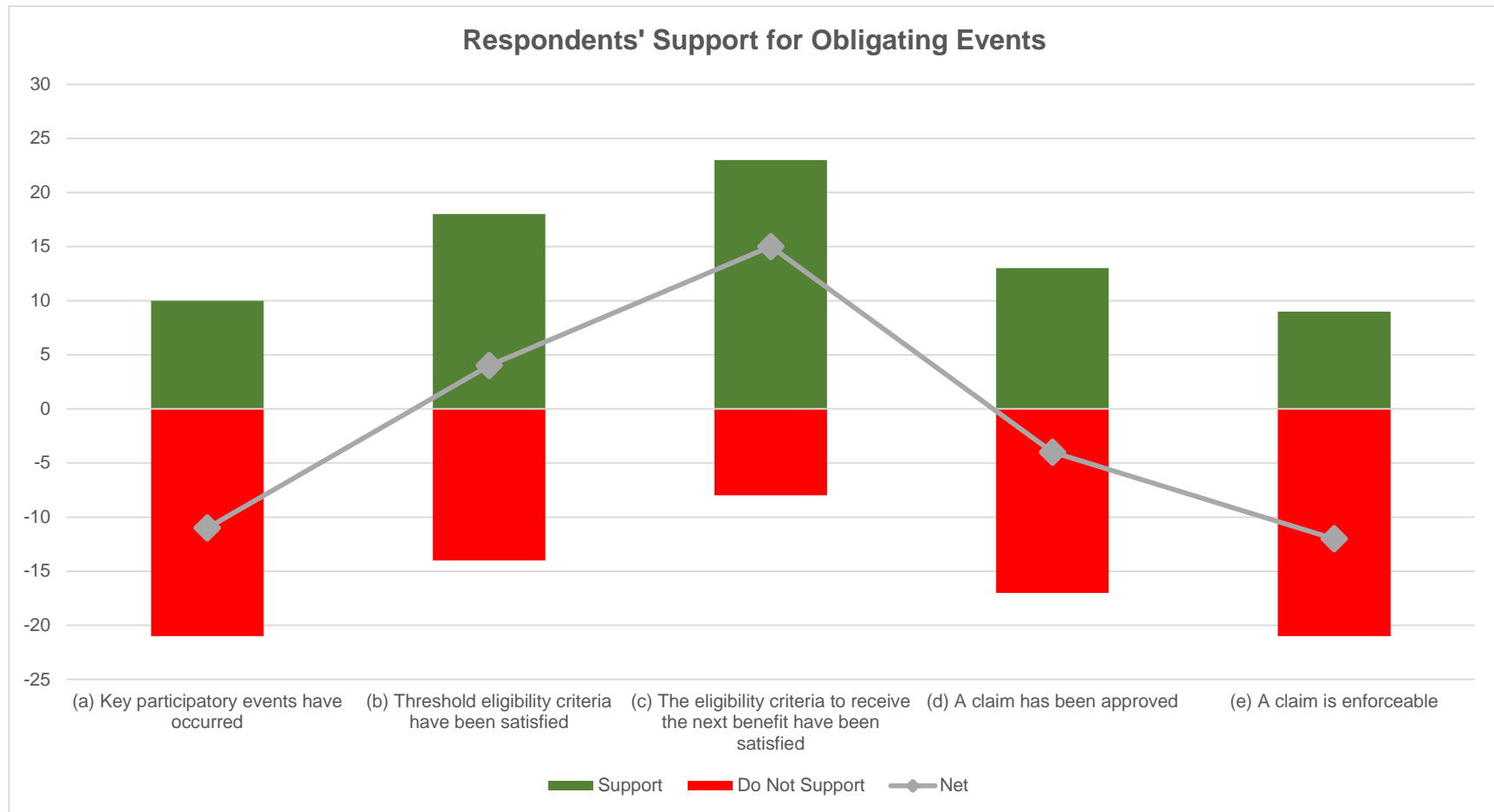
Obligating event	Support Respondent #s	Do not support Respondent #s	No comment / do not support approach Respondent #s
<b>(a) Key participatory events have occurred</b>	02, 07, 11, 12, 14, 18, 22, 26, 34, 36 <b>(Number of Respondents: 10)</b>	01, 03, 04, 06, 08, 09, 10, 13, 16, 19, 20, 21, 23, 25, 27, 28, 29, 30, 31, 33, 35 <b>(Number of Respondents: 21)</b>	05, 15, 17, 24, 32 <b>(Number of Respondents: 5)</b>
<b>(b) Threshold eligibility criteria have been satisfied</b>	02, 08, 09, 10, 11, 12, 14, 16, 18, 20, 22, 26, 28, 29, 32, 33, 34, 36 <b>(Number of Respondents: 18)</b>	01, 03, 04, 06, 07, 13, 19, 21, 23, 25, 27, 30, 31, 35 <b>(Number of Respondents: 14)</b>	05, 15, 17, 24 <b>(Number of Respondents: 4)</b>
<b>(c) The eligibility criteria to receive the next benefit have been satisfied</b>	01, 02, 03, 08, 09, 10, 11, 12, 16, 19, 20, 21, 22, 23, 26, 27, 28, 29, 30, 31, 32, 33, 35 <b>(Number of Respondents: 23)</b>	04, 06, 07, 13, 18, 25, 34, 36 <b>(Number of Respondents: 8)</b>	05, 14, 15, 17, 24 <b>(Number of Respondents: 5)</b>
<b>(d) A claim has been approved</b>	02, 03, 04, 08, 09, 12, 16, 19, 22, 25, 27, 30, 35 <b>(Number of Respondents: 13)</b>	01, 06, 07, 10, 11, 13, 18, 20, 21, 23, 26, 28, 29, 31, 33, 34, 36 <b>(Number of Respondents: 17)</b>	05, 14, 15, 17, 24, 32 <b>(Number of Respondents: 6)</b>
<b>(e) A claim is enforceable</b>	02, 06, 13, 22, 25, 26, 27, 34, 35 <b>(Number of Respondents: 9)</b>	01, 03, 04, 07, 08, 09, 10, 11, 12, 16, 18, 19, 20, 21, 23, 28, 29, 30, 31, 33, 36 <b>(Number of Respondents: 21)</b>	05, 14, 15, 17, 24, 32 <b>(Number of Respondents: 6)</b>

Further details can be found in staff's comments to the responses to SMC 4 (see Agenda Item [7.3.1](#)).



The following chart shows

- (a) The number of respondents who support a particular obligating event in green, as a positive number;
- (b) The number of respondents who do not support a particular obligating event in red, as a negative number; and
- (c) The net support (positive numbers) or lack of support (negative numbers) for a particular obligating event, as a line.



Social Benefits (Obligating events supported by respondents)  
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The following diagram illustrates, in staff's opinion, which obligating events are supported by each respondent (green shading). The diagram has been grouped by the obligating events supported, starting with the earliest recognition points.

Respondent #	(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
07					
14					
18					
36					
11					
34					
12					
26					
02					
22					
10					
20					
28					
29					
32					
33					
08					
09					
16					
01					
21					
23					
31					
03					
19					
30					
27					
35					
04					
25					
06					
13					
05					
15					
17					
24					

## Appendix B to Agenda Item 7.2.2

### Reasons given by respondents for supporting, or not supporting, a particular obligating event

- The reasons given by respondents for supporting, or not supporting, a particular obligating event are summarized, along with staff's comments, below.

(a) *Key participatory events have occurred*

- Respondents provided the following reasons for **supporting** the inclusion of "key participatory events have occurred" as an obligating event in a future ED.

Reasons given by respondents	Staff comments
<a href="#">Respondent 07</a> , <a href="#">Respondent 12</a> and <a href="#">Respondent 22</a> consider that an obligation that the entity has little or no discretion to avoid may arise when the key participatory event occurs. Respondent 07 adds that the events should be "necessary and sufficient" to result in a liability.	Staff considers that, in all these cases, respondents are providing examples of situations in which they consider an obligation will satisfy the Conceptual Framework definition of a liability once the relevant key participatory event has occurred.  Staff notes that, in doing so, these respondents implicitly consider that revalidation requirements do not affect recognition.
<a href="#">Respondent 11</a> considers that this recognition point may be appropriate for schemes where the occurrence of one specific event should lead to the recognition of the social benefit liability and the related expense at one point in time.	
<a href="#">Respondent 14</a> comments that 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, the establishment of which will constitute an obligating event.	
<a href="#">Respondent 26</a> suggests that an entity should recognize a liability where 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. This may be when a key participatory event has occurred.	

- Respondents provided the following reasons for **not supporting** the inclusion of "key participatory events have occurred" as an obligating event in a future ED.

Reasons given by respondents	Staff comments
<i>Objectives of financial reporting and qualitative characteristics</i>	
<a href="#">Respondent 04</a> considers that this recognition point may produce financial information that is useful for long-term sustainability reporting, but not for the financial statements.	Staff considers that the IPSASB will need to consider the balance

Reasons given by respondents	Staff comments
<p><a href="#">Respondent 08</a> and <a href="#">Respondent 31</a> consider that recognizing a liability at this point would only produce useful information if future revenue streams are also recognized. Respondent 31 also comments that 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.</p>	<p>between the QCs, the recognition criteria for liabilities and the objectives of financial reporting. These respondents have highlighted some of the issues the IPSASB will need to take into account.</p>
<p><a href="#">Respondent 27</a> considers that this recognition point the option is not compatible with requirements of the Conceptual Framework concerning qualitative characteristics (relevance, verifiability etc.).</p>	
<p><a href="#">Respondent 33</a> comments that “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.”</p>	<p>Staff accepts that this may be an issue that affects the responses to a future ED. However, staff considers that political issues should not override users’ needs, if it is shown these are met by recognizing liabilities at this recognition point.</p>
<p><i>No past event has occurred</i></p>	
<p><a href="#">Respondent 01</a>, <a href="#">Respondent 03</a> and <a href="#">Respondent 04</a> consider that benefits, whose rights depend on the satisfaction of criteria by the beneficiary in subsequent periods, are not present obligations of the current period. These respondents implicitly consider that revalidation affects recognition.</p>	<p>The issues raised by these respondents reflect the debate in the CP as to whether an obligating event can occur before eligibility criteria have been met.</p> <p>In developing an ED, the IPSASB will need to form a view on this matter.</p>
<p><a href="#">Respondent 09</a> considers that a key participatory event does not give rise to an obligating event. However, they note that there may be a correlation between “key participatory events” and the “beginning of the coverage period” outlined in the insurance approach.</p>	
<p><a href="#">Respondent 23</a> considers that this recognition point could lead to premature recognition of social benefits. This respondent considers eligibility criteria must have been met.</p>	
<p><a href="#">Respondent 28</a> questions whether a past event from which a present obligation arises has occurred.</p>	

Reasons given by respondents	Staff comments
<p><a href="#">Respondent 06</a>, <a href="#">Respondent 13</a> and <a href="#">Respondent 31</a> comment that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power. These respondents argue that, at this stage, there is only a political obligation to provide the benefit.</p>	<p>Paragraph 5.22 of the Conceptual Framework states that “Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.”</p>
<i>Estimation difficulties</i>	
<p><a href="#">Respondent 27</a> comments that it is difficult to derive the exact point in time for when an obligation arises.</p>	<p>Staff accepts that the key participatory event sub-option requires significant estimation and is likely to involve the use of actuarial approaches. This would be consistent with the approach to defined benefit schemes in IPSAS 25, <i>Employee Benefits</i>, which covers similar transactions.</p> <p>Paragraph 3.18 of the Conceptual Framework states that “information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.”</p>
<p><a href="#">Respondent 28</a> comments that the level of estimates and assumptions mean the resulting liability would provide little in the way of meaningful information.</p>	
<p><a href="#">Respondent 33</a> comments that the extent of estimation will also potentially affect the comparability between jurisdictions, and 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.</p>	

*(b) Threshold eligibility criteria have been satisfied*

- Respondents provided the following reasons for **supporting** the inclusion of “threshold eligibility criteria have been satisfied” as an obligating event in a future ED.

Reasons given by respondents	Staff comments
Objectives of financial reporting and qualitative characteristics	
<a href="#">Respondent 10</a> considers that this recognition point will provide information that is useful for accountability and decision-making purposes.	Staff considers that the IPSASB will need to consider the balance between the QCs, the recognition criteria for liabilities and the objectives of financial reporting.
<a href="#">Respondent 33</a> considers that this option will have a recognition point that is most consistent with the Conceptual Framework.	
Revalidation is a measurement issue	
<a href="#">Respondent 08</a> considers that this recognition point is suitable for non-contributory, non-means tested benefits; the respondent appears to consider that revalidation may affect recognition, but that staying alive is not an implicit eligibility criteria.	Staff notes these comments, particularly in respect of age. Paragraph 5.21 of the Conceptual Framework may be relevant in this respect: “Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.”
<a href="#">Respondent 12</a> states that they do not agree that age should be treated as a threshold eligibility criterion similar to other eligibility criteria.	
<a href="#">Respondent 29</a> considers that revalidation is a measurement issue, not a recognition issue.	
A past event has occurred	
<a href="#">Respondent 09</a> considers that, for recurring cash payments, once a beneficiary become eligible, this creates a valid expectation that the benefits will continue to be paid until death.	The issues raised by these respondents reflect the debate in the CP as to when an obligating event occurs, and whether the
<a href="#">Respondent 12</a> considers that an obligating event may occur when eligibility criteria are met.	

Reasons given by respondents	Staff comments
<a href="#">Respondent 26</a> suggests that an entity should recognize a liability where 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. This may be when threshold eligibility criteria are satisfied.	liability is for all future benefit or not.  In developing an ED, the IPSASB will need to form a view on this matter.
<a href="#">Respondent 29</a> considers that the satisfaction of the threshold eligibility criteria could be regarded as the main past event.	

5. [Respondent 11](#) and [Respondent 21](#) provided additional comments that raised issues that may need to be included in guidance if the IPSASB includes this recognition point in a future ED.
6. Respondents provided the following reasons for **not supporting** the inclusion of “threshold eligibility criteria have been satisfied” as an obligating event in a future ED.

Reasons given by respondents	Staff comments
<i>Objectives of financial reporting and qualitative characteristics</i>	
<a href="#">Respondent 04</a> considers that this recognition point may produce financial information that is useful for long-term sustainability reporting, but not for the financial statements.	Staff considers that the IPSASB will need to consider the balance between the QCs, the recognition criteria for liabilities and the objectives of financial reporting. These respondents have highlighted some of the issues the IPSASB will need to take into account.
<a href="#">Respondent 27</a> considers that this recognition point the option is not compatible with requirements of the Conceptual Framework concerning qualitative characteristics (relevance, verifiability etc.). Respondent 27 does not see the differences between this sub-option and key participatory events have occurred.	
<a href="#">Respondent 31</a> considers that recognizing a liability at this point would only produce useful information if future revenue streams are also recognized. Respondent 31 also comments that 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.	
<i>Revalidation is a recognition issue</i>	
<a href="#">Respondent 01</a> , <a href="#">Respondent 03</a> and <a href="#">Respondent 04</a> implicitly consider that revalidation affects recognition.	These comments reflect the discussion in the CP about revalidation. For comments on age as an eligibility criteria, see comment <a href="#">above</a> .
<a href="#">Respondent 31</a> considers that revalidation affects recognition; this respondent also considers that staying alive is part of revalidation.	
<i>No past event has occurred</i>	

Reasons given by respondents	Staff comments
<a href="#">Respondent 01</a> , <a href="#">Respondent 03</a> and <a href="#">Respondent 04</a> consider that benefits, whose rights depend on the satisfaction of criteria by the beneficiary in subsequent periods, are not present obligations of the current period.	The issues raised by these respondents reflect the debate in the CP as to when an obligating event occurs, and whether the liability is for all future benefits or not.
<a href="#">Respondent 23</a> considers that this recognition point could lead to premature recognition of social benefits. This respondent considers eligibility criteria must have been met.	In developing an ED, the IPSASB will need to form a view on this matter.
<a href="#">Respondent 06</a> , <a href="#">Respondent 13</a> and <a href="#">Respondent 31</a> comment that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power. These respondents argue that, at this stage, there is only a political obligation to provide the benefit.	See comments on sovereign power <a href="#">above</a> .
<i>Past event has already occurred</i>	
<a href="#">Respondent 07</a> considers that an obligation that the entity has little or no discretion to avoid arises when the key participatory event occurs; recognition at a later point understates the liabilities.	This issue reflects the debate in the CP as to when an obligating event occurs

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

7. Respondents provided the following reasons for **supporting** the inclusion of “eligibility criteria to receive the next benefit have been satisfied” as an obligating event in a future ED.

Reasons given by respondents	Staff comments
<i>Objectives of financial reporting and qualitative characteristics</i>	
<a href="#">Respondent 31</a> considers that 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.	Staff considers that the IPSASB will need to consider the balance between the QCs, the recognition criteria for liabilities and the objectives of financial reporting.
<i>Revalidation is a recognition issue</i>	



Reasons given by respondents	Staff comments
<a href="#">Respondent 08</a> considers that this recognition point is suitable for means tested benefits; the respondent appears to consider that revalidation may affect recognition, but that staying alive is not an implicit eligibility criteria.	These comments reflect the discussion in the CP about revalidation.
<i>A past event has occurred</i>	
<a href="#">Respondent 09</a> considers that the satisfaction of eligibility criteria may give rise to an obligating event, particularly in the case of benefits provided in kind.	The issues raised by these respondents reflect the debate in the CP as to when an obligating event occurs, and whether the liability is for all future benefit or not.  In developing an ED, the IPSASB will need to form a view on this matter.
<a href="#">Respondent 11</a> comments that where the obligation is created over time this should trigger recognition of the social benefit liability and of the related expense over time as well	
<a href="#">Respondent 14</a> considers that 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, the establishment of which will constitute an obligating event.	
<a href="#">Respondent 26</a> suggests that an entity should recognize a liability where 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. This may be when eligibility criteria to receive the next benefit have been satisfied.	

8. Respondents provided the following reasons for **not supporting** the inclusion of “eligibility criteria to receive the next benefit have been satisfied” as an obligating event in a future ED.

Reasons given by respondents	Staff comments
<i>Revalidation is a measurement issue</i>	
<a href="#">Respondent 09</a> comments that as this sub-option is dependent on revalidation, it may not be appropriate for all benefits.	These comments reflect the discussion in the CP about revalidation.
<i>No past event has occurred</i>	
<a href="#">Respondent 04</a> comments that an entity still has discretion to avoid payment until a claim has been approved.	See comments on sovereign power <a href="#">above</a> .
<a href="#">Respondent 06</a> and <a href="#">Respondent 13</a> comment that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power. These respondents argue that, at this stage, there is only a political obligation to provide the benefit.	

Reasons given by respondents	Staff comments
<a href="#">Respondent 09</a> considers that the distinction between this point and point (d) (claim has been approved) is not always clear. The approval of the claim may be part of determining if an individual is in fact eligible to receive a benefit.	The issues raised by these respondents reflect the debate in the CP as to when an obligating event occurs.
<i>Past event has already occurred</i>	
<a href="#">Respondent 07</a> considers that an obligation that the entity has little or no discretion to avoid arises when the key participatory event occurs; recognition at a later point understates the liabilities.	This issue reflects the debate in the CP as to when an obligating event occurs.

(d) A claim has been approved

9. Respondents provided the following reasons for **supporting** the inclusion of “claim has been approved” as an obligating event in a future ED.

Reasons given by respondents	Staff comments
<i>Revalidation is a recognition issue</i>	
<a href="#">Respondent 08</a> considers that this recognition point may be suitable for some means tested benefits; the respondent appears to consider that revalidation may affect recognition, but that staying alive is not an implicit eligibility criteria.	These comments reflect the discussion in the CP about revalidation.
<i>A past event has occurred</i>	
<a href="#">Respondent 04</a> comments that a valid expectation that leaves the entity little or no discretion to avoid outflow only arises when on approval of claim.	This issue reflects the debate in the CP as to when an obligating event occurs.
<a href="#">Respondent 22</a> comments that this recognition point may be relevant where the benefit is discretionary.	

10. Respondents provided the following reasons for **not supporting** the inclusion of “claim has been approved” as an obligating event in a future ED.

Reasons given by respondents	Staff comments
<i>No past event has occurred</i>	
<a href="#">Respondent 06</a> and <a href="#">Respondent 13</a> comment that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power. These respondents argue that, at this stage, there is only a political obligation to provide the benefit.	See comments on sovereign power <a href="#">above</a> .

Reasons given by respondents	Staff comments
<i>Past event has already occurred</i>	
<a href="#">Respondent 07</a> considers that an obligation that the entity has little or no discretion to avoid arises when the key participatory event occurs; recognition at a later point understates the liabilities.	This issue reflects the debate in the CP as to when an obligating event occurs.
<a href="#">Respondent 07</a> , <a href="#">Respondent 09</a> , <a href="#">Respondent 10</a> and <a href="#">Respondent 11</a> consider that only recognizing claims when they are approved may result in an understatement of liabilities.	
<i>Avoidance of gaming</i>	
<a href="#">Respondent 26</a> notes that under this sub-option, an entity could influence its expense recognition by speeding up or slowing down its approval processing.	This issue reflects the debate as to when an obligating event occurs; gaming is a valid concern.

(e) A claim is enforceable

11. Respondents provided the following reasons for **supporting** the inclusion of “claim is enforceable” as an obligating event in a future ED.

Reasons given by respondents	Staff comments
<a href="#">Respondent 06</a> comments that prior to this point, there is only a political obligation to provide a benefit.	See comments on sovereign power <a href="#">above</a> .

12. Respondents provided the following reasons for **not supporting** the inclusion of “claim is enforceable” as an obligating event in a future ED.

Reasons given by respondents	Staff comments
<i>Objectives of financial reporting and qualitative characteristics</i>	
<a href="#">Respondent 04</a> and <a href="#">Respondent 09</a> comment that recognizing a liability only when a claim is enforceable is not consistent with the concept of accrual accounting.	
<a href="#">Respondent 09</a> comments that that recognizing a liability only when a claim is enforceable does not provide meaningful information to the users of the financial statements.	
<i>Past event has already occurred</i>	
<a href="#">Respondent 07</a> considers that an obligation that the entity has little or no discretion to avoid arises when the key participatory event occurs; recognition at a later point understates the liabilities.	This issue reflects the debate in the CP as to

Reasons given by respondents	Staff comments
<a href="#">Respondent 07</a> , <a href="#">Respondent 09</a> , <a href="#">Respondent 10</a> and <a href="#">Respondent 11</a> consider that only recognizing claims when they are enforceable may result in an understatement of liabilities.	when an obligating event occurs.

*(f) A liability accrues over time*

13. A number of respondents raised an additional issue – whether a liability arises at a point in time or over time. This issue was not discussed in the CP.
14. These respondents supported two approaches to recognizing liabilities. The comments received are summarized in the table below:

Reasons given by respondents	Staff comments
<a href="#">Respondent 11</a> , <a href="#">Respondent 15</a> and <a href="#">Respondent 28</a> note that In certain types of social benefits in specific jurisdictions, the obligation is created over time and should trigger recognition of the social benefit liability and of the related expense over time, rather than at a specific point in time.	Staff considers that the question of whether liabilities arise over time or at a point in time requires further consideration.
<a href="#">Respondent 07</a> and <a href="#">Respondent 29</a> note that under IPSAS 25, liabilities are accrued over time, not delayed until retirement age.	

**Extracts from the statistical reporting manuals covering the accounting for social benefits****Government Finance Statistics Manual 2014**

This manual is available at <http://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>.

*Social assistance*

**A2.29** Typically, social assistance benefits will be recorded on an accrual basis as an expense when all eligibility criteria have been met and the benefits become payable. Although some benefits, such as disability or maternity payments, may be payable over several reporting periods, no liability for the future payments of social assistance benefits should be recorded on the balance sheet of government. Other accounts payable will be recognized only in cases where a benefit accrued but remained unpaid at the end of a reporting period. However, to increase transparency and allow an analysis of the sustainability of social assistance policies, an estimate of the present value of social assistance benefits that have already been earned, according to the existing laws and regulations, but are payable in the future, could be calculated in a manner similar to the liabilities of an employment-related insurance scheme.

*Social security schemes*

**A2.38** Social security schemes are characterized by a degree of contingent reciprocity. Social security contributions secure entitlements to benefits that are contingent on the event underlying the social risk occurring. Nonetheless, the amount and timing of receipts of benefits by beneficiaries (if any) are subject to various eligibility criteria without necessarily a direct relationship between the amount of the contribution payable by an individual and the benefits receivable. Therefore, the link between benefits and contributions is not considered sufficiently strong to give rise to a financial claim on the part of contributors. The potential individual claims of contributors (and therefore the corresponding government obligations) are regarded as contingent. Also, because social security benefits can be changed at will by the government or legislature as part of its overall economic policy, there is uncertainty about the eventual payment or level of payment of these social benefits. As a result, in GFS, no liabilities are associated with the potential future claims on social security schemes. An expense is recorded only when payment of the benefits is due.

**A2.39** However, a high expectation exists that social security benefits earned according to the existing laws will be payable in the future. Therefore, an estimate equal to the net implicit obligations for future social security benefits should be presented as a memorandum item to the Balance Sheet, and details of it presented as a supplementary statement, the *Summary Statement of Explicit Contingent Liabilities and Net Implicit Obligations for Future Social Security Benefits* (see paragraphs 4.47 and 7.261).

## European System of Accounts 2010

This manual is available at <http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-02-13-269>.

**4.106** Time of recording of social benefits other than social transfers in kind (D.62):

- (a) in cash, they are recorded when the claims on the benefits are established;
- (b) in kind, they are recorded at the time the services are provided, or at the time the changes of ownership of goods provided directly to households by non-market producers take place.

## System of National Accounts 2008

This manual is available at <http://unstats.un.org/unsd/nationalaccount/sna2008.asp>.

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

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

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

## Appendix D to Agenda Item 7.2.2

### Comparison of the features of a defined benefit scheme and the features of a social benefit where a liability may accrue over time

Feature	Defined Benefit Scheme	Social Benefit Scheme
<i>Type of transaction</i>	Exchange	Non-exchange
<i>Legal basis</i>	Contract (gives rise to a legal obligation)	Legislation / scheme regulations (gives rise to a legal obligation)
<i>Eligibility criteria</i>	Service (often combined with contributions)	Contributions, possibly linked to residence or similar requirements
<i>Payment of benefits (vesting)</i>	On retirement (determined by contract / scheme regulations)	On retirement (determined by legislation / scheme regulations)
<i>Recognition</i>	Liability accrues over time as services (and contributions) are provided	Liability accrues over time as contributions are provided
<i>Measurement</i>	Actuarial basis (projected unit credit method)	Actuarial basis (to be determined)

The major differences are that a defined benefit scheme is an exchange transaction governed by a contract, whereas a social benefit scheme is a non-exchange transaction governed by legislation. The IPSASB will need to consider whether these differences are sufficient to justify different accounting treatments being applied to the defined benefit schemes and social benefit schemes where legal obligations accrue over time.

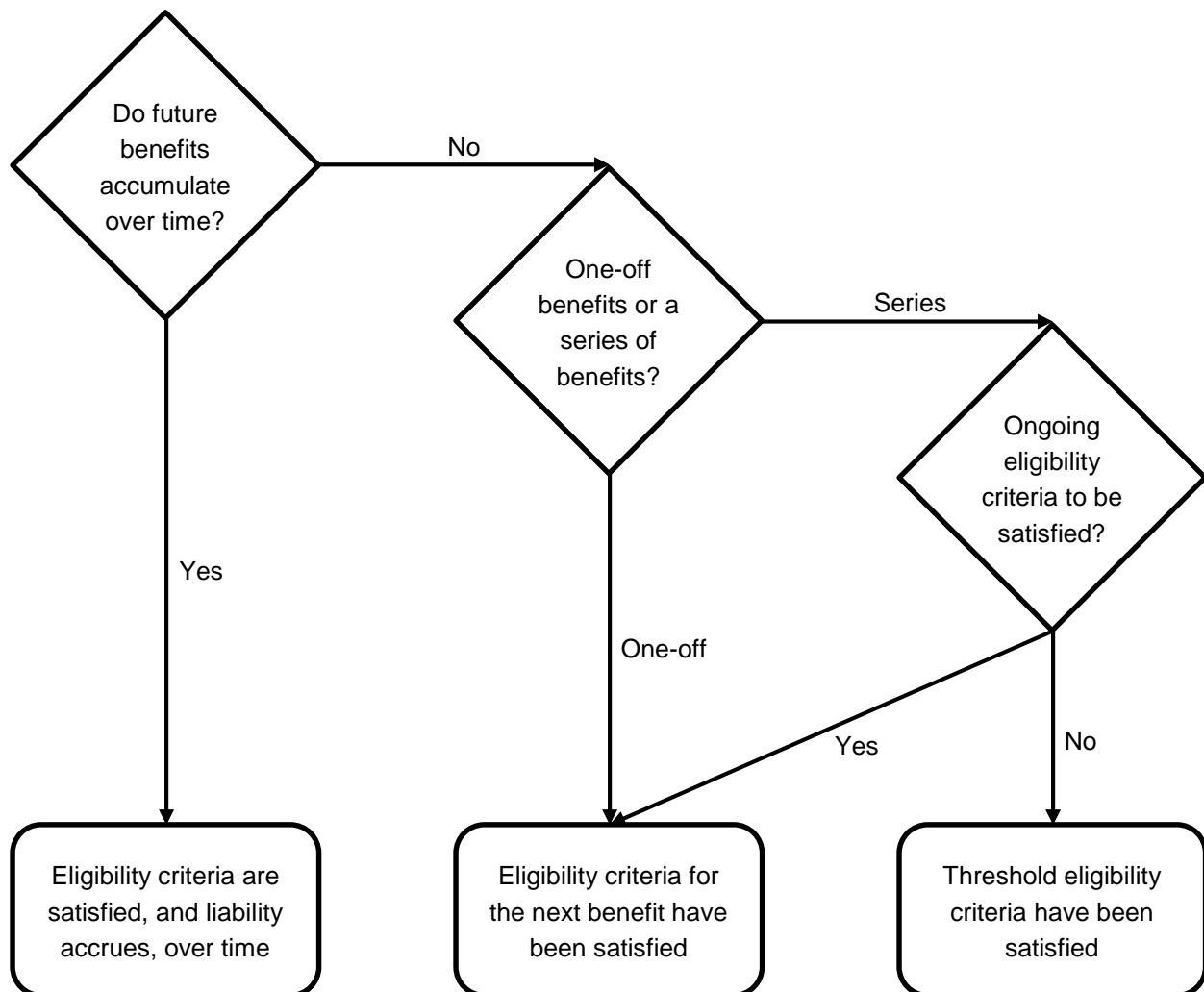
## Appendix E to Agenda Item 7.2.2

### Eligibility criteria – decision tree

The sole recognition principle for social benefits is that a liability for a social benefit should be recognized when all the eligibility criteria have been met. This will give rise to three groups of transactions, with different eligibility criteria:

- Eligibility criteria are satisfied, and liabilities accrue, over time but entitlement to the benefit has not vested.
- Threshold eligibility criteria have been satisfied.
- Eligibility criteria to receive the next benefit have been satisfied.

The decision tree below illustrates the process for determining which eligibility criteria will be appropriate for a particular social benefit.





# Agenda Item

## 7.2.3

### Presentation and Disclosure

#### Questions

1. The IPSASB is asked to provide initial instructions on the presentation and disclosure issues to be included in a future ED on social benefits.

#### Detail

2. The CP generally did not discuss presentation and disclosure issues, the exception being the presentation of assets related to social benefits. The CP noted that it was more appropriate to consider presentation and disclosure issues once decisions had been made regarding the recognition and measurement of social benefits.
3. At its June 2016 meeting, the IPSASB agreed that a future ED would include the obligating event approach. The insurance approach would be included by reference to the forthcoming IFRS on insurance.
4. At its June 2016 meeting, the IPSASB also agreed that, under the obligating event approach, scheme assets should be presented with liabilities, and social benefits should be measured at the cost of fulfillment.
5. Recognition under the obligating event approach is discussed in Agenda Item [7.2.2](#). Once the IPSASB agrees which obligating events are to be included in a future ED, it will be necessary to consider presentation and disclosure issues.

#### *Proposals from respondents*

6. Although the CP did not generally discuss presentation and disclosure issues, some respondents included proposals in their responses, either in their general comments or as part of their response to a specific SMC. These proposals are collated in Agenda Item [7.3.2](#), and are taken as the starting point for a discussion on presentation and disclosure.
7. The following table summarizes the proposals made by respondents, and the IPSASB's views are sought as to which proposals should be progressed in a future ED.

Respondents' proposals	Staff comments
<a href="#"><u>Long-term fiscal sustainability</u></a>	
Some respondents consider that long-term fiscal sustainability information is essential to understanding the financial impact of social benefit schemes, and should be mandatory, either in the notes to the financial statements or in a separate general purpose financial report.	RPG 1, <i>Reporting on the Long-Term Sustainability of an Entity's Finances</i> , recommends disclosures that would address these comments. However, RPG 1 is not mandatory. If the IPSASB agrees with respondent's comments about the necessity of such information, the IPSASB will either need to require compliance with RPG where an entity has social benefits (or where benefits extend

Respondents' proposals	Staff comments
	into the future) or include disclosures in future IPSAS to provide information regarding a scheme's sustainability.
<u><a href="#">Contingent liabilities</a></u>	
Some respondents consider that contingent liabilities, as defined in IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> , should be disclosed in the notes to the financial statements.	Staff considers that information regarding contingent liabilities will be useful to users of the financial statements. Including such information will also ensure consistency with existing IPSASs. Staff notes that the definition of contingent liabilities in IPSAS 19 may need to be updated to reflect the definition of a liability and the recognition criteria in the Conceptual Framework.
<u><a href="#">Disclosures relating to the obligating event approach</a></u>	
<p>Respondents propose disclosure of the following items under the obligating event approach:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Timing of the obligation recognition for each of the main social benefit schemes;</li> <li>• The funding status of the social benefits;</li> <li>• Potential actions that may be taken if benefits are projected to exceed dedicated revenue sources; and</li> <li>• Expected cash flows of the social insurance schemes or fiscal sustainability reporting under RPG 1.</li> </ul>	<p>Staff considers that information regarding the nature of each benefit and the means by which the entity is committed, will be useful information for users of the financial statements. In providing this information, details of when an obligation arises will also be useful, and may be linked to the disclosure of contingent liabilities.</p> <p>Information about the funding of a particular benefit and, where appropriate, potential actions that may be taken if benefits are projected to exceed dedicated revenue sources is also likely to be useful to users of the financial statements. This may be more relevant where benefits are financed from dedicated revenue sources rather than general taxation.</p> <p>Expected cash flows are likely to be covered by sustainability reporting.</p>
<u><a href="#">Disclosures relating to the insurance approach</a></u>	
One respondent considers that an expected deficit should be recognized over the coverage period and disclosed separately.	Staff considers that applying the insurance approach by referring preparers to the forthcoming IFRS on insurance will also cover disclosure issues. Staff notes that the IFRS is expected to recognize deficits immediately, and this was the preferred approach by respondents to the consultation paper. However, the IPSASB

Respondents' proposals	Staff comments
	will revisit this issue when considering the insurance approach later.
<u>General disclosures</u>	
One respondent suggests that all governments that have significant unfunded social insurance commitments should be required to provide a supplementary report as part of their financial reports identifying the inter-generational liability.	Staff considers that this suggestion could be addressed, at least in part, through sustainability reporting.
One respondent comments that 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.	Staff considers that these concerns will be addressed by the disclosures discussed above.
One respondent comments that it is important that there is a disclosure framework to accompany the primary information.	Staff considers that this Agenda Item addresses these concerns.

8. In addition to the above, staff considers that disclosures will also need to address the following issues"
- Measurement (including use of actuarial models, etc.);
  - Discount rates; and
  - Management assumptions and key areas of uncertainty.
9. Staff notes that, for defined benefit schemes, which have similarities with social benefits, some information is required for the current reporting period and the previous four periods. Similar information for social benefits may also be useful to users of the financial statements.
10. Because of the complex nature of social benefits and the measurement techniques that may be required, disclosures have the potential be lengthy, complex, and require significant resources to prepare. The IPSASB will need to find an appropriate balance between providing information that is useful to users of the financial statements, without overwhelming them, and imposing significant costs on preparers.
11. Staff notes that the usefulness of some disclosures may vary depending on when a social benefit is recognized. For example, sustainability reporting may be more useful in the case of social benefit recognized when a *claim is enforceable* than for a social benefit recognized when a *key participatory event occurs*, for example birth.

### Decisions required

12. Taking into account the issues identified above, and any decisions regarding the obligating events taken when considering Agenda Item [7.2.2](#), the IPSASB is asked to consider:

- (a) Whether long-term fiscal sustainability reporting should be mandatory for entities with social benefits, and if so whether that should be in the notes to the financial statements or in a separate general purpose financial report;
- (b) Whether it agrees with staff's view that contingent liabilities should be disclosed, consistent with the approach taken in IPSAS 19, but amended to reflect the wording used in the Conceptual Framework; and
- (c) What additional information should be disclosed under the obligating event approach.

**STAFF SUMMARY OF RESPONSES TO CONSULTATION PAPER,  
*RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS***

**Note:** This paper includes extracts from each response received to the CP, which have been grouped to identify respondents' views on the CP as well as the key issues identified by staff. In some cases, an extract may not do justice to the full response. This analysis should therefore be read in conjunction with the submissions themselves.

Only responses to Specific Matter for Comment 4 are included in this Agenda Item as the responses to the other Specific Matters for Comment and the Preliminary Views were considered by the IPSASB at earlier meetings. Members may wish to refer to the [March 2016](#) and [June 2016](#) meeting papers for further details of these responses.

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<a href="#">Comments on Specific Matter for Comment 4</a>	<a href="#">4</a>

## List of Respondents

Response #	Respondent Name	Country	Function
01	Direction Générale des Finances Publiques (DGFIP)	France	Preparer
02	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Switzerland	Standard Setter/Standards Advisory Body
03	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
04	Treasury Board of Canada	Canada	Preparer
05	Jean-Bernard Mattret	France	Other
06	International Consortium on Governmental Financial Management (ICGFM)	USA	Other
07	Organisation for Economic Co-operation and Development (OECD)	International	Preparer
08	International Actuarial Association (IAA)	International	Other
09	Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
10	Staff of the Public Sector Accounting Board	Canada	Standard Setter/Standards Advisory Body
11	PricewaterhouseCoopers (PwC)	International	Accountancy Firm
12	The Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
13	Swedish National Financial Management Authority (ESV)	Sweden	Standard Setter/Standards Advisory Body
14	Institut der Wirtschaftsprüfer (IDW)	Germany	Member or Regional Body
15	Belgian Institute of Accredited Auditors (IBR-IRE)	Belgium	Member or Regional Body
16	South African Institute of Chartered Accountants	South Africa	Member or Regional Body
17	Federal Social Insurance Office (BSV)	Switzerland	Preparer
18	Institute of Chartered Accountants (Ghana)	Ghana	Member or Regional Body
19	Cour des Comptes	France	Audit Office
20	The Institute of Chartered Accountants of Scotland (ICAS)	UK	Member or Regional Body

Staff summary of responses to Consultation Paper, *Recognition and Measurement of Social Benefits*  
IPSASB Meeting (September 2016)

<b>Response #</b>	<b>Respondent Name</b>	<b>Country</b>	<b>Function</b>
21	The Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
22	The Institute of Chartered Accountants of Nigeria (ICAN)	Nigeria	Member or Regional Body
23	KPMG	International	Accountancy Firm
24	International Labour Office	International	Other
25	Ministry of Finance	Israel	Preparer
26	New Zealand Treasury	New Zealand	Preparer
27	Swedish National Audit Office	Sweden	Audit Office
28	Federation of European Accountants (FEE)	International	Member or Regional Body
29	New Zealand Accounting Standards Board	New Zealand	Standard Setter/Standards Advisory Body
30	Institute of Chartered Accountants of India (ICAI)	India	Member or Regional Body
31	US Government Accountability Office (GAO)	USA	Audit Office
32	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
33	The Institute of Chartered Accountants in England and Wales (ICAEW)	UK	Member or Regional Body
34	Denise Silva Ferreira Juvenal	Brazil	Other
35	Agency for the Modernisation of Public Administration	Denmark	Preparer
36	Ernst & Young Global Limited (EY)	International	Accountancy Firm

#### 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.

#### Summary of Responses to Specific Matter for Comment

**STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members**

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – KEY PARTICIPATORY EVENT	07	1
B – THRESHOLD ELIGIBILITY CRITERIA		0
C – ELIGIBILITY CRITERIA FOR NEXT BENEFIT	01, 21, 23, 31	4
D – CLAIM APPROVED	04	1
E – CLAIM ENFORCEABLE	06, 13	2
F – AT SOME OTHER POINT	05	1
G – AT DIFFERENT POINTS DEPENDING ON NATURE	02, 03, 08, 09, 10, 11, 12, 14, 15, 16, 18, 19, 20, 22, 25, 26, 27, 28, 29, 30, 32, 33, 34, 35, 36	25
SUB-TOTAL OF THOSE PROVIDING COMMENTS		34
H – DID NOT COMMENT	17, 24	2
TOTAL RESPONDENTS		36



R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 4	STAFF COMMENTS
01	C	<p>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.</p> <p>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.</p> <p>That is why, the obligating events a) and b) can not be retained.</p> <p>Accordingly, under the social benefit arrangements, the obligating event that must be selected is c), but amended as follows:</p> <p><i>(c) The eligibility criteria to receive the next benefit have been satisfied <b><u>on the current financial year</u></b></i></p> <p>From our point of view, this obligating event will address most of social benefits.</p> <p>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:</p> <p><i>(d) A claim has been <del>approved</del> <b><u>submitted</u></b>;</i></p> <p>Indeed, the present obligation is recognised when the beneficiary meets the eligibility criteria, whether the administration has approved or not the claim.</p> <p>We believe that this approach allows to cover all social benefits.</p>	<p>Staff considers that this respondent supports the eligibility criteria for next benefit sub-option (c), as the proposals in respect of sub-option (d) have the same effect. Staff considers that the additional words “on the current financial year” are not required, as the sub-option refers to criteria having been satisfied (past tense).</p>
02	G	<p>[Respondent 02] 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. [Respondent 02] 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. [Respondent 02] does not see further points in time where a liability could be recognized, and therefore option (f) drops out.</p>	<p>Staff notes that this respondent supports a range of recognition points. Staff also notes that this respondent supports early recognition (key</p>

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			participatory events) where appropriate.
03	G	<p>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.</p> <p>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.</p> <p>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”.</p> <p>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.</p>	<p>Staff notes that this respondent considers a combination of recognition points may be required, although eligibility criteria for the next benefit is considered most likely. Staff also notes that the respondent considers that obligations should only be recognized for the reporting period (i.e., that revalidation affects recognition). Staff notes the comments regarding the provision of prospective information.</p>

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04	D	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Staff notes these comments. Staff notes that the respondent considers that for some benefits, subsequent approval essentially consists of revalidating that the individual continues to meet the eligibility criteria for the payment of the next benefit.</p>

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		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.	
05	F	<i>See comments under SMC 2. Respondent does not consider that a liability arises, and proposes the disclosure of contingent liabilities.</i>	Staff notes these comments.
06	E	<p>The fundamental problem is deciding when the obligation meets condition 3 the Conceptual Framework para 24: “The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.”</p> <p>a. It could be argued that this stage is never reached for non-contractual social benefit obligations. A recent example that demonstrates this point is Greece, where social benefit payments (including pensions) have been reduced even after beneficiaries have commenced receiving the benefits. In the UK the criteria for disability benefits has been changed so as to exclude some persons who were previously receiving this benefit.</p> <p>b. These examples illustrate the point that as a general principle of constitutional law no government can bind its successor. Hence any social benefit obligation can be changed at the whim of the government in power.</p> <p>c. Thus it is possible to argue that there should be no recognition of social benefits as a liability since there is only a political obligation to provide the benefit.</p> <p>On the other hand, it may be argued that in reality no government is ever likely to complete renege on an obligation by a previous government to provide social benefits. At most such obligations may be amended or reduced, but never eliminated.</p> <p>Therefore, the argument of substance over form is that there should be some recognition of the liability in advance of actual payment. The question posed by the Consultation Paper is how this point is identified and how the liability should be measured.</p> <p>We regard Obligor Event as the conceptually simplest approach. It also provides “de minimis” approach, in that obligor events can be defined so restrictively that the obligation is undoubtedly a liability.</p> <p>We respond to the four sub-questions as follows:</p> <p>a. We consider the obligor event approach appropriate for social assistance (i.e. unfunded) social benefits, both retirement and other.</p>	Staff notes that the respondent would apply the obligor event approach to unfunded social benefits, and would only recognize a liability where a claim became enforceable.

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		<p>b. In such cases we would use a narrow definition of the threshold obligating event, i.e. claim become enforceable. Also this would be year by year basis, i.e. the liability recognised would only be for the current financial year.</p> <p>c. We would not allow any variation on this requirement</p> <p>d. It is our view that supplementary information should be provided in financial reports using the social contract approach to indicate the inter generational liabilities being created by the commitments. This is further explained below under Option 2: social Contract.</p>	
07	A	<p>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.</p> <p>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.</p>	<p>Staff notes the comment that key participatory events also need to be necessary and sufficient.</p> <p>Staff notes the comments regarding IPSAS 25.</p>
08	G	<p>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.</p> <p>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</p>	<p>Staff notes these comments, and considers that the respondent supports the view that a range of</p>

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		<p>(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.</p> <p>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.</p> <p>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)).</p> <p>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</p> <p>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).</p> <p>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.</p>	<p>obligating events will be necessary. Staff considers that the respondent considers points (b) threshold eligibility; (c) eligibility criteria for next benefit; and (d) claim approved to be possible obligating events. Staff notes the comments that (e) enforceable claim may reflect the legal situation, but considers that the respondent does not support this option due to their comments regarding the underlying reality. Staff notes the comment that (a) key participatory events is only relevant to the</p>

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			insurance approach.
09	G	<p><u>Overall view</u></p> <p>General support for approach that acknowledges different recognition points</p> <p>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:</p> <p>(a) what the obligating event is that gives rise to the entity having no realistic alternative but to settle an obligation; and</p> <p>(b) that this decision should be based on the relevant legislation or other arrangement governing the scheme.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p><i>Concerns about allowing recognition only when claim approved or claim is enforceable</i></p> <p>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.</p> <p>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.</p>	<p>Staff notes the comment on the need for guidance on when each recognition point would be appropriate. Staff concurs that such guidance will be required in a future IPSAS.</p> <p>Staff notes that this respondent does not support (e) claim enforceable. Given the comments regarding (a) key participatory events generally not giving rise to an obligating event, but possibly being suitable for certain insurance type schemes, staff considers that</p>

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		<p>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.</p> <p><u>Observations on the application of the recognition points</u></p> <p>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.</p> <p><i>(a) Key participatory events</i></p> <p>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.</p> <p>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.</p> <p>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.</p> <p><i>(b) Threshold eligibility criteria have been satisfied</i></p> <p>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.</p> <p>As an example, in [our jurisdiction] 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</p>	<p>this respondent would not support this point under the obligating event approach.</p>



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		<p>required to revalidate their eligibility from time-to-time, this is an administrative issue rather than a matter that changes government's obligations.</p> <p><i>(c) Eligibility criteria to receive the next benefit have been satisfied</i></p> <p>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).</p> <p>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.</p> <p>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.</p> <p>If point (d) is retained, we believe that additional guidance may need to be provided on the difference between the two points.</p> <p>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.</p> <p><i>(d) A claim has been approved</i></p> <p>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.</p> <p>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:</p> <p>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</p>	

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		<p>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.</p> <p><i>(e) A claim is enforceable</i></p> <p>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.</p> <p><i>(f) Any other point</i></p> <p>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.</p> <p><u>Alternative views expressed by constituents</u></p> <p>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.</p> <p>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.</p> <p>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.</p>	
10	G	<p>[Respondent 10] currently has a standard on government transfers [...] 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 possible to eliminate this element of judgment from preparers and auditors as the nature of social benefits across jurisdictions can be quite unique.</p>	<p>Staff notes these comments. Staff has interpreted the reference to "<i>no later than</i> the point where (c) eligibility</p>

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		<p>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.</p> <p>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. 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?</p> <p>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.</p>	<p>criteria to receive the next benefit have been satisfied" (emphasis added) as supporting a range of recognition points depending on the nature of the scheme.</p> <p>Based on the reference to point (b) by the respondent, staff has interpreted this response as supporting (b) threshold eligibility and (c) criteria for next benefit met.</p>
11	G	<p>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.</p> <p>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</p>	<p>Staff notes the comment that the IPSASB will need to develop guidance on distinguishing between liabilities</p>

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		<p>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.</p> <p>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.</p>	<p>that arise over time and those that arise at a point in time.</p> <p>Staff notes that this respondent considers that recognizing an obligation when a claim is approved or enforceable (points (d) and (e)) is too late. Staff considers this respondent would support points (a) key participatory event; (b) threshold eligibility; and (c) criteria for next benefit.</p>
12	G	<p>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.</p> <p>Social benefits requiring participation in a scheme include social security, such as a pension scheme. The pension scheme in [our jurisdiction] 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</p>	<p>Staff notes the comments and the advantages and disadvantages of each recognition point.</p> <p>Staff also notes the recommendation</p>

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		<p>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.</p> <p>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.</p> <p>[...]</p> <p>Social benefits not requiring participation in a scheme in [our jurisdiction] 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.</p> <p>We discussed the strengths and weaknesses of each sub-option in the process of reaching the above conclusion. We enumerate them below.</p> <p>Strengths and weakness of the sub-options when social benefits require participation in a scheme</p> <table><tr><td>Strengths</td><td>Weaknesses</td></tr></table>	Strengths	Weaknesses	<p>that entities disclose the timing of recognition for social benefit schemes.</p> <p>Staff considers that this respondent supports all points except (e) claim is approved.</p>
Strengths	Weaknesses				

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		(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 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.	Some degree of uncertainty would arise in the 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		
			Strengths	Weaknesses
		(a)	N/A	There is no assumption for participation in a scheme.

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		<p>(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.</p> <p>(c) It may be easy at a practical level to recognize liabilities when individuals asserting their claims apply for social benefits.</p> <p>(d) When the contents of an application for a claim are confirmed to be accurate, liabilities could be recognized. Higher accuracy would be attained.</p> <p>(e) Demands by law would be aligned with the timing of recognition for accounting purposes. Measurement would be very accurate.</p>	<p>In practice, the government would need judgments to determine whether individuals or households have satisfied the eligibility criteria.</p> <p>Certain liabilities might be recognized even when individuals not qualified for claims file applications for social benefits.</p> <p>In practice, the examination of claims might incur significant costs.</p> <p>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.</p>	
13	E	<p>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.</p> <p>In our view, the obligating event should in most cases arise when a claim is enforceable. That is in practice the point where [Respondent 13] has recognized the liability so far.</p> <p>However, in [our jurisdiction] 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</p>		<p>Staff notes the support for the claim is enforceable recognition point. Staff also notes that in this</p>

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		<p>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.</p> <p>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.</p>	<p>jurisdiction, there is little difference between any of the recognition points requiring revalidation.</p> <p>Staff notes the recommendations regarding sustainability reporting, and contingent liabilities.</p>
14	G	<p>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.</p> <p>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:</p> <p><b>Obligating Event</b></p> <p>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);</p>	<p>Staff notes these comments, particularly the comment that 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.</p> <p>Staff also notes the comments</p>



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		<p>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.</p> <p>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 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.</p> <p>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.</p> <p><b>Potential Revision of Social Benefits Policy</b></p> <p>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.</p> <p>Taking [our jurisdiction] as an example:</p> <ul style="list-style-type: none"> <li>We suggest that it would be extremely unrealistic to anticipate that any [...] 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).</li> </ul>	<p>regarding the possible existence of an obligating event and a valid expectation.</p> <p>Staff consider that the comments regarding pensions and child benefit indicate support for (a) key participatory events and (b) threshold eligibility.</p> <p>Given the scope of the project proposed in Agenda Item <a href="#">7.2.1</a>, staff considers the comment regarding (e) enforceable claim being relevant for natural disaster relief is no longer relevant.</p> <p>Staff has not been able to determine from the response</p>

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		<ul style="list-style-type: none"> <li>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).</li> <li>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.</li> </ul> <p><b>Valid Expectations</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>whether this respondent would support the other points or not, and so has treated the respondent as not having commented on (c) criteria for next benefit; (d) claim approved; and (e) claim enforceable.</p>
15	G	<p>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).</p>	<p>Staff considers that the reference to benefits being</p>

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		<p>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.</p>	<p>recognized over time versus a specific point in time might suggest this respondent considers that recognition may take place at different points. Staff has not been able to determine which points this respondent would support, and has treated this as not having commented in the analysis.</p>
16	G	<p>For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09].</p> <p>Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.</p>	<p>See staff comments under Respondent 09.</p>
17	H	<p>We cannot comment adequately on this point at this time.</p> <p>As explained above (see Comment 2), it is generally the case in [jurisdiction] that legal entitlements exist, but that they must be claimed by the person who holds the entitlement.</p> <p>In the case of disability insurance, 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.</p>	<p>Staff notes these comments.</p>

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		Even the [...] old-age and survivors' insurance [...] provides other benefits (such as aids) in addition to its main benefit of pensions.	
18	G	<p>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.</p> <p>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.</p>	<p>Staff notes these comments.</p> <p>Staff has interpreted this response as supporting (a) key participatory events and (b) threshold eligibility.</p>
19	G	<p>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.</p> <p>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.</p>	<p>Staff notes these comments.</p> <p>Staff considers that a future IPSAS will need to address contingent liabilities as part of the presentation and disclosure requirements.</p>
20	G	<p>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.</p>	<p>Staff notes these comments.</p> <p>Staff considers that this respondent supports (b) threshold eligibility</p>

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			and (c) criteria for the next benefit.
21	C	<p>Within [our] context, satisfaction of eligibility criteria per (c) is a strong indicator that there is an obligation. Especially for non-contributory benefits.</p> <p>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).</p> <p>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.</p>	Staff considers that this respondent supports recognition at point (c), eligibility criteria for the next benefit have been met, but that they consider further work is required to confirm this.
22	G	<p>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.</p> <p>Examples of diversity of condition or circumstances include:</p> <ul style="list-style-type: none"> <li>(i) <b>unavoidability of factors</b> 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;</li> <li>(ii) <b>contingency of factors</b> that certain social benefits may or may not be recognized or paid under certain conditions occurring or not;</li> <li>(iii) <b>discretionary power of government</b>, as may be for some social benefits that need to be approved by government to be valid as obligation; and</li> <li>(iv) <b>enforceability</b>, among others, for legal obligations.</li> </ul> <p><b>Unavoidability of factors</b> may correspond to Point (a) <b>Key participatory events have occurred</b>; <b>contingency of factors</b> corresponds to Point (b) <b>Threshold eligibility criteria have been satisfied</b> and Point (c) <b>The eligibility criteria to receive the next benefit have been satisfied</b>; Point (d), <b>A claim has been approved</b>, is</p>	<p>Staff notes these comments.</p> <p>Staff notes that this respondent supports all the recognition points.</p>

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		<p>ideal for <i>discretionary power of government</i>; and enforceability is covered by Point (e), <b>A claim is enforceable</b>. 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.</p> <p>Consequently, we are of the opinion that differing circumstances will necessitate a choice of the recognition criteria for determining when an obligating event arises.</p> <p>This will imply adoption of any of the various criteria or a combination of them.</p>	
23	C	<p>Refer to our responses to comment 2 where we explain the appropriate point to recognise an Obligating event. [From response to SMC 2]</p> <p>To add on, in our view, the recognition point of a social benefit should occur when the <b>eligibility criteria is met</b>. The recognition points whereby the <b>key participatory events are identified and when not all of the eligibility criteria are met</b> or the <b>threshold eligibility criteria</b> are not ideal as this could lead to premature recognition of social benefits. On the other hand, the points whereby the <b>claim to receive next benefit is approved and payment date has arrived</b> could also result in the late recognition of social benefits.</p>	Staff notes these comments.
24	H	<i>No comments identified</i>	
25	G	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.	Respondent 25 does not support this option, but considers that, if the approach were to be adopted, an obligating event could occur under two sub-options.
26	G	[Respondent 26] considers that the IPSASB's approach in determining the event that creates a present obligation should be guided by its recently published Conceptual Framework.	Staff notes that Respondent 26 considers that "a future IPSAS

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		<p>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.”</p> <p>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.</p> <p>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.</p> <p>The challenging issue in the public sector is that <b>current</b> policies establish <b>future</b> obligations; policies simply set criteria that, if met, will result in an outflow of resources.</p> <p>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.</p> <p>The further challenging issue in the public sector is that current policies are subject to change.</p> <p>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</p> <ul style="list-style-type: none"> <li>• 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)</li> </ul>	<p>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”.</p> <p>Staff also notes the comments 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</p>

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		<ul style="list-style-type: none"> <li>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.</li> </ul> <p>Other constraints on policy change include:</p> <ul style="list-style-type: none"> <li>The premium placed on the reputation for credible and consistent policy making, and for not exercising the power to change in an arbitrary manner</li> <li>The use of contracts between government and individual households where some performance or consideration can be ascribed, enforced by the courts.</li> </ul> <p>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.</p> <p>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, [Respondent 26] 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.</p> <p>[Respondent 26] 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".</p> <p>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 <b>present</b> right to resources and the government has a <b>present</b> obligation to them. When, but only when, the reporting entity asserts that point has been reached should a social benefit liability be reported.</p>	<p>service recipients currently have a valid expectation that they have a <b>present</b> right to resources and the government has a <b>present</b> obligation to them."</p> <p>Staff considers that such disclosures may be helpful to users of the financial statements in assessing the information provided by those statements.</p> <p>Staff considers that this respondent would not support (d) approved claim, but would support the other points at which an obligating event may occur.</p>



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		<p>If the IPSASB does not accept these arguments, [Respondent 26] 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.</p> <p>Recognising this, [Respondent 26] 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.</p> <p>“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”.</p>	
27	G	<p>From our perspective [...] 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.</p> <p>[Respondent 27'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 Obligating 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.</p> <p><u>a) Key participatory events occur</u></p> <p>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</p>	<p>Staff notes these comments, in particular the factors to be considered in determining when an obligating event has occurred.</p> <p>Staff considers that this respondent supports points (c) criteria for next benefit; (d) claim approved; and (e) claim enforceable.</p>

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		<p>as though this option means that agencies must estimate outgoing payments based on historical data and future forecasts of probable outcome.</p> <p><u>b) Eligibility criteria initially met</u></p> <p>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.</p> <p><u>c) Eligibility criteria met to receive next benefit</u></p> <p>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 recognised until it is time for the next payment. This requires regular revaluation of the liability.</p> <p><u>d) Claim approved</u></p> <p>Assumes that the liability/provision is established when the application for benefit has been received and approved.</p> <p><u>e) Payment date arrived</u></p> <p>Assumes that the liability/provision is established when there is a payment decision and the date of the payment has arrived.</p> <p>The information in a balance sheet must be considered to be timely, relevant, faithfully presented, understandable and verifiable 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.</p> <p>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.</p>	

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		<p>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:</p> <p><u>1. Political stability</u></p> <p>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 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 [...] that may entail rapid measures and changes in the systems [...]. 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.</p> <p><u>2. Financing form</u></p> <p>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).</p> <p><u>3. Design and terms</u></p> <p>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.</p> <p>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</p>	

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		<p>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 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.</p> <p>Specific comments on the IPSASB's option regarding the time at which an obligating event should be considered to arise and be recognised:</p> <p>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.).</p> <p>Option b) it is not clear to us where the great difference is between options a) and b).</p> <p>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).</p>	
28	G	<p>[Respondent 28'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.</p> <p>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.</p> <p>[Respondent 28] 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 <b>"when threshold criteria have been</b></p>	<p>Staff notes these comments and the rationale provided for when a recognition point might be appropriate.</p> <p>Staff notes the comment that some benefits may be seen to accumulate over time.</p>

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		<p><b>satisfied</b>” or “<b>the eligibility criteria to receive the next benefit have been satisfied</b>”, depending on the unique scheme requirements for the benefit in question.</p> <p>For benefits such as accident benefits, it would be possible to recognise a liability when “<b>key participatory events have occurred</b>” – 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 [Respondent 28] prefers the application of the “<b>when threshold criteria have been satisfied</b>” or “<b>the eligibility criteria to receive the next benefit have been satisfied</b>” eligibility criteria for such schemes.</p> <p>We will now proceed to discuss each of the options presented in the CP to highlight strengths and weaknesses of each approach.</p> <p><b>Key participatory events have occurred (option a)</b></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Staff considers that this respondent supports (b) threshold eligibility criteria and (c) criteria for next benefit.</p>

	<p><b>Threshold eligibility criteria have been satisfied (option b)</b></p> <p>In many circumstances, [Respondent 28] 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.</p> <p>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.</p> <p><b>The eligibility criteria to receive the next benefit have been satisfied (option c)</b></p> <p>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.</p> <p><b>A claim has been approved (option d)</b></p> <p>[Respondent 28] 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. [Respondent 28] 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.</p> <p><b>A claim is enforceable (option e)</b></p> <p>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.</p> <p>[Respondent 28] has not identified any other options for recognition in addition to than those presented by the IPSASB.</p>	
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29	G	<p>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.</p> <p><i>(a) Key participatory events have occurred</i></p> <p>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 [...] Super.</p> <p>Depending on the nature of the benefit, a present obligation may arise from point (a). For example, with [...] 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 [...] 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.</p> <p>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 [our jurisdiction] indicating that it has accepted certain responsibilities and the past history of governments in [our jurisdiction], 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 [...] 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</p>	<p>Staff notes the detailed discussion of the key participatory events and threshold eligibility criteria sub-options, and the concern regarding the usefulness of recognizing liabilities on this basis without also recognizing the related revenue.</p> <p>Staff notes the comments regarding IPSAS 25 in the context of retirement benefits.</p> <p>Staff considers that this respondent would support points (b) threshold eligibility and (c) criteria for the next benefit.</p>

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		<p>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 [...] Super as long as they live. Therefore, for these types of benefits, the obligating event could arise when the key participatory events have occurred.</p> <p>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 [...] Super with employee pensions. For example, under IPSAS 25 <i>Employee Benefits</i>, 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.</p> <p>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.</p> <p>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 [...] 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.</p> <p><i>(b) Threshold eligibility criteria have been satisfied</i></p> <p>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, [we] had mixed views on whether this should be regarded as a measurement issue or a recognition issue. A small majority of [Respondent 29's members] 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 [...] 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</p>	



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		<p>(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</p> <p>However, a substantial minority of [Respondent 29's] 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.</p> <p>For some benefits, however, there are no revalidation requirements. For example, for particular benefits such as [...] 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).</p> <p><i>(c) The eligibility criteria to receive the next benefit have been satisfied</i></p> <p>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, [we have] mixed views, as discussed above.</p> <p><i>(d) A claim has been approved</i></p> <p>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.</p> <p><i>(e) A claim is enforceable</i></p> <p>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.</p>	
30	G	<p>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</p>	<p>Staff notes these comments.</p>

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		<p>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.</p> <p>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.</p>	<p>Staff considers that this respondent supports points (c) criteria for the next benefit and (d) approved claim.</p>
31	C	<p>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 [our jurisdiction], 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.</p> <p>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.</p> <p>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</p>	<p>Staff notes these comments.</p> <p>Staff notes that the respondent considers that revalidation requirements are eligibility criteria that affect the recognition as well as the measurement of a social benefit.</p> <p>Staff notes the comments regarding the potential inconsistency between costs and</p>

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		<p>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.</p> <p>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 [our jurisdiction], 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, [our] government has an obligation for the benefits only when all eligibility criteria to receive the next benefit have been satisfied.</p> <p>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.</p> <p>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)).</p>	<p>delivery of services to the public.</p> <p>Staff notes the respondent's view regarding the need for disclosure of prospective information.</p>

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		<p>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.</p> <p>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.</p> <p>Social benefit programs, as currently structured, may be clearly unsustainable (as are Social Security and [medical insurance in our jurisdiction]), and reforms in these programs are a near certainty. For example, under current law, the trust funds for Social Security and [medical insurance] 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.</p> <p>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</p>	

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		<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• the funding status of the social benefits;</li> <li>• potential actions that may be taken if benefits are projected to exceed dedicated revenue sources; and</li> <li>• expected cash flows of the social insurance schemes or fiscal sustainability reporting under Recommended Practice Guideline 1, <i>Reporting on the Long-Term Sustainability of an Entity's Finances</i>.</li> </ul> <p>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).</p> <p>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.</p> <p>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.</p>	

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		<p>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.</p> <p>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.</p> <p>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.</p>	
32	G	<p>[Respondent 32] is of the view that an obligating 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, [Respondent 32] notes that the definition of a liability needs to be met, and that definition does not include all possible future obligations.</p>	<p>Staff notes these comments.</p> <p>Staff notes the support for point (c) eligibility criteria</p>

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF COMMENTS</b>
		<p>[Respondent 32] would prefer if IPSASB could provide illustrative examples in the new standard to demonstrate situations when an obligating 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 obligating event with the help of such examples. [Respondent 32] has provided some examples in the [...] context [of our jurisdiction] where the obligating event arises at point (c).</p> <p><b>Background information</b></p> <p>In [our jurisdiction], despite the existence of a broad safety net policy, social welfare benefits are only provided when individuals meet specific eligibility criteria. The obligating event most appropriate to the [our] 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.</p> <p>In [this] context, the unemployment benefit [...] 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:</p> <ul style="list-style-type: none"> <li>• For the current period of unemployment, beyond the period of current entitlement (normally the next payment period); or</li> <li>• For any subsequent future period of unemployment.</li> </ul> <p>The Age Pension in [our jurisdiction] 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.</p> <p>In [our jurisdiction], 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.</p>	<p>for next benefit. Staff considers that the respondent also supports point (b) threshold eligibility even if it is unlikely to apply in their jurisdiction.</p> <p>Staff has not been able to determine whether this respondent would support other points, and has treated this response as having no comments on those points.</p>

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF COMMENTS</b>
33	G	<p>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.</p> <p><i>a) Key participatory events have occurred</i></p> <p>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:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul> <p>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.</p> <p>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</p>	<p>Staff notes these comments, particularly the references to long-term fiscal sustainability reporting.</p> <p>Staff considers that, despite the practical issues identified in the response, this respondent would support points (b) threshold eligibility criteria and (c) eligibility criteria for the next benefit.</p>



R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF</b> <b>COMMENTS</b>
		<p>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.</p> <p><i>b) Threshold eligibility criteria have been satisfied</i></p> <p>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.</p> <p>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.</p> <p><i>c) The eligibility criteria to receive the next benefit have been satisfied</i></p> <p>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.</p> <p>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.</p> <p><i>d) A claim has been approved</i></p> <p>Although this option has the benefit of certainty and verifiability, the liabilities recorded would be an underestimate of total obligations.</p>	

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF</b> <b>COMMENTS</b>
		<p>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.</p> <p><i>e) A claim is enforceable</i></p> <p>The same issues apply as in (d) above, but are amplified</p> <p><i>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.</i></p> <p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• 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</li> </ul>	

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 4				STAFF COMMENTS								
		<p>extent of variability of outcome dependent on local factors may have a substantial impact on users' views of the benefits of the information.</p> <ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li></ul>												
34	G	<p>In my opinion, I described my observations, as follows:</p> <table><tr><th>Description</th><th>Strengths and Weaknesses</th><th>Important Points of Exposure Draft</th><th>Comments about future IPSAS specify that an obligating event</th></tr><tr><td>(a) Key participatory events have occurred</td><td>Strengths</td><td>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)."</td><td>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.</td></tr></table>				Description	Strengths and Weaknesses	Important Points of Exposure Draft	Comments about future IPSAS specify that an obligating event	(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.	<p>Staff considers that the respondent's comments suggest that they tend to support the view that an obligating event could occur at different points for different schemes.</p> <p>Staff considers that those points indicated as strengths are supported.</p>
Description	Strengths and Weaknesses	Important Points of Exposure Draft	Comments about future IPSAS specify that an obligating event											
(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.											

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>				<b>STAFF</b> <b>COMMENTS</b>
		(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 eligibility criteria sub-option, these only affect the measurement of the liability"	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.	
		(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.	

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>				STAFF COMMENTS
		(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.	
35	G	<p>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 [our jurisdiction's] immediate interpretation of the sub-options.</p> <p>In order to separate and comment on each sub-option, a suggested [...] model [for our jurisdiction] was constructed to clarify the identification and criteria leading to one sub-option or another. This decision-model is to be found in <a href="#">appendix 1</a>.</p> <p>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.</p> <p>For the obligating event approach, sub-option D and E has consequently been seen as the most commonly fitting to find use in [our jurisdiction]. [Our] analysis suggests that, for approximately 80% percentage of the social benefit schemes, it would be optimal to use sub-option D or E. As an additional note, in respect to the specific benefit, the</p>				<p>Staff notes these comments, in particular the decision model provided.</p> <p>Staff notes that this respondent supports points (c) eligibility criteria for the next benefit; (d) approved claim; and (e) enforceable claim.</p>

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF</b> <b>COMMENTS</b>
		<p>belief is both times of recognition might be appropriate. However, the measurement would in many cases share identical characteristics; several schemes in [our jurisdiction] grant the individuals with a single payment, executed at the time of application approval.</p> <p>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 in-formation.</p> <p><u>a) Key participatory events have occurred</u></p> <p>The usability of sub-option A is disagreed upon.</p> <p>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.</p> <p>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.</p> <p><u>b) Threshold eligibility criteria have been satisfied</u></p> <p>The sub-option B is can be used under rare circumstances but is not supported.</p> <p>As above stated, early recognition can be valuable, but only if is 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 un-changeable. Furthermore there should be rarely or no expected law changes related to the scheme (see <a href="#">appendix 1</a>). It is considered that, very few [of our] social benefits would be fitting to present accurate and reliable financial information at this early point of recognition.</p> <p>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 [...] and child-youth benefit [...]. 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.</p>	

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF</b> <b>COMMENTS</b>
		<p>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 [our] social benefits. Therefore this sub-option cannot be supported.</p> <p><u>c) The eligibility criteria to receive the next benefit have been satisfied</u></p> <p>Sub-option C can be supported under some circumstances.</p> <p>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.</p> <p>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 <a href="#">appendix 1</a>).</p> <p>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 [our] social benefits, are governed by a solely administrative process.</p> <p>An example of a benefit which can be recognized in accordance to sub-option C is the [...] student grants scheme (however see comment 1 about the [...] student grants scheme).</p> <p><u>d) A claim has been approved</u></p> <p>The sub-option D is supported for recognition.</p> <p>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.</p> <p>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 [our] schemes would be recognized under sub-option D.</p>	

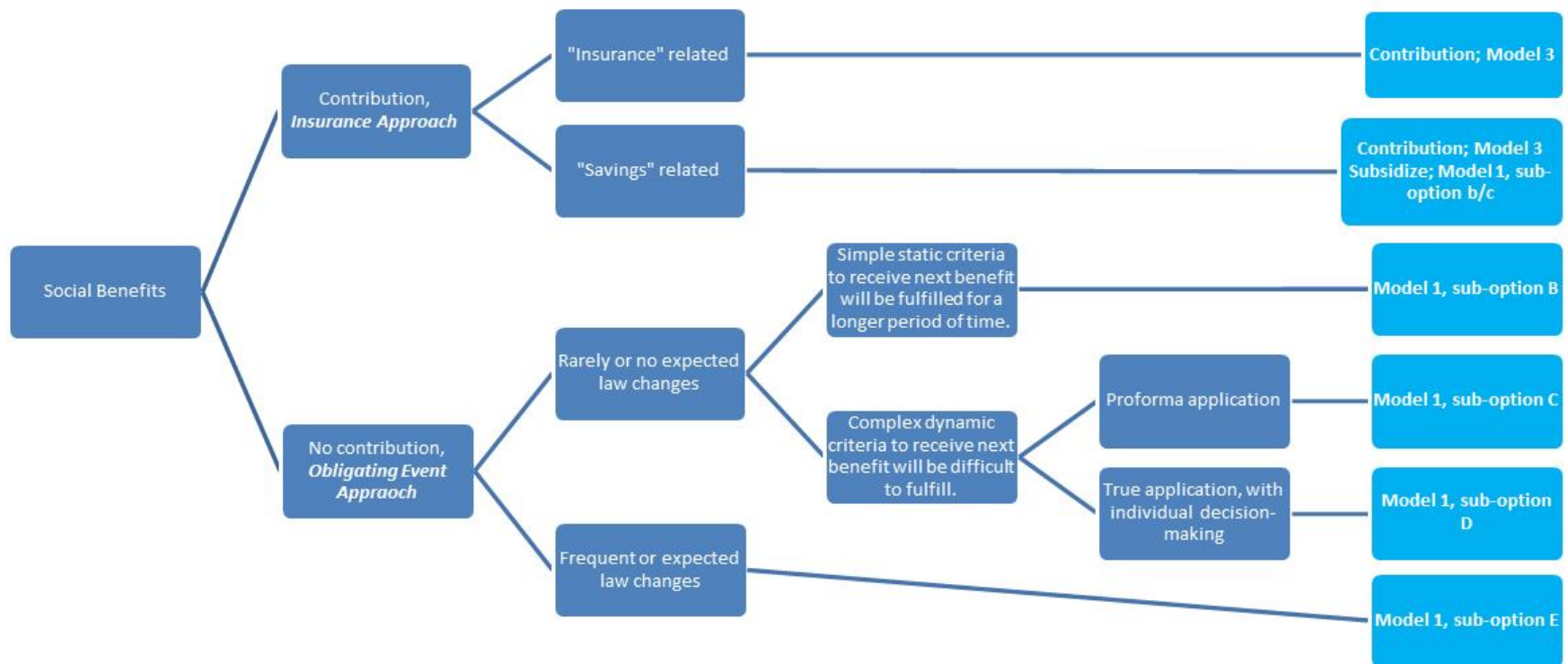
R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF COMMENTS</b>
		<p>The measurement of the obligation arising from this sub-option is difficult. It can be administrative complicated to calculate and value all approved claims from databases. In addition, most of these benefits are granted for a short period of time or constitutes a one-time payment.</p> <p><u>e) A claim is enforceable</u></p> <p>The sub-option E is supported for recognition and measurement.</p> <p>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.</p> <p>The analysis suggests that a large portion of [our] schemes would be recognized under sub-option E.</p> <p>A large portion of [our] 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.</p> <p><u>General comments for the obligation event approach</u></p> <p>[Our] 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 [our] 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 [our] decision model in <a href="#">appendix 1</a>. This does not support a view, where the different social benefit schemes, should be able to shift between sub-options.</p> <p>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.</p>	
36	G	<p>We 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. In most cases under the</p>	<p>Staff notes these comments, particularly with</p>



R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF COMMENTS</b>
		<p>definition of a liability, we believe that recognition would occur at points a or b. In addition, recognition should be considered from the perspective of the obligor, and not dependent on the general expectations of the recipient.</p> <p>Revalidation is a common feature for social benefits schemes such as unemployment benefits. Therefore it is crucial for the Board to carefully consider whether revalidation (or continued eligibility) should be a recognition criterion or a factor affecting measurement. We agree with the Board's observation that there are differing views on the treatment of such schemes, and some have questioned whether factoring the likelihood of continuous eligibility into the measurement on initial recognition would provide users with useful information. Currently, we do not have a preferred approach, however, incorporating the probability of future non-eligibility in the measurement of the liability could give users an indication of the government's expectations of its liabilities.</p>	<p>regard to revalidation.</p> <p>Staff considers that this respondents generally supports points (a) key participatory events and (b) threshold eligibility criteria but not the other points.</p>

# Appendix A to Agenda Item 7.3.1

## Appendix 1. [Respondent 35] Social Benefits Decision Model



**RESPONDENTS COMMENTS TO CONSULTATION PAPER,  
RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS,  
DISCUSSING PRESENTATION ISSUES**

**Note:** This paper includes extracts from those responses received to the CP that raised significant presentation issues. These responses are grouped by theme. The CP did not discuss presentation issues, however staff has included these responses in this paper as a starting point for the IPSASB's discussions on presentation.

Because the CP did not discuss presentation issues, comments on presentation may be found in responses to other questions or in a respondent's general comments. This Agenda Item only includes comments specifically related to presentation. Responses to Specific Matter for Comment 4 are included in Agenda Item [7.3.1](#). The responses to the other Specific Matters for Comment and the Preliminary Views were considered by the IPSASB at earlier meetings. Members may wish to refer to the [March 2016](#) and [June 2016](#) meeting papers for further details of these responses. Staff comments in this Agenda Item are those previously made by staff, either in Agenda Item 7.3.1 or in earlier meeting papers.

## Long-term fiscal sustainability information

R#	Response Location	RESPONDENT COMMENTS	STAFF COMMENTS
03	SMC 2	<p><b>(b) Additional approach to accounting for social benefits that the IPSASB should consider in developing an IPSAS</b></p> <p>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, consistent with the decision making level for the mechanism, involving relevant aggregation of reporting entities.</p> <p>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.</p> <p>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.</p>	Staff notes the proposals for providing prospective information and for identifying the reporting entity that bears the obligations for social benefits.
03	SMC 4	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.	Staff also notes the comment regarding prospective information.
08	General Comments	<p>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.</p> <p>[...] 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. [...]</p> <p>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</p>	Staff also notes the strong support for mandatory reporting of long-term sustainability information. The IPSASB may wish to consider this when determining the disclosure

R#	Response Location	RESPONDENT COMMENTS	STAFF COMMENTS
		cash-flow estimates and corresponding capitalised values. Attention should also be paid to the need for full disclosure of assumptions and methodology adopted.	requirements for a future IPSAS.
08	SMC 2	<p>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”.</p> <p>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.</p> <p>... 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.</p> <p>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.</p>	Staff notes the comments about aligning the accounting approach with the funding approach, which might require contributions of both existing and future contributors to be considered as an asset. Staff does not consider that this would be consistent with the Conceptual Framework, but might be a useful disclosure.
13	General Comments	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 [...] Pension agency annually produces a separate report, the Orange report, where future contributions are calculated as an asset [...]. This report is intended to show the sustainability of the old age pension system in [our jurisdiction], and it is a valuable complement to the financial reports.	Staff notes the support for the production of sustainability reports outside of the general

R#	Response Location	RESPONDENT COMMENTS	STAFF COMMENTS
			purpose financial statements.
13	SMC 4	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.	Staff notes the recommendations regarding sustainability reporting, and contingent liabilities.
14	General Comments	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.	Staff notes the support for the production of sustainability reports outside of the general purpose financial statements.
31	SMC 4	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,	Staff notes the respondent’s view regarding the need for disclosure of prospective information.

R#	Response Location	RESPONDENT COMMENTS	STAFF COMMENTS
		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.	
33	SMC 4	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.	Staff notes these comments, particularly the references to long-term fiscal sustainability reporting.

## Contingent liabilities

R#	Response Location	RESPONDENT COMMENTS	STAFF COMMENTS
01	SMC 2	<p>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. Indeed, the notes are integral part of the financial statements and provide essential information to users of financial statements.</p> <p>This global approach will satisfy the faithful representation objective for financial statements in accordance with the conceptual framework.</p> <p>[...] 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.</p>	<p>Although not discussed in the CP, staff considers that it would be appropriate to consider contingent liabilities under the obligating event approach. The definition of a contingent liability may need to be amended to reflect the wording of the Conceptual Framework.</p>
01	SMC 3	In accordance with our reply on the question 2, the global approach based on "the obligating 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.	
01	SMC 4	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.	
05	General Comments	<p>In my opinion, another approach is possible. And we discuss his position about three themes:</p> <ul style="list-style-type: none"> <li>- The scope of the standards dedicated to the question of social obligations;</li> <li>- The recognition and measurement of liabilities and of provisions; or the recognition of a contingent liabilities, and</li> <li>- Disclosures annexed to financial statements.</li> </ul>	<p>Staff notes that this respondent proposes an alternative approach which would involve the disclosures of</p>
05	SMC 1	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".	



R#	Response Location	RESPONDENT COMMENTS	STAFF COMMENTS
05	SMC 2	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.	contingent liabilities.
13	SMC 4	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.	Staff notes the recommendations regarding sustainability reporting, and contingent liabilities.
19	General Comments	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.	Staff notes the comments regarding contingent liabilities; this will be considered alongside the accounting approaches.
19	SMC 4	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.	Staff considers that a future IPSAS will need to address contingent liabilities as part of the presentation and disclosure requirements.

## Disclosures relating to the obligating event approach

R#	Response Location	RESPONDENT COMMENTS	STAFF COMMENTS
12	SMC 4	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.	Staff also notes the recommendation that entities disclose the timing of recognition for social benefit schemes.
26	SMC 4	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 <b>present</b> right to resources and the government has a <b>present</b> obligation to them. When, but only when, the reporting entity asserts that point has been reached should a social benefit liability be reported.	Staff also notes the comments ... Staff considers that such disclosures may be helpful to users of the financial statements in assessing the information provided by those statements.
31	General Comments	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: <ul style="list-style-type: none"> <li>the funding status of the social benefits;</li> </ul>	Staff notes the comments regarding disclosures. These will be considered in the development of the disclosure

R#	Response Location	RESPONDENT COMMENTS	STAFF COMMENTS
		<ul style="list-style-type: none"> <li>potential actions that may be taken if benefits are projected to exceed dedicated revenue sources; and</li> <li>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.</li> </ul>	requirements of a future IPSAS.

**Disclosures relating to the insurance approach**

<b>R#</b>	<b>Response Location</b>	<b>RESPONDENT COMMENTS</b>	<b>STAFF COMMENTS</b>
12	SMC 10	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.	Staff notes that the respondent would recognize the deficit over the coverage period. Staff also notes the recommended disclosure.

## General disclosures

R#	Response Location	RESPONDENT COMMENTS	STAFF COMMENTS
06	SMC 8	However, we do consider that the social contract approach provides a model for providing supplementary information on the inter-generational impact of today's social benefit commitments. It is our view that all governments that have significant unfunded social insurance commitments should be required to provide a supplementary report as part of their financial reports identifying the inter-generational liability.	Supplementary reporting will be considered when the IPSASB discusses presentation and disclosures.
14	General Comments	<p>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.</p> <p>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.</p> <p>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</p>	Staff notes the support for the production of sustainability reports outside of the general purpose financial statements.

R#	Response Location	RESPONDENT COMMENTS	STAFF COMMENTS
		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 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.	
33	SMC 2	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.	Staff notes the comments regarding disclosure.