

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

**Meeting Location:** Washington, D.C., USA

**Meeting Date:** March 7–10, 2017

**From:** Paul Mason

## Agenda Item 8

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 December 2016 meeting</a>	<a href="#">8.1.1</a>
	<a href="#">Decisions up to December 2016 meeting</a>	<a href="#">8.1.2</a>
	<a href="#">Social Benefits Project Roadmap</a>	<a href="#">8.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Scope and definitions</a>	<a href="#">8.2.1</a>
	<a href="#">Insurance approach</a>	<a href="#">8.2.2</a>
	<a href="#">Obligating event approach</a>	<a href="#">8.2.3</a>
	<a href="#">Presentation</a>	<a href="#">8.2.4</a>
<b>Other supporting items</b>	<a href="#">Sections of draft ED, <i>Social Benefits</i></a>	<a href="#">8.3</a>

# Agenda Item

## 8.1.1

### INSTRUCTIONS UP TO DECEMBER 2016 MEETING

Meeting	Instruction	Actioned
December 2016	Staff and the Technical Director should discuss whether paragraph 17 of the Preface to the Conceptual Framework was using the term social benefits in the same way as the draft ED.	Staff and the Technical Director have concluded there is no conflict between the draft ED and paragraph 17. The member who raised the issue also agrees. The amendments to other IPSASs in <a href="#">Agenda Item 8.3</a> are therefore unchanged.
December 2016	Develop a range of options for disclosures, taking into account the points raised by the IPSASB.	See <a href="#">Agenda Item 8.2.4</a> .
December 2016	Further develop the obligating event approach in light of the IPSASB's discussions at the December 2016 meeting.	See <a href="#">Agenda Item 8.2.3</a> .
December 2016	Review the forthcoming IASB staff paper on the past event once issued as it might provide the IPSASB with useful insights.	To be discussed at a future meeting, if the paper is available in time.
December 2016	Develop a paper on the proposed IFRS on insurance contracts.	See <a href="#">Agenda Item 8.2.2</a> .
December 2016	It is expected that the coverage period in the IASB's forthcoming standard on insurance could commence prior to the payment of a premium, and this should be reflected in a future social benefits ED, either in the core text or the Basis for Conclusions.	See <a href="#">Agenda Item 8.2.3</a> .
December 2016	Consider whether any of the issues covered in the text previously included in the last sentence of the guidance on social risks needed to be reflected in the definitions.	See <a href="#">Agenda Item 8.2.1</a> .
December 2016	Consider changes to the wording to address a member's concerns that it is not clear why geographical risks are excluded from the scope of the project.	See <a href="#">Agenda Item 8.2.1</a> .
December 2016	An observer suggested that there was a tension between the words "to address the needs of society as a whole" and the provision of benefits to individuals and households. The IPSASB instructed staff to consider this issue further, and discuss it with the observer.	See <a href="#">Agenda Item 8.2.1</a> .

Meeting	Instruction	Actioned
December 2016	Consider whether the reference to “insurance-based schemes” in the guidance on social benefits required amendment.	See <a href="#">Agenda Item 8.2.1</a> .
December 2016	Consider whether the reference to “in cash or in kind” in the definition of social benefits was required; and if not, whether it should be removed completely or replaced with a discussion in the Basis for Conclusions.	See <a href="#">Agenda Item 8.2.1</a> .
September 2016	Consider a presentation framework for social benefits, including the issue of gross versus net presentation.	See <a href="#">Agenda Item 8.2.4</a> .
September 2016	Undertake further work on the question of whether disclosures relating to contingent liabilities are appropriate, given the differences between the recognition and measurement of liabilities under the Conceptual Framework and under IPSAS 19.	See <a href="#">Agenda Item 8.2.4</a> . The IPSASB agreed in December 2016 to include a transitional provision.
September 2016	Develop a proposed disclosure on the material assumptions in recognizing and measuring a social benefit; and consider what information will be provided in the financial statements, what information would be provided under RPG 1, and what information will be required to fill the gap.	See <a href="#">Agenda Item 8.2.4</a> and the <a href="#">December 2016 papers</a> .
September 2016	Give further consideration to the issue of whether a liability accrues over time, and to bring revised proposals to the next meeting.	See <a href="#">Agenda Item 8.2.3</a> .
September 2016	Undertake further work on the key participatory event obligating event, and in particular to consider how this relates to the IASB's proposals for insurance accounting	See <a href="#">Agenda Item 8.2.3</a> .
September 2016	Develop material explaining which transactions will fall within social benefits and which will fall within the non-exchange expenses project, and to ensure that there are no gaps between the two projects.	A diagram was circulated with the definitions and guidance on October 6 <sup>th</sup> 2016. Further revisions were discussed at the December 2016 meeting. For the latest proposals, see <a href="#">Agenda Item 8.2.1</a> .
September 2016	Redraft the definitions and guidance to respond to the comments made by the IPSASB, and to circulate the revised draft (in mark-up) for comments prior to the next meeting.	Circulated on October 6 <sup>th</sup> 2016. Further revisions were discussed at the December 2016 meeting. For the latest proposals, see <a href="#">Agenda Item 8.2.1</a> .

Meeting	Instruction	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.	See <a href="#">Agenda Item 8.2.2.</a>
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.	See <a href="#">Agenda Item 8.2.2.</a>
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".	See <a href="#">Agenda Item 8.2.2.</a>
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>	See <a href="#">Agenda Item 8.2.3</a> and the <a href="#">December 2016 papers.</a>
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>	See <a href="#">Agenda Item 8.2.1.</a>
March 2016	Reconsider the definitions once a decision on the scope of the project has been made	See <a href="#">Agenda Item 8.2.1.</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.	

Social Benefits (Instructions up to December 2016 meeting)  
*IPSASB Meeting (March 2017)*

Meeting	Instruction	Actioned
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, <a href="#"><i>Recognition and measurement of Social Benefits</i></a> .	

### DECISIONS UP TO DECEMBER 2016 MEETING

Date of Decision	Decision
December 2016	The final sentence in the guidance on social risks ("Social benefits are provided to mitigate social risks in the following ways...") should be deleted.
December 2016	The fourth paragraph of the guidance on social risks ("Public sector entities may provide benefits to mitigate the effect of risks other than social benefits...") should be deleted.
December 2016	The final sentence ("Where benefits in kind are universally accessible...") in the final paragraph of the guidance on social benefits should be retained.
December 2016	A definition of "universally accessible" should be included in a future ED on social benefits.
December 2016	The three paragraphs prior to the final paragraph in the guidance on social benefits presented at the meeting should be deleted. These paragraphs begin: <ul style="list-style-type: none"> <li>Public sector entities may provide benefits...</li> <li>Where benefits are provided directly to specific individuals...</li> <li>Where benefits or services are universally accessible...</li> </ul>
September 2016	The ED should treat the claim has been approved and claim is enforceable obligating events as subsets of the eligibility criteria to receive the next benefit have been satisfied obligating event.
September 2016	The ED should include the threshold eligibility obligating event
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 be dependent 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.

Social Benefits (Decisions up to December 2016 meeting)  
*IPSASB Meeting (March 2017)*

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, <a href="#"><i>Recognition and measurement of Social Benefits</i></a> .

### SOCIAL BENEFITS PROJECT ROADMAP

Meeting	Objective: IPSASB to consider:
March 2017	<ol style="list-style-type: none"> <li>1. Decision on scope of project and definitions</li> <li>2. Decision on when an obligating event may occur</li> <li>3. Decision on when the insurance approach may be applied</li> <li>4. Decision on disclosures</li> <li>5. Draft ED: Scope</li> <li>6. Draft ED: Definitions</li> <li>7. Draft ED: Amendments to other IPSASs (partial)</li> </ol>
June 2017	<ol style="list-style-type: none"> <li>1. Review previous sections of ED</li> <li>2. Draft ED: Insurance Approach</li> <li>3. Draft ED: Obligating Event Approach–Recognition</li> <li>4. Draft ED: Obligating Event Approach–Measurement</li> <li>5. Draft ED: Disclosures</li> <li>6. Draft ED: Transitional Arrangements</li> <li>7. Draft ED: Application Guidance</li> <li>8. Draft ED: Draft ED: Amendments to other IPSASs (complete)</li> <li>9. Basis for Conclusions</li> <li>10. Draft ED: Illustrative Examples</li> <li>11. Review of full draft ED</li> <li>12. 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 and definitions****Questions**

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

**Detail**

2. The IPSASB has discussed the scope of the social benefits project and the definitions of social benefits and social risks at its previous four meetings. Members may find it helpful to refer to the previous papers and minutes.
3. At its December 2016 meeting, the IPSASB took a number of decisions regarding the drafting of the definitions and guidance on social benefits and social risks. The IPSASB also identified a number of matters where consideration was required, and instructed staff to bring further proposals to this meeting.
4. Staff has actioned the IPSASB's decisions, and given further consideration to the issues identified by the IPSASB. As a result, the staff proposals reflect the following:
  - (a) A number of paragraphs in the guidance have been deleted, in line with the IPSASB's decisions in December 2016.
  - (b) The reference to "in cash or in kind" in the definition of social benefits has been removed. Staff considers that the rest of the definition covers all social benefit transactions, and the reference to "in cash or in kind" is redundant.
  - (c) The reference to "insurance-based schemes" in the guidance on social benefits has been replaced by a reference to "insurance contracts". Staff considers that this clarifies the distinction being drawn.
  - (d) The reference to "to address the needs of society as a whole" in the definition of social benefits has been retained. Staff initially proposed adding the wording "Organized for the benefit of the population as a whole, or for a large section of the population" at the June 2016 meeting. This wording was intended to reflect the social nature of social benefit schemes. In September, the IPSASB agreed to revise the wording to that currently included in the definition. Staff notes that the concept of social benefits being for the benefit of the entire population, or society as a whole, is referred to in the Government Finance Statistics Manual<sup>1</sup>.
  - (e) Additional wording to explain the exclusion of geographical and other risks from the definition of social risks has been included in Basis for Conclusions (see paragraph [BC21\(c\)](#) in Agenda Item 8.3).

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<sup>1</sup> Paragraph 6.96 of GFSM 2014 includes the following sentence when describing social benefits: "These benefits are payable in cash or in kind to protect the entire population or specific segments of it against certain social risks."

5. In addition, the second sentence of the first paragraph of the guidance on social risks has been moved to the end of the section, to improve the flow of the text.
6. The revised definitions and guidance on social benefits and social risks are included shown in [Appendix A](#) to this Agenda Item (in mark-up from the text discussed at the December 2016 meeting).
7. At the December 2016 meeting, an observer suggested that there was a tension between the words “to address the needs of society as a whole” and the provision of benefits to individuals and households. The IPSASB instructed staff to consider this issue further, and discuss it with the observer.
8. Since the meeting, the observer noted that, in majority of cases, these social benefits are not addressing the needs of society as a whole, but rather a specific segment of the society. For example, unemployment insurance benefits only provide benefits to the unemployed segment of society. Similarly, society as a whole does not directly benefit from a social benefit payable to disabled persons. It is only the disabled segment of the society that receives those benefits.
9. If the IPSASB agrees with these concerns, it may wish to consider the following alternative definition of social benefits:

**Social Benefits** are benefits that are provided by a public sector entity:

- (a) To mitigate the effect of social risks that society as a whole, (or large segments of it) are exposed to; and
  - (b) To specific individuals and/or households who meet eligibility criteria related to the mitigation of the effect of social risks, rather than being universally accessible services.
10. Staff notes that this alternative would require minimal, if any, redrafting of the guidance. Staff also notes that the two sub-paragraphs in the definition describe the purpose of social benefits (a) and how they are provided (b).
11. The IPSASB also decided to include a definition of “universally accessible” in the ED. Staff has included the following definition in the draft ED ([Agenda Item 8.3](#)):

“Universally accessible services are those that are made available by a government entity for all individuals and/or households to access, and where eligibility criteria (if any) are not related to social risk.”
12. TBG members raised concerns regarding a definition of “universally accessible”. They considered that referring to universally accessible services in the definition of social benefits was an attempt to force an essentially rules-based exclusion into a principles-based definition. The TBG did not consider this was wholly successful. If the IPSASB shares these concerns, an alternative approach would be to:
  - (a) Remove the definition of universally accessible services;
  - (b) Remove the reference to universally accessible services in the definition of social benefits (and delete the last sentence of the guidance on social benefits); and
  - (c) Include additional text in the list of scope exclusions in paragraph 5 of the draft ED ([Agenda Item 8.3](#)), along with any Application Guidance the IPSASB considers necessary.

13. Staff notes that, if the IPSASB agrees with the deletion of the reference to “in cash or in kind”, the definitions of social benefits in cash, social benefits in kind and reimbursements are likely to be unnecessary. However, staff proposes deferring this decision until the IPSASB has determined the requirements for recognition and measurement, and whether references to “in cash or in kind” would be helpful in those sections of the ED.
14. Staff also notes that the definitions of social insurance, social security and social assistance are not required for the purposes of the scope of the project, or for defining social benefits and social risks. As with “in cash or in kind”, it is possible these definitions will be useful in the recognition and/or measurement sections of the ED. Staff therefore proposes that a decision to delete these definitions is not considered until these later sections are finalized.

#### **Decisions required**

15. Does the IPSASB support the definition of social benefits in [Appendix A](#) to this Issues Paper, or the alternative definition of social benefits in paragraph 9 above?
16. Does the IPSASB support the staff proposals regarding the scope of the project, the definition of social risks and the guidance on the definitions of social benefits and social risks?
  - (a) If so, should the guidance on the definitions be included in the Application Guidance section of the ED, as shown in the draft ED ([Agenda Item 8.3](#))?
  - (b) If not, does the IPSASB support the alternative approach of including universally accessible services in the list of scope exclusions?
17. Does the IPSASB support the staff proposals to defer a decision as to whether the definitions of social benefits in cash; social benefits in kind; reimbursements; social insurance; social security; and social assistance are required until later sections of the ED are finalized?

# Appendix A to Agenda Item 8.2.1

## Definitions of social benefit and social risks, and associated guidance

**Social Benefits** are benefits that are provided by a public sector entity:

- (a) To address the needs of society as a whole;
- (b) To mitigate the effect of social risks; and
- (c) Directly to specific individuals and/or households who meet eligibility criteria related to the mitigation of the effect of social risks, rather than being universally accessible; ~~and~~
- ~~(d) In cash or in kind.~~

*Guidance on the definition of social benefits:*

Social benefits are organized to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance ~~contracts-based schemes~~, which are organized for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each benefit covers all members of society; in some jurisdictions, social benefits are provided through a range of similar benefits that cover different segments of society. A benefit that covers a segment of society as part of a wider system of benefits meets the requirement that it addresses the needs of society as a whole.

The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society 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, regardless of income or wealth, 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.

Social benefits are only provided when eligibility criteria are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the scheme potentially covers the population as a whole, benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria.

~~Public sector entities may provide benefits directly to specific individuals and/or households, or may provide services which are universally accessible.~~

~~Where benefits are provided directly to specific individuals and/or households, the total amount of benefits provided varies directly with an individual or household's eligibility. For example, when an individual reaches retirement age and becomes entitled to a pension, the total amount of pension payable increases by the amount payable to that individual. Such benefits are social benefits.~~

~~Where benefits or services are universally accessible, the total amount of benefit or service provided is not dependent on an individual or household's eligibility. For example, where a public sector entity provides a universal health service, the entity is responsible for paying staff (doctors, nurses, etc.), providing assets such as hospitals and medical equipment, and incurring other expenses. When an individual moves into an area and becomes entitled to access the universal health service, this does not, except at the margin, result in the total level of service increasing. For these types of benefits, the level of service provided will generally only vary with significant changes in population. This provides evidence~~

~~that such benefits are not provided directly to specific individuals and/or households, and accordingly, such benefits do not meet the definition of a social benefit.~~

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 universally accessible, for example a universal healthcare service, these do not meet the definition of a social benefit for the purposes of this [draft] IPSAS<sup>2</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 risks relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status. ~~Risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks, and consequently benefits provided in respect of these risks are not social benefits.~~

The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.

For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the benefit arises from characteristics of the individuals and/or households – in this case a change in an individual's employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

Risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks, and consequently benefits provided in respect of these risks are not social benefits.

~~Public sector entities may provide benefits to mitigate the effect of risks other than social benefits. Such benefits are not social benefits, and are accounted for in accordance with other IPSASs.~~

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<sup>2</sup> Staff notes such benefits may meet the definition of a social benefit in GFS.

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

- ~~• Individuals and/or households could receive benefits when they meet certain eligibility criteria that originate from a social risk without making any contributions;~~
- ~~• Individuals and/or households could make contributions and receive benefits in the event of the occurrence of the specified social risks; and~~
- ~~• Individuals and/or 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.~~

# Agenda Item

## 8.2.2

### Insurance approach

#### Questions

1. The IPSASB is asked to decide how and when the insurance approach should be applied.

#### Detail

2. In the [Consultation Paper, Recognition and measurement of Social Benefits](#), the IPSASB consulted on an insurance approach to accounting for social benefits that was based on the IASB's proposals in [ED/2013/7, Insurance Contracts](#).
3. At its June 2016 meeting, the IPSASB agreed in principle that the ED should refer users to the forthcoming IFRS on insurance. This is currently expected to be issued in May 2017.
4. This Agenda Item provides a summary of the expected requirements of the forthcoming IFRS, and seeks the IPSASB's view on how to apply these to accounting for social benefits. Any members who are looking for further information on the forthcoming IFRS may find the series of webinars the IASB has issued on the forthcoming IFRS helpful; these can be found at <http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Pages/Webinar-Series.aspx>.

#### *Scope and applicability*

5. The forthcoming IFRS will apply to insurance contracts. Social benefits schemes generally do not involve contracts, and will, therefore, be outside the scope of the forthcoming IFRS. Consequently, the requirements in the IFRS will need to be applied by analogy. In directing preparers to the IFRS, the IPSASB will need to develop criteria as to when it is appropriate to apply the analogy.
6. Staff has considered the scope and definitions of an insurance contract in the forthcoming IFRS. This analysis can be found in [Appendix A](#) to this Agenda Item. Based on this analysis, staff considers that social benefit schemes will only be analogous to insurance contracts where:
  - (a) They are intended to be fully funded from contributions; and
  - (b) There is evidence that the public sector entity manages the scheme in the same way as the issuer of an insurance contract manages insurance contracts.
7. The scope of the forthcoming IFRS also includes transactions that staff does not consider to be relevant to the social benefits project. These are:
  - (a) Investment components (amounts that an insurance contract requires the entity to repay to a policyholder even if an insured event does not occur);
  - (b) Reinsurance contracts; and
  - (c) Contracts with participation features (where the policyholder participates in a share of clearly identified pool of underlying items).

*Coverage period and boundary of the insurance contract*

8. The definition of the coverage period in the IASB's ED is given below. This definition is expected to remain the same in the forthcoming IFRS.

"The period during which the entity provides coverage for insured events. That period includes the coverage that relates to all premiums within the boundary of the insurance contract."

9. Cash flows are within the boundary of an insurance contract when the entity can compel the policyholder to pay the premiums or has a substantive obligation to provide the policyholder with coverage or other services. A substantive obligation to provide coverage or other services ends when the entity can reassess the risks associated with an insurance contract or portfolio of contracts, and as a result, can set a price or level of benefits that fully reflects those risks.
10. The definition of the coverage period and the discussion of the boundary of the insurance contract clearly define which cash flows are to be taken into account in measuring the insurance contract. For a social benefit scheme to be analogous to an insurance contract, the social benefit scheme must have similarly clear boundaries.
11. For example, the boundary for a social benefit scheme may relate to a specific period of time. This could be the case for some accident insurance schemes, where the entity reviews the level of contributions or levies every year.
12. In another example, an entity's right to contributions in respect of a retirement pension scheme may commence when the individual enters the workplace. The entity's obligation to pay retirement benefits would end with the death of the individual. These events might define the scheme boundary. However, if the entity is able to amend the contribution rate or the benefits payable to reflect the risks associated with the scheme, the point at which the entity can reassess the risks would determine the scheme boundary.
13. As a consequence, it may be difficult to identify the boundary and coverage period of a social benefit scheme. Staff considers that unless the boundary and coverage period of a social benefit scheme can be clearly identified, it will not be possible to apply the insurance approach.

*Aggregation*

14. A portfolio is a group of contracts that is subject to similar risks (for example, contracts within each product line, such as annuities or whole-life) and managed together as a single pool.
15. Staff considers that a portfolio of insurance contracts would be analogous to a social benefit scheme.
16. At inception, portfolios are subdivided into contracts that are onerous and those that are not onerous. Those contracts that are not onerous are further subdivided into a group with contracts that have no significant risk of becoming onerous and a group with other profitable contracts. When allocating the contractual service margin (profit/surplus) for these two groups to profit and loss, annual cohorts are used.
17. As the contributions to social benefits schemes are set to cover the risks of society as a whole rather than individuals (unlike an insurance scheme), staff considers the subdivision of a social benefit scheme into groups that are onerous or not would not faithfully represent the nature of the



scheme. Instead, staff considers the entire scheme should be classified as either onerous or not, and if not, as either having no significant risk of becoming onerous or not.

18. For social benefit schemes where contribution or levy rates are reassessed annually, staff considers that the requirement to use annual cohorts when allocating any surplus to surplus or deficit is realistic.
19. Staff is seeking the views of the IPSASB as to whether annual cohorts are appropriate for other social benefit schemes, for example a retirement pension scheme where contribution rates are not reassessed annually.

#### *Measurement*

20. The IASB's ED includes two models for measuring insurance contracts—the general model and a simplified approach known as the premium allocation approach. These are described in [Appendix B](#) to this Agenda Item. Modifications to the general model for transactions that are not relevant to the social benefits project (see paragraph 7 above) are not discussed in this Agenda Item.

#### *Issues for the IPSASB to consider*

21. In considering how the measurement of insurance contracts can be applied to social benefit schemes, staff has identified a number of issues where decisions are required from the IPSASB:
  - (a) Discount rate. In developing the [CP](#), the IPSASB was of the view that the discount rate used in measuring a social insurance obligation should not include a liquidity adjustment. The IPSASB proposed that the discount rate approach in IPSAS 25, *Employee Benefits* (now superseded by IPSAS 39, *Employee Benefits*) was more appropriate for measuring social benefits. Respondents to the CP overwhelmingly supported this view (see Agenda Item 6.1.13 of the [June 2016 meeting](#)). The IPSASB has now decided to refer preparers to the forthcoming IFRS on insurance contracts. Should an ED on social benefits propose that preparers use the guidance on discount rates provided in IPSAS 39 rather than that in the IFRS on insurance costs?
  - (b) Risk adjustment. In the [CP](#), the IPSASB set out the advantages and disadvantages of including a risk adjustment when measuring social benefits. The CP sought the views of respondents as to which measurement basis should be used—the assumption price measurement basis (which would include a risk adjustment) or the cost of fulfillment measurement basis (which would exclude a risk adjustment). Respondents to the CP overwhelmingly supported the use of the cost of fulfillment measurement basis (see Agenda Item 6.1.12 of the [June 2016 meeting](#)). The IPSASB has now decided to refer preparers to the forthcoming IFRS on insurance contracts. Should an ED on social benefits propose that no risk adjustment is applied when measuring social benefits under the insurance approach?
  - (c) Premium allocation approach. The premium allocation approach was not discussed in the CP. However, some respondents considered that it would be appropriate for some social benefits. As the premium allocation approach is only intended to apply where it provides a reasonable approximation to the general model, staff considers that no amendment to the IFRS is required; preparers should be able to apply the approach where the criteria for doing so are met. The IPSASB is asked for its views on this issue.

*Status of the insurance approach*

22. At its June 2016 meeting, the IPSASB instructed staff to consider whether the insurance approach should be mandatory or optional.
23. As noted above, for social benefit schemes accounted for using the insurance approach, that approach is expected to provide the information that best meets users' needs. In order to hold the entity accountable for the social benefit scheme, users will need information as to whether the contributions are sufficient to meet the expected liabilities. Where a loss is recorded under the insurance approach, this will provide users with the information they need to question whether a scheme is sustainable without changes to contribution rates or benefits. Similarly, if a social benefit scheme has ongoing large surpluses, this will allow a debate as to whether that scheme is being used to subsidize other expenditure, and if so, whether this is appropriate. The fact that users' needs are best met by the insurance approach is the main reason for making the insurance approach mandatory.
24. The insurance approach is, however, expected to be more costly and complex to implement than the obligating event approach. Where actuarial estimates are required under the obligating event approach are required, only estimates of cash outflows are required. The insurance approach will require those estimates (as well as estimates relating to those individuals who are participating in a scheme but are not yet beneficiaries) along with estimates of cash inflows. In addition, the forthcoming IFRS will be a new standard, with significantly different requirements from existing standards, and it may take some time for the practical issues to be fully addressed. Applying these new requirements to social benefits will introduce a further level of complexity. This suggests that there may be cost/benefit reasons for not using the insurance approach, which is the main reason for making the insurance approach an optional approach.
25. Conversely, if an entity is genuinely managing a social benefit scheme as if it were a portfolio of insurance contracts, the entity may already have the information required to implement the insurance approach. It may also need that information in order to be able to effectively manage the social benefit scheme. This suggests that, where a social benefit scheme meets the criteria to be accounted for under the insurance approach, the costs associated with so doing may not be as high as it would initially appear.
26. A further advantage of making the insurance approach optional will arise where an entity is having difficulty determining whether the criteria for applying the insurance approach have been met. The entity could avoid expending additional resources to make that determination by electing to apply the obligating event approach.
27. However, making the insurance approach optional would carry the risk that very few entities adopt the approach, and that users are not provided with the most appropriate information about some social benefit schemes. Social benefit schemes that could be accounted for under the insurance approach are likely to have a different economic substance to other social benefit schemes, which the obligating event approach may not capture.
28. On balance, staff considers that the insurance approach should be optional, based on the cost/benefit reasons give above. Staff notes that this could be revisited at a future date, once entities have experience with applying the new IFRS and the insurance approach. Staff also notes that this is likely to be an appropriate topic for a specific matter for comment.

**Decisions required**

29. Does the IPSASB support the staff proposals that
- (a) The insurance approach is only applicable to social benefit schemes where:
    - (i) They are intended to be fully funded from contributions; and
    - (ii) There is evidence that the public sector entity manages the scheme in the same way as the issuer of an insurance contract manages insurance contracts.
  - (b) No amendment to the forthcoming IFRS is required in respect of the premium allocation approach; preparers should be able to apply the approach where the criteria for doing so are met.
  - (c) The insurance approach should be optional.
30. The IPSASB is asked to decide:
- (a) Whether an ED on social benefits should propose that preparers use the guidance on discount rates provided in IPSAS 39 rather than that in the IFRS on insurance costs; and
  - (b) Whether an ED on social benefits should propose that no risk adjustment is applied when measuring social benefits under the insurance approach.

Given the strong support for these proposals by respondents to the CP, staff suggests that it would be appropriate to include this guidance in the ED. Staff also suggests including a specific matter for comment seeking respondents' views now that the IPSASB has decided to refer preparers to the forthcoming IFRS on insurance contracts.

## Insurance approach – scope and applicability

1. The definition of an insurance contract in the IASB's ED is given below. This definition is expected to remain the same in the forthcoming IFRS. Staff considers that the text in *italics* would need to be replaced by the text in square brackets when applying the IFRS by analogy to social benefits.  
  

"A *contract* [social benefit scheme] under which *one party (the issuer)* [a public sector entity] accepts significant insurance risk from *another party (the policyholder)* [the beneficiaries of the social benefit scheme] by agreeing to compensate *the policyholder* [the beneficiaries] if a specified uncertain future event (*the insured event*) [(the social risk)] adversely affects *the policyholder* [the beneficiaries]."
2. Implicit in the definition of an insurance contract is the notion that the policyholder provides consideration. This is because insurance contracts require performance by both parties. As such, insurance contracts are exchange transactions.
3. At its June 2016 meeting, the IPSASB agreed in principle that only schemes that are intended to be fully funded through contributions could appropriately apply the insurance approach. This is consistent with the view that insurance contracts are exchange transactions. Social benefit schemes that are not intended to be fully funded through contributions—in other words, those that are intended to be subsidized through taxation or other general revenues—will be by definition non-exchange transactions.
4. At the December 2016 meeting, the IPSASB discussed the nature of social benefit contributions in the context of the obligating event approach. An updated analysis is included in the discussion on the key participatory events obligating event in the Basis for Conclusions (paragraphs BC61–BC114) of the draft ED ([Agenda Item 8.3](#)). Staff proposed that the non-exchange nature of social benefits and the fact that many contributory benefits are subsidized through general taxation or other government revenues suggests that the contributions are a form of taxation, not consideration for the future receipt of a social benefit.
5. At that meeting, staff noted that if contributions are a form of consideration, this could provide the past event needed to recognize a legal obligation and therefore a liability; if considerations are a form of taxation, there is no past event that results in the recognition of a legal obligation.
6. Staff considers that, if the analogy to an insurance contract is to be applied, contributions would need to be considered as a form of consideration. As insurance contracts are exchange transactions, staff considers that only those social benefit schemes that are intended to be fully funded from contributions could satisfy that criteria. This is consistent with the IPSASB's in principle decision at its June 2016 meeting that only schemes that are intended to be fully funded through contributions could appropriately apply the insurance approach.
7. At its June 2016 meeting, the IPSASB also directed staff to consider other issues identified by IPSASB members as relevant to determining whether the insurance approach is appropriate - "commercial substance", "looks and feels" like insurance, and users' needs and accountability.
8. Staff considers that the first two issues will only be satisfied where a social benefit scheme is intended to be fully funded by contributions. A scheme which is intended to be subsidized by

taxation is unlikely to have commercial substance; nor will it look and feel like an insurance contract. Insurance contracts are exchange transactions between the insurer and the policyholder. Social benefits that are intended to be fully funded from contributions can be seen as arrangements between the public sector entity and the participants in the scheme; where social benefits are subsidized through taxation, this introduces additional parties into the arrangements.

9. Staff also considers that, for these issues to be satisfied, the public sector entity will need to manage the scheme in the same way as the issuer of an insurance contract manages insurance contracts.
10. This will be a matter of judgment for the preparer to determine. However, staff considers that the following factors will be relevant in making this determination:
  - (a) The entity considers is bound by the scheme in a similar manner to an insurer being bound by an insurance contract. For example, there may be evidence that the entity considers that it can amend the terms of the scheme (such as where the entity has previously amended the terms of the scheme; or has proposed retrospective changes to the scheme). In such cases, the entity will not be bound in a similar manner to an insurer, and the social benefit scheme will not have commercial substance or look and feel like an insurance contract.
  - (b) Assets relating to the social benefit scheme are held in a separate fund, or otherwise earmarked to provide benefits to participants. If an entity does not separately identify amounts relating to social benefits, this will provide evidence that the entity considers the contributions as a form of taxation. The social benefit scheme will not have commercial substance or look and feel like an insurance contract. There will also be practical difficulties with applying the measurement requirements in the forthcoming IFRS on insurance if the assets associated with a social benefit scheme are not separately identified.
  - (c) The legislation that establishes the social benefit gives enforceable rights to participants in the event that the social risk occurs. Insurance contracts give such rights to policyholders. If the social benefit scheme does not also include such rights, then any benefits provided by the entity will have a discretionary nature. The social benefit scheme will not have commercial substance or look and feel like an insurance contract.
  - (d) There is a separate entity established by the government, which is expected to act like an insurer in relation to a social benefit. However, staff notes that the forthcoming IFRS will apply to insurance contracts, not just insurance companies. Consequently, staff considers that, while the existence of a separate entity will be an indicator that the insurance approach could be appropriate, this is not a requirement.
11. Staff considers that, where a social benefit is intended to be fully funded from contributions, has commercial substance and looks and feels like an insurance contract (as described above), users' needs could be met by the use of the insurance approach. In order to hold the entity accountable for the social benefit scheme, users will need information as to whether the contributions are sufficient to meet the expected liabilities. The insurance approach will provide that information.
12. Conversely, for social benefit schemes that are not intended to be fully funded from contributions, and where any contributions are therefore considered to be a form of taxation, the obligating event will best meet users' needs. For these social benefits, users are likely to need information regarding

the amount of future taxation (including future contributions) or other general revenue that will be required to discharge the entity's current liabilities.

13. Taking the above discussion into account, staff considers that social benefit schemes will only be analogous to insurance contracts where:
  - (a) They are intended to be fully funded from contributions; and
  - (b) There is evidence that the public sector entity manages the scheme in the same way as the issuer of an insurance contract manages insurance contracts.

**Insurance approach – measurement****General model**

1. At initial recognition, the insurance contract is measured at:
  - (a) The fulfillment cash flows; and
  - (b) The contractual service margin (profit).
2. The fulfillment cash flows are comprised of three elements:
  - (a) Future cash flows, being the expected cash flows from premiums, claims and benefits.
  - (b) Discounting—an adjustment that converts the future cash flows into current amounts. The discount rates used should be consistent with observable current market prices for financial instruments with cash flows whose characteristics are consistent with those of the insurance contract, in terms of, for example, timing, currency and liquidity.

And

  - (c) The risk adjustment, defined in the ED as “the compensation that an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise as the entity fulfils the insurance contract.” The risk adjustment relates to non-financial risks, and so excludes any risks associated with changes to, for example, a specified interest rate or a financial instrument price.
3. The contractual service margin represents the unearned profit an entity will recognize as it provides services under an insurance contract. At initial recognition it is measured as the positive (net inflow) difference between the risk-adjusted present value of expected inflows and outflows at inception.
4. If there is a negative difference (net outflow) between the risk-adjusted present value of expected inflows and outflows at inception, the insurance contract is onerous, and the entity recognizes a loss at initial recognition.
5. At the end of each reporting period, the insurance contract is measured at:
  - (a) The fulfillment cash flows at that date; and
  - (b) The remaining amount of the contractual service margin at that date (i.e., the amount of the contractual service margin that has not been recognized in profit or loss at that date because it relates to future services).
6. Changes in future cash flows from one period to another are treated as follows:
  - (a) Changes related to past and current services (actual amounts) are reflected in profit and loss and presented as part of the underwriting result;
  - (b) Changes related to future services (estimates) are reflected in the contractual service margin; and
  - (c) Any changes not related to future services are reflected in profit and loss and presented as part of the underwriting result.

7. Changes in discounting from one period to another are treated as follows:
  - (a) The unwinding of the discount (time value of money) is reflected in profit or loss, and presented as part of the investment result.
  - (b) The effect of any change in the discount rate on fulfilment cash flows may be presented as part of the investment result in profit and loss, or in other comprehensive income. This is an accounting policy choice for the reporting entity.
8. Changes in the risk adjustment from one period to another are treated as follows:
  - (a) Changes related to past and current services are reflected in profit and loss, and presented as part of the underwriting result, as the entity is 'released from risk'.
  - (b) Changes related to future services are reflected in the contractual service margin.
9. The remaining contractual service margin is recognized in profit or loss, and presented as part of the underwriting result, as the entity provides coverage. This is based on the passage of time.

#### **Premium allocation approach**

10. The premium allocation approach is a simplified approach which is included in the forthcoming IFRS as a practical expedient. Entities may opt to use the premium allocation approach where it provides a reasonable approximation to the general model. This is the case where:
  - (a) The coverage period is 12 months or less; or
  - (b) Both the following apply:
    - (i) No significant changes in cash flow estimates are likely to occur before the claims are incurred; and
    - (ii) No significant judgement is needed to allocate the premium over time.
11. The IASB's ED notes that the measurement of an insurance contract can be regarded as comprising two parts:
  - (a) A liability for incurred claims; and
  - (b) A liability for remaining coverage (the entity's obligation to provide coverage to the policyholder during the remaining coverage period).
12. The premium allocation approach is used to measure the liability for remaining coverage; any liability for incurred claims is measured using the general model.
13. On initial recognition, the entity records a liability at the present value of the premiums received (less any acquisition costs that are not expensed). However, discounting is not required if cash flows are expected to occur within a year.
14. Subsequently, the entity:
  - (a) Reduces the liability for the passage of time (recognized as contract revenue);
  - (b) Increases the liability for any additional premiums received; and
  - (c) Recognizes a liability for incurred claims (using the general model, including a risk adjustment but with no contractual service margin).



## Obligating event approach

### Questions

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

### Detail

2. At its June 2016 meeting, the IPSASB agreed that, under the obligating event approach, the 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. Consequently, a range of obligating events would need to be included in the ED. The IPSASB did not consider what those obligating events might be at its June 2016 meeting.
3. At its September 2016 meeting, the IPSASB considered respondents' comments on the points at which an obligating event might arise for social benefits under the obligating event approach. Further details can be found in the [September 2016 meeting papers](#).
4. At that meeting, the IPSASB agreed that:
  - (a) The ED should include the *threshold eligibility obligating event*; and
  - (b) The ED should treat the *claim has been approved and claim is enforceable obligating events* as subsets of the eligibility criteria to receive the next benefit have been satisfied obligating event.
5. The IPSASB did not reach any conclusions regarding the *key participatory event obligating event*, and the additional event suggested by respondents—that a *liability accumulates over time*. The IPSASB instructed staff to undertake further work on these obligating events.
6. At the IPSASB's December 2016 meeting, staff presented a detailed analysis of the key participatory events obligating event and the liability accumulates over time obligating event. Staff concluded that neither of these obligating events should be progressed in the ED. Further details can be found in the [December 2016 meeting papers](#).
7. At that meeting, the IPSASB did not reach any conclusions about these events. Instead, the IPSASB indicated that it wished to consider these possible obligating events alongside the insurance approach. The insurance approach is addressed in [Agenda Item 8.2.2](#) at this meeting.
8. At the December 2016 meeting, the IPSASB did not identify any fundamental questions with staff's analysis, but instructed staff to update the analysis to:
  - (a) Include linkages with the insurance approach.  
And
  - (b) Acknowledge that, under an insurance contract, the coverage period can begin—and hence recognition can occur—before premiums are paid. Staff considers that, in these cases, the economic benefits received by the insurer will be the unconditional right to receive the premium, rather than the receipt of the premium itself.

9. To expedite the development of the ED, staff has included the updated analysis in the Basis for Conclusions in the draft ED ([Agenda Item 8.3](#)). Paragraphs BC30–BC60 set out the rationale for including the threshold eligibility obligating event and the eligibility criteria to receive the next benefit obligating event (see paragraph 4 above). Paragraphs BC61–BC114 set out the analysis in relation to key participatory events and liability accumulates over time.
10. In developing the analysis included in paragraphs BC61–BC114 of the Basis for Conclusions, staff has made the following changes from the analysis provided at the December 2016 meeting:
  - (a) The wording has been amended to make it appropriate for the Basis for Conclusions, rather than a staff paper;
  - (b) Additional text has been added (shown in mark-up) in response to the IPSASB's instructions at the December 2016 meeting (see paragraph 8 above); and
  - (c) Paragraphs that discussed alternative approaches in case the IPSASB did not agree with the staff recommendations have been omitted.
11. Because the IPSASB had not yet decided whether any other obligating events should be included in the ED, the IPSASB has yet to fully debate when the “eligibility criteria for the next benefit” and the threshold eligibility” approaches would be applicable.
12. The analysis in paragraphs BC30–BC60 of the Basis for Conclusions indicates staff’s proposals for when each obligating event would be applicable:
  - (a) The eligibility criteria for the next benefit would be appropriate where there are ongoing eligibility criteria to be met.
  - (b) The threshold eligibility criteria would be appropriate where there are no ongoing eligibility criteria to be met.

The IPSASB’s views on these proposals are sought.
13. Staff’s analysis suggests that “staying alive” is not an implicit ongoing eligibility criteria that affects recognition, but only measurement. This is because, if “staying alive” was considered to affect recognition, there would always be ongoing eligibility criteria to be met, and the threshold eligibility criteria obligating event would be limited to legal obligations.
14. The result of these conclusions is illustrated in the Implementation Guidance (paragraph IG3) in the draft ED ([Agenda Item 8.3](#)).
15. Some TBG members have questioned staff’s conclusion that, where there were no ongoing eligibility criteria other than staying alive, there is always a non-legally binding obligation for future benefits once threshold eligibility requirements are met.
16. Some TBG members also have concerns that:
  - (a) Staff’s analysis may be inconsistent with the IPSASBs current thinking on similar non-exchange expenses excluded from this project, particularly universal services (generally, such programs have no ongoing eligibility criteria); and
  - (b) Staff’s reference to paragraph 5.21 of the Conceptual Framework may not be relevant, as it relates to legal obligations in the context of exchange transactions.

17. Staff notes that there has been a lack of consensus on this issue in previous IPSASB projects on social benefits. The IPSASB made specific reference to this issue in the CP (see the extract in [Appendix A](#) to this Issues Paper). Respondents views on this topic were mixed, and respondents did not identify any additional conceptual reasons for preferring one approach to another.
18. The IPSASB is asked to consider whether it supports staff's proposals in paragraphs 12–14. If not, the IPSASB is asked to identify an alternative approach, or identify any additional analysis that is required.

**Decisions required**

19. Does the IPSASB support the staff proposals that:
  - (a) The key participatory event obligating event; and
  - (b) The liability accumulates over time obligating eventShould not be included in the ED?
20. If the IPSASB does not support the staff proposals above, the IPSASB is asked to identify the elements of the analysis in paragraphs BC61–BC114 of the Basis for Conclusions with which it disagrees.
21. Does the IPSASB supports staff's proposals in paragraphs 11–13?
22. If the IPSASB does not support the staff proposals above, the IPSASB is asked to identify an alternative approach, or identify any additional analysis that is required.

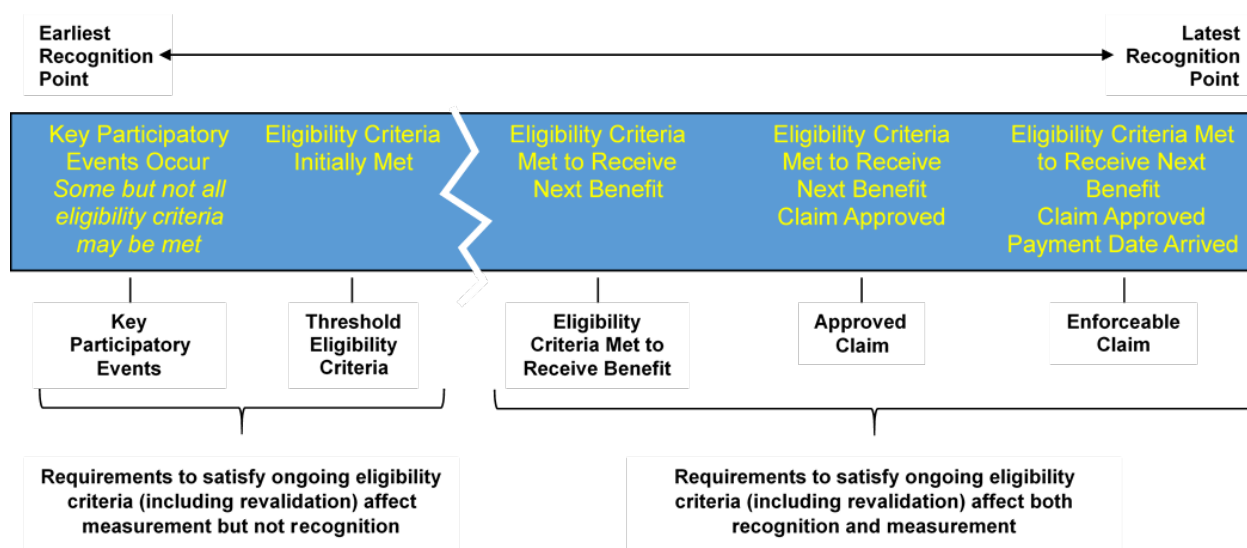
# Appendix A to Agenda Item 8.2.3

## Extract from CP, *Recognition and Measurement of Social Benefits*

*How should a requirement to satisfy ongoing eligibility criteria (including revalidation) be taken into account?*

4.58 Different views of when an obligating event occurs have been described above. These sub-options treat requirements to satisfy ongoing eligibility criteria (including revalidation) in one of two ways, as summarized in Figure 4.

**Figure 4: How requirements to satisfy ongoing eligibility criteria (including revalidation) affect the five points at which an obligating event may give rise to amounts being recognized in the financial statements**



4.59 Many schemes delivering social benefits require recipients who have satisfied threshold eligibility criteria to revalidate their eligibility at a future date in order to maintain their entitlement to benefits. Requirements to satisfy eligibility criteria (including revalidation) are normally laid down in the legislation or regulations governing the scheme. Some approaches consider that a requirement to satisfy ongoing eligibility criteria (including revalidation) is only taken into account when considering the measurement of a liability. Other approaches consider that a requirement to satisfy ongoing eligibility criteria (including revalidation) is taken into account when considering the recognition of a liability, as well as when measuring that liability. This distinction influences the extent of the present obligation and, if recognition criteria are met, the measurement of the resultant liability.

4.60 In all the sub-options discussed above, a liability is initially recognized when the relevant obligating event (which varies from sub-option to sub-option) occurs. The nature of the liability recognized depends on whether any requirement to satisfy ongoing eligibility criteria (including revalidation) in the future is considered to affect the recognition of the liability.

4.61 A requirement to satisfy ongoing eligibility criteria (including revalidation) is not considered to affect the recognition of the liability under the key participatory events and threshold eligibility criteria sub-options. The liability at initial recognition is for all future benefits. The likelihood of an individual

continuing to meet eligibility criteria at a future date is taken into account when measuring the liability, but does not affect the recognition of the liability.

- 4.62 For some benefits, eligibility will be re-asserted at intervals after a period of ineligibility. Should measurement include all periods of eligibility or just the period until the beneficiary becomes ineligible? This decision affects the measurement of a liability under both the key participatory event and threshold eligibility criteria sub-options. An example of this scenario is unemployment benefits, where individuals may have alternating periods of employment and unemployment.
- 4.63 A requirement to satisfy ongoing eligibility criteria (including revalidation) is considered to affect both the recognition and measurement of the liability under the eligibility criteria met to receive the next benefit, approved claim and enforceable claim sub-options. The liability at initial recognition is for benefits receivable only until the next point in time at which eligibility criteria are to be met. When a recipient meets the eligibility criteria and validates their entitlement at future dates, further amounts are recognized as the criteria are met. The likelihood of an individual continuing to meet eligibility criteria up to the next validation point is still taken into account when measuring the liability in these circumstances.
- 4.64 It follows that, for these sub-options, the extent of a present obligation cannot exceed the maximum amount that an individual is entitled to receive from one validation point to the next. An entity can avoid providing further benefits beyond the next validation date. Liabilities may be lower than this maximum. This could occur where an individual's eligibility ceases prior to the next validation point, for example when an individual claiming unemployment benefit starts a new job.
- 4.65 Some argue that "staying alive" is an implicit eligibility criterion for all schemes as an entity will not have to provide further benefits if an individual were to die. For some schemes, this may be an explicit criterion.

*Presentational considerations and measurement consequences*

- 4.66 Some who have reservations about recognizing expenses and liabilities before all eligibility criteria have been satisfied also question whether such an approach faithfully represents an entity's financial performance and financial position. Those who hold this view would consider all eligibility criteria to have been satisfied under the eligibility criteria met to receive the next benefit sub-option, the approved claim sub-option, and the enforceable claim sub-option, but not the key participatory events sub-option or threshold eligibility criteria sub-option. They believe that recognizing expenses and liabilities related to social benefits on the face of the statement of financial performance and the statement of financial position is inappropriate for what they consider are commitments, but not present obligations. They consider that presenting the financial statements on this basis does not faithfully represent the overall financial position of an entity, and does not provide relevant information to users of those financial statements. They also consider that recognition would present a misleading view of financial health by showing a government in an unsound financial light when that may not be the case.
- 4.67 In this context, most standard setters that have considered the issue currently take the view that a government's right to tax does not give rise to an intangible asset that would counter-balance the amount reported as a liability for social benefits recognized before all eligibility criteria have been satisfied. The IPSASB explicitly formed such a view in the Conceptual Framework.

- 4.68 Some who have reservations about recognizing expenses and liabilities before all eligibility criteria have been satisfied consider that the potential impact of the volatility of actuarial assumptions may distort the financial statements. They consider it possible that the actuarial adjustments recognized in a reporting period may exceed other transactions. They do not consider that financial statements prepared on this basis would provide information that is useful for accountability purposes.
- 4.69 Those who support recognizing expenses and liabilities before all eligibility criteria have been satisfied do not accept the above arguments and consider that such transactions and other events meet currently accepted recognition and measurement criteria and should be recognized. According to this view it is not acceptable to exclude items because of their magnitude or volatility, and because recognition might not show a government in a sound financial light. They may also consider that recognition provides useful information about intergenerational equity.

# Agenda Item

## 8.2.4

### Presentation

#### Questions

1. The IPSASB is asked to provide 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, September and December 2016 meetings, the IPSASB instructed staff to consider various issues related to presentation and disclosure. This Agenda Item addresses a number of these issues to the extent possible prior to decisions on recognition and measurement being taken.

#### *Disclosure framework*

4. At its December 2016 meeting, the IPSASB considered a disclosure framework presented by staff. The IPSASB was supportive of the general direction, and the use of headings in the disclosure framework was thought to be helpful. The IPSASB did, however, urge caution over the requirement for forward looking information in the notes to the financial statements. The IPSASB instructed staff to develop a range of options, in particular with respect to the forward looking information.

#### Disclosure categories

5. At the December 2016 meeting, staff proposed a disclosure framework with the following three categories:
  - (a) Disclosures that explain the characteristics of its social benefit schemes and risks associated with them;
  - (b) Disclosures that identify and explain the amounts in its financial statements arising from its social benefit schemes; and
  - (c) Disclosures that describe how its social benefit schemes may affect the amount, timing and uncertainty of the entity's future cash flows.
6. These categories are based on the categories of disclosures included in IPSAS 39, *Employee Benefits*. Users' information needs in respect of at least some social benefits are expected to be similar to those for defined benefit schemes. The IASB's ED on insurance includes similar—but not the same—categories of disclosure. In particular, that ED has fewer requirements regarding the characteristics of an insurance portfolio.
7. Given the IPSASB's support for the general direction of the disclosure framework at the December 2016 meeting, staff proposes retaining these three categories, subject to any amendments the IPSASB wishes to make.

#### Applicability of disclosure categories

8. Staff notes that IPSAS 39 includes three disclosure categories for defined benefit schemes, but is less prescriptive in respect of other employee benefits. Staff considers that users' information needs regarding social benefits may differ depending on the nature of the social benefit and how the benefit is accounted for.
9. In particular, the IPSASB will need to consider whether social benefits accounted for under the insurance approach should:
  - (a) Apply the disclosures in the IASB's forthcoming IFRS;
  - (b) Apply disclosures set out in the social benefits ED; or
  - (c) A mixture of the two.
10. Staff considers that users' information needs regarding social benefits accounted for under the insurance approach are most likely to be met through the disclosures in the forthcoming IFRS. However, as noted in paragraph 6 above, that Standard is not expected to include significant disclosure requirements regarding the characteristics of an insurance portfolio. Staff considers that information regarding the characteristics of a social benefit will be relevant to users of the financial statements, and should be included in the ED on social benefits.
11. The IPSASB has yet to decide which obligating events should be included in the social benefits ED. If the IPSASB accepts the staff recommendations that two obligating events are included—threshold eligibility criteria and eligibility criteria for the next benefit—users' information needs may be different depending on the obligating event. For example, it is doubtful that disclosures that describe how social benefit schemes affect the amount, timing and uncertainty of the entity's future cash flows will be as relevant for the eligibility criteria for the next benefit. This is because, in most cases, the next benefit will be provided within the next twelve months, significantly reducing any uncertainty.
12. If the IPSASB accepts the staff recommendations regarding the insurance approach and the obligating events, staff considers that three categories of disclosure set out in paragraph 5 above could be applied as follows:

	Insurance approach	Threshold eligibility criteria	Eligibility criteria for next benefit
<b>Characteristics and risks</b>	✓	✓	✓
<b>Amounts in financial statements</b>	IFRS on insurance	✓	✓
<b>Amount, timing and uncertainty of future cash flows</b>		✓	N/A

13. The IPSASB is asked whether it supports this view.



Level of aggregation/disaggregation

14. The IASB's ED on insurance contracts requires that "An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. The entity shall aggregate or disaggregate information so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics." Examples of possible disaggregation bases provided in the ED are type of contract; geographical area; or reporting segment.
15. Staff considers that different social benefit schemes (the equivalent to different types of insurance contract) should be reported separately. The IPSASB notes that, for some social benefits, eligibility criteria may vary depending on the economic situation in different regions. In those circumstances, a geographical disaggregation may provide useful information for the users of the financial statements.
16. The IPSASB is asked whether it supports staff's view that different social benefit schemes should be reported separately. The IPSASB is also asked for its views on whether any further disaggregation should be required or encouraged.

Level of detail to be reported

17. Given the different nature of social benefit schemes, staff considers that entities will need to exercise their judgment in determining whether particular disclosures provide the appropriate level of detail for a social benefit scheme, or whether they provide too much or too little detail for that scheme.
18. Similar issues will arise with insurance contracts, and the IASB's ED addresses this by stating that:
  - (a) If any of the disclosures are not considered relevant in meeting the disclosure objectives, they may be omitted from the financial statements; and
  - (b) If the disclosures provided are insufficient to meet the disclosure objectives, an entity shall disclose additional information that is necessary to meet those requirements.
19. Staff considers that similar wording would be helpful in addressing the wide variety of social benefit schemes, and is seeking the IPSASB's view on this.

Disclosures that explain the characteristics of its social benefit schemes and risks associated with them

20. As discussed in paragraphs 8–13 above, staff is proposing that this disclosure category would apply to all social benefit schemes, including those accounted for using the insurance approach.
21. Staff considers that these disclosures should be narrative in nature; numerical values would generally be covered under the other categories of disclosure (amounts in the financial statements, and future cash flows).
22. Based on the disclosures proposed at the December 2016 meeting, staff proposes the following requirements relating to the characteristics and risks of social benefit schemes:
  - (a) Information about the characteristics of its social benefit schemes, including:
    - (i) The nature of the benefits provided by the scheme (for example, retirement benefits, unemployment benefits, etc.).

- (ii) A description of the legislative framework governing the scheme, for example, the eligibility criteria that must be satisfied to receive the social benefit, and whether there is an ongoing requirement to satisfy those criteria.
  - (iii) A description of how the scheme is funded, including whether the funding for the scheme is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means.
  - (b) A description of the risks to which the plan exposes the entity. For example, if the scheme provides unemployment benefits, the scheme may expose the entity to a concentration of risk relating to recession.
  - (c) A description of any amendments to the benefits provided by the scheme.
23. The IPSASB is asked whether it supports the inclusion of these disclosures.

Disclosures that identify and explain the amounts in its financial statements arising from its social benefit schemes

24. As discussed in paragraphs 8–13 above, staff is proposing that this disclosure category would apply to all social benefits accounted for using the obligating event approach.
25. Staff has not developed detailed requirements at this stage, as these will need to be developed in parallel with the recognition and measurement requirements. These requirements will be dependent on the obligating events the IPSASB decides to include in the ED.
26. However, staff considers that disclosures will need to cover the following items:
- (a) Statement of financial position
    - (i) Social benefit liabilities, and a reconciliation of changes in the liability in the reporting period; and
    - (ii) Any related assets, and a reconciliation of changes in the liability in the reporting period.
  - (b) Statement of financial performance
    - (i) Expenses (by category) in the reporting period; and
    - (ii) Any related revenue recognized in the reporting period.
  - (c) Cash flow statement
    - (i) Expenses paid, contributions received and other cash flows in the reporting period.
  - (d) The basis on which the discount rate or rates have been determined; and
  - (e) The significant assumptions used.
27. Staff notes that the latter two items (discount rate and assumptions used) may be more relevant to social benefit schemes where the liability is not expected to be settled by the end of the next reporting period.
28. The proposed disclosures reflect a gross presentation. The IPSASB debated this issue at its December 2016 meeting. Although some members commented that it was too early to make a firm decision, other members indicated that the arguments in the issue paper supporting gross

presentation were persuasive. This analysis has been included at [Appendix A](#) to this Agenda Item. Minor changes to reflect the proposals regarding the insurance approach are shown in mark-up.

29. The IPSASB is asked whether it supports staff's proposals regarding these disclosures.

Disclosures that describe how its social benefit schemes may affect the amount, timing and uncertainty of the entity's future cash flows

30. As discussed in paragraphs 8–13 above, staff is proposing that this disclosure category would apply to social benefits which are recognized using the threshold eligibility criteria obligating event. This is subject to the decisions the IPSASB takes at this meeting regarding the obligating events to be included in the ED.
31. At its December 2016 meeting, the IPSASB instructed staff to develop a range of options for this disclosure category. Staff has not developed detailed requirements at this stage, as these will need to be developed in parallel with the recognition and measurement requirements.
32. The IPSASB is asked to consider the various options identified below, and agree the disclosures that should be included in the ED in respect of future cash flows:
- (a) Information selection—what information should be provided in respect of future cash flows?
    - (i) Narrative description of how future cash flows are expected to change. This would be the simplest information to provide but may not satisfy the QC of verifiability.
    - (ii) Undiscounted future cash flows. This would provide information about the assumptions made in determining the liability for a social benefit scheme, and may be more understandable than discounted future cash flows.
    - (iii) Maturity tables. This would provide information about the liability, disaggregated into different time periods. This might be useful in explaining the uncertainty over the amounts, as amounts are likely to be more certain the closer they are to the reporting period.
    - (iv) Present value of future cash flows. This would provide useful information about how amounts in the statement of financial performance have been calculated. However, the information may be difficult to understand.
    - (v) Sensitivity analysis. An entity would be required to provide information about how cash flows (or the liability) would change if the assumptions (including the discount rate if present value information is being disclosed) were varied.
    - (vi) External reports. An approach that could supplement or replace the detailed disclosures in the financial statements would be to refer users to an external report, for example an actuarial report, that includes the details about how the liability has been determined. This approach is permitted by IAS 26, *Accounting and Reporting by Retirement Benefit Plans*. If the IPSASB decides to permit this approach, it will need to decide whether a minimum level of disclosure needs to be retained in the notes to the financial statements.
  - (b) Information location—where should details of future cash flows be included?
    - (i) In the notes to the general purpose financial statements: or

- (ii) In a separate general purpose financial report.
- (c) Level of aggregation—what level of detail should be provided about future cash flows?
  - (i) Each social benefit scheme. This would be consistent with the disclosures proposed in respect of the amounts in the financial statements.
  - (ii) Entity level. Where an entity provides a range of social benefits, the information about those schemes would be aggregated. This would simplify the information provided and reduce the amount of disclosures required, but may not provide all the information users need about individual social benefit schemes.
  - (iii) Whole of government level. This would permit the presentation of social benefit liabilities in the context of future taxation revenues. RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, may provide a suitable basis for disclosures at the whole of government level. If the IPSASB decides that reporting information about future cash flows at the whole of government level is appropriate, it will also need to consider:
    - a. Whether long-term sustainability information should be mandatory or optional; and
    - b. How this information should be referred to in the financial statements of individual entities that provide social benefits.

#### *Transitional arrangements*

33. At its December 2016 meeting, the IPSASB agreed that a disclosure where a liability could not be measured in a way that meets the QCs should be limited to an implementation period, and should be included within the transitional provisions. Staff proposes that this is limited to the first financial statements produced following the effective date of a future IPSAS on social benefits. The IPSASB's views are sought on this issue.

#### **Decisions required**

34. The IPSASB is asked to agree:
- (a) The disclosure categories (characteristics and risks, amounts in financial statements, and future cash flows);
  - (b) Applicability of the disclosure categories (characteristics and risks for all social benefits; amounts in financial statements for social benefits accounted for under the obligating event approach; and future cash flows for social benefits recognized when threshold eligibility criteria have been satisfied);
  - (c) Level of aggregation/disaggregation (disclose individual social benefit schemes separately, and decide whether any further disaggregation is required);
  - (d) Level of detail to be reported (based on the IASB's proposed wording);
  - (e) Disclosures that explain the characteristics of its social benefit schemes and risks associated with them (does the IPSASB support the staff proposals);

- (f) Disclosures that identify and explain the amounts in its financial statements arising from its social benefit schemes (does the IPSASB support the staff proposals, including the proposal that the ED adopts a gross presentation);
- (g) Disclosures that describe how its social benefit schemes may affect the amount, timing and uncertainty of the entity's future cash flows (which options does the IPSASB wish to include in the ED); and
- (h) Transitional arrangements (a disclosure where a liability could not be measured in a way that meets the QCs should be limited to the first financial statements produced following the effective date).

# Appendix A to Agenda Item 8.2.4

## Presentation: gross versus net presentation

1. At its June 2016 and September 2016 meetings, the IPSASB raised the issue of gross versus net presentation, noting that the approach selected will affect measurement as well as presentation.
2. IPSAS 39, *Employee Benefits*, adopts the net presentation approach. This approach was taken from the equivalent IASB standard, IAS 19, *Employee Benefits* (revised 2011), and was a departure from previous requirements. Paragraph BC84 of IAS 19 (revised) summarizes the two approaches.

Supporters of both the net interest approach and the expected return approach reasoned that their favoured approach produces more relevant, comparable and understandable information. These contrasting views may reflect how different respondents consider the net defined benefit liability (asset) recognised in the statement of financial position as either comprising two components (the plan assets and the defined benefit obligation), which are measured separately but presented together (the gross view), or representing a single amount owed to, or from, the plan (the net view)...

3. The IASB came to the view that the net approach was appropriate for employee benefits because the surplus or deficit on a defined benefit plan represents the balance outstanding between the entity and the plan (or the employees). Because defined benefit plans provide deferred remuneration, the surplus or deficit can be viewed as the amount the entity has contributed in excess of its obligations (surplus) or, more often, the amount the entity has yet to contribute to satisfy its obligations. In either case, there is a single figure owing between the entity and the plan.
4. Net presentation is also discussed in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*:

64. **In the statement of financial performance, the expense relating to a provision may be presented net of the amount recognized for a reimbursement.**
65. Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses, or suppliers' warranties). The other party may either reimburse amounts paid by the entity, or pay the amounts directly. For example, a government agency may have legal liability to an individual as a result of misleading advice provided by its employees. However, the agency may be able to recover some of the expenditure from professional indemnity insurance.
66. In most cases, the entity will remain liable for the whole of the amount in question, so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognized for the full amount of the liability, and a separate asset for the expected reimbursement is recognized when it is virtually certain that reimbursement will be received if the entity settles the liability.
67. In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case, the entity has no liability for those costs, and they are not included in the provision.

5. Under IPSAS 19, assets and liabilities are presented gross unless a reimbursement (such as an insurance contract) reduces (rather than offsets) the entity's liability.
6. Staff notes that some social benefit schemes may have similarities with defined benefit schemes under IPSAS 39; such schemes would be fully funded from contributions, with no subsidy from taxation. In such cases, it might be possible to consider any balance as owing between the entity and scheme participants.
7. However, most social benefits will not fall into this category. Most social benefit schemes are not fully funded through contributions. These schemes will require funding from additional sources such as general taxation or, in some countries, sovereign wealth funds. Consequently, it is not possible to consider any balance as owing between the entity and scheme participants.
8. For this reason, staff does not consider that IPSAS 39 and IAS 19 (revised) provide a rationale for the net presentation of these social benefits.
9. Staff also considers that an entity's right to receive additional funding, such as general taxation (either directly or as a transfer from another public sector entity) or from a sovereign wealth fund would not reduce its liability to provide social benefits. Consequently, staff considers that it would be appropriate to use the gross presentation model when accounting for these social benefit schemes.
10. Staff considers that ~~many~~ the only social benefit schemes that could be considered as giving rise to a balance owing to or from scheme participants are those that are fully funded from contributions and will be accounted for using the insurance approach. Consequently, staff recommends that all social benefit schemes that are accounted for under the obligating event approach should adopt the gross presentation, as this will satisfy the qualitative characteristic (QC) of comparability.

Exposure Draft [XX]  
[Issued]  
*Comments due: [Date]*

*Proposed International Public Sector Accounting  
Standard®*

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## Social Benefits





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

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

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

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

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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## REQUEST FOR COMMENTS

This Exposure Draft, *Social Benefits*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [DATE].**

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

### Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits.

### Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

**[SMCs to be agreed by the IPSASB]**

## EXPOSURE DRAFT XX, SOCIAL BENEFITS

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## Objective

1. This [draft] IPSAS sets out the principles for the recognition, measurement, presentation and disclosure of social benefits.
2. The objective of this [draft] IPSAS is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about a social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:
  - (a) The nature of social benefits provided by the entity, and the key features of the operation of the scheme; and
  - (b) The impact of social benefits provided on the entity's financial performance and financial position.
3. To accomplish that, this IPSAS establishes principles and requirements for:
  - (a) Recognizing social benefits;
  - (b) Measuring social benefits;
  - (c) Presenting information about social benefits in the financial statements; and
  - (d) Determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

## Scope

4. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for social benefits.**
5. **This [draft] Standard applies to a transaction that meets the definition of a social benefit. This [draft] Standard does not apply to:**
  - (a) **Financial instruments that are within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement*;**
  - (b) **Employee benefits that are within the scope of IPSAS 39, *Employee Benefits*; and**
  - (c) **Insurance contracts that are within the scope of the relevant international or national accounting standard dealing with insurance contracts.**

**Paragraphs AG1–AG2 provide additional guidance.**

## Definitions

6. **The following terms are used in this [draft] Standard with the meanings specified:**  
**Social benefits are benefits that are provided by a public sector entity:**
  - (a) **To address the needs of society as a whole;**
  - (b) **To mitigate the effect of social risks; and**

- (c) Directly to specific individuals and/or households who meet eligibility criteria related to the mitigation of the effect of social risks, rather than being universally accessible services.

Addressing the needs of society as a whole does not require that each benefit covers all members of society (paragraphs AG3–AG6 provide additional guidance).

**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.

Paragraphs AG7–AG9 provide additional guidance.

**Social benefits in cash** are social benefits paid in cash, by or on behalf of a public sector entity, that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.

**Social benefits in kind** are goods and services provided as social benefits to individuals and households by or on behalf of a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.

**Reimbursements** are cash payments made as a social benefit by or on behalf of a public sector entity to compensate a service provider or an individual or household for all or part of the expense incurred or to be incurred by that individual or household in accessing specific services.

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

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

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

**Universally accessible services** are those that are made available by a government entity for all individuals and/or households to access, and where eligibility criteria (if any) are not related to social risk.

## Insurance Approach

- 7. [To be determined]

## Obligating Event Approach

### Recognition

8. [To be determined]

### Measurement

#### *Initial measurement*

9. [To be determined]

#### *Subsequent measurement*

10. [To be determined]

### Disclosure

11. **The objective of the disclosures is for entities to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and statement of cash flows, gives a basis for users of financial statements to assess the effect that social benefits have on the financial position, financial performance and cash flows of the entity. Paragraphs 11–12 specify requirements on how to meet this objective.**
12. [To be determined]

### Transitional Provisions

13. [To be determined]

### Effective Date

14. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after MMMM DD, YY. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before MMMM DD, YY, it shall disclose that fact.**
15. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

## Application Guidance

*This Appendix is an integral part of [draft] IPSAS [X] (ED XX)*

### Scope (see paragraphs 4–5)

- AG1. This [draft] Standard is applied in accounting for transactions and obligations that meet the definition of a social benefit in paragraph 6 of this [draft] Standard. This [draft] Standard does not address transactions that are similar to social benefits, but which are addressed in other IPSASs. Examples of such transactions in some jurisdictions might include employee pensions (which are accounted for in accordance with IPSAS 39, *Employee Benefits*) and concessionary loans such as student loans (which are accounted for in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*).
- AG2. Similarly, this [draft] Standard does not apply to insurance contracts, even if the risk covered by the insurance contract is a social risk as defined in paragraph 6 of this [draft] Standard. Insurance contracts are accounted for in accordance with the relevant international or national accounting standard dealing with insurance contracts.

### Definitions (see paragraph 6)

#### *Guidance on the definition of social benefits*

- AG3. Social benefits are organized to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance contracts, which are organized for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each benefit covers all members of society; in some jurisdictions, social benefits are provided through a range of similar benefits that cover different segments of society. A benefit that covers a segment of society as part of a wider system of benefits meets the requirement that it addresses the needs of society as a whole.
- AG4. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society 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, regardless of income or wealth, 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.
- AG5. Social benefits are only provided when eligibility criteria are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the scheme potentially covers the population as a whole, benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria.
- AG6. 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 universally accessible, for example a universal healthcare service, these do not meet the definition of a social benefit for the purposes of this [draft] IPSAS.

*Guidance on the definition of social risks*

- AG7. Social risks relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.
- AG8. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the benefit arises from characteristics of the individuals and/or households – in this case a change in an individual's employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.
- AG9. Risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks, and consequently benefits provided in respect of these risks are not social benefits.



## Amendments to Other IPSASs

### Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 1, 12, 19, and 77 are amended and paragraphs 7–11, 99 and 104 are deleted. New text is underlined and deleted text is struck through.

### Scope

1. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:
  - (a) ~~Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits~~Social benefits within the scope of [draft] IPSAS [X] (ED XX);

...

### Social Benefits

- ~~7. For the purposes of this Standard, "social benefits" refer to goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:~~
  - ~~(a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and~~
  - ~~(b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.~~
- ~~8. In many cases, obligations to provide social benefits arise as a consequence of a government's commitment to undertake particular activities on an ongoing basis over the long term in order to provide particular goods and services to the community. The need for, and nature and supply of, goods and services to meet social policy obligations will often depend on a range of demographic and social conditions, and are difficult to predict. These benefits generally fall within the social protection, education, and health classifications under the International Monetary Fund's Government Finance Statistics framework, and often require an actuarial assessment to determine the amount of any liability arising in respect of them.~~
- ~~9. For a provision or contingency arising from a social benefit to be excluded from the scope of this Standard, the public sector entity providing the benefit will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of the benefit. This exclusion would encompass those circumstances where a charge is levied in respect of the benefit, but there is no direct relationship between the charge and the benefit received.~~

~~The exclusion of these provisions and contingent liabilities from the scope of this Standard reflects the Committee's view that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability require further consideration before proposed Standards are exposed. For example, the Committee is aware that there are differing views about whether the obligating event occurs when the individual meets the eligibility criteria for the benefit or at some earlier stage. Similarly, there are differing views about whether the amount of any obligation reflects an estimate of the current period's entitlement, or the present value of all expected future benefits determined on an actuarial basis.~~

~~10. Where an entity elects to recognize a provision for such obligations, the entity discloses the basis on which the provisions have been recognized and the measurement basis adopted. The entity also makes other disclosures required by this Standard in respect of those provisions. IPSAS 1 provides guidance on dealing with matters not specifically dealt with by another IPSAS. IPSAS 1 also includes requirements relating to the selection and disclosure of accounting policies.~~

~~11. In some cases, social benefits may give rise to a liability for which there is:~~

- ~~(a) Little or no uncertainty as to amount; and~~
- ~~(b) The timing of the obligation is not uncertain.~~

~~Accordingly, these are not likely to meet the definition of a provision in this Standard. Where such liabilities for social benefits exist, they are recognized where they satisfy the criteria for recognition as liabilities (refer also to paragraph 19). An example would be a period-end accrual for an amount owing to the existing beneficiaries in respect of aged or disability pensions that have been approved for payment consistent with the provisions of a contract or legislation.~~

## **Other Exclusions from the Scope of the Standard**

~~12. This Standard does not apply to executory contracts unless they are onerous. Contracts to provide social benefits entered into with the expectation that the entity will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of these benefits, are excluded from the scope of this Standard.~~

...

## **Definitions**

...

## **Provisions and Other Liabilities**

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

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

...

## **Application of the Recognition and Measurement Rules**

...

## Onerous Contracts

77. Paragraph 76 of this Standard applies only to contracts that are onerous. ~~Contracts to provide social benefits entered into with the expectation that the entity does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, are excluded from the scope of this Standard.~~

...

## Disclosure

...

99. ~~Where an entity elects to recognize in its financial statements provisions for social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, it shall make the disclosures required in paragraphs 97 and 98 in respect of those provisions.~~

...

104. ~~The disclosure requirements in paragraph 100 do not apply to contingent liabilities that arise from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods or services provided, directly in return from the recipients of those benefits (see paragraphs 1(a) and 7–11 for a discussion of the exclusion of social benefits from this Standard).~~

...

## Effective Date

...

- 111G. Paragraphs 1, 12, 19, and 77 were amended and paragraphs 7–11, 99 and 104 were deleted by [draft] IPSAS [X] (ED XX), *Social Benefits*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

...

## Basis for Conclusions

...

### Revision of IPSAS 19 as a result of [draft] IPSAS [X] (ED XX)

- BC3. When issued, this Standard excluded provisions and contingent liabilities relating to social benefits from the scope of the Standard. This reflected the view at that time that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability required further consideration. There were differing views about whether the obligating event occurs when the individual meets the eligibility criteria for the benefit or at some earlier stage. Similarly, there were differing views about whether the amount of any obligation reflects an estimate of the current period's entitlement, or the present value of all expected future benefits determined on an actuarial basis.

- BC4. This Standard did not, however, prohibit the recognition of provisions relating to social benefits, and required disclosures where an entity elected to recognize a provision for such obligations.
- BC5. Following the publication of [draft] IPSAS [X] (ED XX), all social benefits will be accounted for in accordance with that Standard. This Standard has therefore been revised to exclude all social benefits within the scope of [draft] IPSAS [X] (ED XX) and to remove the provisions within this Standard that related to social benefits.

### Comparison with IAS 37

IPSAS 19 is drawn primarily from IAS 37 (1998). The main differences between IPSAS 19 and IAS 37 are as follows:

- IPSAS 19 includes commentary additional to that in IAS 37 to clarify the applicability of the standards to accounting by public sector entities. ~~In particular, the scope of IPSAS 19 clarifies that it does not apply to provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of the goods and services provided directly in return from recipients of those benefits. However, if the entity elects to recognize provisions for social benefits, IPSAS 19 requires certain disclosures in this respect.~~

### Amendments to IPSAS 28, *Financial Instruments: Presentation*

Paragraph 60E is added and paragraph AG23 is amended. New text is underlined and deleted text is struck through.

...

### Effective date

60E. Paragraph AG23 was amended by [draft] IPSAS [X] (ED XX), *Social Benefits*, issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.

### Application Guidance

...

### Definitions (paragraphs 9–12)

#### *Financial Assets and Financial Liabilities*

...

AG23. Statutory obligations can be accounted for in a number of ways:

- Obligations to pay income taxes are accounted for in accordance with the relevant international or national accounting standard dealing with income taxes.

- Obligations to provide social benefits are accounted for in accordance with ~~IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors and IPSAS 19[draft]~~ IPSAS [X] (ED XX), *Social Benefits*.
- Other statutory obligations are accounted for in accordance with IPSAS 19.

**Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)***

Paragraph 36 is amended and paragraphs 37A and 134A–134C are added. New text is underlined and deleted text is struck through.

...

**Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition**

...

**Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities**

*Recognition and/or Measurement of Assets and/or Liabilities*

36. **Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:**

- (a) **Inventories (see IPSAS 12, *Inventories*);**
- (b) **Investment property (see IPSAS 16, *Investment Property*);**
- (c) **Property, plant and equipment (see IPSAS 17, *Property, Plant and Equipment*);**
- (d) **Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);**
- (e) **Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);**
- (f) **Intangible assets (see IPSAS 31, *Intangible Assets*);**
- (g) **Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*); and**
- (h) **Financial instruments (see IPSAS 29, *Financial Instruments; Recognition and Measurement*); and**
- (i) **Social benefits (see [draft] IPSAS [X] (ED XX), *Social Benefits*).**

...

**37A. Where a first-time adopter applies the exemption in paragraph 36(i), it shall recognize a liability and any related assets at the same time.**

...

## **Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption**

...

### **[Draft] IPSAS [X] (ED XX), Social Benefits**

**134A. On the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for a social benefit scheme at that date as:**

(a) [To be determined]

**134B. If the initial liability in accordance with paragraph 134A is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**

**134C. An entity shall recognize and/or measure any related assets in accordance with the requirements for the type of asset at the same time that it recognizes and/or measures its initial liability in accordance with paragraph 134A.**

## **Effective Date**

...

**157. Paragraph 36 was amended and paragraphs 37A and 134A–134C were added by [draft] IPSAS [X] (ED XX), Social Benefits, issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.**

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, IPSAS 33.*

...

## **Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS**

...

### **[Draft] IPSAS [X] (ED XX), Social Benefits**

**BC79C. [To be determined]**

## **Implementation Guidance**

*This guidance accompanies, but is not part of, IPSAS 33.*

...

**[Draft] IPSAS [X] (ED XX), Social Benefits**

IG89A. [To be determined]

**Presentation and Disclosure**

...

**Summary of Transitional Exemptions and Provisions Included in IPSAS 33 First-time Adoption of Accrual Basis IPSASs**

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

...

	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
<u>[Draft] IPSAS [X] (ED XX), Social Benefits</u>			✓ <u>liabilities for social benefit schemes and related assets not recognized under previous basis of accounting</u>	✓ <u>liabilities for social benefit schemes and related assets recognized under previous basis of accounting</u>				<u>[To be determined]</u>

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED XX)*

### Objective (paragraphs 1–3)

BC1. In the absence of an International Public Sector Accounting Standard (IPSAS) dealing with social benefits, public sector entities are required to develop their own accounting policies for recognizing, measuring and presenting social benefits. As a result, there may not be consistent or appropriate reporting of transactions and obligations related to social benefits in general purpose financial statements (GPFSS). Consequently, users may not be able to obtain the information needed to identify the social benefits provided by an entity and evaluate their financial effect. The IPSASB believes that [draft] IPSAS [X] (ED XX) will promote consistency and comparability in how social benefits are reported by public sector entities.

### Scope and definitions (paragraphs 4–6)

#### *History*

BC2. In developing [draft] IPSAS [X] (ED XX), the IPSASB noted that existing IPSASs do not define social benefits. Instead, a broad description is given in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

BC3. IPSAS 19 describes social benefits as “goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:

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

BC4. The IPSASB also had regard to its previous work in this area. The 2004 Invitation to Comment (ITC), *Accounting for Social Policies of Government*, sought views on how to account for a wide range of social benefits. The ITC noted that “Social benefits could also be provided under other categories of government activity (for example, Defense, Public Order and Safety and Community Amenities).” These are often referred to as “collective goods and services.”

BC5. Responses to the ITC supported the development of an IPSAS on social benefits. However, the IPSASB failed to reach a consensus on when a present obligation arises especially for contributory cash transfer schemes. Consequently, in 2008 the IPSASB issued Exposure Draft ((ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, and a Consultation Paper (CP), *Social Benefits: Issues in Recognition and Measurement*. At this time the IPSASB also issued a Project Brief, *Long-Term Fiscal Sustainability*.

BC6. Respondents did not consider that the proposed disclosures in the financial statements could convey sufficient information about social benefits. Consequently, the IPSASB agreed not to proceed with ED 34.



- BC7. The CP, *Social Benefits: Issues in Recognition and Measurement*, proposed a narrower definition of social benefits than had been included in the 2004 ITC. The CP included the following definition of social benefits:
- “The IPSASB defines social benefits as;
- (a) Cash transfers; and
  - (b) Collective and individual goods and services
- that are provided by an entity to individuals or households in non-exchange transactions to protect the entire population, or a particular segment of the population, against certain social risks.”
- BC8. This definition introduced the idea of social benefits being related to social risks for the first time in the IPSASB’s literature. According to this definition, not all cash transfers or collective and individual goods and services are social benefits. Only those cash transfers or collective and individual goods and services that are provided to protect the entire population, or a particular segment of the population, against certain social risks meet the definition of social benefits. The CP did not, however, define social risks.
- BC9. Despite the narrower scope and the link with social risks, the IPSASB did not reach a consensus on when a present obligation arises for social benefits within the scope of the CP. The IPSASB recognized the linkages between its work in developing *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and accounting for social benefits. The elements and recognition phase of the Conceptual Framework would define a liability. This definition and supporting analysis would influence the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic until after the completion of the Conceptual Framework.
- BC10. In the interim, the IPSASB initiated a project on the long-term sustainability of the public finances in 2008, based on the project brief. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity’s Finances* was published in 2013.
- BC11. RPG 1 provides guidance on preparing general purpose financial reports that can meet users’ needs for information about the long-term fiscal sustainability of an entity, including the social benefit schemes the entity provides.
- BC12. In the context of social benefits, general purpose financial reports prepared in accordance with RPG 1 will 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 are not currently contributing to a scheme that would entitle them to future benefits. RPG 1 does not address the question of whether such obligations meet the definition of a present obligation, and so should be recognized in the financial statements.
- BC13. The general purpose financial report will also include information about the expected resources to be realized in the future that will be used to finance social benefits. In many jurisdictions this will include future taxation income. Because an entity does not currently control these resources, they are not recognized in the financial statements.
- BC14. The IPSASB restarted its work on social benefits in 2014. The IPSASB noted that the broad scope of social benefits included in previous projects had been a factor in the IPSASB failing to reach consensus. Consequently, the IPSASB decided to adopt a narrow definition of social benefits. At this time, the IPSASB had agreed to commence work on a non-exchange expenses project; the

IPSASB considered that adopting a narrow definition of social benefits would best meet the project management needs of both projects.

*Role of Government Finance Statistics (GFS)*

- BC15. The IPSASB considers it important to reduce differences with the statistical basis of reporting where appropriate. The IPSASB therefore considered the approach to social benefits taken in GFS.
- BC16. The IPSASB considered that social benefits, other transfers in kind and collective goods and services would be expected to raise similar issues regarding the recognition and measurement of liabilities and expenses. However, the IPSASB considered that different factors would arise in the recognition and measurement of transactions that address specific social risks (i.e., social benefits) and those transactions that do not. For example, the recognition and measurement of an obligation in respect of social benefits may be related to individuals satisfying eligibility criteria.
- BC17. Having reviewed the approach to social benefits taken in GFS, the IPSASB noted that the economic consequences described in GFS were likely to be similar to those in a future IPSAS. The IPSASB decided to align, as far as possible, its definition of social benefit with those in GFS. This was the approach taken in the CP, *Recognition and Measurement of Social Benefits*, issued in 2015.
- BC18. The alignment with GFS was intended to provide clearer definitions that demarcate transactions and events which are, in substance dissimilar. It also maximized consistency between the two frameworks, in line with the IPSASB policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*.

*Responses to Consultation Paper, Recognition and Measurement of Social Benefits*

- BC19. A majority of respondents supported the scope of the project as set out in the CP, and the IPSASB's intention to align the scope of the project, and the definitions of social benefits and social risks, with GFS. These respondents considered that alignment with GFS would assist with interpreting an IPSAS and help ensure consistency in its application.
- BC20. However, a significant minority raised concerns. The main concerns were:
- (a) 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.
  - (b) The boundary between social benefits and non-exchange expenses. 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.
- BC21. The IPSASB had regard to these concerns in developing [draft] IPSAS [X] (ED XX), as follows:
- (a) The definition of social risks has been reframed to fit an accounting framework as opposed to an economic/statistical framework. Although the wording of the definition has been amended in [draft] IPSAS [X] (ED XX), the IPSASB's intention in so doing has been to clarify the meaning of the definitions for preparers, rather than to modify the risks that are considered to be social risks. The definition of social benefits has also been amended to improve the clarity of the definition.

- (b) [Draft] IPSAS [X] (ED XX) distinguishes between those benefits that are provided to specific individuals and/or households and those that are universally accessible. This distinction is intended to provide a more principles based, less artificial boundary between social benefits and non-exchange expenses. Liabilities and expenses associated with social risks can be measured by reference to an individual's eligibility to receive the benefit, which does not apply to non-exchange expenses. In developing this boundary, the IPSASB acknowledges that social benefits and non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. However, the IPSASB's earlier experiences convinced the Board that a boundary would be required for a social benefits project to be manageable.
  - (c) [Draft] IPSAS [X] (ED XX) distinguishes between social risks and other risks, for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring. The hazards or events that give rise to these risks are not related to the characteristics of individuals and/or households, which is a distinguishing feature of social risks. The IPSASB also noted that governments' responses to social risks is often different to their response to other risks. Governments usually plan for the occurrence of social risks, with schemes, backed by legislation, in place to address these risks. By contrast, governments' responses to other risks such as geographical risks is often reactive, with any schemes being put in place following the occurrence of an event such as flooding or an earthquake. The IPSASB considered that the reactive nature of responses to other risks was more suited to its non-exchange project than this [draft] Standard. The IPSASB also noted that this approach would be consistent with the approach taken in GFS.
- BC22. The effect of these decisions is to align the scope of [draft] IPSAS [X] (ED XX), and its definitions of social benefits and social risks, with those in GFS, with the exception of universal services. Universal services such a universal healthcare service are considered to be social benefits under GFS, but are outside the scope of [draft] IPSAS [X] (ED XX). The IPSASB considered that outcome would satisfy the majority of respondents who supported alignment with GFS, whilst addressing the concerns of the significant minority of respondents who had concerns with the boundary between social benefits and non-exchange expenses.

#### **Approaches to accounting for social benefits**

- BC23. The IPSASB consulted on three approaches to accounting for social benefits in the CP, *Recognition and Measurement of Social Benefits*. These were the obligating event approach, the social contract approach and the insurance approach.
- BC24. The social contract approach viewed obligations to provide social benefits by governments as quasi-contractual in nature, and adopted executory contract accounting.
- BC25. In developing the CP, the IPSASB came to a preliminary view that the social contract approach was not consistent with the Conceptual Framework. Respondents to the CP supported this preliminary view. Respondents considered that the social contract approach would result in items that met the definition of a liability not being recognized. Consequently, respondents considered that the social contract approach would not provide information that is useful for accountability and decision-making purposes.
- BC26. The IPSASB noted the support for its preliminary view, and agreed not to proceed with the social contract approach.

- BC27. In developing the CP, the IPSASB came to a preliminary view that a combination of the obligating event approach and (for some or all contributory schemes) the insurance approach might be required to reflect the different economic circumstances arising in respect of social benefits.
- BC28. Respondents to the CP supported this preliminary view. The IPSASB therefore agreed to develop both the insurance approach and the obligating event approach in [draft] IPSAS [X] (ED XX).

**Insurance approach (paragraphs x–x)**

- BC29. [To be determined]

**Obligating event approach (paragraphs x–x)**

*Recognition*

- BC30. In developing the CP, *Recognition and Measurement of Social Benefits*, the IPSASB identified five distinct points at which a case could be made for recognizing an obligation in the financial statements. These were:
- (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; and
  - (e) A claim is enforceable.
- BC31. The CP sought respondents' views on these possible obligating events. The CP also asked respondents whether a future IPSAS should consider that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the benefit arose.
- BC32. In reviewing the responses to the CP, the IPSASB noted that there was substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the benefit arose. The IPSASB concurred with this view.
- BC33. The IPSASB also noted, however, that there was no consensus as to the range of different points at which an obligating event could arise. The IPSASB therefore focused on analyzing the various obligating events by reference to the Conceptual Framework, noting respondents' comments where these provided evidence about a particular obligating event or raised other matters that required consideration.
- BC34. In developing the CP, the IPSASB had initially agreed that aligning the recognition and measurement of social benefits with GFS could only be considered once responses had been reviewed. Subsequently, the IPSASB came to the view that a range of recognition points would be required under the obligating event approach.
- BC35. This decision implicitly rejected aligning the recognition and measurement of social benefits with GFS under the obligating event approach. This is because, under GFS, an expense is recorded only when the payment of the benefits is due (i.e., in line with the claim is enforceable obligating event only).

Requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition

- BC36. The IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement. This could be the case where a social benefit was intended to be provided on a “one-off” or short term basis. The IPSASB therefore considered when it would be appropriate to recognize a liability that took account of the requirement to satisfy ongoing eligibility criteria.
- BC37. The first possible obligating event identified in the CP that took account of the requirement to satisfy ongoing eligibility criteria was that the eligibility criteria to receive the next benefit have been satisfied. Respondents to the CP gave significant support to the inclusion of this obligating event. Respondents noted that for some social benefits, the satisfaction of the eligibility criteria by a potential beneficiary would be sufficient to give rise to a legal obligation for an entity. Where this was not the case, respondents considered that this obligating event would give rise to a non-legally binding obligation. The IPSASB agreed with these comments.
- BC38. A small number of respondents did not support this obligating event, arguing that an entity still had discretion to avoid payment until a claim has been approved. These respondents commented that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power.
- BC39. The IPSASB did not support this view. The IPSASB noted that paragraph 5.22 of the Conceptual Framework addressed the issue of sovereign power:
- “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.”
- BC40. The IPSASB concluded that a beneficiary satisfying the eligibility criteria to receive the next benefit would give rise to an obligation that meets the definition of a liability. Consequently, the IPSASB agreed that the eligibility criteria to receive the next benefit have been satisfied obligating event should be included as one of the possible obligating events in [draft] IPSAS [X] (ED XX).
- BC41. The IPSASB next considered the claim has been approved and claim is enforceable obligating events. The IPSASB noted that respondents generally did not support the use of these obligating events. In particular, a significant majority of respondents opposed the use of the claim is enforceable obligating event, arguing that it would limit the recognition of a liability to those cases where a legal obligation existed. Respondents argued that this was inconsistent with the Conceptual Framework, which recognized that liabilities could arise from non-legally binding obligations.
- BC42. Respondents also argued that, once eligibility criteria have been satisfied, an obligation that the entity would have little or no realistic alternative to avoid would usually arise. Consequently, a liability would arise prior to a claim being approved or becoming enforceable.
- BC43. The IPSASB concurred with respondents’ views, and agreed that, for social benefits where there was a requirement to satisfy ongoing eligibility criteria only the eligibility criteria to receive the next benefit have been satisfied obligating event should be included in [draft] IPSAS [X] (ED XX).
- BC44. In coming to this conclusion, the IPSASB noted that there may be social benefits where the eligibility criteria are not met until a claim has been approved or is enforceable. The IPSASB considered these obligating events to be effectively subsets of the eligibility criteria to receive the next benefit

have been satisfied obligating event. Consequently, these obligating events did not need to be separately addressed.

Requirement to satisfy ongoing eligibility criteria (including revalidation) affects measurement only

- BC45. As noted in paragraph BC36, the IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement.
- BC46. The IPSASB considered whether, for some other social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition. The IPSASB concluded that, where a beneficiary is not required to undertake any further actions or to meet any further eligibility criteria once the threshold eligibility criteria have satisfied, any revalidation requirements should only affect measurement.
- BC47. Some respondents commented that revalidation affects recognition, and suggested that staying alive is an implicit eligibility criterion affecting recognition for all social benefits. The IPSASB did not agree with these comments. The IPSASB noted paragraph 5.21 of the Conceptual Framework:
- “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.”
- BC48. Although social benefits are not exchange transactions, the IPSASB considered that, because legal obligations would arise with the passage of time without the beneficiary having to take any further action or meet further conditions, a liability should be recognized. Consequently, the IPSASB agreed that, where there were no ongoing eligibility criteria to be met (apart from staying alive), revalidation should only affect measurement.
- BC49. The IPSASB therefore considered when it would be appropriate to recognize a liability that took account of revalidation as a measurement issue only. The CP had identified two possible obligating events:
- (a) Threshold eligibility criteria have been satisfied; and
  - (b) Key participatory events have occurred.
- BC50. In addition, respondents identified a third possibility—that a liability accumulates over time. The IPSASB considered this alongside the other two obligating events.

Threshold eligibility criteria have been satisfied

- BC51. Respondents to the CP favored this option, although only by a narrow margin. This narrow margin in part reflected the fact that a number of respondents considered that revalidation affected recognition in all cases, a view with which the IPSASB disagreed (see paragraphs BC47–BC48).
- BC52. The IPSASB considered that for some social benefits where there were no ongoing eligibility criteria to be met, the satisfaction of eligibility criteria would give rise to legal obligations. Where this was not the case, the IPSASB considered that the satisfaction of eligibility criteria would give rise to a valid expectation that future benefits would be provided, and that a public sector entity would have

little or no realistic alternative to avoid the obligation. This would be especially the case where the provision of benefits had commenced.

- BC53. Consequently, the IPSASB agreed that the threshold eligibility criteria have been satisfied obligating event satisfied the definition of a liability. The IPSASB again noted that the existence of sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability (see paragraph BC39).
- BC54. The IPSASB then considered whether a social benefit, recognized as threshold eligibility criteria are met, could be measured in a way that meets the qualitative characteristics (QCs) and takes account of constraints on information in GPFs. The IPSASB concluded that such social benefits could be measured in a way that meets the QCs and takes account of constraints. In coming to this conclusion, the IPSASB noted that the measurement uncertainties that need to be addressed are similar to those involved in measuring defined benefit post-employment benefits in accordance with IPSAS 39, *Employee Benefits*.
- BC55. Some respondents argued that reporting long term liabilities in the statement of financial performance without also including the related revenue would not produce useful information. The IPSASB did not support this view, 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.
- BC56. However, The IPSASB noted that this issue will often arise for social benefits financed through general taxation. The IPSASB came to the view that the social benefit and the taxation that finances that benefit 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.
- BC57. One respondent commented 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. This respondent considered 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.
- BC58. The IPSASB noted 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.
- BC59. The IPSASB considered that the public interest is best served by reporting all liabilities that meet the recognition criteria. The IPSASB acknowledges that information about the level of social benefits provided in the year will be useful information, but considers this could justify the disclosure of such information. It could not provide a rationale for not recognizing liabilities.
- BC60. Consequently, the IPSASB agreed that the threshold eligibility criteria have been satisfied obligating event should be included in [draft] IPSAS [X] (ED XX).

#### Key participatory events

- BC61. Paragraph 4.30 of the CP described the key participatory events obligating event as follows:

“In the absence of a legal obligation, a past event, or series of past events, giving rise to a present obligation occurs prior to the point at which an individual meets threshold eligibility criteria (where threshold criteria are applicable).

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

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

- BC62. The IPSASB noted that the relevant key participatory events will depend on the nature of the social benefit being provided. For some benefits, for example education and healthcare, birth may be a relevant key participatory event. For other benefits, such as retirement pensions and unemployment benefits, entry into the workforce may be the relevant key participatory event.
- BC63. The IPSASB noted that key participatory events can occur many years before eligibility criteria are met or before benefits are provided. The IPSASB considered that the longer the period of time between the key participatory event occurring and eligibility criteria being met, the greater the likelihood is of an entity having a realistic alternative to avoid settling an obligation.
- BC64. In considering the key participatory event, the IPSASB referred mainly to retirement pensions and unemployment benefits, making the assumption that entry into the workforce was likely to be the key participatory event. This approach minimized the likelihood is of an entity having a realistic alternative to avoid settling an obligation; for some other benefits, the IPSASB noted this likelihood might be greater.
- BC65. The IPSASB noted that for a key participatory event to be an appropriate obligating event to be included in [draft] IPSAS [X] (ED XX), key participatory events would need to give rise to obligations that:
- (a) Satisfy the definition of a liability; and
  - (b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.
- BC66. The Conceptual Framework defines a liability as:
- “A present obligation of the entity for an outflow of resources that results from a past event.”
- BC67. The Conceptual Framework describes a present obligation as follows:
- “Public sector entities can have a number of obligations. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.”
- BC68. The IPSASB considered whether a key participatory event could satisfy the definition of a liability and the recognition criteria.



Present obligation

- BC69. Paragraph 5.20 of the Conceptual Framework notes that a legal obligation is enforceable in law, and that in such cases there can be no doubt that an entity has no realistic alternative to avoid the obligation and that a liability exists.
- BC70. Key participatory events arise prior to all eligibility criteria being met. The IPSASB considered that, at this point, the obligation to pay a social benefit would be conditional on the occurrence of an uncertain future event. Paragraph BC5.21 of the Conceptual Framework notes:
- “A conditional obligation involves the possible occurrence of a future event, which may or may not be under the control of the reporting entity. The IPSASB concluded that it is possible for conditional obligations to give rise to liabilities as defined in the Conceptual Framework.”
- BC71. Paragraph 5.23 of the Conceptual Framework describes one type of conditional obligation:
- “Stand-ready obligations are a type of conditional obligation. Stand-ready obligations require an entity to be prepared to fulfill an obligation if a specified uncertain future event outside the entity’s control occurs (or fails to occur).”
- BC72. The IPSASB noted that the term “stand-ready obligation” is usually used to describe obligations that meet the definition of a liability and that arise in certain contractual circumstances (i.e., in exchange transactions), such as those related to insurance. Obligations that arise from social benefit schemes arise from non-exchange transactions, where it is less clear whether such obligations will meet the definition of a liability. The IPSASB noted that obligations that arise from social benefit schemes are equally obligations that require an entity to be prepared to fulfill its obligation if a specified uncertain future event outside the entity’s control occurs (or fails to occur), although they arise as a result of legislation rather than a contract, and are non-exchange transactions rather than exchange transactions.
- BC73. For example, an entity may provide unemployment benefits. Commencing employment (a key participatory event) might give rise to an obligation to provide benefits at a future date, depending on whether a specified uncertain future event outside the entity’s control—the potential beneficiary becoming unemployed—occurred.
- BC74. Similarly, an entity may provide retirement benefits. Commencing employment (a key participatory event) might give rise to an obligation to provide benefits at a future date, depending on whether a specified uncertain future event outside the entity’s control—the potential beneficiary dying—occurred or not.
- BC75. The IPSASB noted that whilst there are similarities between the stand-ready obligation in an insurance contract and the similar obligations in a social benefits scheme, there are also differences. The key difference relates to the non-exchange nature of the transaction, which differs from an exchange transaction.
- BC76. In an insurance contract, an exchange transaction, it is clear that the stand-ready obligation gives rise to a liability because there is a past event—the receipt by the entity of the premium (or of the unconditional right to receive the premium at a future date)—that means that an entity has little or no realistic alternative to avoid an outflow of resources. This is explained in paragraph 4.36 of the IASB’s Exposure Draft (ED) on its *Conceptual Framework for Financial Reporting*:
- “An entity has a present obligation as a result of a past event only if it has already received the economic benefits, or conducted the activities, that establish the extent of its obligation. The

economic benefits received could include, for example, goods or services. The activities conducted could include, for example, operating in a particular market. If the economic benefits are received, or the activities are conducted, over time, a present obligation will accumulate over time (if, throughout that time, the entity has no practical ability to avoid the transfer).”

- BC77. In a non-exchange transaction—at least those that are non-contributory—there is no equivalent past event. The IPSASB agreed that the extract from the IASB’s ED above indicated that, without that past event, a conditional obligation does not give rise to a liability in an exchange transaction.
- BC78. The IPSASB considered that the absence of a past event (such as the receipt of the premium or of the unconditional right to receive the premium at a future date) meant that, at least for non-contributory social benefits, the conditional obligation is not enforceable, and therefore there is no legal obligation that gives rise to a liability.
- BC79. The IPSASB considered whether, for contributory social benefits, an entity would receive economic benefits (or would receive them over time), and a liability should be recognized. The IPSASB considered that this would depend on whether the contributions are considered to be a form of consideration for the payment of a future social benefit, or a form of taxation or general revenue that is used to finance the payment of social benefits.
- BC80. The non-exchange nature of social benefits and the fact that many contributory benefits are subsidized through general taxation or other government revenues suggests that the contributions are generally a form of taxation, not consideration for the future receipt of a social benefit. The IPSASB accepted that this might not be the case where a social benefit was intended to be fully funded through contributions, and there is evidence that the entity manages the social benefit in the same way as an insurer manages an insurance contract. However, the IPSASB considered that such circumstances would be limited, and best addressed by the use of the insurance approach.
- BC81. The IPSASB noted that a significant majority of respondents to the CP supported the view that, under the obligating event approach, an obligating event does not occur earlier for contributory benefits than non-contributory benefits. If contributions were a form of consideration, this would provide the past event needed to recognize a legal obligation and therefore a liability; if considerations are a form of taxation, there is no past event that results in the recognition of a legal obligation.
- BC82. For these reasons, the IPSASB concluded that a legal obligation does not arise when a key participatory event occurs. The IPSASB next considered whether a non-legally binding obligation could arise when a key participatory event occurs.
- BC83. Paragraph 5.23 of the Conceptual Framework sets out the attributes of a non-legally binding obligation:
- (a) The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
  - (b) As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
  - (c) The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.
- BC84. Social benefit schemes are established by legislation. The IPSASB considered that this would always be sufficient to satisfy the requirement that “the entity has indicated to other parties by an

established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities.”

- BC85. The fact that social benefit schemes are derived from legislation is sufficient to give rise to a valid expectation that the entity will discharge those responsibilities. However, because a key participatory event gives rise to a conditional obligation, one that involves the possible occurrence of a future event, the IPSASB questioned whether this was a present obligation or a future obligation.
- BC86. The IPSASB noted that the definition of a liability in the Conceptual Framework differs from that in the IPSASB's previous literature. The definition of a contingent liability in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, includes “a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.”
- BC87. The IPSASB noted that some would argue that this covers the obligation that arises as a result of a key participatory event, and that, following the change in the definition of a liability, whereby uncertainty is addressed as a measurement issue not a recognition issue, a liability should be recognized. Others would argue that a key participatory event is not a past event that gives rise to a present obligation, and hence no liability should be recognized.
- BC88. As noted above in paragraph BC70, the Conceptual Framework acknowledges that a conditional obligation may give rise to a liability. However, the IPSASB noted that the only examples of a conditional obligation giving rise to a liability in the Conceptual Framework relate to exchange transactions (and therefore legal obligations). The IPSASB also noted that the same is true of the IASB's ED on its Conceptual Framework.
- BC89. The IPSASB undertook a review of earlier literature. This also failed to identify any references to a valid expectation arising in respect of a conditional, non-legally binding obligation. The IPSASB considered that this was likely to be a result of earlier literature referencing the definitions in IPSAS 19 or its equivalents (such as IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The IPSASB concluded that the lack of references in earlier literature to this matter had limited value to this discussion.
- BC90. The IPSASB considered the guidance on non-legally binding obligations in the Conceptual Framework. This provided limited assistance on determining whether a conditional, non-legally binding obligation can give rise to a valid expectation of a present obligation. The IPSASB noted:
- (a) “The early stages of implementation are unlikely to give rise to present obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to obligations that meet the definition of a liability.” [Paragraph 5.24] The IPSASB considered that this may suggest that meeting eligibility criteria is required for a present obligation to arise.
  - (b) “The ability of the entity to modify or change the obligation before it crystallizes. For example, the announcement of policy will generally not give rise to a non-legally binding obligation, which cannot be modified before being implemented. Similarly, if an obligation is contingent on future events occurring, there may be discretion to avoid an outflow of resources before those events occur.” [Paragraph 5.25] The IPSASB considered that this may suggest that conditional obligations are less likely to give rise to a present obligation.

However, paragraph 5.22 states, albeit in the context of legal obligations, that “Sovereign power is the ultimate authority of a government to make, amend and repeal legal provisions. 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.” The IPSASB considered that this might suggest that a conditional obligation might give rise to a present obligation if the only discretion to avoid an outflow of resources requires amendment to legal provisions.

- (c) “There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation. For example, where both a budget line item has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, a non-legally binding obligation may exist. However the absence of a budgetary provision does not itself mean that a present obligation has not arisen.” [Paragraph 5.25] The IPSASB noted that entities are unlikely to approve budget line items for social benefits prior to eligibility criteria being met. The IPSASB considered that this might provide very limited support for the view that conditional obligations are less likely to give rise to a present obligation.

BC91. The IPSASB also noted that some respondents to the CP argued that a valid expectation does not occur until all eligibility criteria have been met.

BC92. On balance, the IPSASB concluded that the provisions in the Conceptual Framework support the view that a key participatory event does not give rise to a valid expectation that the entity has a present obligation. Consequently, the IPSASB concluded that an entity was unlikely to have a present obligation as a result of a key participatory event occurring.

#### Past event

BC93. To supplement its analysis of the present obligation, the IPSASB considered whether a key participatory event could be a past event for the purposes of recognizing a liability. As noted in paragraph BC66 above, a present obligation only gives rise to a liability if it results from a past event. It was therefore necessary for the IPSASB to consider what constitutes a past event in the context of a social benefit, and how this relates to a key participatory event.

BC94. Paragraph 5.17 of the Conceptual Framework notes that:

“Where an arrangement has a legal form and is binding, such as a contract, the past event may be straightforward to identify. In other cases, it may be more difficult to identify the past event and identification involves an assessment of when an entity has little or no realistic alternative to avoid an outflow of resources from the entity. In making such an assessment an entity takes jurisdictional factors into account.”

BC95. By considering an analogy with a contract, the IPSASB identified the following series of events that could potentially be a past event for a social benefit:

- (a) Enacting the legislation that establishes the social benefit;
- (b) Key participatory events such as commencing employment; and
- (c) Satisfying the eligibility criteria.

- BC96. As discussed in paragraph BC76 above, the IASB currently considers that, in an exchange transaction, the past event is the receipt of economic benefits (the receipt of the premium or the receipt of the unconditional right to the premium at a future date) or the conducting of activities that establish the extent of its obligation.
- BC97. From this, the IPSASB inferred that neither the issuing of a contract (equivalent to enacting the legislation) nor the policyholder commencing an activity (equivalent to a key participatory event such as commencing employment) could be considered to be past events. The IPSASB concluded that it is the satisfaction of the eligibility criteria that is the past event. The IPSASB noted that, for some insurance contracts, the policyholder commencing an activity and the satisfaction of the eligibility criteria might be the same event. For example, a personal unemployment insurance contract might provide cover from the date at which the policyholder commenced employment. In the IPSASB's view, the commencement of the coverage period related to the eligibility criteria being satisfied, not a prior event. Consequently, this did not change its conclusion that it is the satisfaction of the eligibility criteria that is the past event.
- BC98. The IPSASB noted that this conclusion is consistent with the IPSASB's view that a key participatory event does not give rise to a valid expectation, and that the entity has, therefore, a realistic alternative to avoid an outflow of resources.
- BC99. The IPSASB concluded that a key participatory event does not give rise to an item that meets the definition of a liability. Consequently, the IPSASB decided not to include the key participatory event as an obligating event in [draft] IPSAS [X] (ED XX).

#### Liability accumulates over time

- BC100. Some respondents commented that there are similarities between some social benefits such as retirement pensions and employer-sponsored defined benefit schemes, accounted for under IPSAS 25, *Employee Benefits* (since replaced by IPSAS 39, *Employee Benefits*). Consequently, these respondents argued that the accounting for those social benefit schemes should match the accounting for a defined benefit scheme, which involves accumulating a liability over time.
- BC101. The IPSASB considered whether the liability accumulates over time obligating event could satisfy the definition of a liability and the recognition criteria in the Conceptual Framework (see paragraphs BC61–BC67).

#### Present obligation

- BC102. The IPSASB noted that there is a significant difference between a social benefit and an employee benefit plan. Under an employee benefit, an individual exchanges their current service for deferred compensation. The employer receives the economic benefits of that service, which establishes the extent of the obligation. This is equivalent to an insurance company receiving a premium (see paragraph BC76 above). The provision of the service is the past event that gives rise to a present obligation.
- BC103. Under a social benefit, there is no exchange of current service for the benefit to be received. Consequently, the IPSASB concluded that the past event could not be the same.
- BC104. The IPSASB noted that, in proposing the liability accumulates over time obligating event, respondents typically referred to a contributory pension scheme. This suggested that these respondents might consider the payment of the contributions to be the past events that give rise to an accumulating present obligation.

BC105. The IPSASB had already considered whether a contribution can be a past event for a key participatory event, and concluded that this was not the case (see paragraphs BC79–BC81). The IPSASB considered that the rationale in these paragraphs applied equally to a liability accumulating over time, and that, generally, the payment of a contribution is not a past event that gives rise to an accumulating present obligation under the obligating event approach.

BC106. The IPSASB did note that there may be some social benefit schemes that are fully funded through contributions, typically retirement plans, where the future benefits are directly related to the payment of the contributions. In such cases, the economic substance of the contributions may be closer to that of consideration than taxation. The IPSASB considered that such circumstances would be limited, and best addressed by the use of the insurance approach.

BC107. As with key participatory events, the IPSASB considered that because social benefits are derived from legislation, an entity will have indicated that it will accept certain responsibilities (see paragraph BC84).

BC108. The IPSASB considered that the issues discussed in paragraphs BC85–BC91 (in relation to key participatory events) would apply equally to a liability accumulating over time. Consequently, the IPSASB concluded that no valid expectation arises, and that, therefore, there is no non-legally binding present obligation.

#### Past event

BC109. To supplement its analysis of the present obligation, the IPSASB considered what could constitute a past event for the purposes of accumulating a liability in the context of a social benefit. As noted in paragraph BC66 above, a present obligation only gives rise to a liability if it results from a past event. It was therefore necessary for the IPSASB to consider what constitutes a past event in the context of a social benefit, and how this relates to a liability accumulating over time.

BC110. For social benefits, the IPSASB identified two types of event that could potentially be a past event giving rise to an accumulating present obligation:

- (a) Ongoing payment of contributions; and
- (b) Ongoing activities such as being in employment.

BC111. The IPSASB had already considered the payment of contributions (see paragraphs BC102–BC106). The IPSASB concluded that, except where a social benefit should be accounted for using the insurance approach, no past event has occurred.

BC112. The IPSASB also considered that if the payment of contributions is insufficient to qualify as a past event, ongoing activities such as being in employment will also be insufficient to qualify as a past event.

BC113. This is consistent with the IPSASB's view that the liability accumulates over time obligating event does not give rise to a valid expectation, and that the entity has, therefore, a realistic alternative to avoid an outflow of resources.

BC114. Consequently, the IPSASB decided not to include the liability accumulates over time as an obligating event in [draft] IPSAS [X] (ED XX).

## Implementation Guidance

*This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED XX)*

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of [draft] IPSAS [X] (ED XX).

### Scope of [draft] IPSAS [X] (ED XX)

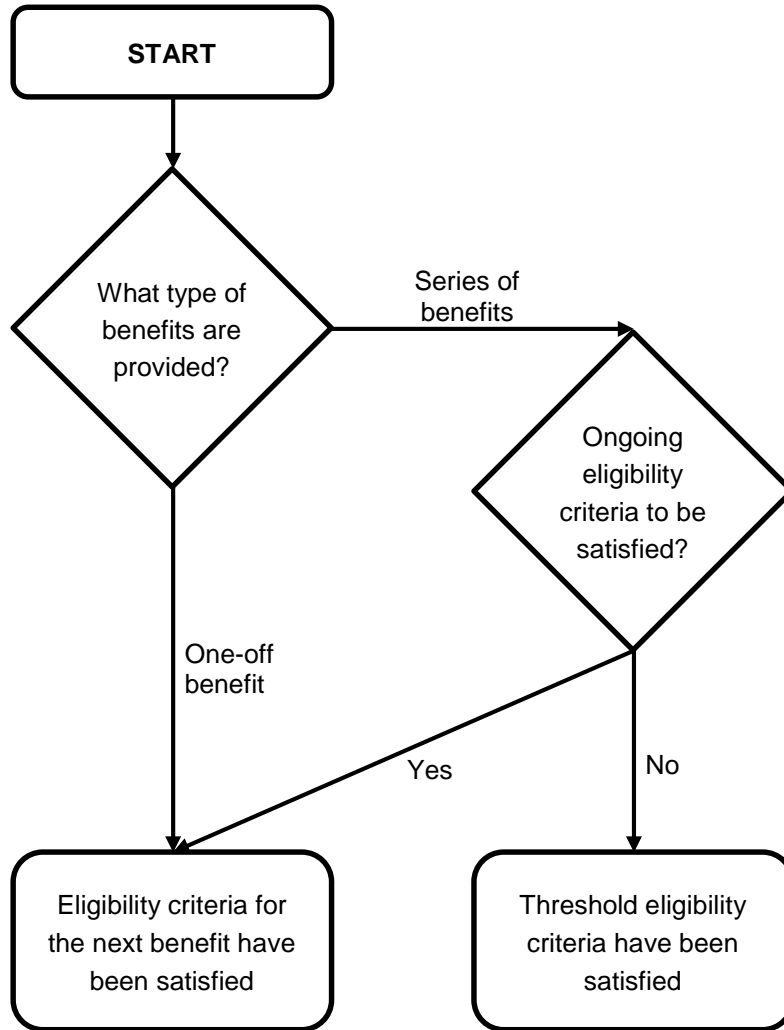
IG2. The following diagram illustrates the scope of [draft] IPSAS [X] (ED XX) and the boundaries between social benefits and other transactions.

Category	Examples	Other IPSASs / FRSS			Social Benefits		Non-Exchange Expenses		
		Contracts for Goods and Services	Contracts for Insurance	Employee Benefits	Social Benefits	Universal Services	Ad Hoc / Other Transfers	Collective Goods and Services	Grants and Contributions
Exchange or Non-Exchange Transaction?		Exchange	Exchange	Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange
Addresses needs of society as a whole?		No	No	No	Yes	Yes	Yes	Yes	Sometimes
Mitigates effect of social risks?		No	No	Yes	Yes	Yes	No	No	No
Eligibility criteria related to social risks?		No	No	Yes	Yes	Yes	No	No	No
Provided directly to individual households?		No	No	Yes	Yes	No	Sometimes	No	No

Scope of Social Benefits in GFS

### Eligibility criteria

IG3. The decision tree below illustrates the process established by [draft] IPSAS [X] (ED XX) for determining which eligibility criteria will be appropriate for a particular social benefit (see paragraphs xx–xx) under the obligating event approach.





## **Illustrative Examples**

*These examples accompany, but are not part of, [draft] IPSAS [X] (ED XX)*

### **Scope and definitions**

*Illustrating the consequences of applying paragraphs xx–xx of [draft] IPSAS [X] (ED XX)*

IE1. The following scenarios illustrate

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