

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Luxembourg, Luxembourg

Meeting Date: June 27–30, 2017

From: Paul Mason

Agenda Item 9

For:

☐ Approval

☒ Discussion

☒ Information

SOCIAL BENEFITS

Project summary	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.	
Meeting objectives	Topic	Agenda Item
Project management	Instructions up to March 2017 meeting	9.1.1
	Decisions up to March 2017 meeting	9.1.2
	Social Benefits Project Roadmap	9.1.3
Decisions required at this meeting	Consistency with the non-exchange expenses project	9.2.1
	Obligating event approach	9.2.2
	Presentation	9.2.3
	Review of draft ED	9.2.4
Other supporting items	Sections of draft ED, <i>Social Benefits</i>	9.3

Agenda Item

9.1.1

INSTRUCTIONS UP TO MARCH 2017 MEETING

Meeting	Instruction	Actioned
March 2017	Consider how the proposals in the social benefits project relate to the treatment of collective goods and services, and universal benefits, in the non-exchange expenditure project.	See Agenda Item 9.2.2 .
March 2017	Undertake further analysis to consider whether the recognition approaches for non-exchange expenses being considered in that project would be helpful in determining when to recognize an expense and liability related to a social benefit.	See Agenda Item 9.2.1 .
March 2017	Work with the member who raised concerns about the consistency of the obligating event approach with the treatment of financial guarantees in the Financial Instruments project to refine the drafting of the BCs.	See Agenda Items 9.2.4 and 9.3 .
March 2017	Raise the following issues with the CAG: <ul style="list-style-type: none"> • The IPSASB's proposals regarding the applicability of the insurance approach; • The IPSASB's proposal that the insurance approach be optional; and • The IPSASB's proposals regarding discount rates and risk adjustments. 	See CAG Agenda Item 7.
March 2017	Include a discussion of discount rates and risk adjustment under IFRS 17 in the Basis for Conclusions, and to consider whether a specific matter for comment will be required in the ED.	See Agenda Item 9.3 .
March 2017	Undertake further work with two IPSASB members with experience of insurance or insurance-like schemes, in order to determine whether any amendments to the indicators of whether an entity is managing a scheme in the same way as an insurer are required.	See Agenda Items 9.2.4 and 9.3 .
March 2017	Bring proposals regarding definitions of specific types of social benefits to a future meeting.	See Agenda Items 9.2.4 and 9.3 .
March 2017	Consider how to align the scope of the social benefits project with that of the non-exchange expenses project, and to bring proposals to the next meeting.	See Agenda Item 9.2.1 .
March 2017	Reorder the guidance on social benefits to align with the revised definition.	See Agenda Items 9.2.4 and 9.3 .
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.	
December 2016	Develop a range of options for disclosures, taking into account the points raised by the IPSASB.	See Agenda Item 9.2.3 .

Meeting	Instruction	Actioned
December 2016	Further develop the obligating event approach in light of the IPSASB's discussions at the December 2016 meeting.	See Agenda Item 9.2.2 .
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.	
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.	
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.	
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.	
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.	
December 2016	Consider whether the reference to "insurance-based schemes" in the guidance on social benefits required amendment.	
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.	
September 2016	Consider a presentation framework for social benefits, including the issue of gross versus net presentation.	See Agenda Item 9.2.3 .
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.	The IPSASB agreed in December 2016 to include a transitional provision, which will be discussed at a future meeting.
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 Agenda Item 9.2.3 .

Meeting	Instruction	Actioned
September 2016	Give further consideration to the issue of whether a liability accrues over time, and to bring revised proposals to the next meeting.	
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	
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.	
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.	
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 if required.
June 2016	Develop a paper setting out the IASB's latest thinking on insurance accounting.	
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.	
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".	
June 2016	Consider wider issues of asset and revenue presentation, including: <ul style="list-style-type: none"> • Sovereign wealth funds; • Whether the presentation should be a gross presentation or net presentation; and • How similar considerations are addressed in other IPSASs. 	See Agenda Item 9.2.3 . It is proposed elsewhere on this agenda that assets and revenue associated with social benefits are addressed in the Revenue project.
June 2016	Consider how to account for contributions and the interaction with certain sovereign wealth funds in developing the future ED.	See Agenda Item 9.2.3 . It is proposed elsewhere on this agenda that assets and revenue associated with social benefits are addressed in the Revenue project.

Meeting	Instruction	Actioned
June 2016	<p>Consider the following issues in developing the issues paper on when an obligating event can occur:</p> <ul style="list-style-type: none"> • The correlation between the key participatory event and the insurance approach; • The impact on preparers and readers of the financial statements; • The different public interest lenses addressed; and • What examples and flow charts / decision trees will be required to assist users? 	
June 2016	<p>Undertake further work on the scope, taking into account the following issues identified by the IPSASB in its discussions:</p> <ul style="list-style-type: none"> • Whether benefits are provided generally or specifically; • Whether a definition of social risks is required, and if so how this should be framed to fit an accounting framework as opposed to an economic/statistical framework; and • The extent to which the scope can or should be aligned with GFS. 	
March 2016	Reconsider the definitions once a decision on the scope of the project has been made	See Agenda Item 9.2.4 .
March 2016	Explore alternatives for the project scope that might address the IPSASB's concerns, taking the transfer of goods and/or services to individuals and households as a starting point.	
March 2016	Consider the analysis of responses to other SMCs in evaluating options for the project scope.	
June 2015	All directions given in the June 2015 meeting or earlier were reflected in the Consultation Paper, Recognition and measurement of Social Benefits .	

DECISIONS UP TO MARCH 2017 MEETING

Date of Decision	Decision
March 2017	Not to include the key participatory event obligating event or the liability accumulates over time approach in the ED.
March 2017	Not to make any modifications to the forthcoming IFRS 17, specifically: <ul style="list-style-type: none"> • Not to include a modified definition of an insurance contract; • That no specific requirements in respect of the premium allocation approach are required; • Not to modify the IFRS 17 requirements in respect of discount rates; and • Not to modify the IFRS 17 requirements in respect of risk adjustments.
March 2017	The insurance approach should be optional for those schemes that meet the criteria.
March 2017	The insurance approach can be applied to social benefit schemes that are intended to be fully funded from contributions, and where there is evidence that public sector entity manages the scheme in same way as issuer of insurance contract.
March 2017	Include the following definition of social benefits in the ED: “Social benefits are provided to: (a) Specific individuals and/or households who meet eligibility criteria; (b) Mitigate the effect of social risks; and (c) Address the needs of society as a whole; but (d) Are not universally accessible services.”
March 2017	Reflect the exclusion of “universally accessible services” in both the definition of social benefits and the scope section of the Exposure Draft (ED).
March 2017	Remove the reference to benefits being provided “directly” to individuals and/or households in the definition of social benefits.
March 2017	Not to include a reference to “large segments of society” in the definition of social benefits, but to address this in the supporting guidance.
March 2017	Base the definition of social benefits on the definition developed by staff on the basis of previous discussions, not the alternative provided by an observer.
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.

Date of Decision	Decision
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"> • Public sector entities may provide benefits... • Where benefits are provided directly to specific individuals... • Where benefits or services are universally accessible...
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.
June 2016	Following the decision not to proceed with the social contract approach, there is no need to resolve the related accounting issues.
June 2016	To include the obligating event approach and insurance approach in the ED on social benefits, but not to proceed with the social contract approach.
March 2016	The scope of the project should focus on individuals and households.
June 2015	All decisions made in the June 2015 meeting or earlier were reflected in the Consultation Paper, <i>Recognition and measurement of Social Benefits</i> .

SOCIAL BENEFITS PROJECT ROADMAP

Meeting	Objective: IPSASB to consider:
June 2017	<ol style="list-style-type: none"> 1. Decision on when an obligating event may occur 2. Decision on presentation framework (including disclosures) 3. Draft ED: Scope (including Basis for Conclusions) 4. Draft ED: Definitions (including Basis for Conclusions) 5. Draft ED: Insurance Approach (excluding specific disclosure requirements; including Basis for Conclusions) 6. Draft ED: Amendments to other IPSASs (excluding initial recognition and measurement requirements in IPSAS 33)
September 2017	<ol style="list-style-type: none"> 1. Draft ED: Obligating Event Approach–Recognition (to finalize) 2. Draft ED: Obligating Event Approach–Measurement (to finalize) 3. Draft ED: Disclosures (insurance approach and obligating event approach) 4. Draft ED: Transitional Arrangements 5. Draft ED: Application Guidance (remaining items) 6. Draft ED: Draft ED: Amendments to other IPSASs (remaining items) 7. Draft ED: Basis for Conclusions (remaining items) 8. Draft ED: Illustrative Examples 9. Review of full draft ED 10. Decision on Specific Matters for Comment to be included 11. Approval of ED
December 2017	Consultation Period
March 2018	
June 2018	<ol style="list-style-type: none"> 1. Review of Responses 2. Initial discussion on issues raised
September 2018	<ol style="list-style-type: none"> 1. Discussion of issues raised 2. Review first draft of proposed IPSAS
December 2018	<ol style="list-style-type: none"> 1. Review of draft IPSAS 2. Approval of IPSAS

Consistency with the non-exchange expenses project**Questions**

1. The IPSASB is asked to confirm that consistency with the non-exchange expenses project does not require any changes to the IPSASB's approach to social benefits.

Detail

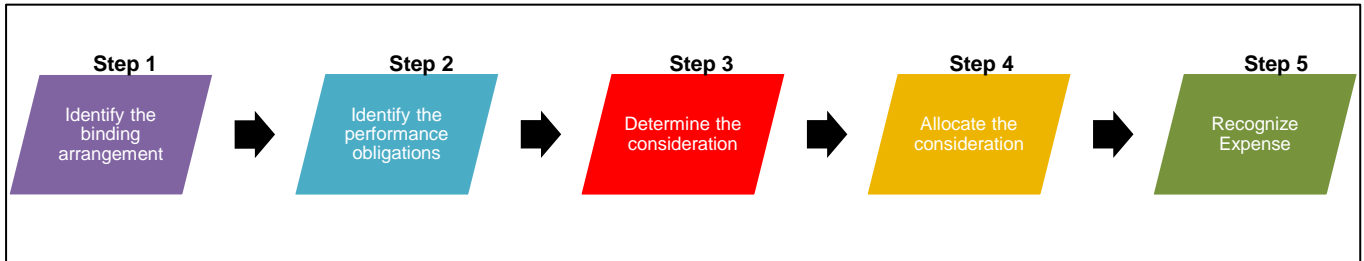
2. At its March 2017 meeting, the IPSASB asked staff to compare the directions of the social benefits and the non-exchange expenses project, to ensure that no inconsistencies were being introduced. In particular, the IPSASB asked staff to consider if the scope of both projects was consistent, and whether the additional approaches to recognizing non-exchange expenses that were being considered would be helpful when considering the recognition of social benefits.
3. The IPSASB also asked staff to consider how the obligating event approach being progressed in the social benefits project would relate to the treatment of collective goods and services and universally accessible services in the non-exchange expenses project. In its March 2017 meeting, members commented that these services were not expected to give rise to a liability prior to services being provided. Some members questioned whether this was consistent with the threshold eligibility obligating event.
4. The accounting for collective goods and services and universally accessible services is outside the scope of the social benefits project. However, the treatment of these transactions under the obligating event approach is considered in [Agenda Item 9.2.2](#), in order to demonstrate that the expected treatment is consistent with how the obligating event approach in this project is being progressed.

Scope

5. At its March 2017 meeting, the IPSASB agreed the definition of social benefits, and confirmed the scope of the project. The social benefits project covers benefits provided to individuals and/or households who meet eligibility criteria, to mitigate the effect of social risks. The scope of the social benefits project specifically excludes financial instruments, employee benefits, insurance contracts and universally accessible services.
6. Details of the scope and definitions are provided in paragraphs 5 and 6 of the draft ED (see [Agenda Item 9.3](#)). A diagram illustrating the scope of the draft ED and the boundaries with other standards and projects is included at paragraph IG2 of [Agenda Item 9.3](#). This diagram is the same diagram that is included in the draft CP on revenue and non-exchange expenses elsewhere on the agenda.
7. Staff considers that the scope of social benefits project set out in the draft ED is consistent with the scope of the non-exchange project set out elsewhere on the agenda. Consequently, staff does not consider that any changes to the scope of the social benefits project are required.

Public sector performance obligation approach

8. The public sector performance obligation approach for non-exchange expenses comprises the five steps set out in the following diagram:



9. Step 2 requires the resource recipient to satisfy performance obligations prior to an expense being recognized. Staff does not consider that social benefit schemes impose performance obligations on beneficiaries. Staff does not consider that, for example, reaching retirement age or becoming unemployed can be considered performance obligations.
10. For contributory social benefit schemes, it could be argued that the payment of a contribution is a performance obligation. However, at its March 2017 meeting, the IPSASB agreed not to include the key participatory events or liability accumulates over time obligating events. Part of the rationale for excluding these obligating events was that the contributions were more analogous to some forms of taxation, rather than being consideration that gives rise to an entitlement to the future receipt of a social benefit. Staff considers that this analysis precludes the possibility of contributions being performance obligations.
11. Consequently, staff considers that social benefit schemes do not impose performance obligations on the resource recipient. It follows that the public sector performance obligation approach for non-exchange expenses is not relevant to social benefits, and that the ED should not refer to this approach.

Extended obligating event approach

12. Under the extended obligating event approach, the resource provider determines whether an arrangement contains stipulations, and if so, whether those stipulations are conditions or restrictions.
13. Stipulations impose requirements on resource recipients that are, in many cases, analogous to performance obligations. As discussed above, staff do not consider that social benefit schemes impose performance obligations on beneficiaries. Staff considers that this analysis can also be applied to stipulations; in staff's view, social benefit schemes do not contain stipulations.
14. Under the extended obligating event approach, the resource provider would recognize an expense when the arrangement becomes binding. For a social benefit scheme, this will occur when the eligibility criteria (whether threshold eligibility criteria or eligibility criteria for the next benefit) are satisfied.
15. Consequently, staff's view is that the extended obligating event approach will produce the same accounting as the obligating event approach being progressed in the social benefits project. Staff is,

therefore, of the opinion that no reference to the extended obligating event approach is necessary in the social benefits project.

Decisions required

16. Does the IPSASB support the staff view that consistency with the non-exchange expenses project does not require any changes to the IPSASB's approach to social benefits?

Obligating event approach**Questions**

1. The IPSASB is asked to agree the circumstances in which each obligating event should be applied under the obligating event approach.

Detail*Introduction*

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.
3. At its September 2016 meeting, the IPSASB agreed that the “threshold eligibility” and “eligibility criteria to receive the next benefit” obligating events could give rise to a legal obligation and should be included in the ED. At its March 2017 meeting, the IPSASB agreed not to include the key participatory event obligating event and liability accumulates over time obligating event in the ED.
4. Staff has included the reasons for these decisions in the Basis for Conclusions (BCs) in the draft ED (see paragraphs BC56–BC153, ignoring the changes marked up in blue). Changes have been to these paragraphs since the March 2017 meeting to reflect members’ comments; these changes are shown marked up in red.
5. At its March 2017 meeting, the IPSASB discussed the circumstances in which in which each obligating event should be applied, but did not reach any conclusions. The key debate centered on whether – in those cases where there are no ongoing eligibility criteria other than that the beneficiary must be alive at the point in time that eligibility to receive the next benefit is determined – there is always a non-legally binding obligation for future benefits once threshold eligibility requirements are met. There have been differing views on this issue throughout the IPSASB’s work on social benefits. For some social benefit schemes, being alive is an explicit criterion established by law or policy.
6. Staff considers that, if the IPSASB concludes that being alive is an eligibility criterion that affects recognition as well as measurement, including the threshold eligibility obligating event in the ED will be unnecessary. In these circumstances, the eligibility criteria for next benefit obligating event would apply to all social benefit schemes.

TBG view

7. TBG members consider that being alive is an eligibility criterion (whether explicit or implicit) that affects recognition as well as measurement. The past event is the satisfaction of all eligibility criteria, including being alive. Consequently, any liability that arises is only for the next benefit for which eligibility criteria have been validated. Additional liabilities only arise when all eligibility criteria, including being alive, are met for further benefits. Until an individual has remained alive, they have not satisfied the eligibility criteria and hence the past event that is required for a liability to be recognized has not occurred. Further, the TBG considers that until all eligibility criteria have

been satisfied, an entity has a realistic alternative to avoid an outflow of resources, for example by modifying legislation. The TBG also considers that, for such non-exchange transactions, a valid expectation does not occur until the beneficiary has met all eligibility criteria.

8. A number of additional considerations also influenced the TBG's views, including:
- (a) Consistency with the revenue and non-exchange expense project. In considering non-exchange expenses other than social benefits, the Board has generally agreed that a liability for universal health and education benefits would not be recognized prior to delivery of the benefits to beneficiaries. TBG members consider such universal benefit schemes are conceptually similar to these social benefit schemes in that they have no continuing eligibility requirements beyond threshold eligibility other than being alive. Therefore, meeting all eligibility criteria for the next benefit would be consistent with proposed treatment of other similar non-exchange expenses.
 - (b) Consistency with accounting for social benefits with ongoing eligibility criteria (other than being alive). Applying the threshold criteria obligating event would result in obligations for long-term benefits for certain social benefit schemes (primarily old-age pensions), while other social benefit schemes would recognize relatively short-term benefits, even though for certain schemes, they may ultimately be paid to beneficiaries over a long-term horizon (e.g., income-based welfare benefits).
 - (c) Being alive is an explicit eligibility criterion for some social benefits programs, established through law or policy, and in these cases there is frequently active compliance monitoring and enforcement. Many public sector entities take active steps to periodically validate that a beneficiary is alive and actively monitor and enforce compliance with the eligibility criteria. For example, annual certifications that the beneficiary is alive may be required. Also, there may be requirements for hospitals, funeral homes, immediate relatives, or others to report deaths. Further, many public sector entities recover benefits improperly paid to beneficiaries who are not alive or prosecute fraudulent non-reporting of a beneficiary's death.
 - (d) Meeting all eligibility requirements creates an obligation to provide a benefit related to eligibility requirement(s) that are met, consistent with social benefit schemes where there are ongoing eligibility requirements. Typically, for an individual social benefit scheme, eligibility requirements and related benefits are clearly established. For example, a benefit may be paid monthly based on meeting eligibility criteria as of the end of the prior month. This would be true both for schemes that have ongoing eligibility criteria (other than being alive) and those where being alive is the only ongoing eligibility criterion.
 - (e) Meeting eligibility criteria for the next benefit would be more consistent with the measurement of social benefits in GFS.
9. The TBG also considered paragraph 5.21 of the Conceptual Framework, which states (TBG emphasis added):

*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.*

10. At the March 2017 meeting, staff proposed that, although social benefits are not exchange transactions, a liability should be recognized for social benefit schemes such as retirement benefits when threshold eligibility criteria are met. This was because legal obligations would arise with the passage of time without the beneficiary having to take any further action or meet further conditions.
11. The TBG do not support this assertion; they consider paragraph 5.21 of the Conceptual Framework relates solely to legal obligations in the context of exchange transactions, as indicated. Specifically, this paragraph would apply where the external party in the exchange transaction has met all of the conditions of the exchange transaction and it is unconditionally enforceable, but the public sector entity will not meet its conditions until after the reporting date.
12. Consequently, TBG members consider that the only appropriate obligating event is that all eligibility criteria for the next benefit have been met. The TBG believes that this approach, combined with the insurance approach, would recognize the nature of the social benefit and the legal framework under which the benefit arises. If the IPSASB concurs, it would need to reconsider its previous decision that that a range of obligating events should be included in the ED.
13. The TBG also considers that there would be practical difficulties with applying the threshold eligibility criteria obligating event. The TBG noted that threshold eligibility criteria are said to give rise to a non-legally binding obligation where there is a valid expectation that results in an entity having little or no realistic alternative to settling the obligation. The basis for including threshold eligibility is that a valid expectation will arise when there are no further eligibility criteria (excluding being alive) to be satisfied. The TBG was not convinced that this would be the case in all instances, and considered that there may be situations where:
 - (a) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation did not arise, even though there were no further eligibility criteria (excluding being alive) to be satisfied; or
 - (b) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation arose, even though there were further eligibility criteria (excluding being alive) to be satisfied.
14. The TBG considered that determining whether a valid expectation that results in an entity having little or no realistic alternative to settling the obligation has arisen can only be determined on a case by case basis. The TBG considered that this would result in inconsistent application of a future IPSAS on social benefits, and that this was a further reason for not including the threshold eligibility criteria obligating event in the ED.
15. The TBG is therefore proposing that only the eligibility criteria for the next benefit have been met recognition point is included in the draft ED, and that the accounting treatment should consider that being alive is an eligibility criterion (whether explicit or implicit) that affects recognition.
16. [Appendix A](#) to this Issues Paper includes an initial draft of how the recognition and measurement sections of the ED might look if the IPSASB agrees with the TBG's view. The discussion of the obligating events in the BCs includes additional changes (shown in mark-up in blue in paragraphs BC56–BC83) to illustrate the changes that would be required if the IPSASB accepts the TBG's view.

Alternative view

17. Others do not consider that being alive is an eligibility criterion (whether implicit or explicit) that affects recognition as well as measurement. They do not consider being alive as a past event, but a continuation of the status quo. Instead, death is considered to be a future event that affects measurement only. Consequently, they consider that a non-legally binding obligation can arise that meets the definition of a liability.
18. The factors that give rise to a non-legally binding obligation were summarized in paragraph 4.23 of the Consultation Paper, [*Recognition and measurement of Social Benefits*](#):
An entity must have given a sufficiently precise indication to others that the entity will accept certain responsibilities. It must be this indication that gives rise to a valid expectation that the entity will discharge those responsibilities. It must be as a result of creating that valid expectation that the entity has little or no realistic alternative to avoid an outflow of resources.
19. Those who hold this view consider that different social benefit schemes will give rise to different expectations, which affects the determination of whether an entity has a realistic alternative to avoid an outflow of resources.
20. Those who hold this view note that in many jurisdictions, retirement planning is based on the valid expectation that retirement benefits will be paid until death. Once a person has retired, they will be unable to make alternative plans, and, as a consequence, a government has little realistic alternative to continuing to pay the benefits that have given rise to the valid expectation.
21. Those who hold this view contrast retirement benefits and other social benefits such as unemployment benefits. Such benefits are generally not intended to be paid continuously, but are intended to meet short-term needs. They note that in many cases, governments have programs that are intended to minimize the duration over which benefits are paid, for example by supporting beneficiaries in their search for employment. In some cases, the payment of benefits is suspended if beneficiaries do not take sufficient steps to find employment.
22. Consequently, those who hold this view consider that for benefits such as unemployment benefits, a valid expectation only arises for the provision of the next benefit. Governments, therefore, will have a realistic alternative to settling further obligations.
23. Those who hold this view also note consider that, for collective goods and services and universally accessible services, while there is a valid expectation that governments will provide those services, it is accepted that governments can – and do – limit or ration the level of such services. Examples include increasing the waiting time for hospital treatment, or cancelling routine operations to redeploy resources elsewhere. Consequently, those who hold this view consider that, with the exception of contractual obligations to employees (which are outside the scope of this project), no obligation for collective goods and services and universally accessible services arises, because there is no valid expectation that a particular level of services will be provided
24. These views are summarized in the following table, which also considers how this non-legally binding obligation approach applies to collective goods and services and universally accessible services, as the IPSASB requested at its March 2017 meeting.

Nature of benefit	Long-term benefits, for example retirement and long-term disability, with no ongoing eligibility criteria	Short-term benefits, for example unemployment benefits with ongoing eligibility criteria	Collective goods and services and universally accessible services
Sufficiently precise indication?	Yes, included in legislation	Yes, included in legislation	Yes, included in legislation
Nature of valid expectation?	Expectation that benefits will continue until death	Expectation that next benefit will be provided; generally accepted that benefits are not intended to be continuous due to the ongoing eligibility criteria	Expectation that services will be provided, but acceptance that government can limit or ration the level of such services
Realistic alternative to avoid outflow of resources?	No – for all benefits until death as individuals will have acted on valid expectation	No – for next benefit; Yes – for subsequent benefits where satisfaction of eligibility criteria is required	Yes – government can amend the level of services provided, and individuals are less likely to have acted based on a specified level of service
Recognition?	Threshold eligibility criteria have been met	Eligibility criteria for the next benefit (validation point) have been met	As services are provided

25. Those who hold this view consider that the logical consequence of treating being alive as an implicit eligibility criterion that affects recognition is to artificially limit recognition to amounts that have become due. They do not consider that this reflects the economic substance of social benefits.
26. Those who hold this view also consider that, if liabilities were only recognized until the next benefit, this would not reflect the economic substance of some benefits. They consider that this is necessary to meet the qualitative characteristic of comparability, which the Conceptual Framework defines as “the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena.” They argue that different types of social benefits have different economic characteristics that require different accounting treatments, and that this would not be addressed if the eligibility criteria for the next benefit have been met is the only recognition point included in the draft ED.
27. Those who hold this view note that using threshold eligibility criteria have been met as the recognition point for benefits such as retirement pensions would be more consistent with the GFS classification approach. GFS distinguishes between pension benefits (payable once threshold eligibility criteria have been met) and non-pension benefits for classification purposes, although this does not extend to measurement.

28. [Appendix B](#) to this Issues Paper illustrates how the recognition and measurement sections of the ED would differ from the draft provided in [Appendix A](#) if the IPSASB agrees with the alternative view. Changes to the text in Appendix A are shown in mark-up.

Third view

29. Some may hold a third view. This view generally accepts the alternative view, but acknowledges that there may be situations where:
- (a) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation does not arise, even though there are no further eligibility criteria (excluding being alive) to be satisfied; or
 - (b) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation arises, even though there are further eligibility criteria (excluding being alive) to be satisfied.
30. Under this third view, the two recognition points under the alternative view would be considered to be rebuttable presumptions. For example:
- (a) Where the only eligibility criteria for a retirement benefit is that the beneficiary has reached retirement age, there would be a rebuttable presumption that the liability should be recognized using the threshold eligibility recognition point. The presumption could be rebutted if there was evidence that beneficiaries did not have a valid expectation that the retirement benefits would continue to be paid. This might arise in jurisdictions where payments had already been withheld.
 - (b) Where eligibility for an income support benefit is subject to monthly means testing, there would be a rebuttable presumption that the liability should be recognized using the eligibility criteria for the next benefit have been met recognition point. The presumption could be rebutted if there was evidence that, despite the ongoing eligibility criteria, beneficiaries had a valid expectation of receiving benefits into the future and that the government had little or no realistic alternative to providing those benefits. This might arise where a jurisdiction was experiencing high levels of unemployment and economic deterioration, and where the government's past practice indicates that it will continue to pay the benefit in these circumstances.

Public interest issues

31. Responses to earlier consultation papers have indicated that there are differing views as to the public interest issues affecting this decision.
32. Some note that the use of threshold eligibility criteria will result in governments recognizing very significant liabilities, without recognizing the future revenue that will finance these liabilities. They do not consider that this faithfully reflects the financial position or performance of the scheme or of the entity, and therefore do not consider that this provides relevant information to users. Consequently, they do not consider that this approach is in the public interest. They also consider this approach may discourage governments from adopting IPSAS. Also, some note that using "eligibility criteria for the next benefit" may better reflect the cost of services actually provided during the year, and may be helpful in reporting service performance.

33. Others note that excluding items from the statement of financial position that meet the IPSASB's definition of a liability simply because of their size may reduce the credibility of the IPSASB's literature, and create the impression the Board is permitting governments to present their financial position in a more favorable light than is the case. These respondents consider that these cases are no different from unfunded defined benefit schemes. Under IPSAS 25, *Employee Benefits*, the defined benefit liability (which may be a large liability) is recognized in the statement of financial position even though the scheme is unfunded.
34. Some also note that there are significant uncertainties in estimating the benefits that will be provided in the future under the threshold eligibility criteria obligation, particularly in situations where anticipated funding will not be sufficient to pay full benefits. Significant uncertainties could make it difficult to estimate the liability, not knowing what specific actions would be undertaken to modify or change future benefits. In addition, liabilities and expenses could fluctuate year to year by significant amounts, due to changes in social benefit liability estimates
35. Others argue that dealing with any significant uncertainties is part of the process for managing social benefits. They argue that including an entity's best estimate of the benefits that will be provided in the future under the threshold eligibility criteria obligation would provide information that is useful for accountability and decision making. They consider that the volatility that could arise due to changes in social benefit liability estimates is likely to reflect the nature of the schemes, and is not a valid reason for not including the liability in the statement of financial position. They further note that similar concerns were raised with regards to long-term employee benefits, but that is it now accepted that such liabilities should be recognized.
36. In considering when each obligating event would be applicable, the IPSASB will need to balance these public interest issues.

Decisions required

37. Does the IPSASB support the TBG proposal?
38. If not, does the IPSASB support the alternative view or the third view?
39. Does the IPSASB agree that, whichever view is supported, an Alternative View should be included in the ED?

Draft recognition and measurement sections of ED (eligibility criteria for next benefit only)**Obligating event approach****Level of Aggregation**

1. An entity shall identify social benefit schemes. A social benefits scheme comprises social benefits, provided to a number of individuals or households, which derive from the same legislation or regulations, mitigate the effect of the same social risks and are managed together as a single pool.

Recognition of a Liability for a Social Benefit Scheme

2. **An entity shall recognize a liability for a social benefit scheme when:**
 - (a) **The entity has a present obligation for an outflow of resources that results from a past event; and**
 - (b) **The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports.**

Outflow of Resources

3. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.
4. There may be uncertainty associated with the measurement of the liability. The use of estimates is an essential part of the accrual basis of accounting. Uncertainty regarding the outflow of resources does not prevent the recognition of a liability unless the level of uncertainty is so large that the qualitative characteristics of relevance and faithful representativeness cannot be met. Where the level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

Past Event

5. For a social benefit scheme, the past event that gives rise to a liability is the satisfaction of all eligibility criteria for the provision of the next benefit by the beneficiary.
6. For a social benefit scheme, being alive at the point at which the eligibility criteria are validated is an eligibility criterion, whether explicitly or implicitly.

Recognition of an Expense for a Social Benefit Scheme

7. **An entity shall recognize an expense for a social benefit scheme at the same point that it recognizes a liability.**
8. An entity shall not recognize an expense for a social benefit scheme where a benefit is provided prior to all eligibility criteria being satisfied, except where the benefit is irrecoverable. Where the

benefit is recoverable, an entity shall initially recognize a payment in advance, and recognize an expense at the point that all eligibility criteria are satisfied.

Measurement of a Liability for a Social Benefit Scheme

Initial Measurement of the Liability

9. **An entity shall measure the liability for a social benefit scheme at the best estimate of the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.**
10. Being alive is an eligibility criterion for social benefit schemes. Consequently, the maximum amount to be recognized as a liability is the costs that the entity will incur in fulfilling the obligations represented by the liability until the next point at which eligibility criteria are required to be satisfied.
11. An entity's best estimate of the costs that the entity will incur in fulfilling the obligations represented by the liability take into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria are required to be satisfied.
12. When the liability in respect of a social benefit scheme is not expected to be settled wholly before twelve months after the end of the reporting period in which the liability is recognized, the liability shall be discounted using the discount rate specified in paragraph 16.

Subsequent Measurement

13. **The liability for a social benefit scheme shall be reduced as social benefits are provided. Any difference between the cost of providing social benefits and the carrying amount of the liability in respect of the social benefit scheme is recognized in surplus or deficit, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**
14. **Where a liability is discounted in accordance with paragraph 12, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.**
15. **The liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate.**

Discount Rate

16. **The rate used to discount a liability in respect of a social benefit scheme shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the social benefit liability.**

Measurement of an Expense for a Social Benefit Scheme

17. **An entity shall measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 9, except where the entity provides a social benefit prior to all eligibility criteria being satisfied.**

18. Where an entity provides a social benefit prior to all eligibility criteria being satisfied, it shall measure the expense at the cost of providing the benefit.

Appendix B to Agenda Item 9.2.2

Changes to draft recognition and measurement sections of ED to incorporate threshold eligibility criteria

Obligating event approach

Level of Aggregation

1. An entity shall identify social benefit schemes. A social benefits scheme comprises social benefits, provided to a number of individuals or households, which derive from the same legislation or regulations, mitigate the effect of the same social risks and are managed together as a single pool.

Recognition of a Liability for a Social Benefit Scheme

2. **An entity shall recognize a liability for a social benefit scheme when:**
 - (a) **The entity has a present obligation for an outflow of resources that results from a past event; and**
 - (b) **The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports.**

Outflow of Resources

3. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.
4. There may be uncertainty associated with the measurement of the liability. The use of estimates is an essential part of the accrual basis of accounting. Uncertainty regarding the outflow of resources does not prevent the recognition of a liability unless the level of uncertainty is so large that the qualitative characteristics of relevance and faithful representativeness cannot be met. Where the level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

Past Event

5. For a social benefit scheme, the past event that gives rise to a liability is:

(a) Where beneficiaries are required to satisfy ongoing eligibility criteria, the satisfaction of all eligibility criteria for the provision of ~~the next~~ benefits until the next validation point by the beneficiary; or

~~(a)~~(b) Where beneficiaries are not required to satisfy ongoing eligibility criteria, the initial satisfaction of all eligibility criteria by the beneficiary (also referred to as the satisfaction of threshold eligibility criteria).

~~5.6.~~ For a social benefit scheme, being alive at the point at which the eligibility criteria are validated is made is not an eligibility criterion, whether explicitly or implicitly.

Recognition of an Expense for a Social Benefit Scheme

6.7. An entity shall recognize an expense for a social benefit scheme at the same point that it recognizes a liability.

7.8. An entity shall not recognize an expense for a social benefit scheme where a benefit is provided prior to all eligibility criteria being satisfied, except where the benefit is irrecoverable. Where the benefit is recoverable, an entity shall initially recognize a payment in advance, and recognize an expense at the point that all eligibility criteria are satisfied.

Measurement of a Liability for a Social Benefit Scheme

Initial Measurement of the Liability

8.9. An entity shall measure the liability for a social benefit scheme at the best estimate of the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

9.10. ~~Being alive is an eligibility criterion for social benefit schemes. Consequently, Where beneficiaries are required to satisfy ongoing eligibility criteria,~~ the maximum amount to be recognized as a liability is the costs that the entity will incur in fulfilling the obligations represented by the liability until the next point at which eligibility criteria are required to be ~~satisfied~~ revalidated.

11. ~~An Where beneficiaries are required to satisfy ongoing eligibility criteria, an~~ entity's best estimate of the costs that the entity will incur in fulfilling the obligations represented by the liability take into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria are required to be ~~satisfied~~ revalidated.

12. ~~Where beneficiaries are not required to satisfy ongoing eligibility criteria, the amount recognized as a liability is the entity's best estimate of the cost of all future benefits to be provided to the beneficiaries until they permanently cease to be eligible for the social benefit.~~

10.13. ~~Where beneficiaries are not required to satisfy ongoing eligibility criteria, the liability shall be estimated by using the [actuarial technique to be decided – additional requirements may also be required].~~

11.14. When the liability in respect of a social benefit scheme is not expected to be settled wholly before twelve months after the end of the reporting period in which the liability is recognized, the liability shall be discounted using the discount rate specified in paragraph ~~184~~ 146.

Subsequent Measurement

12.15. The liability for a social benefit scheme shall be reduced as social benefits are provided. Any difference between the cost of providing social benefits and the carrying amount of the liability in respect of the social benefit scheme is recognized in surplus or deficit, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

13.16. Where a liability is discounted in accordance with paragraph ~~141~~ 142, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.

~~14.17.~~ The liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate.

Discount Rate

~~18.~~ The rate used to discount a liability in respect of a social benefit scheme shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the social benefit liability.

~~15.19.~~ [Additional guidance on discount rates may be required depending on the actuarial technique selected].

Measurement of an Expense for a Social Benefit Scheme

~~16.20.~~ An entity shall measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 9, except where the entity provides a social benefit prior to all eligibility criteria being satisfied.

~~17.21.~~ Where an entity provides a social benefit prior to all eligibility criteria being satisfied, it shall measure the expense at the cost of providing the benefit.

Agenda Item 9.2.3

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

Disclosure framework

2. At its December 2016 meeting, the IPSASB considered a disclosure framework presented by staff. The IPSASB was supportive of the general direction, and the proposals in this Agenda Item reflect the discussions at that meeting.

Disclosure categories

3. At the [December 2016 meeting](#), staff proposed a disclosure framework with the following three categories:
 - (a) Disclosures that explain the characteristics of an entity's social benefit schemes, and the risks associated with them;
 - (b) Disclosures that identify and explain the amounts in an entity's financial statements arising from social benefit schemes; and
 - (c) Disclosures that describe how social benefit schemes may affect the amount, timing and uncertainty of an entity's future cash flows.
4. 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

5. 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, 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.
6. Staff considers that, subject to the decisions made by the IPSASB regarding the obligating event approach (see [Agenda Item 9.2.2](#)), these three categories of disclosure above could be applied as follows. The IPSASB is asked whether it supports this view:

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

Level of detail to be reported

7. Given the different nature of social benefit schemes, staff considers that entities will need to exercise their judgment in determining what disclosures are required to meet users' needs. IFRS 17, *Insurance Contracts*, addresses this issue by including the following provisions:
 - (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.
8. Staff considers that similar wording would be helpful in addressing the wide variety of social benefit schemes, and would provide a useful prompt for preparers about applying materiality to the disclosures. It may be appropriate to state that if disclosures do not provide material information they should not be included. Staff is seeking the IPSASB's view on this.

Gross versus net presentation

9. At its December 2016 meeting, the IPSASB discussed whether assets and liabilities arising from social benefit schemes should be presented gross or net. Although some members commented that it was too early to make a firm decision, other members indicated that the arguments in the [December 2016 meeting papers](#) supporting gross presentation were persuasive.
10. If the IPSASB accepts the recommendations elsewhere on the agenda, social contributions will be included within the scope of a future IPSAS dealing with non-exchange revenue. The ED on social benefits will not, therefore, include social contributions.
11. As a consequence, achieving a net presentation would be difficult without significant modification of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, which could pre-empt decisions regarding presentation that will be made in developing a future IPSAS dealing with non-exchange revenue.
12. In light of this, and the IPSASB's previous tentative preference for a gross presentation, it is proposed that the ED only includes requirements in respect of liabilities and expenses arising from social benefits.

Information to be disclosed

13. Staff has not developed detailed requirements at this stage, as these will need to be developed in parallel with the recognition and measurement requirements. Staff provided tentative suggestions in the [March 2017 meeting papers](#), and IPSASB members have not, at the time of writing, identified any alternative disclosures.

Transitional arrangements

14. 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

15. Does the IPSASB support the proposals regarding the:
 - (a) Disclosure categories;
 - (b) Applicability of the disclosure categories;
 - (c) Level of detail to be reported (based on the IASB's proposed wording);
 - (d) Limiting presentation and disclosure to liabilities and expenses arising from social benefits; and
 - (e) Transitional arrangements?

Review of draft ED**Questions**

1. The IPSASB is asked to review the draft ED and to provide instructions for staff in further developing the ED.

Detail

2. The definition of social benefits agreed at the March meeting begins “Social benefits are provided to: ...” Staff considers it may be helpful to include the word “transfers” in the definition of social benefits, so that the definition begins “Social benefits are transfers provided to:” Without this addition, the definition does not define what social benefits are.
3. A definition of “social benefits schemes” has been added (see [paragraph 6](#) of the draft ED). Staff considers that the requirements in respect of both the insurance approach and the obligating event approach will need to refer to social benefit schemes.
4. The draft ED currently includes definitions of social benefits in cash; social benefits in kind; reimbursements; social insurance; social security; and social assistance. These definitions are based on GFS, and were included in the CP. Staff notes that, following the decisions taken by the IPSASB regarding the definition of social benefits, and the applicability of the insurance approach, none of these definitions are expected to be needed to establish requirements in the ED. Staff therefore recommends that these definitions (shown shaded in [Agenda Item 9.3](#)) are removed from the definitions section of the ED.
5. Staff notes that in some jurisdictions, these definitions are well known and understood as a result of their use in GFS. Consequently, the IPSASB may wish to include additional Implementation Guidance that explains the relationship between the scope of social benefits in GFS and in the ED.
6. [Amendments to IPSAS 23, Revenue from Non-Exchange Transactions \(Taxes and Transfers\)](#), have been included in the ED. These amendments:
 - (a) Exclude contributions to social benefit schemes accounted for under the insurance approach from the scope of IPSAS 23; and
 - (b) Amend the Basis for Conclusions to explain that the IPSASB now considers contributions to social benefit schemes to be non-exchange transactions within the scope of IPSAS 23.
7. The draft ED has been updated to reflect the IPSASB’s instructions, decisions and discussions at the March 2017 meeting, as follows:
 - (a) The scope section of the ED now explicitly states that universally accessible services have been excluded from the scope of the ED (see [paragraph 5](#) of the draft ED).
 - (b) The definition of social benefits has been replaced with the definition agreed at the IPSASB’s March 2017 meeting (see [paragraph 6](#) of the draft ED); the related application guidance has been reordered to match the new definition (see [paragraphs AG4–AG7](#) of the draft ED); and the diagram illustrating the scope of ED has been updated to align with the revised definition of social benefits (see [paragraph IG2](#) of the draft ED).

- (c) Requirements, application guidance and basis for conclusions in respect of the insurance approach have been added, with the exception of specific disclosure requirements (see [paragraphs 7–12](#), [AG11–AG15](#) and [BC29–BC55](#) of the draft ED). This includes guidance that the insurance approach is only applicable where the “relevant international or national accounting standard dealing with insurance contracts” is IFRS 17, *Insurance Contracts*, or is a national standard based on IFRS 17. This is because other standards may not provide information that meets users’ needs and satisfy the qualitative characteristics. The guidance also covers the circumstances in which the insurance approach is may be applied by an entity; this guidance has been further developed since the March 2017 meeting.
- (d) The sections of the Basis for Conclusions that explain why the key participatory events and liability accumulates over time obligating events have been excluded from the ED (see [paragraphs BC98–BC153](#)) have been updated to reflect the concerns raised by members at the March 2017 meeting. Changes to these paragraphs are shown in mark-up. Note that this section of the BCs may be deleted if the IPSASB accepts the TGB proposal to only include eligibility criteria for the next benefit in the draft ED.

Decisions required

- 8. Does the IPSASB support the staff proposal to include the word “transfers” in the definition of social benefits?
- 9. Does the IPSASB support the staff proposal to include a definition of “social benefit schemes”?
- 10. Does the IPSASB support the staff proposal to remove the definitions of social benefits in cash; social benefits in kind; reimbursements; social insurance; social security; and social assistance? If so, does the IPSASB wish to include any additional Implementation Guidance that explains the relationship between the scope of social benefits in the ED and in GFS?
- 11. Does the IPSASB support the amendments to IPSAS 23?
- 12. Does the IPSASB support the drafting changes made by staff in respect of the scope and definitions?
- 13. Does the IPSASB support the staff proposals that the application of the insurance approach be limited to those cases where “the relevant international or national accounting standard dealing with insurance contracts” is IFRS 17, *Insurance Contracts*, or national standards based on IFRS 17?
- 14. Does the IPSASB support the staff proposals for the drafting of the rest of the sections on the insurance approach?
- 15. Does the IPSASB support the drafting changes made by staff to the sections of the Basis for Conclusions dealing with the key participatory events and liability accumulates over time obligating events?

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

*Proposed International Public Sector Accounting
Standard®*

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.

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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. 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

CONTENTS

	Paragraph
Objective	1–3
Scope	4–5
Definitions.....	6
Insurance approach	
Recognition and measurement	
Disclosure	
Obligating event approach	13–17
Recognition	13
Measurement	14–15
Disclosure	16–17
Transitional provisions	18
Effective date	19–20
Application Guidance	
Amendments to other IPSASs	
Basis for Conclusions	
Implementation Guidance	
Illustrative Examples	

Objective

1. This [draft] Standard sets out the principles for the recognition, measurement, presentation and disclosure of social benefits.
2. The objective of this [draft] Standard 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*;**
 - (c) **Insurance contracts that are within the scope of the relevant international or national accounting standard dealing with insurance contracts; and**
 - (d) **Universally accessible services as defined in paragraph 6 of this [draft] Standard.**

Paragraphs AG1–AG3 provide additional guidance.

Definitions

6. **The following terms are used in this [draft] Standard with the meanings specified:**

Social benefits are provided to:

- (a) **Specific individuals and/or households who meet eligibility criteria;**
- (b) **Mitigate the effect of social risks; and**
- (c) **Address the needs of society as a whole; but**

- (d) Are not universally accessible services.

Paragraphs AG4–AG7 provide additional guidance.

Social benefit schemes comprise social benefits, provided to a number of individuals or households, which derive from the same legislation or regulations, mitigate the effect of the same social risks and are managed together as a single pool.

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 AG8–AG10 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

Recognition and Measurement

7. Where a social benefit scheme satisfies the criteria in paragraph 9, an entity is permitted, but not required, to recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme by applying, by analogy, the requirements of the

relevant international or national accounting standard dealing with insurance contracts¹. Paragraph AG11 provides additional guidance.

8. Where an entity elects not to apply by analogy the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme in accordance with paragraphs 13–x of this [draft] Standard.
9. An entity may recognize and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts where:
 - (a) The social benefit scheme is intended to be fully funded from contributions; and
 - (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

Paragraphs AG12–AG15 provide additional guidance.

Disclosure

10. **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–xx specify requirements on how to meet this objective.**
11. **Where an entity recognizes and measures the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall:**
 - (a) **Disclose the reason or reasons why the entity elected to apply the insurance approach;**
 - (b) **Disclose the information required by the international or national accounting standard dealing with insurance contracts; and**
 - (c) **Disclose any additional information required by paragraphs 12–xx of this [draft] Standard.**
12. [To be determined]

Obligating Event Approach

Recognition

13. [To be determined]

¹ In the insurance approach section of this [draft] Standard, the term “the relevant international or national accounting standard dealing with insurance contracts” refers to IFRS 17, *Insurance Contracts* and national standards based on IFRS 17.

Measurement

Initial measurement

14. [To be determined]

Subsequent measurement

15. [To be determined]

Disclosure

16. **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 17–xx specify requirements on how to meet this objective.**
17. [To be determined]

Transitional Provisions

18. [To be determined]

Effective Date

19. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after MMM DD, YY. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before MMM DD, YY, it shall disclose that fact.**
20. 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.

Appendix A

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.
- AG3. This [draft] Standard does not apply to universally accessible services as defined in paragraph 6 of this [draft] Standard. The definition of social benefits specifically excludes universally accessible services. Universally accessible services are accounted for in accordance with other IPSASs.

Definitions (see paragraph 6)

Guidance on the Definition of Social Benefits

- AG4. 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.
- AG5. 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.
- AG6. 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.

- AG7. 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] Standard.

Guidance on the Definition of Social Risks

- AG8. 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.
- AG9. 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.
- AG10. 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.

Insurance Approach (see paragraphs 7–9)

- AG11. In the insurance approach section of this [draft] Standard, the term “the relevant international or national accounting standard dealing with insurance contracts” refers to IFRS 17, *Insurance Contracts*, and national standards based on IFRS 17. IFRS 17 has adopted principles for accounting for insurance contracts that, when applied by analogy to social benefit schemes, will provide information that meets users’ needs and satisfy the qualitative characteristics. This may not be the case for other accounting standards dealing with insurance contracts. For example, the IASB has described IFRS 4, *Insurance Contracts*, as an “interim Standard that permits a wide range of practices and includes a “temporary exemption”, which explicitly states that an entity does not need to ensure that its accounting policies are relevant to the economic decision-making needs of users of financial statements, or that those accounting policies are reliable.”² IFRS 4, and national standards that are consistent with the principles of IFRS 4, may not provide information that meets users’ needs and satisfy the qualitative characteristics. Consequently, an entity may not recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme by applying, by analogy, the requirements of such standards.

² Exposure Draft ED/2013/7 *Insurance Contracts*

Guidance on Determining Whether a Social Benefit Scheme is Intended to be Fully Funded from Contributions

AG12. A social benefit scheme is intended to be fully funded from contributions when:

- (a) The legislation or other arrangement governing the social benefit scheme provides for the scheme to be funded by contributions or levies paid by or on behalf of either the potential beneficiaries or those whose activities create or exacerbate the risks, together with investment returns arising from the contributions or levies; and
- (b) One or more of the following indicators (individually or in combination) is satisfied:
 - (i) Contribution rates or levy rates are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the revenue from contributions and levies will be sufficient to fully fund the social benefit scheme; and/or
 - (ii) Benefit levels are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the levels of benefits provided will not exceed the level of funding available from contributions or levies.

In subparagraphs (i) and (ii) above, reviews are undertaken on a regular basis when they are performed at a frequency appropriate for the specific scheme. While annual reviews are common, less frequent—or more frequent—reviews will be appropriate for some schemes.

AG13. The reference in paragraph AG12(a) to “those whose activities create or exacerbate the risks” is intended to cover those social benefit schemes such as accident insurance schemes that are:

- (a) Funded by levies on, for example, motorists or employers in particular industries; and
- (b) Provide coverage against social risks to the wider population.

Guidance on Determining Whether an Entity is Managing a Scheme in the same way as an Insurer

AG14. An entity is managing a scheme in the same way as an insurer would manage an insurance portfolio when the social benefit scheme has commercial substance, and has, with the exception of its legislative rather than contractual origins, the look and feel of an insurance contract.

AG15. In determining whether it is managing a scheme in the same way as an insurer would manage an insurance portfolio, an entity considers the following indicators:

- (a) Does the entity consider itself 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 for existing participants in a manner that an insurer could not (such as where the entity can make 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. An entity will be bound by the scheme in a similar manner to an insurer where its ability to amend the scheme for existing participants is limited to:
 - (i) Circumstances prescribed by the legislation that establishes the scheme (equivalent to a contractual term permitting changes in specific circumstances); or

- (ii) When setting new contribution or levy rates (where a trade-off between the contributions and prospective benefits is part of the process of determining an appropriate rate).
- (b) Are assets relating to the social benefit scheme held in a separate fund, or otherwise earmarked, and restricted to being used 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 of the relevant international or national accounting standard dealing with insurance contracts if the assets associated with a social benefit scheme are not separately identified.
- (c) Does the legislation that establishes the social benefit give 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. For rights to be enforceable, a participant would need to have the right to challenge—in a court of law, via an arbitration or dispute resolution process or similar mechanism—decisions by the entity. The decisions that may be challenged include, but are not limited to, those regarding whether an event is covered by a scheme, the level of benefits payable by a scheme, and the duration of any benefits payable by a scheme.
- (d) An entity assesses the financial performance and financial position of a social benefit scheme on a regular basis where it is required to report internally on the financial performance of the scheme, and, where necessary, to take action to address any under-performance by the scheme. The assessment is expected to involve the use of actuarial reviews, mathematical modelling, or similar techniques to provide information for internal decision-making on the different possible outcomes that might occur.
- (e) Is there a separate entity established by the government, which is expected to act like an insurer in relation to a social benefit scheme? The existence of such an entity provides evidence that the entity is managing a scheme in the same way as an insurer would manage an insurance portfolio. However, it is not a requirement for applying the insurance approach that a separate entity has been established. Relevant international and national accounting standards dealing with insurance contracts apply to insurance contracts, not just to insurance companies.

Obligating Event Approach (see paragraphs 13–xx)

AG16.

Appendix B

Amendments to Other IPSAS

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

Paragraph 2 is amended and paragraph 124F is added. New text is underlined and deleted text is struck through.

...

Scope

- 2 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to:
- (a) A ~~a~~ public sector combination that is a non-exchange transaction; and
 - (b) Contributions to social benefit schemes that are accounted for in accordance with paragraphs 7–12 of [draft] IPSAS [X] (ED XX), *Social Benefits* (the insurance approach).

...

- 124F Paragraph 2 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.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 23.

...

Compulsory Contributions to Social Security Schemes

BC26. This Standard does not exclude from its scope compulsory contributions to social security schemes that are non-exchange transactions. There are a variety of different arrangements for funding social security schemes in different jurisdictions. At the time that IPSAS 23 was developed, the IPSASB considered that ~~W~~whether or not compulsory contributions to social security schemes give rise to exchange or non-exchange transactions depends on the particular arrangements of a given scheme, and professional judgment is exercised to determine whether the contributions to a social security scheme are recognized in accordance with the principles established in this Standard, or in accordance with principles established in international or national standards addressing such schemes.

BC26A The IPSASB reconsidered this issue in developing [draft] IPSAS [X] (ED XX), *Social Benefits*. The IPSASB concluded that such contributions are non-exchange transactions, and should be accounted for in accordance with this Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to social benefit schemes accounted for under the insurance approach are not accounted for separately as revenue under this Standard.

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.

ED XX, SOCIAL BENEFITS: AMENDMENTS TO OTHER IPSASS

- 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 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 expenses project than this [draft] Standard. The IPSASB also noted that this approach would be consistent with the approach taken in GFS.
 - (c) [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.
- 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 universally accessible services. Universally accessible 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 7–x)

Application of the Insurance Approach

- BC29. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed an approach based on insurance accounting for some or all contributory schemes. The IPSASB proposed that this approach should be based on the IASB's proposed IFRS on insurance contracts, contained in Exposure Draft ED/2013/7, *Insurance Contracts* (June 2013). This ED has subsequently been further developed and issued as IFRS 17, *Insurance Contracts*.
- BC30. Respondents to the CP generally supported the IPSASB's proposals regarding the insurance approach, although a number of concerns were raised. Respondents considered that the insurance approach should only be applied in limited circumstances. These were that the social benefit scheme operated in a similar manner to an insurance contract, and that the scheme was funded from dedicated sources of revenue, not general taxation. Respondents considered that applying the insurance approach to other social benefit schemes would not faithfully represent the economic substance of those schemes.
- BC31. The IPSASB concurred with this view. Consequently, the IPSASB agreed that the insurance approach should only be applied where:
- (a) The social benefit scheme is intended to be fully funded from contributions; and
 - (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.
- BC32. In developing [draft] IPSAS [X] (ED XX), the IPSASB then considered whether the insurance approach should be mandatory for social benefit schemes that meet the criteria, or optional.
- BC33. The IPSASB considered that, for social benefit schemes that meet the criteria to apply the insurance approach, that approach is expected to provide the information that best meets users' needs. In order to assess whether the entity is managing the financial performance of the social benefit scheme appropriately, 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 IPSASB considered that the fact that users' needs are best met by the insurance approach was the main reason for making the insurance approach mandatory.
- BC34. 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, 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 IASB had only recently issued IFRS 17 and that Standard has significantly different requirements from existing standards. Consequently, it may take some time for any practical issues to be fully identified and addressed. Applying these new requirements to social benefits would introduce a further level of complexity. The IPSASB considered that there may be cost/benefit reasons for not using the insurance approach, and that this was the main reason for making the insurance approach an optional approach.

- BC35. The IPSASB did note that, 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 suggested 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.
- BC36. The IPSASB considered that a further advantage of making the insurance approach optional would 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.
- BC37. However, the IPSASB accepted that making the insurance approach optional would carry the risk that very few entities adopt the approach, and that users would not be 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 fully capture.
- BC38. On balance, the IPSASB considered that the insurance approach should be optional, based on the cost/benefit reasons given above. The IPSASB noted that this could be revisited at a future date, once entities have experience with applying the new IFRS, and the insurance approach in [draft] IPSAS [X] (ED XX).

Accounting Requirements

- BC39. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed that the insurance approach should be based on the IASB's Exposure Draft.
- BC40. The IPSASB identified three options for introducing the insurance approach:
 - (a) Develop the insurance approach in [draft] IPSAS [X] (ED XX). The IPSASB noted that this option would be consistent with the proposals in the CP, and would be tailored to social benefits. However, this option would significantly increase the duration of the project, and would not have wider application.
 - (b) Develop a separate IPSAS on insurance. The IPSASB noted that this would fill a gap in the IPSASB's literature and could address social benefits as well as having wider application. However, the IPSASB noted that such an IPSAS was not included in the IPSASB's work plan, and that developing an additional Standard would delay the social benefits project.
 - (c) Direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes that meet the criteria for applying the insurance approach. The IPSASB noted that this would require less resources and would

ensure consistency with IFRS. However, guidance on social benefit specific issues might be required.

- BC41. The IPSASB noted that the number of preparers to whom the insurance approach will be relevant is likely to be small. The IPSASB also noted that the criteria for applying the insurance approach meant that only those social benefit schemes that were very similar to insurance contracts would be affected.
- BC42. The IPSASB concluded, therefore, that the additional time and resources required to develop the insurance approach, either in [draft] IPSAS [X] (ED XX) or as a separate IPSAS on insurance, could not be justified. The IPSASB agreed to direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes:
- (a) That meet the criteria for applying the insurance approach; and
 - (b) Which the entity elects to account for under the insurance approach.
- BC43. The IPSASB then considered whether any guidance on social benefit specific issues was required when applying IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes. In particular, the IPSASB considered whether the arrangements in IFRS 17 in respect of the discount rate and the risk adjustment were appropriate for a social benefit scheme. In considering these questions, the IPSASB agreed to limit the application of the insurance approach to those cases where an entity would be referring to IFRS 17 or a national standard that was based on IFRS 17. This is because other standards, for example IFRS 4, *Insurance Contracts* (and national standards based on IFRS 4) may not provide information that meets users' needs and satisfy the qualitative characteristics.
- BC44. The requirements in IFRS 17 specify that the selected discount rate should adjust the future cash flows to reflect the time value of money. Such rates should be consistent with observable market prices for instruments with cash flows that are consistent with the timing, currency and liquidity of the insurance contract. The IPSASB noted that these requirements differ from those in IPSAS 39, *Employee Benefits*, where no liquidity adjustment is included in the discount rate.
- BC45. The IPSASB noted that statistical reporting uses consistent discount rates for accounting for employee benefits and social benefits. Consistency with statistical reporting would suggest adopting the approach to discount rates specified in IPSAS 39.
- BC46. The IPSASB considered the nature of a liquidity adjustment. Where financial markets are illiquid, a seller of a financial instrument may have to accept a lower price for the instrument. This may lead them to demand a higher market yield. Longer duration insurance contracts may be seen as illiquid. In developing the CP, the IPSASB questioned whether the notion of a policy holder demanding a higher market yield is relevant where the terms of a social benefit are prescribed by government.
- BC47. For these reasons, the IPSASB came to the view, in developing the CP, that the discount rate used under the insurance approach should not include a liquidity adjustment. The IPSASB took the view at that time that the discount rate approach in IPSAS 39 was appropriate. Respondents to the CP generally concurred with this view.
- BC48. The IPSASB noted that IFRS 17 requires the use of a risk adjustment. In developing the CP, the IPSASB had noted that there were differing views on the appropriateness of a risk adjustment in the context of social benefits:

- 6.42 For some social security schemes, uncertainty regarding future cash flows will be relatively small. An example would be where past experience shows that the level of both contributions received and benefits provided is relatively stable. In these circumstances, information about the best estimate of the entity's liability related to the scheme may be most useful to users of the financial statements.
- 6.43 For other social security schemes, there may be significant uncertainty regarding future cash flows. In these circumstances, some consider that the use of the assumption price measurement basis may be more appropriate. They argue that information regarding the risk adjustment applied by the entity may enable users of the financial statements to better evaluate the risks borne by the entity in operating the scheme. Others consider that the use of the assumption price measurement basis is not appropriate for the public sector where there is no third party that might assume the liability. They argue that applying a risk adjustment results in an estimate other than the best estimate of the claims on the entity's resources in regard to the scheme; such an estimate may not be neutral and may therefore not satisfy the qualitative characteristic of faithful representation.

- BC49. The IPSASB sought the views of respondents to the CP regarding a risk adjustment. Respondents generally considered that the cost of fulfilment measurement basis, which does not include a risk adjustment, was the most appropriate measurement basis for social benefits.
- BC50. In the light of these comments, the publication of IFRS 17 by the IASB, and the decision to direct preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy, the IPSASB revisited its conclusions in the CP.
- BC51. The IPSASB acknowledged that the views discussed in the CP were still valid. The IPSASB also accepted that adopting the discount rate included in IPSAS 39, and not including a risk adjustment, would produce greater consistency with social benefit schemes recognized and measured using the obligating event approach. Conversely, retaining the discount rate included in IFRS 17, and retaining the risk adjustment, might result in significantly different amounts being included in the financial statements.
- BC52. However, the IPSASB considered that amending the requirements of IFRS 17 could only be achieved by undertaking significant due process on that standard, in order to ensure there were no unintended consequences. This would require a significant use of resources, which would defeat the IPSASB's intentions in directing preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy (see paragraph BC42 above).
- BC53. The IPSASB also noted that inconsistencies in the application of discount rates was a wider issue, and that a number of standard setters, including the IASB, were undertaking work on this area.
- BC54. Finally, the IPSASB noted that the insurance approach was optional, not a requirement (although, as noted in paragraph BC38 above, this might be subject to review at a later date). An entity that considered the use of different discount rates problematic could elect to account for all its social benefit schemes using the obligating event approach.
- BC55. For these reasons, the IPSASB agreed not to amend the requirements in IFRS 17 when applying that standard by analogy to social benefit schemes.

Obligating Event Approach (paragraphs x–x)

Recognition

BC56. 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.

BC57. 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.

BC58. 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~~agreed to take this view into account in determining which obligating events should be included in [draft] IPSAS [X] (ED XX).

BC59. 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.

BC60. 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~~noted that a range of recognition points ~~would~~might be ~~required~~appropriate under the obligating event approach.

~~BC61.~~ This decision~~If this were the case, this would~~ 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).

~~BC61-BC62.~~ The IPSASB also concluded that the recognition and measurement of social benefits should be consistent with the Conceptual Framework, and that this should take priority over alignment with the GFS treatment. Any alignment that emerged from the IPSASB's deliberations would, therefore, be coincidental.

Requirement to Satisfy Ongoing Eligibility Criteria (Including Revalidation) Affects Recognition

~~BC62-BC63.~~ 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.

~~BC63-BC64.~~ 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.

~~BC64-BC65.~~ 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.

~~BC65-BC66.~~ 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.”

~~BC66-BC67.~~ 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).

~~BC67-BC68.~~ 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.

~~BC68-BC69.~~ 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.

~~BC69-BC70.~~ 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).

~~BC70-BC71.~~ 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

BC71-BC72. As noted in paragraph BC63BC62, 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.

BC73. 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.~~

BC74. The IPSASB noted that for a liability to exist, there has to be a past event that gives rise to the liability. The IPSASB considered the nature of the past event for a social benefit and concluded that the past event is the satisfaction of all eligibility criteria, including being alive. Consequently, any liability that arises is only for the next benefit. Additional liabilities only arise when all eligibility criteria, including being alive, are met for further benefits. Until an individual has remained alive, they have not satisfied the eligibility criteria and hence the past event that is required for a liability to be recognized has not occurred.

BC75. In coming to this conclusion, the IPSASB also had regard to a number of supporting points:

- (a) Accepting that the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition could result in obligations for long-term benefits for certain social benefit schemes (primarily old-age pensions). Other social benefit schemes would recognize relatively short-term benefits, even though for certain schemes, they may ultimately be paid to beneficiaries over a long-term horizon (e.g., income-based welfare benefits).
- (b) Being alive is an explicit eligibility criterion for some social benefits programs, established through law or policy, and in these cases there is frequently active compliance monitoring and enforcement. Many public sector entities take active steps to periodically validate that a beneficiary is alive and actively monitor and enforce compliance with this eligibility criterion. For example, annual certifications that the beneficiary is alive may be required. Also, there may be requirements for hospitals, funeral homes, or others to report deaths. Further, many public sector entities retract benefits improperly paid to beneficiaries who are not alive or prosecute fraudulent non-reporting of a beneficiary's death.
- (c) Meeting all eligibility requirements creates an obligation to provide a benefit related to eligibility requirement(s) that are met, consistent with social benefit schemes where there are ongoing eligibility requirements. Typically, for an individual social benefit scheme, eligibility requirements and related benefits are clearly established. For example, a benefit may be paid monthly based on meeting eligibility criteria as of the end of the prior month. This would be true both for schemes that have ongoing eligibility criteria (other than being alive) and those where being alive is the only ongoing eligibility criteria.

BC76. The IPSASB also considered paragraph 5.21 of the Conceptual Framework, which states (emphasis added):

"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.”

BC77. The IPSASB considered whether, although social benefits are not exchange transactions, a liability should be recognized for social benefit schemes such as retirement benefits when threshold eligibility criteria are met. This would be as a result of legal obligations arising with the passage of time without the beneficiary having to take any further action or meet further conditions.

BC78. The IPSASB concluded this was not appropriate. Paragraph 5.21 of the Conceptual Framework relates solely to legal obligations in the context of exchange transactions, as indicated. Specifically, this paragraph would apply where the external party in the exchange transaction has met all of the conditions of the exchange transaction and it is unconditionally enforceable, but the public sector entity will not meet its conditions until after the reporting date.

BC79. Consequently, the IPSASB considered that the only appropriate obligating event is that all eligibility criteria for the next benefit have been met. The IPSASB concluded that this approach, combined with the insurance approach, would recognize the nature of the social benefit and the legal framework under which the benefit arises.

BC80. The IPSASB also considered that there would be practical difficulties with recognizing a liability prior to all eligibility criteria (including being alive) being satisfied. The IPSASB noted that approaches such as “threshold eligibility criteria have been met” are said to give rise to a non-legally binding obligation where there is a valid expectation that results in an entity having little or no realistic alternative to settling the obligation. The basis for including threshold eligibility is that a valid expectation will arise when there are no further eligibility criteria (excluding being alive) to be satisfied. The IPSASB was not convinced that this would be the case in all instances, and considered that there may be situations where:

(a) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation did not arise, even though there were no further eligibility criteria (excluding being alive) to be satisfied; or

(b) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation arose, even though there were further eligibility criteria (excluding being alive) to be satisfied.

BC81. The IPSASB considered that similar difficulties would arise with other obligating events that occur prior to all eligibility criteria (including being alive) being satisfied, such as “key participatory events have occurred”.

BC82. The IPSASB considered that, under these alternative obligating events, determining whether a valid expectation that results in an entity having little or no realistic alternative to settling the obligation has arisen could only be determined on a case by case basis. The IPSASB considered that this would result in inconsistent application of [draft] IPSAS [X] (ED XX), and considered that this was a further reason for not including the threshold eligibility criteria obligating event in [draft] IPSAS [X] (ED XX).

BC83. The IPSASB concluded that only the eligibility criteria for the next benefit have been met should be included in [draft] IPSAS [X] (ED XX), and that the accounting treatment should consider that being alive is an eligibility criterion (whether explicit or implicit) that affects recognition.

[STAFF NOTE: If the IPSASB accepts the TBG recommendation that only the eligibility criteria for the next benefit have been met should be included in the ED, the remaining paragraphs of the Basis for Conclusions included below will be deleted.]

~~BC72-BC84.~~ Some respondents commented that revalidation affects recognition, and suggested that ~~staying-being~~ 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.”

~~BC73-BC85.~~ 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-being~~ alive), revalidation should only affect measurement.

~~BC74-BC86.~~ 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.

~~BC75-BC87.~~ In addition, respondents to the CP 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

~~BC76-BC88.~~ 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 BC73–BC74).

~~BC77-BC89.~~ 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.

~~BC78-BC90.~~ 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 BC65).

~~BC79-BC91.~~ 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 GPFRs. 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*.

[BC80-BC92.](#) 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.

[BC84-BC93.](#) 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.

[BC82-BC94.](#) 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.

[BC83-BC95.](#) 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.

[BC84-BC96.](#) 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.

[BC85-BC97.](#) 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

[BC86-BC98.](#) 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."

[BC87-BC99.](#) 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.

[BC88-BC100.](#) 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.

[BC89-BC101.](#) 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.

[BC90-BC102.](#) 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.

[BC91-BC103.](#) The Conceptual Framework defines a liability as:

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

[BC92-BC104.](#) 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.”

[BC93-BC105.](#) The IPSASB considered whether a key participatory event could satisfy the definition of a liability and the recognition criteria.

Present Obligation

[BC94-BC106.](#) 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.

[BC95-BC107.](#) 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.”

[BC96-BC108.](#) 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).”

~~BC97-BC109.~~ 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-contractual, 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.

~~BC98-BC110.~~ 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.

~~BC99-BC111.~~ 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.

~~BC100-BC112.~~ 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-contractual, non-exchange nature of the transaction, which differs from an exchange transaction established by a contract.

~~BC101-BC113.~~ 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).”

BC114. The IPSASB noted that the emphasis on the receipt of the economic benefits was appropriate in the context of an executory contract. In an executory contract, an entity only recognizes a liability to the extent that the other party has performed its obligations. Hence, the receipt of the economic benefits establishes the extent of the entity’s obligation.

BC115. The IPSASB also noted that in other circumstances, the contract itself would be the past event that established the extent of the entity’s obligation. This would be the case where the contract was not an executory contract. An example would be where a government provided a financial guarantee by means of a contract, but where the other party paid no or nominal consideration.

~~BC102~~~~BC116~~. In a non-contractual non-exchange transaction—at least those that are non-contributory—there is no equivalent past event. There is neither a contract, nor a receipt of economic benefits, that could establish the extent of the entity's liability. 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.

~~BC103~~~~BC117~~. The IPSASB considered that the absence of a past event (such as a contract or 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.

~~BC104~~~~BC118~~. 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 are analogous to some forms of taxation or general revenue that is~~are~~ used to finance the payment of social benefits.

~~BC105~~~~BC119~~. 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 more analogous to some forms of taxation, ~~not rather than being~~ consideration ~~for that gives rise to an entitlement to~~ 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.

~~BC106~~~~BC120~~. 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 that gave rise to an entitlement to future benefits, this would provide the past event needed to recognize a legal obligation and therefore a liability; if considerations are analogous to some forms of taxation, there is no past event that results in the recognition of a legal obligation.

~~BC107~~~~BC121~~. 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.

~~BC108~~~~BC122~~. 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.

~~BC109~~~~BC123~~. 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.”

~~BC110~~~~BC124~~. 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.

~~BC111~~~~BC125~~. 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."

~~BC112~~~~BC126~~. 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.

~~BC113~~~~BC127~~. As noted above in paragraph BC96, 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 contractual, exchange transactions (and therefore legal obligations). The IPSASB also noted that the same is true of the IASB's ED on its Conceptual Framework.

~~BC114~~~~BC128~~. 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.

~~BC115~~~~BC129~~. 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.

[BC116-BC130.](#) 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.

[BC117-BC131.](#) 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

[BC118-BC132.](#) 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 non-legally binding liability. As noted in paragraph BC92 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.

[BC119-BC133.](#) 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.”

[BC120-BC134.](#) 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.

[BC121-BC135.](#) As discussed in paragraph BC102 above, the IASB currently considers that, in an exchange-transactionexecutory contract, 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.

~~BC122-BC136.~~ 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.

~~BC123-BC137.~~ 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.

~~BC124-BC138.~~ 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

~~BC125-BC139.~~ 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.

~~BC126-BC140.~~ 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 BC87–BC93).

Present Obligation

~~BC127-BC141.~~ 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 BC102 above). The provision of the service is the past event that gives rise to a present obligation.

~~BC128-BC142.~~ 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.

~~BC129-BC143.~~ 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.

~~BC130-BC144.~~ 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 BC107–BC109). 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.

~~BC134-BC145.~~ 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.

~~BC132-BC146.~~ 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 BC112).

~~BC133-BC147.~~ The IPSASB considered that the issues discussed in paragraphs BC113–BC119 (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

~~BC134-BC148.~~ 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 BC92 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.

~~BC135-BC149.~~ 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.

~~BC136-BC150.~~ The IPSASB had already considered the payment of contributions (see paragraphs BC130–BC134). The IPSASB concluded that, except where a social benefit should be accounted for using the insurance approach, no past event has occurred.

~~BC137-BC151.~~ 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.

~~BC138-BC152.~~ 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.

~~BC139-BC153.~~ 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)

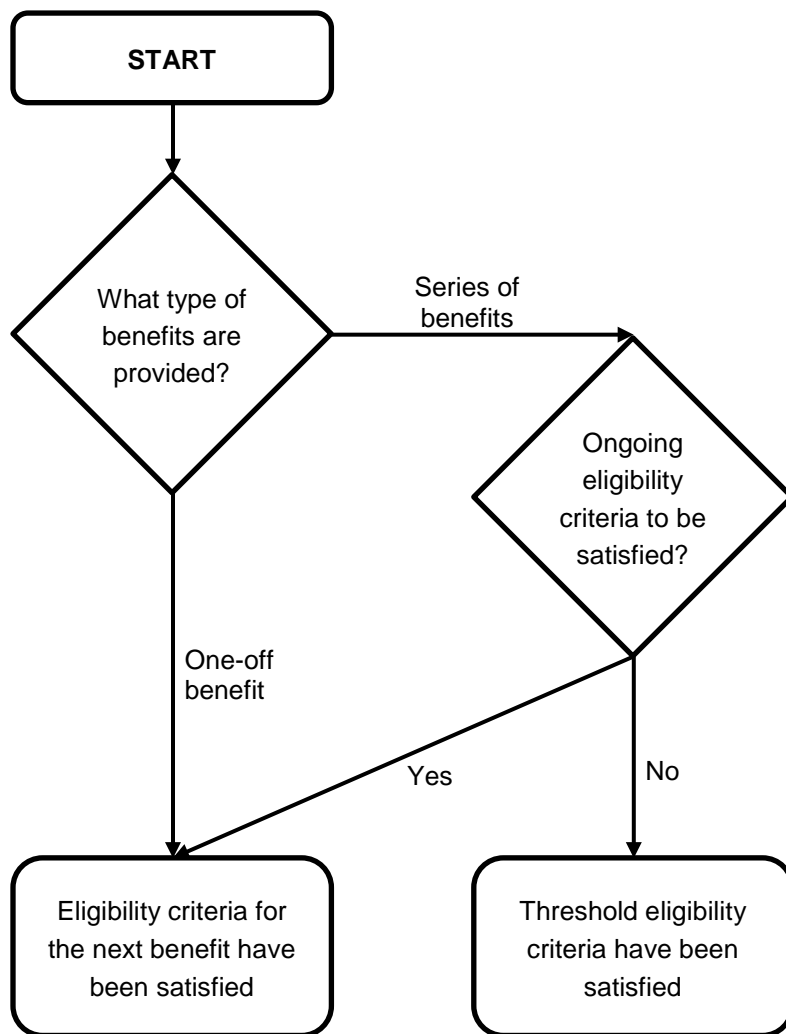
IG2. The following diagram illustrates the scope of [draft] IPSAS [X] (ED XX) and the boundaries between social benefits and other transactions.

Other IPSAS / IFRS							Social Benefits		Non-Exchange Expenses Project		
Category	Contracts for Goods and Services	Contracts for Insurance	Employee Benefits	Social Benefits	Universally Accessible Services		Collective Goods and Services	Grants, Contributions and Other Transfers			
Examples	Purchase of goods Payment for services	Vehicle insurance Private medical insurance	Salaries Healthcare Employee pensions	State pensions Unemployment benefits Income support	Universal Healthcare	Universal Education	Defense Street lighting	Grants to other public sector entities Grants to charities Disaster Relief			
Exchange or Non-Exchange Transaction?	Exchange	Exchange	Exchange	Non-Exchange	Non-Exchange		Non-Exchange	Non-Exchange			
Provided to specific individuals/households who meet eligibility criteria?	No	No	Yes	Yes	No		No	Sometimes			
Mitigates effect of social risks?	No	No	Yes	Yes	Yes	No	No	No			
Addresses needs of society as a whole?	No	No	No	Yes	Yes		Yes	Sometimes			
Excludes universally accessible services?	Yes	Yes	Yes	Yes	No	No	Yes	Sometimes			

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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