



# Association of Accounting Technicians response to International Public Sector Accounting Standards Board Exposure Draft 63 - Social Benefits

# Association of Accounting Technicians response to IPSASB Exposure Draft 63 - Social Benefits

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## 1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to comment on Exposure Draft 63 - Social Benefits, published on 31 October 2017.
- 1.2. AAT is the UK's leading qualification and membership body for accounting staff. AAT is the UK's leading qualification and professional body for technical accountants and bookkeepers, and has over 140,000 members in more than 100 countries.
- 1.3. AAT provides comment on the development of accounting standards where these are relevant to accounting technicians and their clients and employers. The comments therefore are based on the potential impact that the proposed changes would have on AAT members working in the public sector and, especially, local and central government bodies in the UK that are involved in delivering social benefits.

## 2. Executive summary

- 2.1. **AAT supports IPSASB's work to improve information in financial statements about social benefits.** More consistent and appropriate reporting of transactions and obligations related to social benefits should enhance the quality and transparency of public sector financial reporting.
- 2.2. **AAT believes that IPSASB should establish stronger principles for reporting information about social benefits.** Clear principles, based on the work already completed for the Social Benefits project, should help entities to achieve more consistent and appropriate reporting.
- 2.3. **It should remain for entities and their auditors to judge how best to meet those principles.** This is because the nature of social benefits vary so much that it does not seem practicable to define a standard set of reporting requirements globally.

## 3. AAT comments

- 3.1. The following paragraphs outline AAT's comments. The questions have been abbreviated.  
  
**Comment 1: Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services? If not, what changes to the scope would you make?**
- 3.2. AAT agrees with the scope and exclusion of universally accessible services. AAT believes it is a logical fit with benefits arrangements in the UK. However, it is important to note that benefits may be delivered either through:
  - the **provision of individual** benefits, such as the payment of child benefit;
  - the **provision of a standard allowance plus additional elements.**
- 3.3. Under the new Universal Credit arrangements, the UK is shifting towards the provision of a standard allowance plus additional elements. Universal Credit replaces existing benefits including:
  - Child Tax Credit
  - Housing Benefit
  - Income Support
  - income-based Jobseeker's Allowance
  - income-related Employment and Support Allowance
  - Working Tax Credit

**Comment 2: Do you agree with the definitions of social benefits, social risks and universally accessible services? If not, what changes to the definitions would you make?**

- 3.4. AAT considers that low income level is an important additional example characteristic of individuals and/or households for inclusion. The UK benefits system increasingly recognises that an employed person on a low income may require support rather than only those who are unemployed.
- 3.5. This is a key concern in the UK, where latest statistics show that whilst unemployment is at a relatively healthy low of 4.3%, underemployment is almost 10%<sup>1</sup>. Underemployment is defined as individuals wanting to work longer hours than currently available to them, and being available to do so within two weeks. Underemployment has been found to adversely affect the welfare of individuals and/or households.
- 3.6. AAT recommends clarifying paragraph AG8 so that, " Social risks relate to the characteristics of individuals and/or households – for example, age, health, poverty ~~and~~ employment status **and low income.**"

**Comment 3: Do you agree that the insurance approach should be applied as described? If not, how do you think it should be applied?**

- 3.7. AAT considers that the insurance approach is not relevant to the UK benefits system. The UK benefits system does not have a distinct revenue stream associated with its expenses. National Insurance contributions are often referred to as a tax and only indirectly linked to the provision of social benefits. Benefits levels are determined by Parliament and are not decided on a 'commercial' basis.
- 3.8. At a technical level, it might do little harm for the insurance approach to be available for use by public sector bodies in countries that provide social benefits with those characteristics. Presumably, public sector bodies in the UK would not be compelled to apply this. However, AAT is concerned that the approach may have the appearance of suggesting, in some way, that social benefits should be organised in a way that requires their "financial performance" to be measured and managed in a similar way to a for-profit insurance fund. This might be considered politically or culturally inappropriate or insensitive to the needs of vulnerable individuals and households.

**Comment 4: Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive? If not, what past event should give rise to a liability for a social benefit?**

- 3.9. In theory, the obligating event approach appears logical where there are distinct types of benefits being provided. However, it is difficult to see how it can be applied to a system based on the provision of a standard allowance plus additional elements, as exists now in the UK under the Universal Credit arrangements. Universal Credit is intended to deliver a more flexible and holistic mechanism for delivering social benefits and if successful in the UK it may well be replicated in other countries.
- 3.10. For Universal Credit, the past event that gives rise to a liability is low income, with the definition of 'low' varying depending on circumstances. AAT considers that the obligating event approach could be simplified, to state only that entities should measure liability for all beneficiaries that qualify. Attempts to be more granular than this seem likely to become less relevant due to country-specific factors, especially if arrangements like Universal Credit (where there is no longer a single qualifying event) become more common.

**Comment 5: What disclosure requirements should be included for the obligating event approach?**

- 3.11. The proposed disclosure requirements appear logical, useful and sufficient.

<sup>1</sup> <http://uk.businessinsider.com/ons-underemployment-double-unemployment-rate-2017-9>

**Comment 6: Do you think IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, why?**

- 3.12. As explained above, AAT considers that IPSASB should establish stronger principles for reporting information about social benefits, but it should remain for entities and their auditors to judge how best to meet those principles. This approach should deliver more consistent and appropriate reporting than attempting to impose a standard methodology on an international basis.
- 3.13. Although a lot of useful work has been completed with the Project to date that will inform these principles, further work will be needed to establish these Principles and it is obviously important that they are consistent with Recommended Practice Guideline1, Reporting on the Long Term Sustainability of an Entity's Finances. It is possible that as part of this work, some refinements to the Guideline might be appropriate.

#### **4. About AAT**

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

#### **5. Further information**

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, AAT Technical Consultation Manager, at:

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Lausanne, March 5, 2018

## Swiss Comment to

### Exposure Draft 63 Social Benefits

Dear John,

With reference to the request for comments on the proposed Exposure Draft, we are pleased to present the Swiss Comments to Exposure Draft 63 Social Benefits. We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments for the Exposure Draft in the attached document.

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

Yours sincerely,

SRS-CSPCP



Prof Nils Soguel, President



Evelyn Munier, Secretary

Swiss Comment to Exposure Draft 63 Social Benefits

## Swiss Comment to

## Exposure Draft 63 Social Benefits

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## 1. Introduction

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

The SRS-CSPCP has discussed the ED 63 Social Benefits and comments as follows.

## 2. General Remarks

The SRS-CSPCP takes the view that this ED is overall positive and is pleased that the ED turns out to be less complicated than the preceding CP. For reasons of practicability it is welcome that the time of recognition of social benefits liabilities has been set relatively late. This has the positive effect that the liabilities to be recognized can be reliably estimated. The SRS-CSPCP notes also that the proposed solution approximates current accounting practice in Switzerland (Confederation and cantons).

The SRS-CSPCP's position on the disclosures required is, however, very critical. In its opinion the notes to the financial statements are already very comprehensive and should not be extended even further. An expansion of the disclosure of the details of the various social benefit schemes and the future cash flows may be very sensible (particularly for the Confederation), but this should not be in the notes to the financial statements, but rather in a separate so-called sustainability report. It is not the purpose of the notes to the financial statements to reveal future perspectives. It is also not desirable that the notes contain a detailed description of the various social benefit schemes. A reference to existing documents (law, regulations or other) should be sufficient. Supplementing the notes with a detailed description of the social benefit schemes is desirable only in cases, for which none of the above-mentioned documents exist.

In this ED also only the outflows are mentioned, but not the inflows. In a social benefit system with contributory payments by the members, these inflows represent a considerable part of the financing. As the inflows are treated in the coming standard on Revenue and Non-Exchange Expenses, it would be important that the standard on Social Benefits becomes effective simultaneously. Otherwise it is possible that the treatment of such social benefit systems is asymmetrical both in timing and content. But the expense and revenue pertaining such a social benefit system must be treated consistently. The SRS-CSPCP therefore wonders whether the planned standard on Social Benefits could not be integrated into the new standard on Revenue and Non-Exchange Expenses.

## 3. Specific Matter for Comment 1

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?*

*If not, what changes to the scope would you make?*

The SRS-CSPCP agrees with the scope of this Exposure Draft.

#### 4. Specific Matter for Comment 2

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?*

*If not, what changes to the definitions would you make?*

The SRS-CSPCP finds that the definition of *social benefits* is not a definition at all. In Paragraph 6 is stated only to whom *social benefits* are paid. The SRS-CSPCP therefore proposes adding before the beginning of Paragraph 6 the following: “Social benefits are **transfers in cash or kind provided to...**”.

As universally accessible services (UAS) are not included in this ED, but social risks are, the question arises as to the distinction between these two expressions. How are cases to be treated under whose criteria both social risk and also non-social risks are covered? Which predominates? For this distinction the expressions “risk” and “social” are fundamental. The SRS-CSPCP, however, finds that the definition of social risks is unclear.

In particular, the definition does not explain why it is important to talk of “social risk”. It does not explain why the expression “risk” is employed.

Furthermore, the definition actually relates only to individual aspects. Therefore, the definition would also have to explain why the expression “social” is employed. As the SRS-CSPCP understands these definitions, it proposes that they be supplemented. It should be mentioned that a social risk exists, as soon the probability that an individual is affected by unfavorable circumstances is more than zero (thus the rational to use the expression “risk”). If this risk becomes concrete, in retrospect important social, i.e. collective measures must be taken to mitigate its consequences, assuming that the eligibility criteria are fulfilled (thus the rational to use the expression “social”).

The definition of Universally Accessible Services (UAS) is also imprecise. It should better explain what UAS and social risk have-or more accurately have not-in common.

1. Firstly, the provision of UAS is not associated with a risk.
2. Further, UAS are not provided retrospectively, in order to take collective (i.e. social) corrective measures after a risk has become concrete.
3. Finally, there are no restrictions on the use of a UAS (no eligibility criteria). In the case of a UAS, the state waives a restriction on access, even if it is possible technically or financially (physical possibility of exclusion). Therefore, any individual can benefit from a UAS. It is sufficient that it is alive and wants to benefit from a UAS. In certain cases, the state provides the individual with an incentive to use a UAS, even if this service is not wanted.

E.g. schools clearly belong to the UAS: it is not associated with a risk and there is no access restriction (although technically it would be perfectly possible to restrict the access) and the UAS is not a response to a risk. Universal health services are also a UAS: even if subsequently the consequences of a risk being realized are mitigated, no access restriction is decreed in advance so that these consequences are borne collectively (i.e. socially).

The SRS-CSPCP points out that the above-mentioned points 1 and 2 are necessary in connection with ED 63 in order to make the distinction between UAS and social risk. Point 3 corresponds with the general definition of UAS (in Switzerland for example in the telecommunications law or the postal law).

**5. Specific Matter for Comment 3**

*Do you agree that, with respect to the insurance approach:*

- (a) It should be optional;*
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;*
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

*If not, how do you think the insurance approach should be applied?*

- (a) In principle the SRS-CSPCP does not support choice among accounting options, because comparability among public sector entities is not ensured. Furthermore, comparability between two social benefit schemes of a single public sector entity would also not be ensured, if for one scheme the Insurance approach and for the other the Obligating event approach were chosen. Permitting a choice of options contradicts the qualitative characteristics defined in the Conceptual Framework: Relevance, Understandability and Comparability. However, the SRS-CSPCP is perfectly aware of the fact that some social insurance schemes function in the same way as 'standard' insurances. In Switzerland it is particularly the case of the military insurance (i.e. army-related illness and accident insurance) and statutory accident insurance (Suva). As far as this kind of schemes are concerned, IFRS 17 is applicable. Since IFRS 17 is applicable only if the plan is fully funded by premiums paid to the scheme, the Insurance approach is feasible. However, this kind of schemes should not have the choice between both options. They should be required to apply the Insurance approach. In all other cases, the Obligating event approach should be applied.
- (b) Because, as mentioned under (a), the SRS-CSPCP is of the opinion that the Insurance approach should not be included in a standard on social benefits, an answer to this point is superfluous.
- (c) This answer is superfluous in view of the SRS-CSPCP's response to question (a).
- (d) This answer is also superfluous in view of the SRS-CSPCP's response to question (a).

**6. Specific Matter for Comment 4**

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?*

*If not, what past event should give rise to a liability for a social benefit?*

The SRS-CSPCP agrees with this statement. The approach of recognizing the liability at the above-mentioned point in time represents the solution that can be best realized in practice and that can be most reliably estimated.

It is, however, pointed out that from a technical accounting aspect it is disturbing that the criterion "being alive" is ranked as Recognition Criteria; this in contrast to IPSAS 30 Employee Benefits, where the death probability is considered among the Measurement Criteria. This results in a conceptually different treatment of the liabilities under IPSAS 39 and ED 63 – while for Social Benefits a very short period is set for a liability (in the Swiss social insurance system in principle 1 month), for Employee Benefits it is a period of 15 to 20 years. Accordingly, the balance sheet amounts for liabilities under IPSAS 39 and ED 63 are not comparable with one another. It should be examined whether this conceptual difference should have to be explicitly disclosed.

## 7. Specific Matter for Comment 5

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and*
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):*
  - (i) It is appropriate to disclose the projected future cash flows; and*
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

- (a) The SRS-CSPCP is of the opinion that the requirements for disclosure of the characteristics of social benefits systems are much too detailed. They exceed the bounds for the details which are necessary and useful in the notes to the financial statements. In the notes, also, the materiality principle should be observed; accordingly, they should not be exaggerated unnecessarily. In the view of the SRS-CSPCP the notes should not contain detailed, but summarizing information about the accounting. The SRS-CSPCP fears that excessive requirements that are difficult to implement in the IPSASs will have the result that they will no longer be applied by public sector entities in Switzerland for cost-benefit reasons.
- (b) The SRS-CSPCP agrees with the requirements for disclosing the costs of social benefits in the financial statements.
- (c) The SRS-CSPCP is not quite clear why the future *cash flows* for social benefits should be disclosed. This is not required in other areas (e.g. taxes), although these may also be large amounts. Furthermore, the disclosure should not be a substitute for financial planning. Comprehensive disclosure is certainly necessary for countries that do not draw up a budget or a financial plan. In the public sector entities in Switzerland, however, both detailed budgets and financial plans based on accrual accounting are drawn up covering several years. For this reason the SRS-CSPCP is of the opinion that such disclosure is possible, but should not be obligatory.

**8. Specific Matter for Comment 6**

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

The SRS-CSPCP is of the opinion that the IPSASB should not undertake further work on reporting on long-term fiscal sustainability, because this is not part of accounting. The SRS-CSPCP believes also that, apart from the Confederation, a binding reporting on long term fiscal sustainability is not an adequate means of control.

Lausanne, February 19, 2018

**9<sup>th</sup> March 2018**

**To whom it may concern,**

**The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:**

**“Exposure Draft 63 Social Benefits”**

The Institute of Certified Public Accountants in Ireland (CPA Ireland) welcomes the publication of this much-needed exposure draft on accounting for social benefits and supports the broad thrust of the recommendations.

There is a need to ensure consistency in how social benefits should be accounted for in terms of their recognition, measurement, presentation and disclosure. CPA Ireland also agrees with the objective of the ED to ensure that the proposed amendments should improve the relevance, faithful representation and comparability of the information that a reporting entity provides on social benefits in its financial statements in line with the objectives of the conceptual framework.

**Comment 1**

**Do you agree with the scope of the Exposure Draft and specifically the exclusion of universally accessible services?**

CPA Ireland agrees with the scope restriction of all four transactions specifically excluded in paragraph 5. Clearly the first three are governed by other standards – IPSAS 29, IPSAS 39 and IFRS 17.

The definition provided of universally accessible services seems reasonable as there are no eligibility criteria to be met to make them available to all households. An example would be the National Health Service (NHS) in the United Kingdom.

We note that there may be a knock-on effect in terms of reconciling the financial statements with GFS and it may be important for the IPSASB to look at IPSAS 22 (the *General Government Sector*) to include specific reference to this as this could potentially be a large and very material reconciling item.

**Comment 2**

**Do you agree with the definitions of social benefits, social risks and universally accessible services (UASs) that are included in the Exposure Draft?**

CPA Ireland agrees with the definition of social benefits and social risks and their three characteristics of being provided to specific households; mitigating social risks such as age, health, unemployment and poverty; and addressing the needs of society as a whole.

Application guidance notes 4-10 clarify these issues in more depth and makes it very clear how these two definitions can be interpreted.



### Comment 3

#### Do you agree with respect to the insurance approach:

- (a) It should be optional
- (b) The criteria for determining whether the insurance approach may be applied are appropriate
- (c) Directing preparers to follow the relevant IFRS 17 is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

CPA Ireland understands that whilst a number of social benefit schemes are intended to be funded by specific contributions and they appear to be similar to insurance contracts, the proposed approach is adding an extra layer of complication to the accounting. In our view, this is going to be far more difficult for some jurisdictions to apply than others; therefore, making its use optional appears a sensible compromise solution. We agree that the criteria proposed for its use appear sensible: as per our comments above, this is a complicating factor and should therefore only be applied if certain criteria are met, even where used on an optional basis.

The Application Guidance notes 11-15 and paragraph 9 collectively provide sound commentary about the circumstances in which it might be applied.

Certainly, CPA Ireland agrees the need not only to follow the disclosure requirements of IFRS 17 but also that it is vital to disclose additional information about the nature of the social benefits being provided as well as their key features and description of principal amendments, if any.

### Comment 4

#### Do you agree that under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive?

CPA Ireland supports this approach as it does fit nicely with IAS 37 and IPSAS 19 *Provisions, contingent liabilities and contingent assets*. It also fits in well with the conceptual framework.

However, CPA Ireland has much sympathy with the approach adopted by the alternative view as to the point of recognition of a liability. Clearly 'being alive' could be the main criteria for state pension benefits but why is the obligation to be restricted to the next benefit to be received? This does not accord with private sector pensions nor the situation in IPSAS 25 as updated by IPSAS 39 (*Employee Benefits*) where actuaries are required to introduce a number of assumptions such as life expectancy, inflation, salary increases etc. into their calculation of the obligation to predict the total obligation likely to be paid out over the remaining life of the beneficiaries, albeit discounted to present value. We feel that this creates an unfortunate inconsistency. CPA Ireland therefore supports the economic substance approach adopted in the alternative view.

By the same token, CPA Ireland would also agree that in other cases such as unemployment benefit that there is only an obligation for the next benefit as the individual may well attain employment in the following period. CPA Ireland therefore would again support the economic substance approach adopted in the alternative view in this situation, noting that potentially short-term benefits are fundamentally different in concept from longer-term employee benefits such as pensions.

## Comment 5

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes are appropriate;
- (b) The disclosures of the amounts in the financial statements are appropriate?
- (c) For the future cash flows related to from an entity's social benefits schemes
  - (i) It is appropriate to disclose the projected cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows

CPA Ireland agrees that the disclosures are appropriate except for the five-year limitation proposal. Some of the pension obligations will extend well beyond five years but if the IAS 37/IPSAS 19/IPSAS25/39 provisions were adopted they would be on the balance sheet/statement of financial position regardless of how far in the future their estimated related payouts were due to take place. Limiting the disclosure to five years seems to us to be inconsistent and in some cases could be materially understating the likely cost.

## Comment 6

**Do you think the IPSASB should undertake further work on reporting on long term sustainability, and if so, how?**

CPA Ireland agrees that further work should be undertaken on the topic before any decision on making reporting on long term sustainability mandatory. As the scope and challenges involved in the preparation of such information and related audit considerations are very onerous, we believe that it is not appropriate without further consideration and discussion.

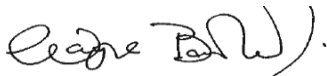
However, there is no harm in including paragraph 35 on encouraging the disclosure of information on long term sustainability as recommended practice at this stage.

## Conclusion

CPA Ireland welcomes the publication of ED 63 *Social Benefits* and, in particular, the very useful application guidance and illustrative examples. However, it has similar concerns with the members supporting the alternative view as to its consistency with the conceptual framework and also with similar standards such as IPSAS 19 and IPSAS 25/39.

If you have any questions on the above, please do not hesitate to contact me.

Yours sincerely,



Wayne Bartlett  
Chair, CPA Ireland IPSAS Advisory Board



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Per e-mail

14 March 2018

Dear John

### **COMMENTS ON ED 63 SOCIAL BENEFITS**

We welcome the opportunity to comment on the proposed IPSAS on *Social Benefits*.

The views expressed in this letter are those of the Secretariat and not the Accounting Standards Board (Board). In formulating its comments, the Secretariat consulted with a range of stakeholders including auditors, preparers, professional bodies, and entities in the public sector whose operations are similar to those of insurers.

While we are supportive of the development of guidance on social benefits, we wish to express our concerns on the following issues:

- Obligating event approach – we do not support this approach as we believe it does not provide relevant information to the users of the financial statements about an entity's obligations to provide social benefits.
- Applying the definition of social benefits – a range of issues has been identified in the application of the definition, including how the definition of social risks is applied.
- The definition of universally accessible services – we question the need for this definition, in particular whether a distinction between universally accessible services and collective goods and services is needed.

Our detailed responses to the specific matters for comment and preliminary views are outlined in Annexure A to this letter. Other matters are outlined in Annexure B.

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

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Poggiolini', with a stylized, cursive script.

Jeanine Poggiolini

Technical Director

## ANNEXURE A – RESPONSES TO SPECIFIC MATTERS FOR COMMENTS

### Specific matter for comment 1

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?

#### Scope

While we agree with the scope in principle, we have the following comments.

#### *Representing a complete view of social benefits provided*

One of the stated objectives of the project is to ensure that users of the financial statements have information to assess the impact of social benefits on an entity's statement of financial position, performance and cash flows.

At present, certain social benefits are dealt with in other Standards, for example, concessionary loans are dealt with in the IPSASs on financial instruments. Considering that, for example, concessionary loans could meet the definition of a social benefit, it is questionable whether excluding these types of benefits from the scope of ED 63 altogether achieves the stated objectives. As there is currently no specific identification or disclosure of "social benefits" in the IPSASs on financial instruments, we are of the view that an incomplete picture of a scheme will be provided to users. A South African specific example is used to illustrate the point:

The government operates a housing scheme where new houses will be provided to qualifying beneficiaries. Depending on the beneficiary's level of income, a house will be provided either entirely free to the beneficiary, or the beneficiary will be granted a subsidised loan to finance the construction of the house. Where the house is granted for free, it will be a social benefit, but where the beneficiary is required to finance the acquisition through a subsidised loan, this will be dealt with in IPSAS 29 *Financial Instruments: Recognition and Measurement*.

We believe that separating the recognition, measurement and disclosure in this way does not provide users of the financial statements with a holistic view of the social benefit scheme. We believe that the IPSASB should reconsider whether the proposed exclusion of certain social benefits from the scope of ED 63 is appropriate and provides a complete picture of the social benefits provided by an entity. At a minimum, entities should be required to comply with the disclosure requirements of ED 63 when social benefits are accounted for in another Standard such as the IPSASs on financial instruments.

#### *Exclusion of insurance contracts from the scope*

Paragraph 5(c) of ED 63 indicates that the Standard does not apply to insurance contracts within the scope of the relevant international or national accounting standard on insurance contracts.

It is unclear whether this scope exclusion refers to those contracts within the scope of IFRS 4 or IFRS 17. Explicit mention is made later in ED 63 that the insurance approach refers specifically to IFRS 17. It may be useful to indicate the IPSASB's intention regarding references to international or national standards regarding the scope of the Standard.

It is also unclear whether paragraph 5(c) refers to insurance contracts generally, or whether this relates to those schemes accounted for using the insurance approach outlined in paragraphs 7 to 12. It may be appropriate to include two scope exclusions regarding insurance, i.e. one for pure insurance contracts,

and one indicating that where the insurance approach is applied, only certain parts of ED 63 are relevant.

### **Exclusion of universally accessible services**

We are generally supportive of the idea that benefits that do not meet the definition of a social benefit are excluded from the scope of ED 63. We however have concerns about whether the definition of universally accessible services is needed. In particular, we do not see much distinction between universally accessible services and collective goods and services as these can both be seen as general, ongoing activities of government. We believe that a more general term is needed to reflect the notion that the ongoing activities of government are not social benefits and are therefore excluded from the scope of ED 63.

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

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?

### **Social benefits**

We support the definition of social benefits, but note concerns on how it may be interpreted and applied in practice given potential issues with the definition of a social risk. If the current definition of universally accessible services is retained, stakeholders indicated that a flow chart may be helpful to guide decisions about the classification of benefits.

### General issues

We suggest including explanatory commentary to the definition explaining the position where an intermediary is used to provide social benefits. For example, if a department uses an agency (an entity) to pay social grants to individuals, if an entity had to read the definition as drafted, these benefits may be seen as not meeting the definition of a social benefit as the initial payment is made to an intermediary which is an entity. The actual position is that the intermediary is an agent between the department and the beneficiary rather than a beneficiary of the social benefit.

### Addressing the needs of society as a whole

Some stakeholders indicated that the concept of “addressing the needs of the society as a whole” is difficult to understand. If the intention of this aspect of the definition is to distinguish insurance contracts that can be taken out by individuals to cover their specific risks with a defined level of benefits, then we believe AG5 is unhelpful and should be deleted.

### **Social risks**

Concern was expressed amongst our stakeholders about the interpretation of social risks and the impact this has on distinguishing social benefits from universally accessible services. This is particularly the case where a universally accessible service has eligibility criteria but these are not linked to a social risk. Questions were raised about, for example, the risks that arise from a natural disaster. Many of our stakeholders argued that, while the event arises from a geographic risk, the effect of the event gives rise to risks to an individual or household as unemployment or poverty may result from such an event.

A recurring theme of the application issues raised by stakeholders was identifying whether the event that gives rise to the risk is external or internal to an individual's or household's circumstances. We believe the reference to an event should be deleted as it creates unnecessary focus on a particular event rather than assessing whether a particular circumstance affects an individual's or a household's

welfare. It is suggested that the term “event” is deleted from the definition of a social risk so that the definition reads: “Social risks are ~~events or~~ circumstances...”

We also believe that the reference to disaster relief and that it is always a universally accessible service should be deleted or modified. While we agree that general disaster relief would be a universally accessible service, we believe that if specific benefits are provided to individuals or households who meet certain criteria then this is a social benefit, e.g. rebuilding of homes.

If the reference to an event is retained, we believe it may be useful to provide guidance indicating that if the risk does not arise internally from an individual or a household but arises from external factors, then this may be a key distinction between a social benefit and a universally accessible service.

### **Universally accessible services**

As noted in our response to specific matter for comment 1, we have reservations about the need for a definition of universally accessible services. We have two overarching concerns:

- (a) We do not see a clear reason to define universally accessible services when they are similar to collective goods and services (we appreciate that there is a more direct relationship between a beneficiary and government for universally accessible services than collective goods and services). Both types of benefits can be viewed as the ongoing activities of government, and as a result, one term can be found to deal with these types of benefits instead of two. We also currently do not see a difference in the accounting for universally accessible services and collective goods and services. We also note that this distinction is not needed for statistical reporting.
- (b) In applying the definition, as drafted, it is difficult to understand the difference between universally accessible services and social benefits. This for the most part is due to uncertainty about how the definition of social risk should be applied. This was discussed above.

### **Applying the definition of universally accessible services**

It may not be clear in practice how to determine (a) when a benefit is a universally accessible service with eligibility criteria but those eligibility criteria are not linked to a social risk (this is discussed in the comments to specific matter for comment 2), and (b) whether a scheme is a social benefit or a universally accessible service if it includes eligibility criteria for some benefits and not for others.

In response to (b) above, there are schemes locally that include both social benefits and universally accessible services. For example, local authorities provide a certain amount of free water to all residents within their area of responsibility (as is outlined in the Constitution of the Republic of South Africa), and thereafter free or subsidised water is provided to residents who meet certain eligibility criteria based on their income. The Secretariat deems the “free” component to be a universally accessible service, while any benefit provided thereafter is a social benefit as certain criteria need to be met which arise from social risk (i.e. poverty, unemployment, etc.).

It is unclear from ED 63 how such schemes should be treated. Should an entity:

- Separate the individual components and account for them separately?
- Decide, in substance, whether the scheme is a social benefit or a universally accessible service and apply the appropriate IPSAS to the scheme as a whole?

Guidance on how to deal with these situations would be helpful to preparers.

### Changes between classification of benefits as social benefits or universally accessible services

Further to the discussion above, stakeholders indicated that, because of certain circumstances, it may be necessary to reclassify certain benefits from social benefits to universally accessible services, and that guidance may be needed on how to deal with such situations. The example below provides context:

One of our provinces is experiencing a severe drought. Municipalities would provide a level of free water to all, and thereafter subsidised or free water to qualifying residents. As severe water restrictions have been implemented, only a minimal amount of water is provided to each resident, and no eligibility criteria need to be met to receive the allocation of water. As a result, the benefit may have changed from a social benefit to a universally accessible service.

Guidance in ED 63 on when reclassifications may occur and how they should be dealt with from an accounting perspective would be helpful.

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

Do you agree that, with respect to the insurance approach:

- (a) it should be optional;
- (b) the criteria for determining whether the insurance approach may be applied are appropriate,
- (c) directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) the additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

#### **Mandatory or optional application of the insurance approach**

Entities indicated that, if an entity meets specified criteria, then it should be mandatory for them to apply the insurance approach as this provides relevant information in the financial statements about an entity's social benefit schemes. Applying the obligating event approach when the substance of a scheme is that of insurance, is inappropriate.

Mandatory application will also ensure comparability across similar entities.

Entities indicated that a public sector specific standard, based on IFRS 17, should be developed, or alternatively specific guidance provided on how certain principles should be applied in the public sector, e.g. guidance on estimating revenue, how (or if) to recognise a contractual service margin, and how to deal with transaction costs and what they might represent in the public sector.

Entities noted that specific skills would be required to undertake the valuations in IFRS 17. They noted that these skills may not reside in government, will take some time to develop, and will have cost implications.

#### **Criteria**

##### *Issues with current criteria*

The criteria in paragraph AG15 seem to focus on the structure of the entity when they should focus on the characteristics of the underlying scheme, as well as the contributions and benefits provided. For



example, indicating that the scheme may be a separate entity or that it may have ring-fenced funding/investments, are not characteristics that are unique to insurers and are therefore unhelpful.

Paragraph AG15(c) indicates that an entity should consider if the legislation that establishes the social benefit give enforceable rights to participants in the event that the social risk occurs. There are two aspects that require further consideration in assessing whether the scheme “looks and feels” like an insurance-like scheme, i.e.:

- While the legislation may give rise to the same rights available to participants in social benefit schemes as insurance schemes, legal enforceability may be stronger in a contract than through legislative means. A beneficiary may need to institute legal action to enforce entitlement to benefits.
- The criterion explains the position in relation to the rights of the participants rather than the position of the entity providing the benefits. Public sector entities are often required to provide benefits irrespective of whether the contribution is received from (or on behalf of) the beneficiary. In a private sector context if a premium is not received it is likely that the coverage, and thus any benefits, would lapse. While the entity would have specific enforcement mechanisms that it could follow to receive payment of the contribution, benefits will still be provided regardless of the receipt of any contributions.

### *Proposal*

We believe that the criteria should focus on the following in developing criteria for the application of the insurance approach:

- (a) Whether there is an arrangement that confers the rights and obligations on parties similar to that of an insurance contract.
- (b) The scheme is intended to be fully funded by contributions, which means:
  - (i) Legislation or equivalent indicates that the scheme should be funded from contributions or levies paid by or on behalf of beneficiaries.
  - (ii) Contribution and/or benefit levels are regularly reviewed and adjusted to ensure the scheme is fully funded.

### **Application of IFRS 17**

While we believe the application of IFRS 17 is appropriate, we do believe that guidance is needed on how to apply IFRS 17 for the types of schemes that are similar to insurance in the public sector.

### **Additional disclosures required in ED 63**

We support the additional disclosures as this will ensure that users have relevant information about the terms of the scheme, as well as why the application of the insurance approach is appropriate.

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

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)? If not, what past event should give rise to a liability for a social benefit?

*The Exposure Draft includes an Alternative View where some IPSASB members propose a different approach to recognition and measurement.*

## Obligating event approach

### *No support for obligating event approach*

The obligating event approach as outlined in ED 63 is not supported.

We believe that applying this approach would not result in relevant information to users about government's obligations to provide social benefits. We believe that under this approach the obligations of government would be grossly understated and may in fact have unintended consequences. Where, for example, an entity has investments set aside to fund the benefits provided, a skewed balance sheet position would be presented if the obligating event approach is applied. Where assets exceed the liabilities, beneficiaries and others may come to the conclusion that the contributions are excessive for the current obligations.

In discussing the approach with stakeholders, concerns were expressed about the potential administrative burden that may be imposed by the approach. The explicit satisfaction of criteria would mean that entities need to verify on an ongoing (sometimes on monthly) basis, that all beneficiaries satisfy the criteria. If the criteria have not been satisfied, then no obligation would be recognised. This explicit satisfaction/verification of eligibility criteria is neither practical, nor cost efficient. It is unclear whether this was intended in the approach.

It was also unclear how the approach would be applied in certain instances. For example, municipalities provide schemes where low income earners receive free or subsidised services on a monthly basis. These individuals are required to validate their eligibility to receive these services every three years. We were unsure in these instances which recognition criterion take precedence – the satisfaction of the eligibility criteria, in which case the benefit (and obligation) is for three years; or the explicit criterion of being alive to receive the next benefit, in which case the benefit (and obligation) is for one month.

We believe that the approach introduces a rule that “being alive” is an explicit criterion necessary for the recognition of a liability. For many, if not all schemes locally, verifying that a beneficiary is still alive is an administrative issue rather than being the past event that gives rise to an obligation for the entity.

### *Support for alternative view*

We support the alternative view, in particular that:

- The past event should be identified for each scheme based on its economic characteristics, i.e. a single rule cannot be applied to all schemes. The recognition of an obligation should provide relevant information to users of the financial statements in a way that faithfully represents the economic characteristics of the scheme.
- “Being alive” affects the measurement of a liability rather than the recognition of a liability.

We suggest that the approach be revised along with the following lines:

- The past event is the satisfaction of eligibility criteria, as well as estimating who may be eligible to receive the benefit. Being alive after initial satisfaction of the eligibility criteria is a measurement and not a recognition issue.
- The liability is measured using the period over which the benefits are expected to be provided, and being alive affects measurement.
- The liability should be discounted at a risk free rate.
- The liability should be separated between a current and non-current portion, as this would help budget officials to separate the immediate funding requirements from the longer term obligation.

**Specific matter for comment 5**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) the disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) the disclosures of the amounts in the financial statements (paragraphs 32-33) are appropriate; and
- (c) for the future cash flows related to an entity's social benefit schemes (see paragraph 34):
  - (i) it is appropriate to disclose the projected future cash flows; and
  - (ii) five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

**Characteristics of the entity's social benefit schemes**

We believe the information will be useful to users of the financial statements.

**Disclosure of the amounts in the financial statements**

We believe the information will be useful to users of the financial statements. We do however have concerns about the total expense being presented. It is unclear whether the intention is for this total expense line to be labelled "social benefits".

If yes, we are concerned that for in-kind benefits provided, this would:

Require reclassification of goods and services purchased into this line item. This could create an administrative burden, and if the re-allocation is not done correctly, could result in the double counting of expenses.

Potentially be inconsistent with a classification of expenses based on their nature as outlined in IPSAS 1 *Presentation of Financial Statements*.

**Disclosure of future cash flows**

While we can understand that there is merit in disclosing this information, the five year period is arbitrary. If the obligating event approach is retained, we suggest that the cash flows disclosed should be based on the period over which benefits will be provided in the scheme, e.g. if the scheme indicates that benefits will be provided for 20 years, then 20 year cash flows should be disclosed (segregated into appropriate periods). If there is no period specified, then the 5 year period may be appropriate.

It is also unclear why the cash flows are presented on an undiscounted basis and whether/how this helps achieve the overall objectives of the project.

**Specific matter for comment 6**

The IPSASB previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long term sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this is additional information.

In finalising ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long term sustainability of an entity's finances, which includes social benefits. The

IPSASB identified the following advantages and disadvantages of developing such requirements at present:

#### *Advantages*

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision-making, and that governments should therefore be providing.

This especially applies to information about the sustainability of funding of social benefits given the limited predictive value of the amounts recognised in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore limited in use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term sustainability reports provide.

Long term sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information to users, in particular for evaluations of intergenerational equity.

#### *Disadvantages*

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

The preparation of a report on the long-term sustainability of an entity's finances requires a well-developed, sophisticated planning and budgeting process, and officials that are skilled in complex financial modelling. As a result, many governments, including our own, do not formally prepare a report as envisaged in RPG 1.

While there is an acknowledgement that a report of this nature is useful, there is no support locally for the IPSASB to make RPG 1 mandatory. The main concern noted was that, if RPG 1 is made mandatory, the report on long term fiscal sustainability would be required for an entity to assert in its financial statements that it has complied with IPSAS. We do not believe that the preparation of a report on the long term sustainability of an entity's finances should affect the preparation of the financial statements as the reports are intended to achieve different objectives. The financial statements aim to provide information about transactions and events that have occurred using specific recognition and measurement principles, while the sustainability report focuses on prospective information prepared using a different basis to the financial statements.

Stakeholders suggested allowing each jurisdiction to decide how to make the RPG mandatory and to which entities it should apply.

Given that South Africa does not apply RPG 1 at present, there are no issues that have been identified for further consideration by the IPSASB.

## **Annexure B – Other matters**

### **Insurance approach**

#### *Effective date and insurance approach*

IFRS 17 is effective for financial years commencing on or after 1 January 2021. Although there is no specific effective date outlined in ED 63, we are aware of the IPSASB's practice of making IPSASs effective approximately 18 months after their approval. We urge the IPSASB to consider the effective date of ED 63 in relation to the application of the insurance approach. We do not believe that the public sector should be applying IFRS 17 before the private sector given its complexity and the time needed to collect data, build appropriate models etc.

#### *Universally accessible services and insurance approach*

In applying the definitions in ED 63, we identified schemes that meet the definition of universally accessible services, but would also potentially qualify to apply the insurance approach. While the status and outcomes of the non-exchange expenses project is unclear at present, we urge the IPSASB to consider whether any guidance is needed on applying the insurance approach for schemes that are outside the scope of ED 63.

### **Obligating event approach**

#### *Initial measurement*

ED 63 provides guidance to measure the best estimate of the amounts required to settle the social benefit liability. We question the intention of paragraphs 21 and 22.

Paragraph 21 indicates: "An entity's best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability take into account the possible effect of subsequent events on the level of benefits to be provided."

It is unclear what subsequent events are being referred to, and how they should be considered in the estimate of the liability.

Paragraph 22 indicates: "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 27." [own emphasis added]

As currently drafted, ED 63 only seems to require discounting if the entire liability is settled after 12 months after the end of the reporting period. It is unclear whether this is intentional, or if an entity should separate the liability into a current and non-current component. Guidance on this issue would be helpful.

#### *Subsequent measurement*

Paragraph 24 indicates: "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*."

In reading this paragraph, it seems to imply that an entity should calculate the cost of providing social benefits, and compare these costs to the carrying amount of the liability. Calculating the cost of the social benefit seems onerous, particularly as it is unclear whether this is done in total, for individual beneficiaries, groups of beneficiaries, etc. It may be clearer to indicate that the liability should be

determined at each reporting date and compared with that already recognised and any difference recognised in the statement of financial performance using IPSAS 3.

We are concerned that ED 63 seems to indicate that a market rate should be used to discount social benefit obligations, i.e. by referring to a financial instrument with the same term and currency. We believe a risk free rate is more appropriate.

23 March 2018

Mr John Stanford  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017 United States of America

Dear John

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

The New Zealand Treasury welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board on the ED 63: Social Benefits.

IPSASB is to be commended for its efforts in tackling this project that is a very important aspect of public sector accounting, covering issues that are often contentious.

We have attached our responses to the specified matters for comment.

Yours sincerely

Jayne Winfield  
Manager, Fiscal Reporting



**Specific Matter for Comment 1:**

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

The NZ Treasury continues to have the concerns expressed in our response to the Consultation Draft that the scope of the standard is:

- Insufficiently clear
- Creates boundary issues with other standards (both current and proposed)
- Invites the possibility that transactions with similar economic substance will be treated differently.

We acknowledge that the IPSASB has attempted to address our concerns by clarifying and redefining the social risks element of the definition, and through seeking to make a distinction between benefits to specific individuals and/or households and those that are universally accessible. However these only serve to muddy the waters. For example:

AG4: “Social benefits are only provided when eligibility criteria are met” will create debate about whether universal payments such as a Universal Basic Income are within scope. It would be a surprising outcome if such payments were outside scope because of the lack of an eligibility criterion.

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” that will create debate about whether society benefits or whether the recipients benefit, when in the vast majority of cases both benefit.

AG6: “A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole” that will create debate about whether the group of participants receiving the benefit needs to be of a certain size to be considered a “segment of society”.

AG7: “Excludes universally accessible services” which appears to include in scope services that are not universally accessible. Thus payments for flu jabs for the over-65s would be included but for flu jabs available for the whole population would not?

AG8: “Social risks relate to the characteristics of individuals and/or households (and following discussion)” which presumes that an individual’s or household’s circumstances can be distinguished between those that arise from their own vulnerability, and those that arise from external adverse events, when of course the outcome of a social risk is a function of both.

We remain concerned that the current scope, if it stands, will trap us and our auditors into resource wasting debates as to whether items are in or out of scope, and thus whether the Social Benefit standard applies, in contrast to IPSAS 19, or the standard that results from the non-exchange expense project or some other standard. Not only are such avoidable costs unwelcome, the risk is exacerbated that transactions with similar economic substance will be treated differently and that transactions with dissimilar economic substance will be treated the same, leading to reduced reliability and understandability of the financial statements.

The other risk is that it is likely that the non-exchange expenses project may be overly swayed by the precedent set by the social benefits deliberations.

If the IPSASB is determined to develop a standard on social benefits alone, The NZ Treasury urges it to treat it as Stage 1 of a more complete non-exchange expenses standard. When social benefits are included in a standard on non-exchange revenues, attempts to define and differentiate between factors such as “social risk” “universally accessible” and “social v individual benefit” can be consigned to scrapheap where they belong as they should not impact on how the transaction is measured or recognised.

To enable a cleaner scope in the meantime, the social benefit standard should be limited to non-reciprocated benefits paid in cash, either directly to beneficiaries or through third parties providing specified services to beneficiaries.

**Specific Matter for Comment 2:**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

The Treasury's objections to the above definitions will be apparent from our comment to SMC 1.

The distinctions made in the GFS literature (e.g. to respond to social risks or to encourage social benefit, between social assistance and social security, between households and sectors supporting households etc.) are matters of classification of items that have a similar economic impact on the reporting entity. Consistency with the classification system of GFS should certainly be encouraged, but consistency with the classification decisions that statisticians make, should not enable different recognition and measurement of items with similar economic substance.

**Specific Matter for Comment 3:**

Do you agree that, with respect to the insurance approach?

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

The Treasury:

- (a) Accepts that the insurance approach should be optional at this time, although it is not our preference, and we do not reach this conclusion on the cost-benefit grounds that the IPSASB has documented, as we consider that when a social benefit scheme is intended to be fully funded from contributions and is managed as an insurer manages insurance contracts, then the benefit of an insurance approach clearly outweighs the cost of an inappropriate accounting approach. However, given that the IPSASB has not yet developed an Insurance Accounting Standard, and that the appropriateness of IFRS 17 to social insurance arrangements has not been tested, we agree that it is not appropriate to make the insurance approach compulsory at this stage.
- (b) Agrees that the criteria for determining the insurance approach are generally appropriate. However, as they stand they do not allow an on-balance decision where the management and funding intentions are clearly to take an insurance approach, but where the criteria are not fully

met, that the insurance approach can be taken. For example, it is quite possible that a contributor population and the claimant population may be similar but not equivalent, which should not disqualify the insurance approach from being used. The insurance approach is in general not an approach to be guarded against, but rather one to be encouraged where appropriate. We suggest some wording changes below to realign the standard in that direction.

- (c) Agrees that preparers should follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17)
- (d) Accepts that the same disclosures about the characteristics of the scheme and any changes to it are as appropriate for schemes using the insurance approach as for schemes using the obligating event approach.

Treasury proposes the following amendments in line with our comments above:

AG12. ~~A social benefit scheme is intended to be fully funded from contributions when~~ In determining whether social benefit scheme is intended to be fully funded from contributions, an entity considers the following indicators:

NB: This proposed revised wording is consistent with AG15

Following AG13: ~~The criteria in AG12 should be significantly met for a social benefit scheme to be considered to be intended to be fully funded from contributions. The criteria in AG12 does not preclude governments or other parties making contributions on behalf of a minority of participants, nor an underwriting loss to be temporarily incurred.~~

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

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

The Treasury in general agrees with the recognition point of the majority view, although we think it is relatively clumsily worded, and are concerned that the conceptual argument is not well made.

With most social benefits, there is little discretion to avoid in total the commitment that the government has made in its policy, but there is a great capacity to adjust it. In some cases, projections based on demographic trends might suggest an adjustment, at some point of time, is inevitable. The assumption of no change to government policy therefore is insecure to use as the basis for reporting a liability in the statement of financial position. That assumption is however a useful input to analysis when considering the impact of proposed adjustments to the policy.

The Statement of Financial Position balance of net assets/liabilities shows the net contribution/obligation that past taxpayers have passed on to the future or alternatively the benefit/obligation that future taxpayers are inheriting from the past. The question then seems to arise then is: What do users want the government's accounts to show about the current calls on future taxes? Should it include the impact of our current policies in the future?

Our conclusion is generally that it shouldn't. The redistributive activity of government is a function of both taxes and social transfers. Decisions about one are not made in isolation from the other. The decision-usefulness of financial statements is not improved if the treatment of social transfers differs from taxes. Nor indeed is the accountability of those making decisions over taxes and social transfers.

The Treasury does see merit in there being public information about the extent of change in government policies, including most particularly taxes and social transfers, needed for government finances to be in equilibrium. However, that would not be achieved by adding piecemeal a liability for social benefits into the government's accounts, while excluding liabilities to provide services, and the resources that will be employed to fund them.

That argument, taken from the core objectives of financial reporting in the Conceptual Framework takes Treasury to the view that the financial statements should report what is currently owing to beneficiaries, rather than what is owed to beneficiaries in the future if current policies are to continue.

Treasury therefore suggests that the obligating event for all benefits where the meeting of eligibility criteria provides an entitlement to the benefit should be the meeting of eligibility criteria. If benefits are only paid to living persons (which may not always be the case) the application guidance should make clear that being alive is one of the eligibility criteria for determining an obligating event.

Treasury does not see the relevance of reference to "the next benefit" – if benefits are settled in instalments, in advance or in arrears, that should not impact on the recognition point and we suggest reference to the next benefit be removed.

#### **Specific Matter for Comment 5:**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

- (a) The Treasury is cautious about these proposed disclosure requirements. We note that the current focus of standard-setters is generally on reducing disclosures to avoid cluttering the financial statements with unnecessary information. As information about the benefits available, eligibility criteria and recent amendments must be widely known for citizens to be able to make claims, we question the benefit in replicating this information in the financial report.
- (b) Paragraphs 32 and 33 are more likely to be relevant if the social benefit is treated as an insurance type arrangement. Where recognition is at the point when the eligibility criteria are met, NZ Treasury sees little point in extensive disclosures and believes the requirements of paragraph 33 are unnecessary.
- (c) Financial statements report on the current financial position of the entity. The Treasury notes that this is budget forecast information.

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

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1: *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

Consistent with our view that public information about the extent of change in government policies, including most particularly taxes and social transfers, needed for government finances to be in equilibrium is valuable we endorse the IPSASB's work on Long Term Fiscal Reporting and its encouragement by national governments.

Treasury suggest that the focus of the IPSASB should at this stage be on outreach and on distilling the lessons from experience.

For example, some in New Zealand have questioned the focus on sustainability in our long term fiscal reports and have suggested a focus on resilience would have more traction. We have defined fiscal sustainability as the ability of the government to meet both current and future obligations, but have been challenged in making statements about such future obligations beyond the implications of demographic changes.

The concept is essentially an idea about intergenerational equity. However that requires that the obligations to and from future generations to be estimated in the present. It requires a prediction of what will last, and it fails to account for interrelationships between time and space, what systems or subsystems we hope to sustain and for how long. This is not possible. At least it is not possible for the preparers of long term fiscal reports to reliably project this over many years. The economic systems are too complex, the constituencies' objectives are too varied, and the policy options are too diverse. Thus our long term projections have failed to gain significant traction in the public discourse.

If sustainability is desired, and future orientation and uncertainty is at the heart of sustainability, then managing for sustainability becomes a matter of risk and opportunity management. If policy making is to develop more comprehensive strategies that combine active management of specific risks with enhancement of generic resilience in the economy, measures of resilience (i.e. measures of absorptive capacity to shocks and stresses and adaptive capacity to rebound from them) are needed. We are forming the view that resilience measures and targets have more traction than sustainability measures, and will be more likely to in fact improve sustainability.

Of course views about the future, about the risks that the nation faces and will face in the future are important, and will inform policy setting on desirable resilience levels such as levels of net debt and borrowing capacity. In such a setting, the long term fiscal report would be reframed as a risk analysis document rather than a set of projections.

That is the New Zealand experience. The IPSASB would do well to undertake research on this and other countries experiences of long term fiscal reporting, rather than initiating a standard setting or a project to mandate long term reporting at this stage of its development.



**IPSASB**  
**Response to Consultation Paper on**  
**Exposure Draft 63 - Social Benefits**

23 March 2018

## Introduction

1. ICAS welcomes the opportunity to comment on this consultation. We are a leading professional body for chartered accountants with over 20,000 members working across the UK and internationally.
2. ICAS's Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

## Key Points

3. We welcome the publication of this exposure draft as a starting point to consider improvements in accounting for social benefits. Whilst differences in opinion may persist, it is helpful to get the ball rolling and trigger improvement.
4. Given the complexity and variety of social benefits, a flexible accounting approach is needed to maintain faithful representation of the substance of the transactions.
5. To meet the need for greater transparency and understanding of the financial health of governments, a holistic solution is required, of which the financial statements only form part.
6. We would welcome further feedback on impact assessments to help manage implementation and minimise the risk of deterring those who are seeking to embark on the accruals journey. A transitional approach is preferred; this could focus on the obligating event approach first, moving towards a greater refinement of the recognition point over time.
7. Our policy position for public sector standards is to align as much as possible with the international accounting framework, IFRS, to avoid over specialism which can create complexity and reduce broader understanding. We only support divergence where there is a justified and material difference for the public sector which would inhibit the true and fair view, and this must be clearly explained to the reader of the financial statements.
8. Our response to the specific matters for comment is in Annex 1.
9. Any enquiries should be addressed to Alice Telfer, Head of Business Policy and Public Sector, [atelfer@icas.com](mailto:atelfer@icas.com)

**ANNEX 1****Specific responses to consultation questions****Specific Matter for Comment 1:**

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?*

*If not, what changes to the scope would you make?*

Our response:

Yes, we agree.

**Specific Matter for Comment 2:**

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?*

*If not, what changes to the definitions would you make?*

Our response:

Yes, however we suggest that the characteristics of long and short term social benefits are clarified as this will guide decision making on the most appropriate accounting method.

**Specific Matter for Comment 3:**

*Do you agree that, with respect to the insurance approach:*

- (a) It should be optional;*
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;*
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

*If not, how do you think the insurance approach should be applied?*

Our response:

- (a) Yes.
- (b) Yes.
- (c) Yes.
- (d) See our response to question 5a.

**Specific Matter for Comment 4:**

*Do you agree that, under the obligating event (OE) approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?*

*If not, what past event should give rise to a liability for a social benefit?*

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*



Our response:

Identifying the appropriate recognition point is not straightforward and will vary depending on the nature of the scheme and how it operates. There is not a clear single answer to what is the most appropriate accounting treatment. Factors for consideration include:

- whether it is a long-term scheme (for example state pensions) where the payment of national insurance contributions creates a valid expectation that the benefit will be received at a point in the future (and therefore creates a constructive obligation earlier in the cycle);
- contribution based jobseeker's allowance which is generally short term but requires entitlement to be demonstrated on an on-going basis (consequently triggering a later recognition point); and
- non-contribution based schemes such as industrial injuries or disabilities benefits which can be long-term but need certain eligibility criteria to be met at a point which is closer to the date of payment.

Clearer articulation in the standard (see question 2 response) of the characteristics of long versus short term benefits and whether contribution-based or not, will help to establish principles which decision makers can apply to select the most appropriate option.

The obligating event approach is not likely to represent the economic substance of the transaction for all social benefits. It is important to increase transparency through consistent recognition of liabilities in the balance sheet and report economic impact, so an earlier recognition point may be more appropriate for some benefits. As an example, operation of the state pension in the UK suggests that the alternative approach may be more appropriate. Pensions once payable, are for life and a short one-month liability (to the next eligibility date) does not reflect this long-term obligation. Some flexibility will be needed to enable selection of the most suitable approach on a principles basis.

The alternative approach could potentially create significant liabilities which risk swamping the balance sheet, making it less understandable for readers, which is inconsistent with the qualitative characteristics for useful financial information in the Conceptual Framework for Financial Reporting. This will need to be considered carefully in an impact assessment.

The difference in recognition points and prospect of policy or legislation changes can make measurement challenging and increase uncertainty. The cost-benefit ratio of acquiring relevant information also needs to be taken into account. This is considered in the application of principles in IAS 37 and we would encourage consistency.

The accounting only represents one aspect of better understanding (and communicating) a nation's financial health. Focusing solely on the liability is one-sided and an explanation of how this will be funded would strengthen understanding. There will need to be good cross referencing to other information beyond the financial statements supported by high level commentary to inform contextual understanding. Further comments are in our response to question 6.

The potentially significant impact of the alternative approach may justify a transitional arrangement so that accounts could start with the OE approach and work towards the alternative view (as appropriate), refining their recognition point over time.

We are not convinced that "being alive" needs stressed for social benefits as an appropriate eligibility criterion and doing so risks creating misunderstanding.

**Specific Matter for Comment 5:**

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

- (a) *The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*
- (b) *The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and*
- (c) *For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):*
  - (i) *It is appropriate to disclose the projected future cash flows; and*
  - (ii) *Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

Our response:

- (a) It is useful to explain the characteristics but not within the financial statements. To minimise clutter and reduce duplication with other sources of information we believe this would sit better elsewhere e.g. a website supported by clear cross referencing from the financial statements.
- (b) Yes.
- (c) Providing cash flows is useful information but it forms part of broader sustainability reporting, so we believe this detail is better communicated elsewhere (see our response to question 6). We note the limitations of the standard setter operating within the boundary of financial statements. A 5-year horizon is relatively short given the nature of the benefits, so we suggest that adding groups for 5-10 years and 10 years plus would be helpful.

**Specific Matter for Comment 6:**

*The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, Reporting on the Long-Term Sustainability of an Entity's Finances, was developed to provide guidance on presenting this additional information.*

*In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits.*

**Advantages and disadvantages are on pages 4-5 of the [Full consultation paper - Exposure draft 63 Social Benefits](#).**

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

Our response:

We encourage continuation of this work, whether it is IPSASB or another body, given the resource constraints and limitations of scope IPSASB operates within. We agree that this does not sit within the financial statements but forms part of a broader reporting framework for understanding performance (financial and non-financial) including integrated reporting.

A more complete picture of the nation's long-term liabilities informs understanding of a nation's longer-term financial health. However, understanding the longer-term financial sustainability of governments involves projections and economics which is beyond the scope of financial statements. Ultimately, users are interested in what obligations exist, projected income, projected cash outflow, any funding gap and what a government plans to do to address this. Communicating a projected gap analysis would be useful.

To attempt to meet all these needs is beyond the scope of financial statements. It may require a combination of methods such as a separate sustainability report, a liability in the accounts, and perhaps also an off-balance sheet contingent liability note for the longer-term impact. A note could identify all the social benefits and explain how they will be funded as they fall due, to offer information on the longer-term perspective. A note would need to be highlighted in the Management Commentary/Strategic Report (or equivalent) to ensure it is given appropriate profile and explanation.



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

31 March 2018

Mr John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2  
CANADA

Dear John,

**EXPOSURE DRAFT 63 SOCIAL BENEFITS**

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft 63 *Social Benefits* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2722 9277 or by email at [rasmimi@mia.org.my](mailto:rasmimi@mia.org.my).

Yours sincerely,

**MALAYSIAN INSTITUTE OF ACCOUNTANTS**

**DR NURMAZILAH DATO' MAHZAN**  
Chief Executive Officer

**Specific Matter for Comment****Specific Matter for Comment 1**

**Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?**

We agree with the scope of the Exposure Draft (ED).

**Specific Matter for Comment 2**

**Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?**

We agree with the proposed definitions of social risks and universally accessible services. In relation to the definition of social benefits, paragraph 6 of the ED defines social benefits as being provided to address the needs of society as a whole. Paragraph AG6 of the ED states that "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 organised for the benefit of individual, or groups of individuals".

In Malaysia, a social security entity was formed by legislation. It is entrusted with the administration of social security schemes with the objective to guarantee cash payment and benefits in kinds to employees and their dependents in the event of a contingency.

The schemes are only available for the following:

- employees who are employed under a contract of service or apprenticeship in the private sector; and
- contractual or temporary staff of Federal or State Government as well as Federal or State Statutory Bodies.

In light of paragraphs 6 and AG6 of the ED as stated above, we wish to clarify whether such schemes are provided to address the needs of society as a whole (and accordingly, satisfy the definition of social benefits) if the schemes are only available to the employees who have contributed to the schemes.

We note that in Example 1 of the ED, it was concluded that the retirement benefits mentioned in that example do not address the needs of society as a whole, as they are only available to former employees of Province A. If we apply this to the schemes above, it seems that such schemes would not be considered social benefits as they are only available to a limited group of employees.

**Specific Matter for Comment 3**

**Do you agree that, with respect to the insurance approach:**

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are



appropriate;

- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

Our comments are as follows:

1. Given the nature of social benefit schemes in Malaysia which can be either not funded or funded by current beneficiaries and future contributors (i.e. inter-generational effect), we believe we are not able to apply the insurance approach. Due to this inter-generational element, applying the insurance approach may not be beneficial to users of financial statements.
2. We wish to clarify whether an entity would be able to account for a social benefit scheme using the obligating event approach without first assessing whether such a scheme satisfies the criteria in paragraph 9 of the ED.
3. If entities are allowed to do (2) above, we foresee that very few entities will adopt the approach as highlighted in BC40 of the ED. Given the expected adoption rate, it is questionable whether this will achieve consistency in the accounting for such social benefits among entities and jurisdictions.

#### Specific Matter for Comment 4

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

Paragraph AG16 states that “the past event that gives rise to a liability for a social benefit is the satisfaction by the beneficiary of all eligibility criteria for the provision of the next social benefit. Being alive at the point at which the eligibility criteria are required to be satisfied is an eligibility criterion, whether explicitly stated or implicit. For a liability to be recognized, a beneficiary must satisfy the eligibility criteria for the provision of the next social benefit, even if formal validation of the eligibility criteria occurs less frequently”. In relation to this, we wish to highlight the following:

#### 1. Eligibility criteria

Paragraph AG17 provided examples of eligibility criteria such as reaching retirement age, the death of a partner or becoming unemployed. However, in practice, the beneficiaries would normally be required to confirm that they have satisfied the eligibility

criteria, for instance, by making a declaration. This can be illustrated by looking at a permanent disability benefit provided in Malaysia.

**Illustration - permanent disability**

Employees who suffer from permanent disability due to employment injury can apply for such benefit where claims have to be made within twelve months from the last date of the temporary disablement (there is another social benefit for temporary disablement). The application will be referred to a medical board for permanent disability assessment. The payment will depend on the assessment which are as follows:

- If the assessment does not exceed 20%, a lump sum payment can be made.
- If the assessment exceeds 20%, the employee is given an option to convert one-fifth of the daily rate of the benefit into a lump sum payment while the balance will be paid for the remaining life of the employee.

We believe the resulting accounting treatment for the assessment that does not exceed 20% would be straightforward.

However, for assessment that exceeds 20% and where the balance will be paid monthly for the remaining life, the amount to be recognised will depend on what constitutes the eligibility criteria which can be illustrated as follows:

	<b>Category A – only 1 criterion</b>	<b>Category B – must satisfy both criteria</b>
Eligibility criteria	<ul style="list-style-type: none"> <li>• Assessment exceeds 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment exceeds 20%</li> <li>• Annual declaration is required before they receive the benefits</li> </ul>
Amount to be recognised as a liability	Current year liability and future liabilities for the estimated life of the beneficiary.	As annual declaration is a criterion that must be satisfied, then only current year liability should be provided for.

Accordingly, we wish to recommend that the IPSASB provide clear guidance on the application of eligibility criteria.

**2. Being alive as a recognition criteria**

There are 2 views in relation to the above which are as follows:

- View 1 – liability should be recognised only when the beneficiary has confirmed that he/she is alive to receive the benefits for the current year. Accordingly, only current year liability is recognised at the reporting date.
- View 2 – liability should be recognised taking into account the estimated number of years that the beneficiary will be alive. Accordingly, current year liability as well as future liabilities based on the estimated life of the beneficiary need to be recognised at the reporting date.

We wish to clarify which of the two views above is taken by the IPSASB in the ED.



**Specific Matter for Comment 5**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

We are not able to comment the disclosure requirements following our comments on Specific Matter for Comment 4 above.

**Specific Matter for Comment 6**

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

**Advantages**

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.

This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful



information for users, in particular for evaluations of intergenerational equity.

#### **Disadvantages**

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

We support the IPSASB's undertaking of further work on reporting on long-term fiscal sustainability. We suggest that IPSASB consider the following:

- Given such further work may be based on the work that have been done on RPG 1, based on due process, whether there is a plan to perform post-implementation review on RPG 1 where a study can be undertaken on the application of RPG 1 by various jurisdictions as well as the usefulness of such information to users of general purpose financial reports; and
- The assessment of implications (i.e. cost-benefit analysis) of any future proposal in relation to reporting on long-term fiscal sustainability.





27 March 2018

Mr Ian Carruthers  
Chairman  
International Public Sector Accounting Standards Board  
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New York, NY 10014  
USA

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Via online submission: [www.ipsasb.org](http://www.ipsasb.org)

Dear Ian

### **Exposure Draft 63: Social Benefits**

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission in consultation with and on behalf of our members and in the broader public interest.

CPA Australia commends the International Public Sector Accounting Standards Board (IPSASB) for developing an ED that seeks to address the many challenges surrounding the definition, measurement and recognition of social benefits in General Purpose Financial Statements.

Our organisation broadly supports the proposals to require recognition of a liability for unavoidable social benefits under the obligating event approach, however we suggest the IPSASB gives further consideration to the scope and measurement criteria proposed in the ED.

We provide our general comments below.

### **The Obligating Event Approach**

We consider the recognition of liabilities for social benefits under the proposed obligating event approach as the method that is most likely to meet the needs of users of General Purpose Financial Statements.

There is a valid argument expressed in Alternative View paragraph AV2 that for some social benefits, recognising a liability for the next payment obligation would be appropriate (as currently proposed under the obligating event approach), whilst for other social benefits, recognising a liability for a longer period may be appropriate. However, it is our view that when assessed against the qualitative characteristics of relevance, understandability and faithful representation, it may not be viable or appropriate to recognise a liability for a period longer than that currently proposed under the obligating event approach.

The relevance to users of information about liabilities arising from social benefits included in financial statements should be compared against information available from reports such as long-term fiscal sustainability reports that include such information as well. We appreciate that there is a blurred boundary between what information relating to social benefits should be included in financial statements versus what information should be included in other reports such as long-term fiscal sustainability reports. The line however must be drawn somewhere, and we believe the proposed obligating event approach provides a practical solution.

Financial statements that include uncertain long-term liabilities could undermine their understandability, particularly to those who may not fully appreciate the limitations in estimates included in calculating liabilities over a very long time horizon. CPA Australia is concerned that the inclusion of uncertain long-term liabilities could be open to misinterpretation and misuse by users of such information.

It is arguable that recognising liabilities for social benefits based on their economic substance (the Alternative View) is more faithfully representative of the underlying obligations. However, it is equally arguable that an asset should be recognised for future taxes or levies that will fund the payment of future social benefits. It is unlikely that a government will be able to fulfil its long-term social benefit obligations without raising taxes, levies or other similar revenues in the future. An absence of information relating to this aspect is in our view, unlikely to faithfully represent the underlying economic substance.

In addition to the above points, CPA Australia believes that the proposed obligating event approach is a simple and practical approach that may be considered easier to implement in many jurisdictions that have adopted, or are considering adopting IPSAS. This could include many emerging economies, who may consider a more complex approach a deterrent to adopting a future standard on social benefits, and even the entire IPSAS framework.

Although we support the proposed obligating event approach, we do not agree that “being alive” should be an eligibility criterion. We support the Alternative View in paragraph AV20 that “being alive” is a measurement criterion rather than an eligibility criterion. We suggest the IPSASB reconsider the applicable eligibility criteria when determining the existence of a liability for social benefits under the obligating event approach.

### **The scope of social benefits**

CPA Australia agrees with the IPSASB’s acknowledgement in paragraph BC21(c) that social benefits and non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. To ensure a comprehensive solution that addresses both social benefits and non-exchange expenses, we strongly suggest that this project is progressed simultaneously with the non-exchange expenses project. Although the accounting requirements may be set out in two or more standards, this approach will provide a seamless solution to the recognition, measurement, presentation and disclosure of social benefits and other non-exchange expenses.

### **Insurance approach**

There is a valid argument in paragraph BC37 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. However, we also note and accept the comments in paragraph BC37 that the IPSASB considered 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.

CPA Australia agrees with the proposed approach in paragraph BC41 that, on balance the insurance approach should be optional, based on cost/benefit reasons. As noted in the same paragraph, we support the suggestion that the IPSASB should revisit this at a later date, once entities have experience with the insurance approach and applying the new IFRS standard, IFRS 17 *Insurance Contracts*.

If you require further information on our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely



Stuart Dignam

General Manager, Policy & Corporate Affairs



**ACT**  
Government

Chief Minister, Treasury and  
Economic Development

Mr John Stanford  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017  
United States of America

Dear Mr Stanford

**Exposure Draft 63 *Social Benefits***

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on IPSASB Exposure Draft (ED) 63 – *Social Benefits*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC broadly agrees with the scope of this ED and the definitions included. HoTARAC strongly supports the proposed eligibility criteria and would not favour recognising a liability unless there is an immutable obligation. HoTARAC suggests maintaining the IPSASB's current policy of presenting information on projected cash flows and fiscal sustainability in a separate report to the financial statements.

The attachment to this letter sets out HoTARAC's response to the specific matters for comment. If you have any queries regarding our comments, please contact Peter Gibson from the Commonwealth Department of Finance on +61 2 6215 3551 or by email to [peter.gibson@finance.gov.au](mailto:peter.gibson@finance.gov.au).

Yours sincerely

David Nicol  
Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

12 January 2018

Attachment: ED 63 Social Benefits

**Specific Matter for Comment 1:**

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?  
If not, what changes to the scope would you make?

HoTARAC broadly agrees.

In distinguishing between universally accessible services and social benefits, the IPSASB may want to consider the applicability of the economic concept of public goods.

**Specific Matter for Comment 2:**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?  
If not, what changes to the definitions would you make?

HoTARAC agrees.

**Specific Matter for Comment 3:**

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
  - (b) The criteria for determining whether the insurance approach may be applied are appropriate;
  - (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
  - (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?
- If not, how do you think the insurance approach should be applied?

(a) HoTARAC strongly agrees

(b)–(d) HoTARAC jurisdictions do not have these type of schemes and do not intend to adopt an insurance approach for any social benefits.

**Specific Matter for Comment 4:**

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

HoTARAC agrees.

HoTARAC has considered the alternative view set out in paragraphs AV1 to AV23. While HoTARAC agrees that liabilities should be recognised where they meet the criteria of the conceptual framework, HoTARAC does not find the arguments presented for recognition prior to the eligibility criteria being met convincing.

## Attachment: ED 63 Social Benefits

Paragraph AV4 and AV5 propose considering community expectations in determining whether an unavoidable obligation to government has arisen. In HoTARAC's view, a constructive or legal obligation would rarely, if ever, be formed as the government can always change the eligibility criteria for the payment (or even abolish the payment itself). This is acknowledged in paragraph AV9 that discusses government's future obligations changing as eligibility criteria are changed. As a recent example of this in practice, the Australian government has recently raised the eligibility age for state pensions, notwithstanding any community expectation that they would be entitled to this payment when they reached the existing retirement age.

Imposing a requirement that preparers include a liability based on community expectation may also lead to divergence in practice as different views may be reached on whether the government's obligation is binding and similar schemes give rise to very different liabilities.

Paragraphs AV7 to AV10 discuss improving the faithful representation of the economic substance of the inter-generational impacts of social benefits through earlier recognition. HoTARAC believes this is mistaken for two reasons. Firstly, the exposure draft only applies to a portion of the benefits government pays. For example, it would not be consistent to recognise a liability for pensions, but exclude a liability for the free education for children reaching school age. Secondly, recognising the government's future obligation to provide social benefits to citizens without recognising an asset for the government's right to receive taxes from their future income would distort the balance sheet by partially presenting future rights and obligations.

In considering the application of the being alive criterion (AV16-AV21), HoTARAC notes that other obligations are rarely extinguished on death of the recipient. For example, an employer's post-employment benefits may be paid to other family members.

Paragraphs AV22-23 propose that future payments are important in meeting user needs. Information being useful to users is a necessary, but not sufficient condition for inclusion in the financial statements. Information also needs to meet the qualitative characteristics of financial statements. HoTARAC notes that the IPSASB has an existing Recommended Practice Guideline (RPG) on fiscal sustainability to meet users need for this type of information.

Finally, HoTARAC notes that it would be extremely difficult to reliably measure future benefit payments to the standard that can be audited for inclusion in the financial reports. This has the potential to lead to a divergence in practice, as some preparers may assess this information as unreliable and omit it from the financial statements, while others include a best estimate.

**Specific Matter for Comment 5:**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
  - (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
  - (c) For the future cash flows related to/from an entity's social benefit schemes (see paragraph 34):
    - (i) It is appropriate to disclose the projected future cash flows; and
    - (ii) Five years is the appropriate period over which to disclose those future cash flows.
- If not, what disclosure requirements should be included?

- (a) HoTARAC notes that the current focus of standard-setters is on reducing disclosures to avoid cluttering the financial statements with unnecessary information. As information about the benefits available, eligibility criteria and recent amendments must be widely known for citizens to be able to make claims, HoTARAC questions whether there is any benefit in replicating this information in the financial report.

Attachment: ED 63 Social Benefits

- (b) Paragraphs 32 and 33 do not seem relevant unless the social benefit is treated as an insurance type arrangement. Where recognition is at the point when the eligibility criteria are met, HoTARAC sees little point in extensive disclosures and believes the requirements of paragraph 33 are unnecessary.
- (c) HoTARAC does not agree. Financial statements report on the current financial position of the entity; this is budget information that will be extremely difficult to prepare and audit. If the IPSASB believes this information is useful to users, HoTARAC recommends it be external to the financial statements or reported through a cross-reference to budget or other document (in Australia, the government publishes the Intergeneration Report every 5 years<sup>1</sup>)

**Specific Matter for Comment 6:**

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalising ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

HoTARAC supports providing information in the financial statements to assess sustainability. HoTARAC supports the current IPSASB approach of favouring separate long term fiscal sustainability reports under RPG 1. If the IPSASB believe this information should be included in the financial reports, it should first identify the shortcomings of current policy of RPG 1.

Additionally, HoTARAC would urge the IPSASB to exercise caution in providing an opinion on governments' fiscal sustainability. The budget is national governments' main tool for macroeconomic policy and the IPSASB should avoid any comment on the size of the government's surplus or deficit to avoid the appearance of political bias from preparers. This information would be extremely difficult to audit and would potentially place the auditor in the difficult position of adjudicating on the sustainability of the budget deficit.

<sup>1</sup> <https://treasury.gov.au/publication/2015-intergenerational-report/what-is-the-intergenerational-report/>



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

10 - Federal Social Insurance Office (Switzerland)  
Federal Department of Home Affairs (FDHA)  
**Federal Social Insurance Office (FSIO)**

CH-3003 Bern, FSIO

***By electronic submission***

Mr. Paul Mason  
International Public Sector Accounting  
Standards Board  
529 Fifth Avenue  
New York, NY 10017  
USA

Our ref.: 046-06-03-01146 29.03.2018 Doc. no.: 2103  
Contact: Claudia Michlig / mic  
Bern, 29 March 2018

**Response of the Federal Social Insurance Office to Exposure Draft 63 – Social Benefits**

Dear Mr Mason

Since 1 January 2016, the social insurance schemes AHV, IV, EO and ALV have been included in the federal government's consolidated financial statements. These financial statements (including the figures for social insurance schemes) are expected to be published for the first time in April 2018. The federal government's consolidated financial statements are prepared in accordance with International Public Sector Accounting Standards (IPSAS). Consequently, the future standard on social benefits is very relevant to us.

This document is a response to the IPSAS Board on specific matters, and supplements the opinion of the Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP).

If any uncertainties are raised by the English translation, the German response is authoritative.

Federal Social Insurance Office (FSIO)

Effingerstrasse 20, 3003 Bern, Switzerland  
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## General remarks

We fundamentally agree with the SRS-CSPCP opinion. We also take a positive view of the work and objectives of the IPSASB to date. On the whole, it is gratifying that the disclosure requirements in the present exposure draft (ED) are less complicated than those in the consultation paper (CP). We consider it positive that all eligibility criteria have to be met for recognition of the obligation as that can substantially reduce uncertainty in measuring the liability. Nevertheless, we are critical as regards the recognition of obligations for the next accounting period. The effort required to calculate these obligations does not seem to be commensurate with the additional benefit gained. It does not make the annual financial statements more meaningful to any material degree. What is more, assigning obligations to reporting periods without also taking the contributions for the next period into account results in an imbalance in the annual financial statements (matching of cost and revenue).

## Specific matters for Comment

### Specific Matter for Comment 1:

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services (UAS for the reasons given in paragraph BC21(c))?*

*If not, what changes to the scope would you make?*

The FSIO is in agreement with the exclusion of universally accessible services. Such a demarcation is sensible and necessary.

### Specific Matter for Comment 2:

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?*

*If not, what changes to the definitions would you make?*

#### Social benefits:

The explanation of social benefits in para 6 of the ED does not constitute a definition of the term. An explanation is given of whom social benefits are paid to, what they are for and what the prerequisites for receiving them are, but there is no clear definition of the term in the sense of "social benefits are...". Nor do the explanations in the application guidelines (AG) 4–7 contain further information in this regard. In our opinion, a clear definition of the term "social benefits" is indispensable. We recommend using the definition originally included in the CP: "Social Benefits are benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks." This definition makes clear that benefits "in kind" are also included, which is only implied in AG 7 of the present ED.

#### Social risks:

The definition does not make clear which benefits of the Swiss social insurance system fall within the scope of the ED. This raises questions with regard to the benefits paid in cases of maternity and military service. How can the "society as a whole" prerequisite be applied here?

In addition, we do not consider the explanations in AG 8 to be pertinent. A social risk is described as being "an unplanned or undesired event". That may be true for risks such as unemployment or invalidity, but the definition does not apply to risks such as old age, military service or maternity. In our view, AG 8 should be adapted and/or made more specific.

In addition, invalidity should be added as an example of a social risk.



#### Universally accessible services:

The definition of this term is not very clear. It is not apparent why the definition of UAS is dependent on whether the risk is a social one or not. Further, we consider UAS to be generally accessible *per se* and not linked to any eligibility criteria. The words "if any" in the definition are thus confusing.

#### Specific Matter for Comment 3:

*Do you agree that, with respect to the insurance approach:*

- (a) It should be optional;*
  - (b) The criteria for determining whether the insurance approach may be applied are appropriate;*
  - (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*
  - (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*
- If not, how do you think the insurance approach should be applied?*

On the basis of the prerequisites given in the ED concerning application of the insurance approach, the latter is applicable to very few social benefits in Switzerland (really only SUVA, perhaps also military insurance). We are thus in agreement with the proposed option and will not respond to the remaining questions. We are also in agreement with the criteria for applying the insurance approach.

#### Specific Matter for Comment 4:

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?*

*If not, what past event should give rise to a liability for a social benefit?*

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

The requirement that all eligibility criteria must be satisfied is of crucial importance to us. This is apparent, in particular, with respect to benefits in connection with the invalidity risk. After an application for benefits has been lodged, it takes a long time to assess a case. It can be several years before an application is approved and thus becomes legally enforceable. In the intervening period, there would be a high degree of uncertainty involved in recognising a liability, as it would be unclear whether a measure, daily allowance or pension will ultimately be approved (and in what amount). The requirement that all recognition criteria must be satisfied would make the recognition of liabilities more reliable.

In our opinion, the condition expressed in the "being alive" criterion comes closest in spirit to pay-as-you-go social insurance systems, in which no hypothetical future liabilities are recognised. As a result, only those obligations to be paid in the following month are recognised as of the reporting date. An actual definition of the term "pay-as-you-go method", which we requested in our response to the CP, has thus become a secondary issue. Nevertheless, it should be noted that we do not consider the resulting benefit to be commensurate with the cost of recognising the next pension. It is also unclear to what extent "being alive", which has now been defined as a recognition criterion, is to be taken into account when measuring the liability. It is unrealistic to assume that the liability can be recognised individually on the basis of the "being alive or not" criterion. Instead it ought to be permissible to apply mortality tables collectively across the population in question.

In our view, it makes sense to recognise liabilities for those benefits of the next period that are known as of the reporting date. The impact on liquidity should be apparent for readers of financial statements. However, as the contributions are treated in a separate standard on "revenue and non-exchange expenses" (which is likely to take effect at a later date), that will give rise to a mismatch in the balance sheet – at least for a certain period. The liabilities recognised will reduce equity and also impact liquidity. But the contributions for the month of January will be missing on the assets side of the balance sheet, giving rise to a mismatch. As it is currently not known what direction the "Revenue and non-exchange transactions" standard will take, there appears to be no definitive solution to the mismatch problem.

Specific Matter for Comment 5:

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

- a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*

The FSIO is in agreement with the explanations given in para 31. Given the costs and benefits involved and the relevance of the information, however, it is important that the required disclosures are made only for material social benefits.

- b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate;*

In the Swiss social insurance system, the majority of benefits are paid monthly. Thus, reconciliation of liabilities as of the end of the previous year with those of the reporting period provides very little additional information. There is not expected to be any interest expense (no discounted liabilities), and the difference between the liability recognised in the balance sheet and the amount paid out will also be marginal owing to the low level of estimation uncertainty. Therefore, we consider a reconciliation in the true sense (as is carried out for provisions) to be neither sensible nor necessary – and of only extremely limited validity.

- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):*

*(i) It is appropriate to disclose the projected future cash flows; and*

*(ii) Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

In our opinion, the notes to the annual financial statements are not the appropriate place to make forecasts concerning social benefit schemes. In Switzerland, comprehensive reports on the financial situation and prospects of the social insurance schemes are already available (e.g. the Federal Council's annual report on social insurance). Further, political decisions in Switzerland are taken on the basis not of disclosures made in the annual financial statements, but of other documents and fundamentals. Disclosures of this kind are advisable only in countries that do not have separate reports.

Specific Matter for Comment 6:

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

The FSIO is of the opinion that the IPSAS Board should not conduct any further work as regards sustainability reporting as the latter does not form part of the financial accounts.

Yours sincerely

Federal Social Insurance Office



Colette Nova  
Vice-Director



Claudia Michlig



NZ ACCOUNTING  
STANDARDS  
BOARD

28 March 2018

Mr John Stanford  
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Submitted to: [www.ifac.org](http://www.ifac.org)

Dear John

**ED 63 *Social Benefits***

Thank you for the opportunity to comment on ED 63 *Social Benefits* (ED 63). The ED has been exposed in New Zealand and some New Zealand constituents may comment directly to you.

We have begun by outlining the key points in our comment letter.

We consider that there are no significant conceptual differences between the types of transactions that would fall within the scope of Exposure Draft 63 *Social Benefits* and universally accessible services and collective services. In our opinion where expense transactions such as social benefits, collective services and universally accessible services have similar characteristics, a consistent approach for liability and expense recognition is required. Our preferred option is that a standard on social benefits would cover both cash benefits and services provided to beneficiaries. However, we acknowledge that from a standard-setting perspective, the IPSASB may wish concentrate on a subset of transactions.

If the IPSASB proceeds on the basis of the proposed scope in ED 63 we would encourage the IPSASB to consider how any decisions made in the development of standards-level requirements for social benefits would impact the development of an approach for recognising other expenses and liabilities arising from similar types of transactions, such as universally accessible services and collective services. Our ultimate aim would be for a consistent and coherent approach to accounting for social benefits, regardless of their form. We have also put forward a suggestion to simplify the scope requirements.

We support the application of the insurance approach to insurance-like activities. We have some suggestions to refine the criteria for application of this approach and have asked the IPSASB to consider the appropriateness of the risk adjustment requirements in IFRS 17 for public sector entities. In our view the obligating event approach is not appropriate for insurance-like activities. These liabilities should be recognised either in accordance with IFRS 17 *Insurance Contracts* or using guidance based on the requirements in IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

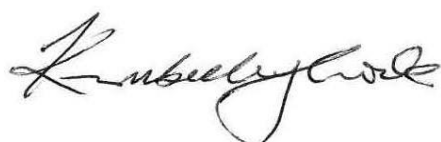
Regarding the proposals in ED 63 on the obligating event approach, our overall view is that to meet the objectives of general purpose financial reporting in accordance with the qualitative characteristics and pervasive constraints discussed in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, it is necessary to consider how obligations for future benefits are managed. In the case of schemes which are managed in the same way as an insurer would manage its insurance contracts and which are substantially fully funded, we consider that it is appropriate to report both the assets and liabilities associated with that activity. In the case of other benefits which are not managed in this way and which are to be funded through future taxes, the recognition of large liabilities for social benefits, without the recognition of future cash flows that will fund those benefits, is unlikely to result in financial statements that meet the objectives of general purpose financial reporting and satisfy the qualitative characteristics.

We are broadly supportive of the proposed disclosure requirements in ED 63. However, we do not support the requirement to disclose five years of projected cash outflows. We ask that the IPSASB reconsider whether this requirement satisfies the objective of the disclosures, as outlined in the IPSASB's Basis for Conclusions. We also have concerns that some of the proposed requirements will increase the length of financial statements. We support the recent focus on trying to limit the length of financial statements and keep disclosures understandable and accessible and have therefore made some suggestions about ways to manage the extra information being considered by the IPSASB.

We consider that RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances* is serving a useful role, but should remain as guidance at this time.

Our recommendations and responses to the Specific Matters for Comment are set out in Appendix 1 to this letter. If you have any queries or require clarification of any matters in this letter, please contact Lisa Kelsey ([Lisa.Kelsey@xrb.govt.nz](mailto:Lisa.Kelsey@xrb.govt.nz)) or me.

Yours sincerely



Kimberley Crook

**Chair – New Zealand Accounting Standards Board**

## Appendix 1: Responses to Specific Questions for Comment

### Specific Matter for Comment 1:

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?  
If not, what changes to the scope would you make?

#### Definition of a social benefit

We acknowledge that the definition of a “social benefit” is a key determinant of what is in or out of the scope of ED 63. We have found the definition problematic to apply in practice and have commented on the proposed definition under SMC2 below.

#### Universally accessible services

We do not agree with the exclusion of universally accessible services from the scope of the ED.

We have recently commented on the IPSASB’s Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* (the CP). In that comment letter we noted that the determination of an obligating event for social benefit schemes is not substantively different from the determination of an obligating event for general obligations to provide services to the public, including collective services and universally accessible services.

Similar issues arise in respect of these general obligations to provide services to the public as are being considered in ED 63. In many cases, the beneficiaries of these services have existing rights that have been established through legislation, policy announcements, or other government actions. For example, in New Zealand, the Government’s obligations to provide universal superannuation to people aged over 65 (a social benefit) and to provide free education for children aged between 5 and 19 (a universally accessible service), are both established through legislation. In our view, there is no substantive difference between obligations for benefits to be provided in the form of money (for example, national superannuation) or in the form of services (for examples, education services). Accordingly, issues being discussed in ED 63 relating to determining the point when, and the extent to which, the government concerned has a present obligation to provide those benefits also arise in the context of universally accessible services and collective services.

Therefore, we consider that where expense transactions such as social benefits, collective services and universally accessible services have similar characteristics, a consistent approach for liability and expense recognition is required. Our preferred option is that a standard on social benefits would cover both cash benefits and services provided to beneficiaries. However, we acknowledge that from a standard-setting perspective, the IPSASB may wish concentrate on a subset of transactions at this stage. If the IPSASB proceeds with the proposed scope in ED 63 we would encourage the IPSASB to consider how any decisions made in the development of standards-level requirements for social benefits would impact the development of an approach for recognising other expenses and liabilities arising from similar types of transactions, such as universally accessible services and collective services.

*Social risks and other risks*

We disagree with the argument in paragraph BC21(b) that social risks and other risks (for example, earthquakes and flooding) are different. Governments do react to specific disasters, but they may also have standing benefits available for natural disasters. For example, New Zealand farmers affected by an adverse event (for example, flood or drought) which is classed as medium or large-scale by the Minister for Primary Industries, may qualify for a Rural Assistance Payment. Although the severity of the adverse event has to be assessed, the benefit is a standing benefit to deal with the social risks resulting from the adverse event.

*Artificial boundary*

The IPSASB has acknowledged in paragraph BC21(c) that social benefits and non-exchange expenses fall along a continuum, and that any boundary between these two categories of expenses will, to some extent, be artificial. In creating separate standards for the spectrum of public sector expenses, we are concerned that there may be a risk that some schemes might have multiple components, only some of which fall within the scope of ED 63.

*Transaction versus scheme*

We note that the scope paragraph (paragraph 5) refers to a transaction but the rest of the [draft] standard establishes requirements for schemes. The [draft] standard does not define a scheme. We do not think that this is a major issue, but some acknowledgment of the fact that social benefits are frequently administered, or referred to, as schemes, or some discussion of what is meant by a scheme would be helpful.

*Suggested changes to scope*

While we would prefer that the standard on social benefits dealt with social benefits in their entirety (including universally accessible services), we acknowledge that the IPSASB may wish to deal with a subset of social benefits (that is, those that are paid directly to beneficiaries).

We suggest that if the IPSASB wish to deal with a subset of social benefits then the scope of the standard should be limited to those social benefits that are paid directly to eligible beneficiaries.

*IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets*

We note that the IPSASB will need to ensure that the current scope exemption for provisions and contingent liabilities arising from social benefits in IPSAS 19 will work with the final standard on social benefits. At present IPSAS 19 has a fairly wide scope exclusion in relation to social benefits. It appears that only some of these social benefits will fall within the scope of a standard on social benefits. In order to maintain the status quo, IPSAS 19 will still need to exclude those social benefits not covered by a standard on social benefits.

**Specific Matter for Comment 2:**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

Definitions

We have found the definitions contained in ED 63 problematic to apply in practice. We are still not convinced that consistency with the classification system used by GFS is the best driver for establishing the scope of an IPSAS. In particular, we have struggled with applying the concept of 'social risk' and why some risks are social risks and others are not. The concept of social risk is not well understood by the accounting community in all jurisdictions and the interpretation of this term could lead to diversity in practice. Some of the questions or issues we have faced in trying to apply the definitions to particular benefits are as follows.

- The diagram under IG2 says universal education does not mitigate the effect of social risk. However, we are of the view that free education reduces the risk of unemployment and note that employment status is considered a social risk. We also note that having to pay for education would impose additional demands on household resources.
- Paragraph AG7 states that "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." This is open to interpretation because, in order to meet the current definition in ED 63 for universally accessible services, the eligibility criteria cannot be related to social risk. Poor health is a social risk and an individual would have to have a health issue to be eligible to access the universal healthcare services.
- We are not clear what is meant by "address the needs of society as a whole" in the social benefits definition.
- We do not see the rationale for distinguishing between aid provided immediately after an earthquake and the subsequent unemployment benefits or housing benefits paid to people who have lost their jobs or home because of an earthquake (see paragraph AG10).

If the IPSASB were to change the scope as we have suggested in SMC1 above (see *Suggested changes to scope*) we do not think any of these definitions would be required.

**Specific Matter for Comment 3:**

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
  - (b) The criteria for determining whether the insurance approach may be applied are appropriate;
  - (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
  - (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?
- If not, how do you think the insurance approach should be applied?

Response to SMC3(a)

*SMC3(a) Do you agree that, with respect to the insurance approach, it should be optional?*

We do not agree that the insurance approach should be optional. We support the use of the insurance approach for schemes that are managed in the same way as insurance obligations, as the insurance approach aligns the reporting with the management of such schemes. If such schemes were permitted to use the obligating event approach this would result in material understatement of an entity's liabilities.

The obligating events approach and the insurance approach are almost at opposite ends of the spectrum in terms of the liabilities that would be recognised. In the case of a scheme which pays for long-term injury treatment following an accident, the insurance approach would require recognition of a liability for treatment over the remainder of a person's life, but the obligating event approach would require the recognition of a liability up until the next revalidation point only. The difference in the amounts recognised under each approach could be material for both the entity and any whole of government statements into which the entity is consolidated.

Entities that manage large social benefit schemes often want to benchmark their performance against similar international schemes. Consistent accounting is necessary for benchmarking to be possible.

The arguments considered by the IPSASB in deciding to make the insurance approach optional are set out in paragraphs BC35 to BC41 of ED 63. Although the IPSASB has considered arguments both for and against making the insurance approach optional, cost seems to have been the main reason for deciding that it should be optional, with the difficulty of applying the criteria a secondary consideration. We do not agree that the cost of applying the insurance approach should be used to justify making this approach optional. Significant liabilities and significant risks should be accounted for appropriately.

The arguments considered by the IPSASB in deciding to propose the use of the obligating events approach for social benefits in general are set out in paragraphs BC59 to BC89. One of the key factors that seemed to influence the IPSASB's thinking was the difficulty of determining that there has been a past event that has given rise to a liability. In the case of obligations for benefits that would meet the criteria to be accounted for using the insurance approach this argument is not relevant. In the case of such liabilities there is general agreement that there has been a past event that has given rise to a liability.



In our view, entities with insurance-like liabilities should be required to recognise such liabilities, either in accordance with IFRS 17 (our preference) or a simplified approach developed by the IPSASB. We explain this in more detail in the next paragraph.

If, after considering responses on ED 63, the IPSASB remains concerned about the cost of mandatory application of IFRS 17 requirements, it could include simplified insurance approach requirements directly in a social benefits standard. These requirements could be based on the requirements for the recognition of provisions in IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. This approach would result in some differences compared to the application of IFRS 17, but we consider that such differences would be more justifiable than permitting non-recognition of liabilities that are generally agreed to be liabilities. We have identified the following differences that would need to be considered if the IPSASB were to develop such requirements.

- (a) IFRS 17 requires outstanding claims to be measured as the central estimate of the present value of expected future payments with an additional risk adjustment. The additional risk adjustment is the compensation an entity requires for bearing the uncertainty about the amount and timing of future cash flows arising from non-financial risk as the entity fulfils insurance contracts. IPSAS 19 does not require a risk adjustment for inherent uncertainty.
- (b) The discount rate requirements differ. IFRS 17 requires that the discount rates applied to the estimate of cash flows shall: (a) reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts; (b) be consistent with observable market prices of those financial instruments whose cash flow characteristics are consistent with those of the insurance contracts; and (c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts. IPSAS 19 requires the use of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.
- (c) IFRS 17 includes presentation and disclosure requirements designed specifically to cater for insurance activities, such as disclosures around claim development. IPSAS 19 does not.

#### Response to SMC3(b)

*SMC3(b) Do you agree that, with respect to the insurance approach, the criteria for determining whether the insurance approach may be applied are appropriate?*

We support the criterion in paragraph 9(b) that the entity must manage the scheme in the same way as an insurer would manage its insurance contracts. Our view is that entities engaged in insurance-like activities should report on them in the same way as insurers.

We do not support the criterion in paragraph 9(a) that the social benefit scheme is *intended to be* fully funded from contributions. Although we agree that this would be a desirable characteristic of schemes (and in most cases the criterion would be satisfied by an entity wanting to use the insurance approach), we consider that how the entity manages the scheme is more important than whether or not it is fully funded.

We note that the Australian Accounting Standards Board (AASB) has recently considered similar issues in developing its Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures*

*and Public Sector Entities* (November 2017).<sup>1</sup> The AASB considered and rejected full funding as a scope criterion. The AASB noted that this would not be consistent with other accounting standards or its Conceptual Framework as these pronouncements do not treat the ability to fund a liability as the determinant or limiter on whether a liability is recognised. We concur with this point.

We also think there could be practical difficulties in applying the fully funded criterion in paragraph 9(a). For example, most components of a scheme may be fully funded, but one or more components may not. Paragraphs 9 and A13 talk about “a scheme”, but do not indicate whether the assessment is carried out with respect to an entire scheme including all its components, or for each individual component. We assume that schemes which are intended to be fully funded from a certain date would meet the criterion.

In relation to the examples we have considered in New Zealand, the Accident Compensation Corporation, which currently applies insurance accounting, has one component which is not fully funded. This component has been accounted for consistently with the other components and the assessment of future levies for this component is based in part on the liabilities recognised in the financial statements. If the accounting for this component were to change from an insurance approach to the obligating event approach it would have a dramatic impact on the amount of the liability recognised in the financial statements and could send the wrong signals about future funding requirements.

As a way forward, we suggest that the IPSASB consider:

- (a) changing the order of paragraphs 9(a) and 9(b) to highlight the importance of how a scheme is managed; and
- (b) rephrasing what is currently paragraph 9(a) so that it refers to social benefit schemes which are substantively fully funded from contributions.

In making this suggestion we have thought about how any components of a scheme that will not be fully funded would be accounted for under IFRS 17. IFRS 17 (paragraph 47) states that “An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow.” IFRS 17 requires that an entity identify onerous contracts at initial recognition. The entity is required to recognise losses on onerous contracts immediately in profit or loss. The entity does not recognise any contractual service margin on the balance sheet on initial recognition of an onerous contract. We are of the view that the onerous contracts requirements in IFRS 17 would result in appropriate accounting for such components.

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<sup>1</sup> The AASB issued this Discussion Paper in November 2017. The AASB is seeking feedback on proposals to modify AASB 17 *Insurance Contracts* to lead to more consistent reporting of public sector insurance liabilities.

Response to SMC3(c)

*SMC3(c) Do you agree that, with respect to the insurance approach, directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate?*

We are broadly in agreement with the IPSASB's proposal to direct entities to IFRS 17 or national equivalents. Our main concern is whether the risk adjustment requirements in IFRS 17 are appropriate for public sector entities. The Basis for Conclusions that accompanies ED 63 (paragraphs BC51 to BC54) outlines the IPSASB's consideration of whether or not entities applying the insurance approach should be required to include a risk adjustment. The Basis for Conclusions acknowledged that there have been differing views about the appropriateness of a risk adjustment in the context of social benefits.

Although entities applying NZ IFRS 4 *Insurance Contracts* and PBE IFRS 4 *Insurance Contracts* have applied a risk margin<sup>2</sup> as required by those standards, there has been debate about whether this is appropriate, particularly when the determination of future contributions is based on figures that exclude the risk margin.

The AASB has also considered this issue in Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* (November 2017). The AASB has proposed to include some additional guidance on determining the risk adjustment factor for non-financial risk (see extract below). The AASB concludes that although the risk adjustment might differ from a for-profit private sector entity, it is unlikely to be nil (see extracts from the AASB's Basis for Conclusions below). The AASB has sought feedback on whether there might ever be a risk adjustment factor of zero. We encourage the IPSASB to liaise with the AASB about the responses it receives on this matter.

**Extract from AASB DP (November 2017)****Risk adjustment for non-financial risk**

- E18 Paragraph 37 of this Standard requires an entity to incorporate a risk adjustment in the measurement of insurance contracts. A public sector entity shall include a risk adjustment when measuring rights and obligations arising from insurance-like arrangements.
- E19 The risk adjustment shall reflect the amount that the public sector entity requires for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk related to insurance-like arrangements. As for issuers of insurance contracts, a public sector entity will reflect the degree of diversification arising from insurance-like arrangements and the public sector entity's risk aversion (risk appetite).
- E20 A public sector entity shall consider the extent of diversification in its portfolio, the entity's risk appetite and required return on capital in determining this amount in the same way as private sector issuers of insurance contracts.

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<sup>2</sup> Those standards refer to a risk margin although IFRS 17 refers to a risk adjustment. Prior to IFRS 17, the insurance accounting standards in Australia and New Zealand require an explicit risk margin in determining outstanding claims liabilities. The standards do not prescribe a fixed margin or the level of adequacy required, but state that risk margins adopted for regulatory purposes may be appropriate for the purposes of the standard, or as a starting point in determining such margins. Insurers must however disclose the probability of adequacy intended to be achieved by their adopted margin. For public sector entities in New Zealand this is typically expressed as "a risk margin to ensure the accrued liability is sufficient to meet all the costs of future claim payments 75% of the time."

....

- BC9 In relation to risk adjustments, the Board acknowledges that public sector entities can take a view extending beyond current insurance arrangements and, over the long-term, the best estimate liability is the appropriate total amount to recognise. That is, there is no need for a risk adjustment. This view is often supported on the basis that:
- (a) public sector insurers usually have the benefit of a government guarantee underpinned by taxing powers, which could potentially be called upon for support and sustain them in bad times; and/or
  - (b) some public sector entities enjoy monopoly status and have the power to recover cost overruns in any given period by increasing premiums or levies in following years.
- BC10 In relation to the support that might be applied by government to a particular entity, the Board considers the uncertainties associated with outstanding claims cash flows in respect of past transactions, that would be reflected in a risk adjustment, to be a characteristic of the claims liability. In relation to the impact of an entity's monopoly status, the Board considers that, in respect of the current (usually annual coverage) transactions, the entity is bearing risk for that period. Any potential to pass that risk back to external parties relates to possible future transactions that are not the subject of financial reporting for the current period. Accordingly, the risk adjustment might differ from a for-profit private sector entity, however, is unlikely to be nil.
- BC11 AASB 17 appendix A defines 'risk adjustment' as "the compensation that an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise as the entity fulfils the insurance contract".
- BC12 AASB 17 paragraph B88 comments that:
- "Because the measurement of the risk adjustment reflects the compensation that the entity would require for bearing the non-financial risk arising from uncertain amounts and timing of the cash flows, the risk adjustment for non-financial risk also reflects:
- (a) the degree of diversification benefit that the entity considers when determining the compensation it requires for bearing that risk; and
  - (b) both favourable and unfavourable outcomes in a way that reflects the entity's degree of risk aversion."
- BC13 The Board notes that public sector entities with the benefit of a government guarantee supported by taxing powers and which may also have the benefit of monopoly status might have a less risk averse approach to its activities than entities without these characteristics. Consequently, public sector entities may have a different risk adjustment to an equivalent private sector entity which did not have such characteristics.

We can understand the IPSASB's reasons for not wanting to establish alternative requirements to those in IFRS 17, as this would take time and resources. However, we think the IPSASB does need to form a view about whether public sector entities should be required to include a risk adjustment and the matters entities should consider in determining that risk adjustment. This might be done by developing guidance or sharing information about the ways in which various public sector entities have approached this issue. We note that similar issues are likely to be encountered when IFRS 17 is incorporated into the UK Financial Reporting Manual. There may also be an opportunity to build on any material developed to assist private sector entities applying IFRS 17 as surveys have indicated that the determination of the risk adjustment is a key area of uncertainty for such entities. Regardless of how the IPSASB chooses to provide guidance, we think that it is an area that requires attention.

We note that the words "by analogy" have been used throughout the standard. We assume that this is because the IPSASB is of the view that the liabilities arising from social benefit schemes would not

fall within the scope of IFRS 17 and that the requirements in IFRS 17 would be applied to such obligations “as if they were insurance contracts”. We think it would be helpful for the BC to explain why the IPSASB has used the words “by analogy”.

As we already have an insurance standard for public sector and not-for-profit entities in New Zealand, and are considering whether or not to develop an equivalent of IFRS 17 for such entities, we would need to carefully consider the scope of any social benefit standard and the IFRS 17 equivalent, and the transitional arrangements. We make this point not because we expect the IPSASB to consider the circumstances of each jurisdiction, but because this might be a more widespread issue. Jurisdictions looking to pick up the insurance approach in ED 63 for social benefits would need to consider how entities in that jurisdiction have previously been accounting for such social benefits and develop appropriate transition requirements. In the absence of an IPSAS on insurance contracts practice is likely to vary.

#### Response to SMC3(d)

*SMC3(d) Do you agree that, with respect to the insurance approach, the additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

We agree that the additional disclosures required by paragraph 12 are appropriate. Paragraph 12(a) is fairly clear that it requires a summary of the key features of the social benefit scheme as it also requires that the entity explain how additional information about the scheme can be obtained. Paragraph 12(b) which requires disclosure of significant amendments to the scheme during the reporting period also seems to have a high-level focus.

We agree that the standard should require disclosure of summary information about benefits and changes to them. However, in the case of schemes which manage many different benefits we wonder if this information needs to be included in the financial statements or could be provided elsewhere. If such information is readily available in other reports we think the standard could permit cross referencing to such other documents. This could be in relation to the information required by paragraph 12, but it could also be in relation to other disclosure requirements.

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

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

#### Response to SMC4

We support the *outcome* of how the IPSASB has applied the obligating event approach to social benefit schemes that are intended to be funded through future taxes, but do not agree with the *rationale* provided by the IPSASB for the proposals in ED64 (including disagreeing with the IPSASB’s views on ‘being alive’). We support the outcome on the grounds that the recognition of large liabilities for social benefits, without the recognition of future cash flows that will fund those

benefits, is unlikely to result in financial statements that meet the objectives of general purpose financial reporting and satisfy the qualitative characteristics. However, we disagree with the rationale provided and aspects of the obligating event approach in the ED, and therefore propose some changes.

More specifically, we do not support the way in which the IPSASB has set up the proposed liability recognition requirements for the obligating event approach in ED 63. Determining the relevant past event for a particular social benefit obligation and the existence of a present obligation that meets the definition of a liability and recognition criteria in the Conceptual Framework is difficult and involves significant judgement. This is evidenced by the IPSASB's discussions over many years and the fact that ED 63 includes an Alternative View. We think that ED 63 makes unnecessary assertions about the past event – they are unnecessary in the sense that the IPSASB could establish standards-level recognition and measurement requirements without making such sweeping assertions.

To explain the above points, we set out below our consideration of the identified past event (including the alternative view) and then propose a way forward.

#### *What is the relevant past event and what are the implications?*

We acknowledge that getting agreement about the relevant past event and the corresponding implications of basing the recognition and measurement of liabilities for social benefits on that event is difficult. The NZASB has had a number of discussions over the last few years about the point at which the New Zealand Government has, or might have, a present obligation for particular types of social benefits. There are some benefits where we could easily agree that the recognition of a liability for the next benefit payment only is appropriate. There are other benefits such as New Zealand Superannuation (a benefit paid to most citizens over 65 years and which is not means tested) where we have had a range of views, including those expressed in the Alternative View about the possibility of key participatory events giving rise to a liability. Some would argue that upon reaching the age of 65 and satisfying the other eligibility criteria, most citizens will have a valid expectation that they will receive National Superannuation payments for the rest of their lives, not just the next payment. Although governments can and do change entitlements to old age benefits, in New Zealand this has generally been by raising the age of entitlement or lowering benefits for future recipients – not by changing entitlements to those that have already met the threshold eligibility criteria. We are also aware that the nature of a government's promise to potential recipients and the strength of the recipients' expectations is likely to differ between types of benefits and between jurisdictions.

These discussions have led us to think hard about what it is most useful to report in general purpose financial statements, whether there are conceptual arguments to support the obligating event approach in ED 63 and whether it is conceptually consistent to support the obligating event approach for certain benefits and the insurance approach for others.

#### *Going back to concepts*

Our overall view is that to meet the objectives of general purpose financial reporting in accordance with the qualitative characteristics and pervasive constraints discussed in the Conceptual Framework, it is necessary to consider how obligations for future benefits are managed. In the case of schemes which are managed in the same way as an insurer would manage its insurance contracts and which are substantially fully funded, we consider that it is appropriate to report both the assets and liabilities associated with that activity. In the case of other benefits which are not managed in

this way and which are to be funded through future taxes, the recognition of large liabilities for social benefits, without the recognition of future cash flows that will fund those benefits, is unlikely to result in financial statements that meet the objectives of general purpose financial reporting and satisfy the qualitative characteristics.

We have thought about how this view can be reconciled with the Conceptual Framework, bearing in mind that the parts of the Conceptual Framework which deal with the definition of a liability and the recognition of liabilities do not discuss an entity's business model or sources of funding.

The topic of social benefits calls into question the boundary between what should be included in financial statements and what should be included in long-term fiscal sustainability reports. Generally we think the definitions of assets and liabilities and the recognition criteria serve us well in drawing appropriate boundaries around what is recognised in financial statements. In the case of social benefit liabilities we think that it is necessary to go back to the qualitative characteristics. The difficulty that we have encountered is that Chapter 3 of the Conceptual Framework is written with general purpose financial reports (not just financial statements) in mind. We consider that the focus of Chapter 3 of the Conceptual Framework is appropriate, but it does not help us in considering the application of the qualitative characteristics to these two different forms of reporting.

Relevance and understandability are the two qualitative characteristics that we think would be most pertinent to the consideration of whether information is most usefully reported in financial statements or long-term fiscal sustainability reports. We acknowledge that the relevance and understandability of information is influenced by users' education, experience and expectations and that it is difficult to draw conclusions about user needs when there are diverse groups of users. We do not consider that the recognition of all social benefit liabilities in financial statements would meet the needs of users of financial statements.

As noted in the UK *Fiscal Sustainability Report* (January 2017), in analysing the stocks and flows of a government, there is a trade-off between completeness and certainty. To quote from that report: "Balance sheets provide reasonably reliable estimates of assets and liabilities related to past activity (though even here there are a number of difficulties with estimation and data availability). But they are incomplete, as they do not account for many elements of future activity. Long-term projections paint a fuller picture, but are extremely uncertain."

In our view social benefit liabilities sit on the cusp of the dividing line between completeness and certainty. Without information on social benefit obligations it could be argued that the financial statements are incomplete. But it could also be argued that, even if liabilities for social benefit obligations were to be included, they would still be incomplete in the sense that information about future taxes would not be included. The existence and amount of potential long-term social benefit liabilities would also be subject to considerable uncertainty.

#### *The Alternative View and being alive*

Although we support much of the discussion in the Alternative View, we think that it would be difficult to operationalise this view into an international standard. Even if one accepts the possibility of key participatory events giving rise to a liability for all future benefits, this is likely to be the case for certain benefits in certain jurisdictions only. It is also likely that there would be differing views within a jurisdiction about which benefits a liability should be recognised for. In addition, we do not

think the Alternative View has gone far enough. It has not considered whether the recognition of very large liabilities would be consistent with the objectives of general purpose financial reporting, the role of financial statements and the application of the qualitative characteristics.

The Alternative View (paragraphs AV16 to AV21) has also been helpful in prompting discussion about whether, in cases where an entity has a present binding obligation in respect of future social benefits, “being alive” is relevant to measurement rather than relevant to the recognition of the liability. We concur with the comments in paragraph AV18 that, *taking a population as a whole*, measurement of long-term liabilities is possible and we note that actuarial assessments are already used to support the measurement of a number of long-term liabilities.

However, it is possible to argue that being alive is not, in itself, a specific eligibility criterion and is not, therefore, relevant to determining the recognition point.

Generally, being alive is necessary, but not sufficient, for determining eligibility. Although being alive may be inseparable from the specified eligibility criteria (for example, in the case of an old age pension that starts at age 65, the individual cannot get the pension unless he or she is alive at age 65), the purpose of each type of benefit to individuals is to support people in particular circumstances (for example, an old age pension supports people after a certain age and an unemployment benefit supports people that are unemployed). Being alive applies in all these cases, so it is not part of the specific eligibility criteria for any particular benefit.

Having met the specific eligibility criteria for a particular benefit, staying alive does impact on how long the individual continues to receive that benefit, so it does become part of measurement of the benefit payable to eligible individuals. We would therefore prefer that the obligating event approach focus on the nature of the promise, the eligibility criteria for that benefit, and the ongoing requirements for revalidation, rather than relying on being alive as an eligibility criterion. In this regard, we also note that benefits may sometimes be paid to the estate of a deceased person, so being alive is not always necessary to be eligible to receive a particular type of benefit.

We suggest that, rather than focusing solely on the definitions of elements and the recognition criteria, the IPSASB should focus on where users would find information on social benefit liabilities most useful. We think that the characteristics of some large social benefit liabilities means that information on them would be more useful in the context of long-term projections where the implications of continuing current social benefit policies can be considered along with all other projected spending and the options for dealing with the inevitable fiscal challenges. In responding to SMC6 we have noted the usefulness of long-term fiscal sustainability reporting for providing a more complete picture of a government’s projected inflows and outflows over a longer-term horizon.

### Way forward

We disagree with the way in which the IPSASB has set up the proposed liability recognition requirements for the obligating event approach in ED 63. We think that some paragraphs, such as paragraphs 16 and 20, go further than they need to and invite unnecessary arguments. We think that the body of the standard should be limited to identifying the recognition requirements, and that this could be achieved without making assertions about the past event. This could be done by



omitting paragraphs 13 to 16 and redrafting paragraphs 17 and 18 to deal with the recognition of both a liability and an expense. We think that the Basis for Conclusions is the appropriate place for the IPSASB to explain all of the arguments that it considered in developing the standards-level requirements.

The arguments used to support the proposed obligating event approach (paragraphs 16 and 20) and the arguments in the Alternative View have been established as competing views. This has been useful for prompting debate on the exposure draft, but we would encourage the IPSASB to think about how it can draw on both views in finalising a standard and explaining its conclusions. We suggest that the IPSASB develop a rationale for the obligating event approach based on the objectives of general purpose financial reporting and the qualitative characteristics.

**Specific Matter for Comment 5:**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to an entity's social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

Response to SMC5(a)

*Regarding the disclosure requirements for the obligating event approach, do you agree that the disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate?*

We have received feedback from our constituents that disclosure of information on how the scheme is funded is important for users to understand the sustainability of such schemes. We note that the IPSASB has included a requirement to disclose information about how the scheme is funded in paragraph 31(a)(iii) and we agree with this requirement.

We acknowledge that the remainder of the information required to be disclosed by paragraph 31 would be useful to readers of the financial statements. However, we do have concerns that it would add considerable length to the financial statements. We would be concerned that this increased length could obscure other useful information. We would like the IPSASB to consider whether the financial statements are the most appropriate place for this information.

A better option might be to allow cross-referencing to other documents or sources of information. We note that paragraph 31(a)(ii) requires a statement about how additional information about the scheme can be obtained and paragraph 31(a)(iii) permits a cross-reference to the location of information on social contributions. We suggest that the IPSASB allow the more general use of cross-referencing in meeting the disclosure requirements of the proposed standard. There would also need to be some requirements regarding the use of cross-referencing.

We note that the NZASB has recently issued a domestic standard on reporting service performance information. An extract from PBE FRS 48 *Service Performance Reporting* in relation to the use of cross-referencing is shown below.

**Extract from PBE FRS 48 *Service Performance Reporting***

32. An entity may cross-reference the service performance information and the financial statements so that users can assess the service performance information within the context of the financial statements.
33. In presenting service performance information in accordance with this Standard an entity may incorporate, by cross-reference, information outside the general purpose financial report. The use of cross-referencing is permitted subject to the following requirements.
  - (a) It is still possible to identify the complete set of service performance information presented in accordance with this Standard.
  - (b) Locating the information elsewhere enhances the understandability of the general purpose financial report as a whole and the service performance information remains understandable and fairly presented.
  - (c) The cross-referenced information is available to users of the service performance information on the same terms as the general purpose financial report and at the same time.
34. Incorporating service performance information by cross-reference enhances the understandability of the service performance information if it:
  - (a) Links related information together so that the relationships between items of information are clear; and/or
  - (b) Reduces duplication of information.
35. If an entity applies cross-referencing in accordance with paragraph 33, it shall:
  - (a) Disclose, together with the statement of compliance in accordance with paragraph 28 of PBE IPSAS 1 *Presentation of Financial Reports*, a list of cross-referenced information that forms part of a complete set of service performance information in accordance with this Standard;
  - (b) Depict cross-referenced information as being information prepared in accordance with this Standard (and audited if applicable);
  - (c) Make the cross-referencing direct and precise as to what it relates to; and
  - (d) Ensure cross-referenced information remains unchanged and available over time at the cross-referenced location.

We have considered the discussion in ED 63's Basis for Conclusions on whether the IPSASB should provide guidance on aggregating the disclosures for social benefit schemes that are not individually material. In developing ED 63 the IPSASB noted that IPSAS 1 *Presentation of Financial Statements* contains guidance on materiality and aggregation and concluded that no further guidance was required. Materiality is well-established as a concept in relation to recognition and measurement, but is less well-established in relation to disclosure. We believe that this signals a need for specific guidance on making judgements on materiality in relation to disclosures.

We note that the illustrative examples in ED 63 are for the reconciliation required by paragraph 33 and expected cash outflows required by paragraph 34. ED 63 does not have an illustrative example on the characteristics of social benefit schemes. Such an example could be used to provide guidance on materiality and aggregation.

Response to SMC5(b)

*Regarding the disclosure requirements for the obligating event approach, do you agree that the disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate?*

We note that these disclosures are in respect of the obligating event approach (which limits the liability to the point at which the social benefit will NEXT be provided). Under the proposed obligating event approach in the ED these liabilities will be constrained. Entities will have to consider materiality in deciding whether they have to make these disclosures. Even if an entity decides it does not have to make the disclosures or can aggregate disclosures, it will still incur costs in making that assessment.

We do not agree that the an entity should provide a reconciliation from the opening balance to the closing balance of the liability for each social benefit scheme (paragraph 33). Given that users can get most of this information from an analysis of the financial statements, we do not think that the benefit of the reconciliation outweighs the cost of preparation.

Response to SMC5(c)

*Regarding the disclosure requirements for the obligating event approach, do you agree that for the future cash flows related to an entity's social benefit schemes (see paragraph 34):*

- (i) It is appropriate to disclose the projected future cash flows; and*
  - (ii) Five years is the appropriate period over which to disclose those future cash flows?*
- If not, what disclosure requirements should be included?*

Although this SMC refers to “future cash flows”, paragraph 34 requires an entity to disclose its best estimate of cash outflows for a period of five years. We disagree that, taken in isolation, the provision of cash outflows provides useful information for users. This is because it will be difficult for users to make assessments of matters such as liquidity and sustainability without information on the bigger picture. Projections of outflows are best considered together with projections of inflows and are most useful when they are comprehensive, rather than focusing on a single social benefit scheme. In most cases, it would not be possible to project cash inflows for a single social benefit scheme as the majority of these schemes will be funded from the general tax take.

In making the above points, we noted the arguments considered by the IPSASB in deciding to require an entity to disclose its best estimate of projected cash outflows, as set out in paragraphs BC97 to BC100. In light of the IPSASB's objective for these disclosures, we reiterate our comments made in SMC 4 and SMC 6 on the importance of long-term fiscal sustainability reporting for providing a more complete picture of a government's projected inflows and outflows over a longer-term horizon. In the case of governments that already publish long-term fiscal information, or individual entities that already publish long-term information about particular schemes, we would like the IPSASB to require that entities refer, in their financial statements, to such reports. We are not, however, suggesting that long-term fiscal sustainability information be presented as an integral part of the financial statements.

We acknowledge that early adopters of IPSAS Standards and accrual accounting are likely to require some time before they are in a position to produce a long-term fiscal sustainability report. From our own experience in New Zealand there was a significant time lag between the adoption of accrual

accounting and the issue of the first long-term fiscal sustainability report at a whole-of-government level.

We would like the IPSASB to do some more thinking about the objectives of the additional disclosures in ED 63, and the most cost-effective way of achieving those objectives for jurisdictions which are not currently in a position to produce long-term fiscal sustainability reports.

We recognise that identifying a suitable alternative is not an easy task. Nevertheless, we remain unconvinced that disclosure of five-year cash outflows will meet the stated objectives of this disclosure.

#### Other comments

If such disclosures were to be required, we think that the standard would need to consider how to deal with the duplication of information in whole-of-government consolidated reports. Would both the entity administering the scheme and the whole of government be required to present the disclosures or would there be the possibility of cross-referencing information already available in another report? These considerations are particularly important given the recent focus on trying to limit the length of financial statements and keep disclosures understandable and accessible.

Constituent outreach in New Zealand highlighted that government spending is often presented as a percentage of GDP. The presentation of spending as a share of total public expenditures or per capita is also used to compare spending between countries and over time. We therefore considered whether it would be appropriate for an IPSAS to permit or mandate disclosure of future cash flows as a percentage of GDP or total spending. In our view the IPSASB should not preclude such presentation but nor should it mandate a particular form of presentation. Some readers may prefer to see spending displayed in the relevant currency. In any case, if percentages or per capita figures are used, readers should always be able to access the underlying figures.

**Specific Matter for Comment 6:**

The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information. In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

Advantages	Disadvantages
<p>Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing. This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.</p>	<p>The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.</p>
<p>Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.</p>	<p>The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.</p> <p>Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.</p>
<p>Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting &lt;IR&gt; in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.</p>	<p>RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.</p>

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

On balance, our view is that long-term fiscal reporting should continue to be optional. We agree that the IPSASB has identified the main arguments for and against developing mandatory reporting requirements on long-term fiscal sustainability and consider that the points identified as disadvantages of mandatory long-term reporting are so important that they should be given more weight than the points identified as advantages of mandatory long-term reporting. We comment further on some of these points later in this response.

In SMC4 we disagreed with the arguments used by the IPSASB to justify its obligating event approach proposals (although we agreed that the resulting accounting might be appropriate) and stressed the role of long-term fiscal sustainability reports in providing information about long-term future outflows and inflows. The advantages of long-term reports are that they provide information about outflows for current and future beneficiaries and they allow future outflows to be considered alongside future inflows from taxes. Long-term fiscal sustainability reports encourage jurisdictions to consider long-term fiscal challenges and the options for dealing with those challenges. It informs governments and constituents about how current policies will affect a government's future financial position. For all these reasons we support the provision of comprehensive information in long-term fiscal reports.

The importance of long-term information has been acknowledged in New Zealand with a legislative requirement to prepare such reports. The Public Finance Act 1989 (section 26N) requires that, at least every four years, the New Zealand Treasury publish a statement on the long-term position of the Government for the next 40 years. The most recent such report, *He Tirohanga Mokopuna: 2016 Statement on New Zealand's Long-term Fiscal Position*, was published in November 2016.

Although we acknowledge the importance of long-term information, we do not think that it would be appropriate for the IPSASB to develop mandatory standards-level requirements at this time. In addition to the arguments identified by the IPSASB we note the following.

- (a) For governments looking to adopt accrual IPSAS Standards, additional requirements could be regarded as a disincentive to adoption.
- (b) Jurisdictional differences, including legislative reporting requirements, would make it difficult to establish mandatory requirements. Legislative differences would mean that any standard would need to have an even higher-level focus than RPG 1.
- (c) This field of reporting is continuing to evolve and it would be difficult to establish mandatory requirements in such an environment. The 2017 OECD report *Rationalising Government Fiscal Reporting – Lessons learned from Australia, Canada, France and the United Kingdom on how to better address users' needs* shows that fiscal reporting, of which long term sustainability reporting forms a part, is continuing to evolve and outlines developments in those jurisdictions. This evolution is also occurring in New Zealand. The November 2016 projections

not only identified long-term fiscal challenges and some of the options for managing those pressures, it also considered how improving social outcomes might provide fiscal benefits and improve living standards.

SMC6 asks what further work the IPSASB should undertake in this area. We have two suggestions.

- (a) Although an increasing number of countries are now producing long-term fiscal sustainability reports, we have not identified any that assert compliance with RPG 1. The IPSASB could investigate the main reasons for this. For example, do jurisdictions consider that such assertions are not necessary, or are there conflicts between RPG 1 and legislative requirements?
- (b) We think that the IPSASB has a role to play in continuing to emphasise the importance of reports on long-term fiscal sustainability and stressing the importance of good financial reporting as a precursor to good long-term reporting. As per our response to SMC 5(c), we suggest that the IPSASB require that entities refer, in their financial statements, to any published long-term fiscal sustainability reports.

## Other comments

### First-time Adoption

ED 63 proposes to give a three-year relief period for the recognition and/or measurement of social benefits for first-time adopters. Although we understand that one of the roles of IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* is to encourage the adoption of IPSAS Standards, we do not agree with granting a three-year exemption from application of the standard.

Our reasons for disagreeing with this proposal are as follows.

- (a) We are not supportive of three-year exemptions in general.
- (b) Social benefits are a fundamental aspect of a government's activities. If a government cannot report on its social benefits in accordance with ED 63, we think that it should delay the adoption of IPSAS until it is in a position to do so.
- (c) An entity should have the information required to report in accordance with the obligating event proposals in ED 63 (although we have commented on compliance costs associated with the proposed disclosures).
- (d) An entity that is already managing a scheme as an insurance scheme and that intends to apply insurance accounting should have good information about its liabilities.

## Editorial comments

We have identified some editorial matters for consideration if the paragraphs identified are carried forward into the final standard.

Paragraph	Comment
13	<p>(b) ... and takes account of the <u>pervasive</u> constraints on information in general purpose financial reports.</p> <p>Although paragraph 13(b) is consistent with the wording in paragraph 6.2 of the Conceptual Framework, anyone reading paragraph 6.2 in the Conceptual Framework will be aware that the constraints are referred to as pervasive constraints. Reading this statement in a different context readers may not get this message. We therefore suggest adding the word pervasive.</p>
30 and 34	<p>Paragraph 30 refers to future cash flows that “may” arise from an entity’s social benefit schemes and refers to paragraph 34.</p> <p>Paragraph 34 refers to projected cash flows that “will” arise from a scheme.</p>
	<b>Amendments to other IPSAS Standards</b>
IPSAS 19	<p>Paragraph 1 lists scope exclusions.</p> <p>ED 63 is proposing to replace the current social benefit exclusion in paragraph 1(a) with the words “Social benefits within the scope of [draft] IPSAS [X] (ED 63).</p> <p>Because IPSAS 19 paragraph 1(e) already excludes provisions, contingent liabilities and contingent assets “covered by another IPSAS” we do not think that the proposed exclusion in paragraph 1(a) is required.</p> <p>However, ED 63 is not proposing to deal with all of the social benefits that are currently excluded from the scope of IPSAS 19. As noted in our response on SMC1 there may still need to be a scope exclusion for those social benefits that are currently excluded from the scope of IPSAS 19 but which are not being addressed in ED 63.</p>
IPSAS 19	We think paragraph 111G should be paragraph 111H.
IPSAS 28	We think paragraph 60E should be paragraph 60F.
IPSAS 33	We think paragraph 157 should be paragraph 158 (if paragraphs are numbered sequentially from paragraph 154).
	<b>Illustrative Examples</b>
IE26–IE31	<p><i>Example 8</i></p> <p>Paragraph IE26 states that the pensions are paid at the end of each month. It isn’t clear from the example whether (i) there is a benefit payment at the end of December and the accrual relates to the benefits to be paid at the end of January or (ii) December benefits are paid early in January.</p>
IE32–IE41	<p><i>Example 9</i></p> <p>Paragraph IE34 states that the pensions are paid at the end of each month. It would be helpful if the example clarified whether there is a benefit payment at the end of December, or whether the December benefits are paid in early January.</p>
IE42–IE52	<p><i>Example 10</i></p> <p>Paragraph IE42 “unemployment pension” should read “unemployment benefit”.</p> <p>We think (from reading paragraph IE46) that the amounts paid on the 15<sup>th</sup> of each month relate to the month ending on the 15<sup>th</sup>, but it would be helpful if the example made this clear.</p>



28 March 2018

John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
277 Wellington Street West  
Toronto  
Ontario  
Canada

Dear John

**IPSASB Exposure Draft 63 *Social Benefits***

We appreciate the opportunity to comment on the IPSASB's Exposure Draft 63 *Social Benefits* (ED 63).

We are pleased the IPSASB has continued to progress the development of a standard for Social Benefits.

While we are broadly supportive of the proposals, we consider the IPSASB has further work to do to ensure there is sufficient clarity over both the scope of the standard and the criteria for application of the insurance approach to certain social benefit schemes.

Our responses to the Specific Matters for Comment are attached.

In preparing this submission, we have consulted with our colleagues at the Office of the Auditor-General.

If you would like to discuss any of our comments, please phone me on 021 222 6107 or email me at [robert.cox@auditnz.govt.nz](mailto:robert.cox@auditnz.govt.nz).

Yours sincerely



Robert Cox  
Head of Accounting

## **Our responses to the Specific Matters for Comment in Exposure Draft 63:**

- 1. Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?**

We agree with the proposal to scope out universally accessible services from ED 63. However, it is important there is a clear boundary between social benefits and universally accessible services given the similar characteristics of these benefits. If that boundary is not clear, this could give rise to implementation issues in determining when the standard applies.

We also note that the IPSASB's project for Non-Exchange Expenses is considering the accounting for universally accessible services. As that project is less advanced than the social benefits project, it is sensible in the meantime to exclude universally accessible services from ED 63. However, as the IPSASB develops its proposals further for universally accessible services, the IPSASB should revisit at a future date whether the accounting for universally accessible services should be addressed in a single standard that includes social benefits if the underlying accounting principles are similar.

While we agree in the meantime with the scope exclusion for universally accessible services, we consider some of the reasons for this provided by BC21(c) are not convincing.

BC21(c) suggests that social benefit expenses are not a type of non-exchange expense. We disagree and consider social benefit expenses are a sub-set of non-exchange expenses. We recommend the references to "non-exchange expenses" in BC21(c) be amended to "other non-exchange expenses". This amendment will help clarify that social benefit expenses are a type of non-exchange expense.

Additionally, BC21(c) states that the liabilities and expenses associated with social benefits can be measured by reference to an individual's eligibility to receive the social benefit, which does not apply to non-exchange expenses. We disagree with this. Some non-exchange expenses (that are unlikely to be social benefits) are provided on the basis of an individual meeting eligibility criteria (which may be ongoing) that affects both recognition and measurement of the liability. For example, an entity may grant scholarships to students to help fund tuition costs for courses that span several years. The receipt of future funding under the scholarship however is dependent on the student passing their exams and remaining enrolled in the course.

- 2. Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?**

We consider the definitions of social benefits, social risks and universally accessible services are not clear, particularly in relation to health services.

The definition of social risk refers to “health” as being an example of a social risk. This appears reasonable, but we note that the definition of universally accessible services requires eligibility criteria to be not related to social risk. Although a universal healthcare service is available to all, it is there to address the social risk of poor health and therefore we consider the eligibility to use the service is dependent on having a health issue (a social risk). Therefore, under the proposed definitions, our interpretation would be that a universal healthcare system is not a universally accessible service.

We consider that the definitions need to be reconsidered to clarify this and particularly whether the prohibition of eligibility being linked to social risk is needed in the definition of universally accessible services.

We note the statement in AG7 that:

*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.*

We do not consider that including this statement in AG7 resolves the problem with the definitions. If universal healthcare is not a social benefit and does not meet the definition of universally accessible services, then what is it?

We recommend greater clarity be provided on assessing when health benefits are a social benefit and when they are a universally accessible service.

A reasonable outcome would be definitions that allow the health services provided by a universal healthcare system to be accounted for as universally accessible services, but cash benefits paid to the sick and disabled to be accounted for as social benefits. We do not consider that the current definitions achieve this.

**3. Do you agree that, with respect to the insurance approach:**

- (a) It should be optional;**
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;**
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and**
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?**

**If not, how do you think the insurance approach should be applied?**

a) No, we consider that where an entity meets the insurance accounting criteria of paragraph 9, the entity should be required to apply a relevant insurance accounting standard and recognise liabilities as appropriate under that standard.

Removing the option for the general obligating event approach should help ensure greater international consistency, transparency and accountability for reporting on social benefit schemes intended to be fully funded, as the entity will be required to recognise liabilities incurred which are funded by the contributions received. We think it could be significantly misleading if an entity that meets the criteria of paragraph 9 were to present financial statements with significant assets for contributions invested but were to record minimal liabilities because the liability criteria of the obligating event approach were not met.

b) Generally, we consider that the criteria are appropriate. However, we believe that more guidance should be provided on the fully funded by contributions criterion. We discuss this further below.

Our consideration of the insurance approach is in the context of New Zealand's accident compensation scheme, which is administered by the Accident Compensation Corporation (ACC). ACC presently applies insurance accounting using a Standard based on IFRS 4 *Insurance Contracts*.

ACC's obligations are funded by levy payers (e.g. individuals, businesses, motorists) and also government appropriation. ACC is required to operate five separate "accounts" where it tracks the levy and appropriation funding received and the obligations for each of those accounts. The government provides a significant amount of appropriation funding to ACC each year, which primarily funds ACC's obligations for the "non-earners" account, such as for accident costs arising from children, beneficiaries and retirees. For the 30 June 2017 financial year, ACC received government appropriations of \$1.2bn and gross levy revenue of \$2.9bn. The non-earners account has the second largest outstanding claims liability at \$8b and is therefore significant for ACC. The ACC scheme funds both health services (treatment and rehabilitation) as well as compensation for loss of earnings.

In the context of ACC, we raise the following matter:

Paragraph 9(a) requires that the social benefit scheme is intended to be fully funded from contributions. Some guidance on this is provided in AG12 which requires the scheme to be funded by "contributions or levies paid by or on behalf of...". We find this unclear, particularly how to interpret government appropriation funding paid into a scheme on behalf of those not able to contribute themselves (e.g. beneficiaries and children).

From the Whole of Government reporting perspective, arguably the ACC scheme is not fully funded as the appropriation funding for the non-earners account comes from general taxation.

From the perspective of ACC as a separate legal and reporting entity, it appears the criterion is met as the non-earners part of the scheme is in effect funded by contributions by the government on behalf of the potential beneficiaries. This would potentially mean that the criteria are met for a reporting entity within the Government but not for the Whole of Government financial reporting.

We consider the Standard could be clarified further in relation to Government funding into a social benefit scheme on behalf of beneficiaries who are not in a position to contribute themselves.

c) As IFRS 17 is reasonably new and implementation is several years away in the commercial sector, we have no practical experience of applying the standard and our knowledge is limited. Overall, we would be supportive of an approach of applying IFRS 17 based standards under the insurance approach. However, we are concerned that some aspects of IFRS 17 may not be appropriate for the public sector (particularly in relation to discount rates and risk adjustments). We note the discussion of these matters in the basis for conclusions in the ED, but do not agree with IPSASB decision to not address and resolve the concerns about discount rates and risk adjustments.

d) We are comfortable with the disclosure requirements for the insurance approach in the ED.

- 4. Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?**

**If not, what past event should give rise to a liability for a social benefit?**

We acknowledge that determining the point at which a liability arises for a social benefit is complex and difficult, and the consequences of different recognition points could be substantially different.

We consider the conceptual basis for the IPSASB's proposed recognition point, including being alive, is weak, and we see merit in the alternative views expressed in the ED. However, we consider it important that a standard in this important area is concluded. The proposal in the ED is relatively straight forward to implement and from a pragmatic perspective, we can support the proposed recognition approach as a reasonable outcome given the difficulties in this area.

- 5. Regarding the disclosure requirements for the obligating event approach, do you agree that:**  
**(a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;**

Yes, we believe that the disclosures about the characteristics of an entity's social benefit schemes are appropriate.

- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and**

Yes, we believe that the disclosures about the amounts in the financial statements are appropriate.

- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):**
- (i) It is appropriate to disclose the projected future cash flows; and**
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.**

**If not, what disclosure requirements should be included?**

We consider that longer-term financial information (beyond five years) on the forecast future cash outflows for social benefit schemes together with information on how those outflows will be funded provides important information relevant to the readers of a Government's (or public sector agency's) financial statements. A longer-term view to the disclosure of social benefit information may help readers understand the longer-term cost and sustainability of current social benefit scheme policy settings.

We encourage the IPSASB to consider how it could improve the reporting in this area, particularly when governments do not publish long-term fiscal sustainability information.

Notwithstanding our comments above, we believe that the future cash flow disclosures proposed in the ED are a reasonable minimum level of disclosure where an entity does not disclose fuller future cash flow information elsewhere.

If an entity discloses future cash flow information for periods for more than 5 years elsewhere, such as in a long-term fiscal strategy document, we consider the entity should disclose where that information can be located. In this case, we don't think it should be mandatory for the entity to disclose the 5 year forecast information when it is able to cross-reference to much more informative information.

**6. Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?**

**If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?**

We have no comments to make on this question.

**7. Other comments**

We have no further comments to make on ED 63.



Ian Carruthers  
Chairman  
IPSASB  
IFAC

Submitted via website

Brussels, 26 March 2018

**Subject: IPSASB Exposure Draft, Social Benefits**

Dear Sir,

We are **pleased to respond to the IPSASB's** Exposure Draft concerning Social Benefits.

We encourage the development of high quality financial reporting standards which are designed to address the specificities of the public sector environment.

Existing International Public Sector Accounting Standards currently do not provide requirements on how to account for social benefits, such as retirement, unemployment and disability. Social benefit schemes however account for an important portion of government expenditure.

#### Recognition of social benefits

We are pleased that the IPSASB released an Exposure Draft, concerning social benefits, for consultation after 15 years. We understand that it has taken a significant period to publish the Exposure Draft because it covers a wide range of social benefits and Board members could not agree on the proposed model.

From a technical perspective, we do not think that the proposed recognition point (i.e. when an individual becomes eligible for social benefits) is appropriate for all social benefit schemes. The proposed recognition model does indeed not reflect the economic substance of certain social benefits.

**We do not think that 'being alive' at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the liability recognition. We do not believe that there is a reason to treat 'being alive' differently to other transactions (e.g. post-employment plans in the scope of IPSAS 25/IPSAS 39 *Employee Benefits*). 'Being alive' should rather impact the measurement of the benefit through the actuarial calculation (i.e. use of mortality table rates). We therefore do support the rationale provided in the Alternative View.**

Additionally, we believe that the proposals set out in the Exposure Draft will not result in information that meets the qualitative characteristics listed in the *Conceptual Framework*, i.e. relevance, faithful representation, understandability and comparability.

We however realise that the Alternative View would have a very significant impact on the balance sheets of governments. Considering the aforementioned, the IPSASB might consider using a **‘step-by-step’ approach over time**. In a first step the **‘minimum requirements’** (i.e. the requirements as reflected in the Exposure Draft), which are the result of a compromise, could be implemented resulting in probably **fairly small liabilities**. The **‘obligating event’ determination** (i.e. earlier recognition of certain social benefit liabilities) and linked measurement model (e.g. reflecting mortality), could be finetuned in a next step to better reflect the economic substance of the different social benefit schemes.

#### Disclosure requirements related to the obligating event approach

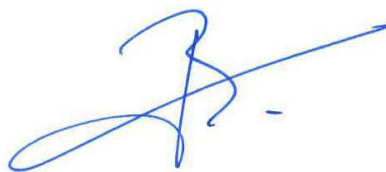
We note that the disclosed projected cash outflows (paragraph 34 of the Exposure Draft) are not limited to those relating to current beneficiaries. We however do not think that these future cash flow projections should be limited to five reporting periods immediately following the reporting date. We suggest disclosing the complete projected future cash outflows linked to a social benefit in the following brackets: due in less than 5 years, due between 5 and 10 years, due in more than 10 years. We understand that it might be challenging to estimate the future cash outflows, especially beyond 10 years. We however believe this key information will allow users to evaluate the effect of social benefits on future government finances and should as such be disclosed in the financial statements.

Please do not hesitate to contact Ben Renier ([Ben@accountancyeurope.eu](mailto:Ben@accountancyeurope.eu)) in case of any additional questions or remarks.

Sincerely,



Edelfried Schneider  
President



Olivier Boutellis-Taft  
Chief Executive

#### **About Accountancy Europe**

Accountancy Europe unites 51 professional organisations from 37 countries that represent **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

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## Annex 1 – detailed response

- (1) We are pleased to present below our responses to the Specific Matters for Comment.

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### Question 1: Specific Matter for Comment 1

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?*

*If not, what changes to the scope would you make?*

- (2) We agree with the proposed scope of this Exposure Draft, and specifically the exclusion of universally accessible services. Liabilities and expenses associated with social risks can indeed be measured by reference **to an individual's eligibility to receive** the social benefit, which does not apply to universally accessible services (non-exchange expenses). The latter type of transactions is as such covered in the Non-Exchange Expenses Project.

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### Question 2: Specific Matter for Comment 2

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?*

*If not, what changes to the definitions would you make?*

- (3) We agree with the suggested definitions of social benefits, social risks, and universally accessible services as reflected in the Exposure Draft.

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### Question 3: Specific Matter for Comment 3

*Do you agree that, with respect to the insurance approach:*

*(a) It should be optional;*

*(b) The criteria for determining whether the insurance approach may be applied are appropriate;*

*(c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*

*(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

*If not, how do you think the insurance approach should be applied?*

- (4) We think that the insurance approach is appropriate for contributory social benefit schemes which are both intended to be fully funded from contributions, and to be managed in the same way as insurance contracts by their issuer.
- (5) We had discussions within our group regarding the permission versus the requirement to use the insurance approach where a social benefit scheme meets certain criteria. A requirement results in enhanced comparability, it ensures that similar plans are accounted for in the same way. An option allows entities to still recognize and measure assets, liabilities, revenue and expenses, linked to plans satisfying the criteria in paragraph 9 of the Exposure Draft, in accordance with the obligating event approach (see question 4).
- (6) If an entity would opt for the insurance approach, considering the scheme meets the stipulated criteria, it would indeed be appropriate to refer to IFRS 17 *Insurance Contracts* or national standards that have adopted substantially the same principles as IFRS 17. These accounting principles will provide **information that meets users' needs and** results in qualitative financial reporting.
- (7) Where an entity has elected to use the insurance approach, it would be appropriate to provide information about the characteristics of the social benefit scheme, as well as a description of any significant scheme amendments during the reporting period.

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**Question 4: Specific Matter for Comment 4**

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?*

*If not, what past event should give rise to a liability for a social benefit?*

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

- (8) We are pleased that the IPSASB released an Exposure Draft, concerning social benefits, for consultation after 15 years. Social benefits represent an important part of government expenditure. We understand that it has taken a significant period to publish the Exposure Draft because it covers a wide range of social benefits and Board members could not agree on the proposed model.
- (9) From a technical perspective, we do not think that the proposed recognition point (i.e. when an individual becomes eligible for social benefits) is appropriate for all social benefit schemes. The proposed recognition model does indeed not reflect the economic substance of certain social benefits.
- (10) We do not think that ‘being alive’ at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the liability recognition. We do not believe that there is a reason to treat ‘being alive’ differently to other transactions (e.g. post-employment plans in the scope of IPSAS 25/IPSAS 39 *Employee Benefits*). ‘Being alive’ should rather impact the measurement of the benefit through the actuarial calculation (i.e. use of mortality table rates). We therefore do support the rationale provided in the Alternative View.
- (11) Additionally, we believe that the proposals set out in the Exposure Draft will not result in information that meets the qualitative characteristics listed in the *Conceptual Framework*, i.e. relevance, faithful representation, understandability, and comparability.
- (12) We however realise that the Alternative View would have a very significant impact on the balance sheets of governments. **Considering the aforementioned we could agree with a ‘step-by-step’** approach over time. In a first step the ‘minimum requirements’ (i.e. the requirements as reflected in the Exposure Draft), which are the result of a compromise, could be implemented resulting in probably fairly small liabilities. The ‘obligating event’ **determination** (i.e. earlier recognition of certain social benefit liabilities) and linked measurement model (e.g. reflecting mortality), could be finetuned in a next step to better reflect the economic substance of the different social benefit schemes.

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**Question 5: Specific Matter for Comment 5**

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

*(a) The disclosures about the characteristics of an entity’s social benefit schemes (paragraph 31) are appropriate;*

*(b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and*

*(c) For the future cash flows related to from an entity’s social benefit schemes (see paragraph 34):*

*(i) It is appropriate to disclose the projected future cash flows; and*

*(ii) Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

- (13) Concerning the obligating event approach, we note the proposed disclosures about characteristics (paragraph 31) and amounts in the financial statements (paragraph 32-33).

- (14) We note that the disclosed projected cash outflows (paragraph 34) are not limited to those relating to current beneficiaries. We however do not think that these future cash flow projections should be limited to five reporting periods immediately following the reporting date. We suggest disclosing the complete projected future cash outflows linked to a social benefit in the following brackets: due in less than 5 years, due between 5 and 10 years, due in more than 10 years. We understand that it might be challenging to estimate the future cash outflows, especially beyond 10 years. We however believe this key information will allow users to evaluate the effect of social benefits on future government finances and should as such be disclosed in the financial statements.

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#### Question 6: Specific Matter for comment 6

*The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, Reporting on the Long Term Sustainability of an Entity's Finances, was developed to provide guidance on presenting this additional information.*

*In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:*

##### *Advantages*

*Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.*

*This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.*

*Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.*

*Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.*

##### *Disadvantages*

*The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.*

*The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.*

*Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.*

*RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.*

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

- (15) We encourage the IPSASB to undertake further work on reporting on long-term financial sustainability.

- (16) We note the increasing importance of non-financial information. Non-financial information is, in some cases, also more forward-looking compared to financial information, and as such very valuable<sup>1</sup>.
- (17) It is important to clarify that non-financial information goes well beyond Environmental, Social and Governance key performance indicators (ESG). Indeed, non-financial information could also address operating performance metrics which are indicators of long term value creation. Some specific examples of such indicators could include for example citizen satisfaction scores, and civil servant motivation.
- (18) Financial information combined with non-financial information will assist stakeholders in getting a more complete picture of the performance of an entity. State of the art public sector reporting, i.e. reporting covering interconnected financial and non-financial information, would give an opportunity to communicate better with the different involved stakeholders.
- (19) We recognise that non-financial information is a complex domain as it covers a lot of topics of different natures. Materiality is an important concept considering the large scope of non-financial information. The inherent link between financial information and non-financial information also adds to the complexity.
- (20) We observe a significant proliferation of initiatives and frameworks around non-financial information reporting, which makes it challenging for those involved to cope with this topic. Therefore, we called for decisive leadership to achieve greater standardisation, and to eventually develop a robust global principles-based reporting framework<sup>2</sup>.
- (21) This framework would ensure a high level of quality and discipline in non-financial information reporting. The principles underpinning the framework should be comparable to those currently existing regarding financial reporting, namely the IPSAS Standards. Such a framework would promote consistency among preparers and provide users with comparable information across different reporting entities.
- (22) The International Integrated Reporting Council (IIRC) and Accountancy Europe share the same long-term goal of evolving from financial reporting to state of the art public sector reporting by also embracing the non-financial information agenda. We agree that the future direction of travel for reporting should be a more holistic and coherent reporting concept. This approach would probably lead to better informed decision making<sup>3</sup>.
- (23) The Integrated Reporting initiative has been a major catalyst over recent years to achieve global acceptance of value driven reporting. The initiative makes use of interconnected financial and non-financial information. It covers the six capitals to communicate a clear, concise, and integrated story **that will explain how an organisation's resources are creating value**. The multi-capital approach aims to encourage better reporting. The Integrated Reporting framework is the most promising initiative in place to improve interconnectivity between financial and non-financial information reporting.

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<sup>1</sup> <https://www.accountancyeurope.eu/wp-content/uploads/170322-Publication-Follow-up-paper-on-FoCR.pdf>

<sup>2</sup> <https://www.accountancyeurope.eu/wp-content/uploads/170918-Call-for-action-letter.pdf>

<sup>3</sup> <https://www.accountancyeurope.eu/wp-content/uploads/170918-Publication-Core-More.pdf>



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March 27, 2018

Mr. John Stanford

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, Ontario, Canada M5V 3H2

**Comments on Exposure Draft 63 “Social Benefits”**

Dear Mr. Stanford,

The Japanese Institute of Certified Public Accountants (hereafter “JICPA”) highly respects the International Public Sector Accounting Standards Board (hereafter “IPSASB”) for its continuous effort to serve the public interest. We are also pleased to comment on the Exposure Draft 63 “Social Benefits” (hereafter “ED”). On the very last page of our comment is the “Other” section, where we have additionally shared our comments other than those already discussed in Preliminary Views and Specific Matters for Comments.

It is our view that “Social Benefits in Kind” should be included within the definition of social benefits, the same as in the Consultation Paper (CP) “Recognition and Measurement of Social Benefits.” This is because in Japan there are cases where funding or services are provided to intermediary institutions, rather than to specified individuals and/or households, from the public entities that operate the social benefits system.

We agree with the IPSASB view under the obligating event approach, that liability be recognized upon the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions). However, we suggest the IPSASB should clarify why the other four recognition points proposed in the CP were denied.

**Specific Matter for Comment 1 :**

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

Comment:

JICPA agrees with the IPSASB's view.

**Specific Matter for Comment 2 :**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

Comment:

JICPA agrees with IPSASB's view regarding the definition of social risks and universally accessible services. We seek better clarification on the following two points regarding the definition of social benefits.

**(1) Regarding the relationship with IPSAS 39 "Employee Benefits"**

IPSAS 39 paragraph 8 defines employee benefits as follows: "Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment."

IPSAS 39 paragraph 45 states: "This Standard deals only with employee benefits of the entity, and does not address accounting for any obligations under state plans related to employees and past employees of entities that are not controlled by the reporting entity."

Pursuant to the above provisions, benefits to private sector employees who join social benefit systems (i.e. state plans under IPSAS 39) managed by public sector entities, are not considered employee benefits but rather social benefits.

**(2) Social benefits in kind**

In our view, "social benefits in kind" should be included within the definition of social benefits.

Under Japan's healthcare insurance system, when the insured people receive medical services, they bear a portion of the total cost of medical services and make payment to the healthcare service provider, and after completion of a review, the healthcare insurance association remits the insurance payment to the healthcare service provider.

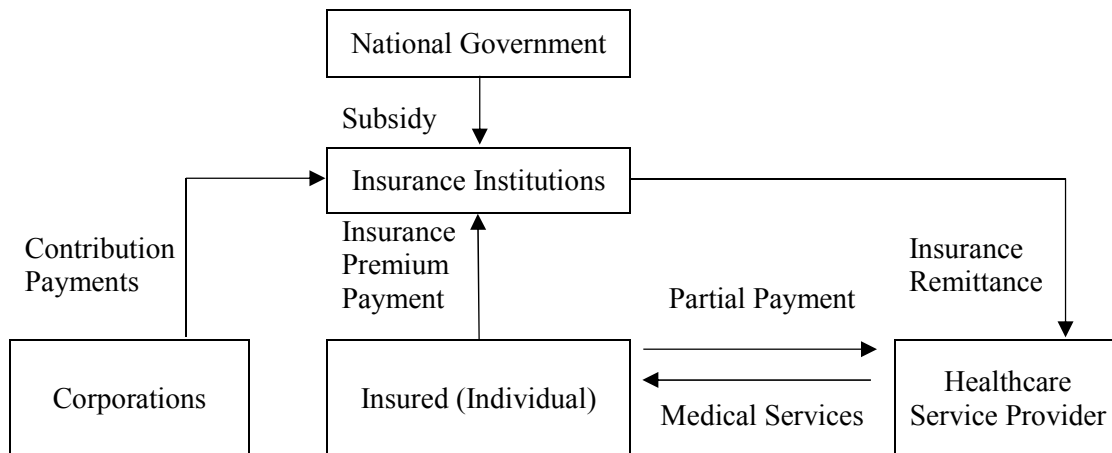
According to the proposed definition of social benefits in the ED, it is only a social benefit when "a specified individual and/or household" is directly paid from social benefit system.

Therefore, we are afraid that, in our case, insurance institutions remit insurance payments to healthcare service providers, could not satisfy the definition of social benefit under the ED.

We are of the view that this kind of insurance payment should be classified within the category in the CP of “Social Benefits in Kind (indemnification of costs incurred by individuals and households).” We would like the definition of social benefits to be expanded in order to clarify that social benefits in kind (services that are not universally accessible) are included as well.

AG 7 states “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.” Japan’s healthcare insurance system provides in kind benefits (medical services) but they are provided where eligibility criteria are met, and so they are not universally accessible services, and we therefore consider it to be a social benefit.

(For reference: A Brief Illustration of Japan’s Healthcare Insurance System)



**Specific Matter for Comment 4 :**

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.

Comment:

JICPA agrees with the IPSASB's view.

We think the statement of the basis for conclusions (BC) should be strengthened regarding the reasons that eligibility criteria for the next benefit have been satisfied by the past event, giving rise to a liability for a social benefit scheme. In particular, regarding cases (a) and (b) of BC 83, it should be clarified since it is unclear what kind of cases are specifically being explained.\*

The reasons would be added to the BC statement as follows:

- There could exist measurement uncertainty, with respect to BC 59 (a) the point at which the key participatory events have occurred and (b) the point at which threshold eligibility criteria have been satisfied.
- In some jurisdictions, entities could not prepare enough information to estimate social benefits those are needed for employee benefits.
- While the estimation method for the liability amount for social benefits has not yet been established, if preparers of financial statements are able to choose a range of obligating events, there is a risk that the comparability would not be ensured.
- If the reporting entity can estimate amount for social benefit liabilities at the earlier point of obligating event than the point proposed in the ED, the IPSASB can recommend note disclosure for the fact, in order to achieve the purpose of the financial reporting well.

We assume that measurement uncertainty in social benefit liabilities can be resolved in the future, together with the enhancement of estimation methods and practical experience. For the demonstration of accountability of public sector entities, the alternative approach asserted by BC 59 “(b) recognizing an obligation where threshold eligibility criteria have been satisfied” should be reconsidered, after a period of time has passed following the enforcement of the standard.

\*Regarding the case described in BC83 (a) and (b), we can exemplify following cases:

- (a) Where social benefit system benefits cannot be paid, due to insufficient funds.
- (b) Where a valid expectation results in the primary entity having little or no realistic alternative to settling the obligation, based on record of past disbursements under the social benefit system.



**Specific Matter for Comment 5 :**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

Comment:

JICPA agrees with the IPSASB's view regarding disclosure requirements for the obligating event approach. As we mentioned on Specific Matter for Comment 4, if entities can estimate at the earlier point in the ED, we think the IPSASB should recommend entities to disclose such estimation result in the notes disclosure. This recommendation can encourage entities to accumulate and enhance accounting practices for social benefits liabilities.

**Specific Matter for Comment 6 :**

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. *RPG 1, Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

Comment:

Currently, we do not anticipate the need for further work specifically on the reporting on long-term

sustainability.

As for the reporting of long-term financial sustainability including social benefits, since only a few years have passed since RPG 1 was issued, it has not yet established broadly prevailed accounting practice. After several years have elapsed since the final standard based on the ED takes effect, we should consider feedback from stakeholders and whether or not to require mandatory requirements.

**Other**

- We would like the IPSASB to clarify the definitions and differences between “ongoing eligibility criteria (BC 66, etc.)” and “further eligibility criteria (BC 83 etc.).”
- BC 83 states that “an entity having little or no realistic alternative to settling (settle) the obligation—.” In “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities” paragraph 5.15, obligations are said to be “avoided.” We think the term in the ED should be consistent with the conceptual framework.

Yours sincerely,

Shuichiro Akiyama

Executive Board Member - Public Sector Accounting and Audit Practice

The Japanese Institute of Certified Public Accountants



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

March 28, 2018

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

Dear Sir,

**Re: IAA comments on the IPSASB Exposure Draft 63 (ED 63) on Social Benefits.**

In response to the request for comments on the October 2017 International Public Sector Accounting Standards Board (IPSASB) Exposure Draft 63 (ED 63) on Social Benefits, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

Our comments are structured around the specific matters for comment in the Exposure Draft.

These comments have been prepared by the IAA Social Security Committee. The IAA welcomes the opportunity to discuss these ideas further with you and to cooperate with IPSASB in the development of the final standard.

If you wish to discuss any of our feedback please do not hesitate to contact Barbara D'Ambrogio-Ola, Chair of the IAA Social Security Committee, via the IAA Secretariat.

Yours sincerely,

Masaaki Yoshimura  
President

Attachment: [IAA comments](#)

## **Comments by the International Actuarial Association on the IPSASB Exposure Draft 63 (ED 63) on Social Benefits.**

### **International Actuarial Association and its Due Process**

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

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

Our comments are as follows:

**Specific Matter for Comment 1:** Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?

#### **IAA Comments:**

The IAA agrees with the scope of this Exposure Draft. In our view, while the financial sustainability of universally accessible services like primary education, defence, police, etc. need to be assessed, the state usually does not have discretion on whether or not to provide such services since they are necessary for the continuous operation of society. Such services are provided to all households without applying any eligibility criteria. However, the cost of these services needs to be assessed against the taxation power of the state and decisions on how taxes are allocated between these services should be made by governments.

A particularly important case is universal health programs. Due to the ageing of the population, health systems are expected to become more and more costly. Actuaries advocate for rigorous assessment of long-term sustainability of these systems. We suggest considering the coverage of universally accessible health-related programs in a separate standard.

**Specific Matter for Comment 2:** Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?

**IAA Comments:**

The IAA agrees with all three definitions. Based on additional guidance provided in AG4 - AG7, our understanding is that while universally accessible services (such as universal health care) are excluded from the definition of social benefits, programs based on eligibility criteria (e.g. income and/or age) will be covered by this [draft] Standard.

The IAA suggests that more guidance should be provided in the situations where, for example, several programs based on eligibility criteria result, if considered together, in the universally accessible service.

**Specific Matter for Comment 3:** Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

**IAA Comments**

In general, we consider the insurance approach, or some modification of it that takes into account that there is no “profit” to be recognized, to be a step towards financial statements being aligned with the long-term financial sustainability of the program for some types of contributory social security schemes. The liability to be recognized would include reflection of contingent events which will take place in the future but would also recognize future contributions as an asset. However, we reiterate that the insurance approach is not applicable to all types of social security schemes even if they are expected to be fully financed by contributions. This is a result of the fact that social security schemes (1) are likely based on intergenerational and intragenerational solidarity and (2) are usually financed on an open group basis, taking into account contributions and benefits for many generations.

- (a) Considering the above, the IAA agrees that the use of the insurance approach should be optional. Further, we think that in order to enhance comparability of financial statements, IPSASB may wish to suggest that information based on the insurance approach may only be provided in the notes to the financial statements and on a voluntary basis.
- (b) The IAA considers the criteria for determining whether the insurance approach may be applied to be appropriate. In particular, we note that many social benefit schemes will not meet criteria AG 15 (a) since benefits under such programs can usually be significantly amended by governments passing legislation (for example, by raising the eligibility age or tightening other criteria for eligibility for benefits). Furthermore, all schemes with self-adjustment mechanisms that impact benefits will also fail to meet the above criteria.

- (c) The IAA has considered the IPSASB basis for conclusions (BC42- BC58) in respect of the use of IFRS17 and national standards that have adopted substantially the same principles as IFRS 17. We do not agree that the discount rate basis of IFRS 17 which includes both a liquidity and a risk adjustment is appropriate for social security benefits. The primary reasons are that social security schemes are not for profit and that governments have the flexibility, especially under dire financial conditions, to modify the terms of the social security system, e.g. decrease benefits, increase contributions or change other program features. Further, the design of social security schemes may include automatic adjustment mechanisms that may adjust benefits, contributions, or other parameters of a program. Finally, given the duration of the obligations and the nature of the expected cash flows, a risk adjustment may be disproportionately large.

We encourage the IPSASB to conduct a separate project related to the determination of appropriate discount rates. The IAA would be happy to collaborate with the IPSASB on such a project.

- (d) In addition to the disclosure requirement specified in paragraph 12, we strongly believe it is necessary to convey the degree of uncertainty as part of disclosure. Actuarial techniques such as sensitivity/stress testing and/or use of stochastic models to illustrate the range of uncertainty in the cash flow estimates are strongly encouraged and will provide proper perspective to the estimates involved.

In addition, we strongly encourage the IPSASB to add a compulsory requirement to include in financial statements disclosure information on the long-term sustainability of programs prepared in accordance with RPG1 (please refer to the IAA model International Standard of Practice No. 2 “Financial Analysis of Social Security Programs”

[http://www.actuaries.org/CTTEES\\_ASC/isaps/Final\\_ISAPs\\_posted/Conformance\\_Changes\\_Final\\_ISAPs\\_posted/ISAP2\\_Conformance\\_April2017.pdf](http://www.actuaries.org/CTTEES_ASC/isaps/Final_ISAPs_posted/Conformance_Changes_Final_ISAPs_posted/ISAP2_Conformance_April2017.pdf) for model disclosure framework).

**Specific Matter for Comment 4:** Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit? This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.

## IAA Comments

We consider that under the obligating event approach, the proposed definition of past event (the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive) will give rise to a short-term liability included in the financial statements. While we do not oppose such a definition, it should be recognized that this approach provides very limited information to any user. As such, we strongly encourage the IPSASB to make a compulsory requirement to include in one’s financial statements disclosure information on the long-term

sustainability of all programs prepared in accordance with RPG1 and taking into account the considerations of Social Security Committee (SSC) of the IAA summarized in the paper [“Measuring and Reporting Actuarial Obligations of Social Security Systems”](#).

We did consider an alternative view included in this Exposure Draft, even if this view is not a part of ED 63. We conclude that concerns expressed regarding assessing the intergenerational impacts of social benefits as well as reflecting changes in policy (e.g., increasing the eligibility age) are valid. However, we strongly disagree with the approach formulated in AV8 which, in essence, corresponds to measuring obligations of a program using the “accrued-to-date” approach. In particular, we wish to list the following shortcomings of this approach in respect to social security retirement schemes (SSRSs):

- It will not indicate that two national SSRSs with the same accrued-to-date obligations on a closed-group basis may have very different sustainability statuses. For example, they might be subject to a different expected future evolution of demographics and economics (which are not considered by the closed group) or they might be at different levels of financing.
- It does not provide an adequate basis to assess the full impact of pension reforms. Any change in the value of the accrued-to-date pension obligations resulting from pension reform would only incorporate the impact on current pensions in payment and future pension payments that correspond to the accrued-to-date benefit entitlements of current contributors. This is important because, typically, the largest financial impact of pension reforms is on future pension payments that correspond to the future service benefit entitlements of current contributors and the pension benefits of new workers. This means that, under the closed group methodology, the financial impact of pension reforms could be significantly underestimated or missed altogether.
- It may introduce comparability issues in relation to pension scheme maturity. When the accrued-to-date pension obligations of various countries are compared, it is important to note that the size of accrued-to-date pension obligations depends on the stage of maturity of the national SSRS. Countries with mature pension systems may have large accrued pension obligations, but they might be financially sustainable when considering the net pension obligations under the open group method. In contrast, for countries which operate a relatively new SSRS with relatively low accrued-to-date pension obligations, this does not mean that the system is necessarily in a sound financial position when considering the net pension obligations under the open group method.
- It may introduce a bias for or against a particular financing approach. A system which is fully funded on a closed group basis without future accruals may be unsustainable, while a pay-as-you-go scheme on an open group basis might be sustainable. However, if the accrued-to-date net obligations are used, the opposite perception would be created since the future demographic and economic developments of a country are not taken into account under the closed group approach.

Thus, serious communication issues, including potential misunderstanding, can result by reporting a single number on the closed group approach (basically a backward-looking perspective).

Therefore, the IAA is in favour of the reporting approach proposed in the Exposure Draft if sufficient disclosure requirements are introduced.

**Specific Matter for Comment 5:** Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows. If not, what disclosure requirements should be included?

## **IAA Comments**

The IAA supports comprehensive disclosures that provide meaningful information and perspective that we believe to be critically important and relevant to decision-makers

- (a) We consider disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) appropriate. In our opinion, all disclosed information with respect to social benefits obligations needs to be accompanied by information about the corresponding assets, both investable assets (reserves) and future contributions/earmarked taxes. Therefore we are pleased with disclosure requirements 31 (a)(iii) in this regard.
- (b) We consider the proposed disclosure of the amounts in the financial statements (paragraphs 32–33) to be appropriate. However, we suggest additional disclosures as discussed below. In particular, we suggest that disclosures include references to the most recent actuarial assessment of a social security scheme if such assessment exists.
- (c) (i) We support the disclosure of the projected cash flows of social security schemes as well as key assumptions that the entity has relied on making its best estimate of the projected cash outflows. We also strongly support the inclusion of future contributors and beneficiaries in these projections.

We note two things. First, the disclosure of projected outflows should be accompanied by the disclosure of projected inflows (contributions, earmarked taxes and investment income). We note that according to paragraph BC93 of the Exposure Draft, the IPSASB has an ongoing project to review the requirements of all its revenue standards. Nevertheless, in order to provide users with balanced information, we suggest the inclusion of projected inflows in Exposure Draft 63 disclosure requirements.

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



(ii) The period over which the future cash flows are disclosed depend on the nature of the social security scheme's obligations. In general, we advocate for a disclosure period longer than five years. For example, for retirement schemes the projection and disclosure period is typically extended to a minimum of 50 years.

We further note that paragraph 35 encourages but does not mandate providing information on the long-term sustainability of the entity's finances. As we discuss in our response to Specific Matter for Comment 6, we strongly recommend making the disclosure of the long-term sustainability mandatory. Further, we recommend that the methodologies used for accounting and/or statistical reporting need to enable the accurate assessment of the long-term financial sustainability of any social security scheme and/or the cost of benefits without a bias for or against a particular financing approach and the type of social security schemes. It would be more useful for decision-makers if the accounting and national reporting treatment were aligned with the financing methodology, especially when programs are financed using pay-as-you-go or partial funding.

For example, for pay-as-you-go or partially funded contributory social security retirement schemes (SSRSs), information regarding their sustainability needs to include the expected benefit payments to and contribution income and/or earmarked taxes from future participants (i.e., an open group).

For pure non-contributory SSRSs that are financed from general tax revenues, due to the often-conditional nature of their benefits and the general ability of governments to change future benefits and entitlement, it may not be appropriate to show a single actuarial obligation number. However, expressing the cost of such programs as a percentage of future GDP is useful.

For contributory SSRSs that provide minimum pension guarantees and other non-contributory benefits which are financed by either earmarked tax revenues (state contributions) or general tax revenues (state subsidies), it is advisable to present the information for contribution-financed, earmarked tax-financed and general tax-financed benefits separately. This could be achieved by combining approaches described above.

Finally, the unique characteristics of social benefits schemes mean that a proper assessment of the financial sustainability of such programs requires the application of sound actuarial principles. Therefore, we respectfully recommend that actuarial calculations involving the obligations and cash flow projections for social benefits schemes be performed by qualified actuaries in compliance with standards of actuarial practice and professional codes of conduct.

**Specific Matter for Comment 6:** The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, Reporting on the Long Term Sustainability of an Entity's Finances, was developed to provide guidance on presenting this additional information. In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

**Advantages**

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.

This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

**Disadvantages**

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how? If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

**IAA Comments**

We strongly encourage the IPSASB to undertake further work on reporting on long-term fiscal sustainability. We urge the IPSASB to make such reporting mandatory through disclosure requirements.

The IAA respectfully offers its services in assisting the IPSASB in this work. In particular, we consider the SSC paper "[Measuring and Reporting Actuarial Obligations of Social Security Systems](#)" to be a resource for the IPSASB deliberations.

In our opinion, social benefit programs rely extensively on solidarity, multigenerational risk pooling and income redistribution, even the systems that have some degree of linkage of benefits to contributions. SSRs constitute a social contract that binds together large population groups and several generations. This implies that, first, it is of paramount concern that SSRs are financially and intergenerationally sustainable in the long-term, and, secondly, reported financial information concerning them reflects their long-term social nature.

**Appendix A****Full Member Associations of the IAA (73 members)**

(29 March 2018)

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

**Full Member Associations of the IAA (73 members)**

...continued

Lietuvos Aktuaru Draugija (Lithuania)  
 Macedonian Actuarial Association (Macedonia)  
 Persatuan Aktuari Malaysia (Malaysia)  
 Colegio Nacional de Actuarios A. C. (Mexico)  
 Association Marocaine des Actuaire (Morocco)  
 Het Koninklijk Actuarieel Genootschap (Netherlands)  
 New Zealand Society of Actuaries (New Zealand)  
 Den Norske Aktuarforening (Norway)  
 Pakistan Society of Actuaries (Pakistan)  
 Actuarial Society of the Philippines (Philippines)  
 Polskie Stowarzyszenie Aktuariuszy (Poland)  
 Instituto dos Actuários Portugueses (Portugal)  
 Asociatia Romana de Actuariat (Romania)  
 Russian Guild of Actuaries (Russia)  
 Udruzenje Aktuara Srbije (Serbia)  
 Singapore Actuarial Society (Singapore)  
 Slovenska Spolocnost Aktuarov (Slovakia)  
 Slovensko Aktuarsko Drustvo (Slovenia)  
 Actuarial Society of South Africa (South Africa)  
 Institute of Actuaries of Korea (South Korea)  
 Col.legi d'Actuaris de Catalunya (Spain)  
 Instituto de Actuarios Españoles (Spain)  
 Actuarial Association of Sri Lanka (Sri Lanka)  
 Svenska Aktuarieföreningen (Sweden)  
 Association Suisse des Actuaire (Switzerland)  
 Society of Actuaries of Thailand (Thailand)  
 Actuarial Society of Turkey (Turkey)  
 Association of Consulting Actuaries Limited (United Kingdom)  
 Institute and Faculty of Actuaries (United Kingdom)  
 American Academy of Actuaries (United States)  
 ASPPA College of Pension Actuaries (United States)  
 Casualty Actuarial Society (United States)  
 Conference of Consulting Actuaries (United States)  
 Society of Actuaries (United States)

**Appendix B****Members of the Social Security Committee of the IAA**

(29 March 2018)

**Chairperson:**

Barbara D'Ambrogi-Ola

Suomen Aktuaariyhdistys

**Co-Vice-Chairpersons:**

Assia Billig

Canadian Institute of Actuaries

Aldona Skucaite

Lietuvos Aktuaru Draugija

**Members:**

Janet M. Barr	American Academy of Actuaries
Joseba Iñaki De La Peña	Instituto de Actuarios Españoles
Christelle Dieudonne	Institut des Actuaire
Maria Economou	Hellenic Actuarial Society
Rosa Maria Farell Campa	Colegio Nacional de Actuarios A. C.
Ana Haramija	Hrvatsko Aktuarsko Drustvo
Atsushi Hayakawa	Japanese Society of Certified Pension Actuaries
Klaus Heubeck	Deutsche Aktuarvereinigung e. V. (DAV)
Martin Kosztolanyi	Slovenska Spolocnost Aktuarov
Christoph Krischanitz	Aktuarvereinigung Österreichs (AVÖ)
Sanjeeb Kumar	Institute of Actuaries of India
Thomas D Levy	Canadian Institute of Actuaries
Martin Kristofer Lunnon	Institute and Faculty of Actuaries
Raffaello Marcelloni	Istituto Italiano degli Attuari and Ordine degli Attuari
Mary Frances Miller	Casualty Actuarial Society
Ibrahim E. Muhanna	Lebanese Association of Actuaries
Roseanne Murphy Harris	Actuarial Society of South Africa
John Michael Newman	Actuaries Institute Australia
Tibor Párniczky	Magyar Aktuárius Társaság
Adam Justin Reese	Conference of Consulting Actuaries
Nobuhiro Shimizu	Institute of Actuaries of Japan
Constantinos Stavrou Stavrakis	Cyprus Association of Actuaries
Fructueux Tétiali	Institut des Actuaire de Côte d'Ivoire
Wilma Gomes Torres	Instituto Brasileiro de Atuária (IBA)
Diego Valero Carreras	Col.legi d'Actuaris de Catalunya
Stephen A. Yeboah	Actuarial Society of Ghana
Xiao Qiang Zhao	China Association of Actuaries



Treasury Board of Canada  
Secrétariat

Secrétariat du Conseil du Trésor  
du Canada

Ottawa, Canada  
K1A 0R5

John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th Floor  
Toronto, ONTARIO  
M5V 3H2

Dear Mr. Stanford:

SUBJECT: Exposure Draft: *Social Benefits*

Thank you for the opportunity to comment on the Exposure Draft: *Social Benefits* issued in October 2017.

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

Our comments with respect to the specific matters for comment in the Exposure Draft (ED) are included in the attached appendix.

We thank you again for providing the opportunity to comment on this Exposure Draft. If you require further information, please do not hesitate to contact either Blair Kennedy at [blair.kennedy@tbs-sct.gc.ca](mailto:blair.kennedy@tbs-sct.gc.ca) (613-404-2996) or myself at [diane.peressini@tbs-sct.gc.ca](mailto:diane.peressini@tbs-sct.gc.ca) (613-369-3107).

Yours sincerely,

Diane Peressini  
Executive Director,  
Government Accounting Policy and  
Reporting

c.c.: Tom Scrimger, Assistant Comptroller General of Canada

Canada

## APPENDIX

**Responses to Specific Matters for Comment****Specific Matter for Comment 1:**

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?*

We agree with the scope of the ED, except with respect to the interaction of the scope exception for universally accessible services and the definition of social benefits. Specifically excluding universally accessible services from the definition of social benefits means that the scope exception is unnecessary; i.e. given that universally accessible services are not social benefits by definition, they could never be in the scope of the standard. Therefore, we suggest that either the definition of social benefits is amended to remove the specific exclusion for universally accessible services, or the scope exception for universally accessible services is removed.

As noted in BC21(c), any boundary between social benefits included in this proposed standard and guidance for other non-exchange expenses is somewhat artificial. However, we agree that placing the boundary based on the requirement to assess an individual's eligibility to receive benefits related to social risk is reasonable, as long as there is consistency with the principles applied to recognizing obligations for other non-exchange expenses.

**Specific Matter for Comment 2:**

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?*

We agree with the definitions of social risks and universally accessible services. We agree with the definition of social benefits except as outlined in our comments on Question 1 with respect to universally accessible services.

**Specific Matter for Comment 3:**

*Do you agree that, with respect to the insurance approach:*

- a) *It should be optional;*
- b) *The criteria for determining whether the insurance approach may be applied are appropriate;*
- c) *Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*
- d) *The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

*If not, how do you think the insurance approach should be applied?*

- a) We believe that the insurance approach should not be optional for those schemes which are exchange transactions and have, with the exception that they are enforceable through legislation, all of the characteristics of insurance contracts. Such schemes warrant different accounting considerations than those social benefit schemes which are non-exchange transactions and are discretionary in nature.

While we acknowledge that providing an option could be warranted from a practical standpoint, given the inherent complexities in applying IFRS 17 or similar standards, we believe that allowing a choice to apply the insurance approach may lead to inconsistency in the accounting treatment by governments for similar plans and, therefore, reduce the comparability of financial statements. Consequently, we believe that the insurance approach should be a requirement for those schemes which meet the criteria in paragraph 9(a) and (b) of the ED, and as outlined in our comment (b) below.

- b) We agree that the two criteria (paragraph 9(a) and (b)) to determine whether the insurance approach is applicable are appropriate, but suggest that the guidance for determining whether the social benefit scheme is managed in the same way as an insurance contract should be changed so that the “indicators” in paragraph AG 15 (a) to (d) are “criteria” that must be satisfied in order to account for a social benefit scheme under the insurance approach. This would ensure better alignment with insurance contracts accounted for under IFRS 17.
- c) We agree that preparers should be directed to follow either IFRS 17, or a relevant national standard with substantially the same principles as IFRS 17, when a social benefit scheme has the same characteristics as a group of insurance contracts except that the beneficiaries’ rights are enforceable through legislation rather than contract law.
- d) We agree with the disclosure requirements in paragraph 12.

**Specific Matter for Comment 4:**

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?*

*If not, what past event should give rise to a liability for a social benefit?*

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*



- 4 -

We agree with the proposal in the ED, that a liability should be recognized when the beneficiary satisfies all eligibility criteria to receive the next benefit, including staying alive. This principle establishes the liability when the obligating event occurs, i.e. at the point that the government entity has little or no discretion to avoid an outflow of resources. We regard "staying alive" as an eligibility criterion, rather than a measurement factor, in order to ensure consistent application of the accounting principle that the entity has a present obligation.

Recognition of a liability at an earlier point prior to all eligibility criteria being met for the next benefit is not appropriate, as the entity has not yet lost its discretion to avoid the outflow of resources. Although an individual may have an expectation of receiving a benefit in the future, and/or legislation may have been enacted, the event that creates a present obligation for a social benefit is the satisfaction of the eligibility criteria, which includes being alive; until this event has occurred, the recipient is not entitled to the benefits. This approach results in more relevant, meaningful information in the financial statements than other contemplated approaches which would result in the recognition of significant future obligations for schemes designed to be funded through future tax revenues.

The non-exchange nature of social benefits distinguishes them from employee future benefits, where the employee has earned his/her entitlement to the benefit in the future through the provision of past services.

As well, it is important that there is consistency with the principle that a liability for universally accessible services, or for collective goods and services, does not arise prior to delivery of the benefits. Governments engage in many programs that will provide either direct or indirect benefits to citizens. Applying the same accounting principles for direct versus indirect programs better demonstrates the qualitative characteristics of reporting.

**Specific Matter for Comment 5:**

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

- a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*
- b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and*
- c) For the future cash flows related to an entity's social benefit schemes (see paragraph 34):*
  - i. It is appropriate to disclose the projected future cash flows; and*
  - ii. Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

We agree with the disclosure requirements for the obligating event approach, as outlined in (a), (b) and (c) above.

In our opinion, disclosure of projected undiscounted cash flows for the next five periods, item (c), provides useful information to users with respect to the financial commitments of the entity. In addition to the above, we believe that there should also be a requirement to disclose the projected cash inflows for the next five periods for contributory schemes, so as to provide full information on the scheme. Although the ED states that the disclosure requirements for social contributions are contained in IPSAS 23 *Revenue from Non-Exchange Transactions*, that standard does not include a requirement to disclose future cash flows. Therefore, to provide more complete information to users, we suggest that the requirement to disclose the projected future cash inflows related to a contributory social benefits scheme should be in the Social Benefits standard, unless the IPSASB is intending to revise the disclosure requirements in IPSAS 23 accordingly.

**Specific Matter for Comment 6:**

*The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, Reporting on the Long Term Sustainability of an Entity's Finances, was developed to provide guidance on presenting this additional information.*

*In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long term sustainability of an entity's finances, which includes social benefits...*

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

Overall we do not support mandatory requirements for reporting on the long-term sustainability of an entity's finances. Various jurisdictions already have legislation or a policy that requires sustainability reporting. The development of such legislation or policy will have considered the needs of legislators and other users of the reports. Should IPSASB put in place mandatory requirements, this could result either in reports that do not meet the needs of legislators/users in various jurisdictions or the need to prepare two reports, one as stipulated in legislation/policy and one for compliance with IPSAS.

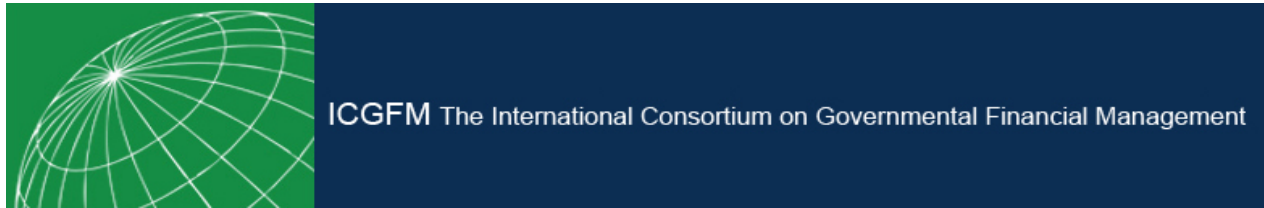
- 6 -

Also, many governments currently have various mechanisms for reporting on programs of a long-term nature; for example, budgets provide long term views on financing and programs to be delivered by governments. There are also various reports on social benefit programs that discuss in more detail, and with proper context, the future sustainability of the programs (e.g. Canada Pension Plan Annual Report).

We believe that the IPSASB's mandatory requirements should only cover financial statements that are subject to audit. Given that auditing long-term sustainability reports would be very challenging due to the inherent subjectivity and long-term nature of the assumptions, the implications of mandatory long-term sustainability reporting would need to be considered from the perspective of the auditor's report.

As well, we believe that the Board should take into account the capacity of various jurisdictions to produce such reports if they become mandatory. In particular, long-term sustainability reporting is generally performed by economists, as it is outside the knowledge and skills base of most accountants.

We think that it may be a worthwhile exercise for the IPSASB to review the uptake of RPG-1 since its issuance, and discuss with adopters of accrual-based IPSASs their reasons for either developing, or not undertaking, long-term sustainability reporting.



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March 28, 2018

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

Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to Exposure Draft 63 "Social Benefits" issued October 2017.
2. We appreciate the opportunity to comment on this Exposure Draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at [Michael.parry@michaelparry.com](mailto:Michael.parry@michaelparry.com) or on +44 7525 763381.

Yours faithfully,

**Michael Parry**

Chair, ICGFM Accounting Standards Committee

**Members**

Michael Parry, Chair

Andrew Wynne

Anne Owuor

Hassan Ouda

Jesse Hughes

Mark Silins

Nino Tchelishvili

Paul Waiswa

Cc: Jim Wright, President, ICGFM

# International Consortium on Government Financial Management (ICGFM)

## Response to Exposure Draft 63 “Social Benefits”

**Issued October 2017**

### Overview

ED on Social Benefits raises two fundamental issues:

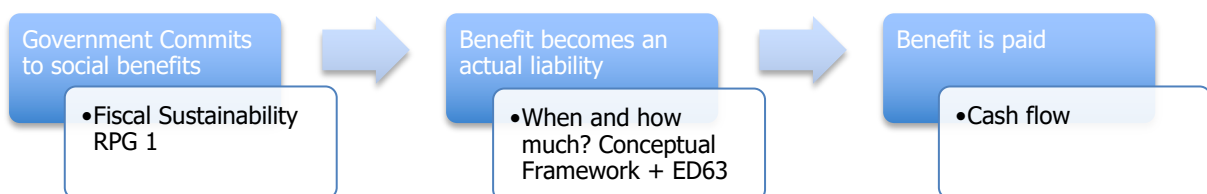
1. The recognition as liabilities commitments made by a government to specific groups of citizens – even though there is no contractual obligation (other than a social contract) requiring future governments to honour such commitments
2. The inter-generational impact of such commitments, e.g. the cost of a state pension payable to all citizens.

Governments across the world commit to certain social benefits, e.g.:

1. Health care benefits
2. Unemployment benefits
3. State pension benefits.

There is a flow from the commitment through liability to the actual payment of social benefits as illustrated in Figure 1 below.

**Figure 1: The flow of social benefit obligations**



In most countries social benefit commitments made by a current government are honoured by subsequent governments, but such commitments do not amount to legally binding contractual obligations. There are numerous examples where the terms of the social benefit obligation have been retrospectively changed, e.g. raising the age for state pension, reducing the amounts to be paid.

These issues are addressed in the IPSAS Conceptual Framework. This identifies when non-legally binding obligations become liabilities in Para 5.24 as follows:

1. *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;*
2. *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*
3. *The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.*

The first two conditions are normally part of governments making social benefit commitments. The issue of recognition as a liability is when condition (3) above is met. At some stage social benefits do meet condition (3) and hence become liabilities.

**The ICGFM supports the principle of recognising social benefits as liabilities when the three conditions specified in the Conceptual Framework are met**

## Specific matters for comment

Matter for comment	Response
<p><b>Specific Matter for Comment 1:</b></p> <p>Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?</p> <p>If not, what changes to the scope would you make?</p>	<p>We agree with the scope</p>

Matter for comment	Response
<p><b>Specific Matter for Comment 2:</b></p> <p>Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?</p> <p>If not, what changes to the definitions would you make?</p>	<p>There is no actual definition of social benefits in the ED. Para 6 says to whom social benefits are provided but not what they are and Para 5 and AG 1 – 7 what they are not, but nowhere does the ED actually define social benefits</p> <p>As indicated in our comments on the Discussion Paper, we consider the GFS definition should be used: "6.96 Social benefits are current transfers receivable by households intended to provide for the needs that arise from social risks—for example, sickness, unemployment, retirement, housing, education, or family circumstances."</p> <p>We also consider that the two categories of social benefit in GFS should be recognised in the proposed Standard:</p> <ol style="list-style-type: none"> <li>1. Pensions and other retirement benefits</li> <li>2. Non-pension social benefits</li> </ol> <p>Social risks are defined in GFS as "Social risks are events or circumstances that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or by reducing their income". We can see no good reason for using a different definition.</p> <p>One member of our committee considered it important that that social risks are defined by law and the source of social benefits (i.e. the entity that makes the payment) should be specified</p>
<p><b>Specific Matter for Comment 3:</b></p> <p>Do you agree that, with respect to the insurance approach:</p> <p>(a) It should be optional;</p> <p>(b) The criteria for determining whether the insurance approach may be applied are appropriate;</p>	<p>(a) and (b) Our comments on the Discussion Paper identified four possible combinations and recommended recognition and measurement approaches as follows:</p> <ol style="list-style-type: none"> <li>1. Pensions and other retirement benefits <ol style="list-style-type: none"> <li>a. Funded – in accordance with IPSAS 25</li> <li>b. Unfunded – Obligating event approach as described in the ED</li> </ol> </li> <li>2. Non-pension social benefits <ol style="list-style-type: none"> <li>a. Funded – Insurance approach as described in the ED</li> <li>b. Unfunded – obligating event approach</li> </ol> </li> </ol>



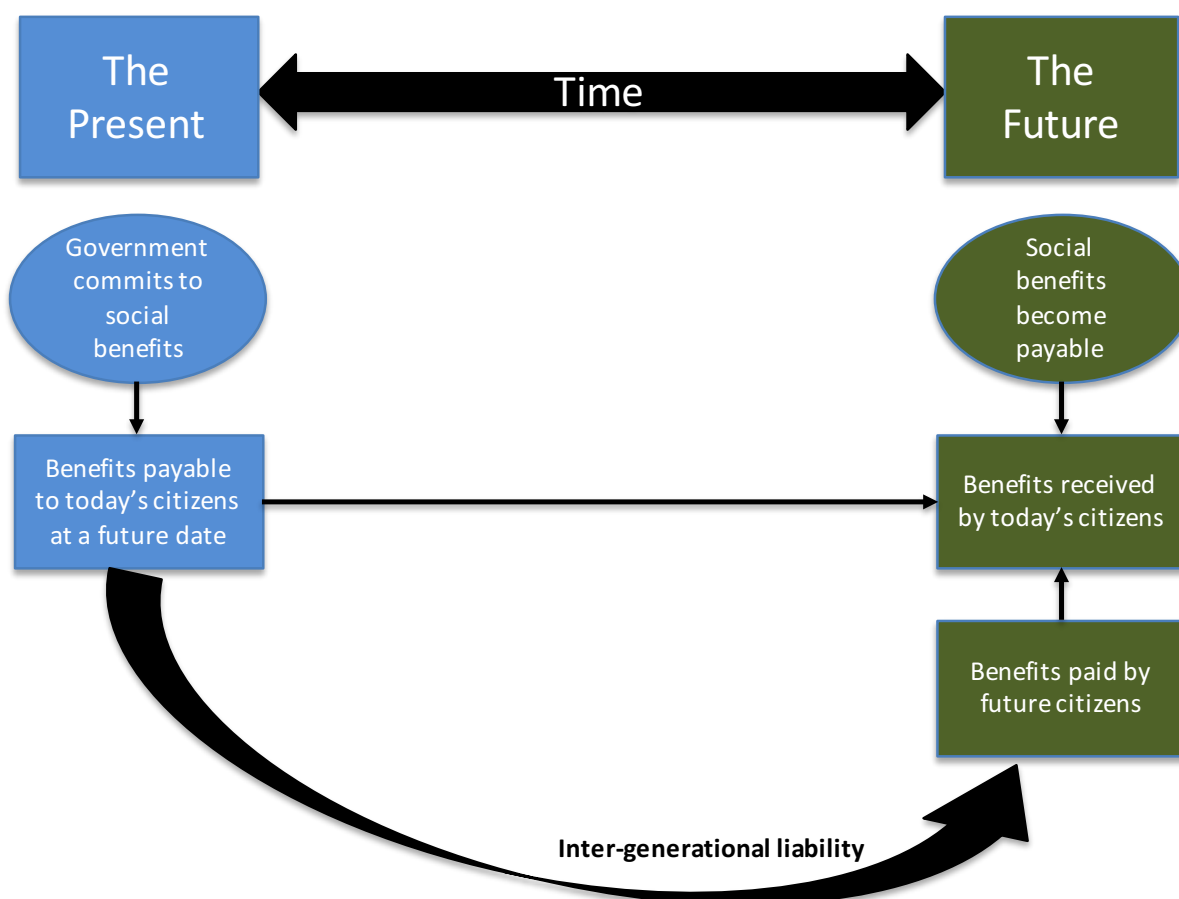
Matter for comment	Response
<p>(c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and</p> <p>(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?</p> <p>If not, how do you think the insurance approach should be applied?</p>	<p>(c) Agreed</p> <p>(d) Agreed</p>
<p><b>Specific Matter for Comment 4:</b></p> <p>Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?</p> <p>If not, what past event should give rise to a liability for a social benefit?</p>	<p>Agreed</p>
<p><b>Specific Matter for Comment 5:</b></p> <p>Regarding the disclosure requirements for the obligating event approach, do you agree that:</p> <p>(a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;</p> <p>(b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and</p>	<p>(a) Agreed</p> <p>(b) Agreed</p>

Matter for comment	Response
<p>(c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):</p> <p>(i) It is appropriate to disclose the projected future cash flows; and</p> <p>(ii) Five years is the appropriate period over which to disclose those future cash flows.</p> <p>If not, what disclosure requirements should be included?</p>	<p>(c) Agreed</p> <p>(i) Agreed</p> <p>(ii) The time period should be at least 5 years</p>
<p><b>Specific Matter for Comment 6:</b></p> <p>Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?</p> <p>If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?</p>	<p>Yes – see below</p> <p>One of the areas of such work may be assessing the balance sheet liquidity of the entities that make social benefits.</p> <p>The balance sheet liquidity reflects the coverage of liabilities by financial assets and the comparative maturity pattern of such assets and liabilities. The balance of maturity of assets and liabilities of the entity paying social benefits will indicate solvency, that is, the ability to fulfil its commitments with available stock of liquid assets.</p> <p>The balance sheet liquidity can be estimated on the basis of ratio analysis</p> <p>We suggest using the following indicators. Absolute liquidity ratio Formula: <math>\text{Absolute liquidity ratio} = (C+CFI)/CL</math> where:</p> <p>C – cash and cash equivalents; CFI – current financial investment, CL – current liabilities and provisions.</p> <p>This ratio shows the part of current liabilities that can be covered immediately by the social benefits entity. It is believed that its value should not be lower than the following threshold: 0.2-0.25.</p> <p>Overall liquidity ratio is calculated by comparing the total amount of current assets to current liabilities:</p> <p>Formula: <math>\text{Overall liquidity ratio} = CA/CL</math> where: CA – current assets.</p> <p>This ratio gives a general description of liquidity, showing the level of coverage of current liabilities by current assets. If the ratio value is equal to one, this indicates that the social benefits entity has sufficient current assets to cover its obligations.</p>

## Statement on Fiscal Sustainability

Certain types of social benefits transfers rights between groups of citizens. In many cases this is an intergenerational transfer, e.g. a commitment to a state pension imposes an obligation on future generations of citizens, as illustrated in Figure 2 below.

**Figure 2: Intergenerational impact of social benefits**



The model could be used to identify and measure the long term fiscal sustainability of social benefits. A supplementary statement long term financial sustainability could be used to summarise and report a range of decisions taken today which impact on future generations where these are not reported as actual liabilities in the statement of financial position. Such a supplementary statement could also include other potential intergenerational commitments, e.g. long-term subsidies of specific industries.

A future consultative paper may be required on including in the financial reports such a statement of fiscal sustainability. Issues to be considered would include what would be included in the paper, the extent to which revenue flows should be taken into account (or perhaps the required revenue flows be defined), the use of actuarial data, discount rates, handling of uncertainty, the number of years into the future, and so on.



**ASOCIACION INTERAMERICANA DE CONTABILIDAD  
INTERAMERICAN ACCOUNTING ASSOCIATION  
ASSOCIAÇÃO INTERAMERICANA DE CONTABILIDADE**

San Juan, Puerto Rico, March 28th, 2018

Members of the Group

**THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD  
GOVERNANCE REVIEW GROUP**

REF: **Public Sector, Exposure Draft 63 Social Benefits**

Dear Members of the Group,

The Inter-American Accounting Association (IAA) (AIC – in Spanish), welcomes the opportunity to comment on the This Consultation Paper, ***Exposure Draft 63 Social Benefits***, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

This reply summarizes the views of different member countries of the IAA, according to the following due process:

**Due process:**

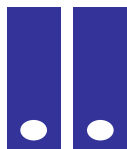
The Draft was submitted to the different IAA member, the Inter-American Technical Commissions (ITC) and the Sponsor Organizations (SO), hence all members had the opportunity to participate in the discussion of the Draft.

All comments received from the ITC and SO, were compared and discussed, before preparing a reply which has been approved upon by all members.

If you have any questions about our comments, please do not hesitate to contact us.

Sincerely,

Cornelio Porras Cuellar  
**PRESIDENT**



**ASOCIACION INTERAMERICANA DE CONTABILIDAD  
INTERAMERICAN ACCOUNTING ASSOCIATION  
ASSOCIAÇÃO INTERAMERICANA DE CONTABILIDADE**

**Comment Letter of the Interamerican Accounting Association- IAA on the document for public discussion referred to , “International Public Sector Accounting Standards Board® (IPSASB®) Exposure Draft 63 Social Benefits, was developed and approved by the International Public Sector Accounting Standards Board® “ ”**

**Specific Matter for Comment 1:**

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

**We agree with the scope of the Exposure Draft that an entity that prepares and presents financial statements under the accrual accounting assumption will apply the standard (when the project becomes a standard) in the recognition and measurement and accounting of social benefits. More specifically, we agree with the exclusion of universally accessible services established on the arguments presented in the bases of the conclusions, which hold that the project, in distinguishing the benefits provided to specific individuals and / or households from those universally accessible, intends to provide a limit more based, on principle, as artificial as possible**

**Specific Matter for Comment 2:**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

**Yes, we agree. We understand that the definitions given regarding the three concepts considered are appropriate**

**Specific Matter for Comment 3:**

Do you agree that, with respect to the insurance approach:

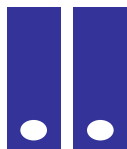
**Yes, we partially agree.**

- (a) It should be optional;

**We consider that paragraph 7 of the Exposure Draft should not raise the possibility that the entity optionally apply the insurance approach if a social benefit scheme meets the requirements set forth in paragraph 9. In our opinion the entity should be required to recognize and value the assets, liabilities, income and expenses associated with this social benefits regime.**

- (b) The criteria for determining whether the insurance approach may be applied are appropriate;

**We agree that the criteria for determining the insurance approach that can be applied provided in paragraph 9 are appropriate.**



**ASOCIACION INTERAMERICANA DE CONTABILIDAD  
INTERAMERICAN ACCOUNTING ASSOCIATION  
ASSOCIAÇÃO INTERAMERICANA DE CONTABILIDADE**

- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate;

**We believe that the makers of financial statements of a jurisdiction that issues financial reporting standards that substantially adopt the bases of IFRS 17 must fully apply their own standards, otherwise they must adopt IFRSs directly.**

**We understand that the information to disclosed, required in paragraph 12 of the draft standard are appropriate**

**Specific Matter for Comment 4:**

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

**Yes, we agree. There is no doubt that under the past event approach the binding requirements for a past event to become passive for a social benefit plan are: a) full compliance by the beneficiary with the eligibility requirements for the benefit, and b) the fact of being alive.**

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

**Specific Matter for Comment 5:**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

**Yes, we are partially accepting.**

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;

**We consider that the disclosures regarding characteristics of the contemplated social benefit schemes are appropriate.**

- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate;

**The required disclosures of the amounts in the financial statements, both liabilities and expenses, are appropriate.**

and

- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):



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**With reference to future cash flows related to social benefit schemes, we consider that:**

- (i) It is appropriate to disclose the projected future cash flows;  
**It is appropriate to disclose the projected cash flows.**

**and**

- (ii) Five years is the appropriate period over which to disclose those future cash flows. If not, what disclosure requirements should be included?

**We understand that three years, instead of five, will be sufficient if this revelation is made annually. We estimate that five years is a very long term since, in the longer term, a projection of cash flows will be increasingly uncertain and imprecise.**

**Specific Matter for Comment 6:**

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

**We believe that the IPSASB should continue to make progress in improving the reporting so a long-term fiscal sustainability, an appropriate form could be through the professional associations of the different countries that are members of the International Accounting Federation that will provide genuine information. of the different jurisdictions that will constitute a very rich primary source for the IPSASB in the search for an appropriate and applicable approach in the profession.**

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

**An additional relevant work that could be developed to support fiscal sustainability could be the study and analysis of the legal security towards the investments in each jurisdiction or country, so that long-term fiscal sustainability can be reasonably estimated. term, since a country that offers little security or stability to investments can hardly sustain a long-term approach to its fiscal sustainability, with reasonable security.**

**ICAEW**

REPRESENTATION 38/18

## SOCIAL BENEFITS

Issued 28 March 2018

This response of 28 March 2018 has been prepared on behalf of ICAEW by its Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. Comments on public sector financial reporting are prepared with the assistance of the Faculty's Public Sector Financial Reporting Committee. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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## MAJOR POINTS

### Support for the exposure draft

1. The social benefits standard will arguably be one of the most important financial reporting standards applicable to governments and although this topic has been debated for some time, we commend IPSASB's progress in publishing this exposure draft (ED).

### Disagreement with the proposed recognition point for social benefits under the obligating event approach

2. The recognition criteria under the obligating event approach is possibly the most important, and contentious, area of the ED. We refer to our detailed response to Specific Matter for Comment 4 but have highlighted our key arguments below.
3. We do not agree with the ED's proposal that the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive. Whilst this may hold true for some social benefits, we believe there are other situations where an entity has a present obligation for all future benefits. We regard some long-term social benefits, primarily the state pension, as being similar to an annuity, which should be measured accordingly using actuarial measures, including expected longevity. In other words, the need to be alive to claim a benefit is a measurement issue, not a recognition issue.
4. We believe that in some circumstances the obligating event is likely to occur at the 'threshold eligibility criteria have been satisfied point'. For example, in the UK, once people reach retirement age and start receiving a state pension, they can expect to do so for the rest of their lives. Government's ability to modify and change social benefits entitlement is without question; however, governments tend to make changes to benefits that affect future claimants, not active recipients.

### Relationship of financial statements with fiscal sustainability reporting

5. A broader picture emerges on the topic of social benefits, that is one of intergenerational fairness and how, fundamentally, governments are going to support an ageing population. Whilst some may find it difficult to accept recognition of large liabilities without the asset of corresponding tax revenues also being recognised, the social liabilities facing governments are nevertheless real and the funding of them falls on the younger still-working cohort in most countries.
6. We are very supportive of long term fiscal sustainability reports as they allow readers to understand how future government activity might affect the balance sheet. Furthermore, they present a more complete picture of future liabilities and revenues, all of which, combined with audited financial statements, will increase accountability and provide decision-useful information.

## RESPONSES TO SPECIFIC QUESTIONS FOR COMMENT

### Specific Matter for Comment 1:

**Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC 21(c)?**

**If not, what changes to the scope would you make?**

7. We agree with the scope of the ED. The 2015 consultation paper (CP) Recognition and Measurement of Social Benefits introduced a narrower scope by excluding other transfers in kind (universally accessible services) and collective goods and services. We agreed with this. Furthermore, we agreed with IPSASB's preliminary view 6 in the Revenue and Non-Exchange Expenses consultation paper, which stated that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered. Universally accessible services and collective goods and services are, nevertheless, major forms of government expenditure and need to play a prominent part in wider fiscal sustainability reporting.
8. In our response to the 2015 CP, we also commented on the difficulty of distinguishing between some social benefits and non-exchange transactions, which is reflected in BC 20(b) as a concern raised by a number of respondents. We appreciate IPSASB's efforts to maintain a principles-based standard that distinguishes between social benefits and other non-exchange expenses, acknowledging that the lines are blurred and that any differentiation will be somewhat artificial in nature. We agree with BC 21(c) that liabilities and expenses associated with social risks can be measured by reference to an individual's eligibility to receive the social benefit, which would not apply to universally accessible services. Universally accessible services do not necessarily have their eligibility criteria linked to social risks; in many cases they are based on residency and citizenship. However, we believe that BC 21(c) and BC 22 could be expanded to include the reasoning underlying the explanation in IE 9 – IE 11.
9. The comparison of scope between ED 63 and the Government Finance Statistics (GFS) definition in GFSM 2014 (Government Finance Statistics Manual 2014) is an area that needs clarification. Any divergence from GFS needs to be clearly articulated, together with the reasons for diverging. Please refer to paragraph 15 for recommendations, but note that we are content that divergence is always possible due to the different objectives of financial reporting and GFS.
10. BC 22 gives the impression that all universally accessible services are social benefits under GFS, but this is not correct and should be amended. For example, 'public goods' such as policing and defence are universally accessible but do not meet the definition of social benefit under GFS. The sentence 'Universally accessible services such as healthcare services are considered to be social benefits under GFS . . .' should be amended to say 'Some universally accessible services, such as healthcare services, are considered to be social benefits under GFS'.
11. The table in IG 2 (page 47) shows what is in and what is out of scope of the draft IPSAS (x) (ED63) and GFS. We consider that the bracket on the left of the table showing the scope of GFS needs to be more prominent. We also suggest moving the table from IG 2 to sit under BC 22 to help the basis for conclusions reflect the differences between GFS and IPSAS (x) (ED63).

**Specific Matter for Comment 2:**

**Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?**

**If not, what changes to the definitions would you make?**

12. We agree with the definitions of social benefits and social risks in ED 63 but think that it is not clear enough where deviations from GFS guidelines have been made. As already stated above, the rationale for any deviations from GFS needs to be clearly articulated.
13. IPSAS 22 Disclosure of Financial Information about the General Government Sector requires a reconciliation between the General Government Sector and consolidated financial statements. Furthermore, in February 2014, IPSASB issued a policy paper entitled Process for Considering GFS Reporting Guidelines during Development of IPSASs. In this policy paper, paragraph 14 states that a table is to be maintained showing the main differences between IPSASs and GFS reporting guidelines. It would be useful to the reader if BC15 - 22 were preceded by a table showing the definitions in GFS compared with those in the ED, along with explanations of the differences. We recommend that the table be updated for this project and that this table be carried forward to future exposure drafts and consultation papers.

**Specific Matter for Comment 3:**

**Do you agree that, with respect to the insurance approach:**

- a) It should be optional;
- b) The criteria for determining whether the insurance approach may be applied are appropriate;
- c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

**If not, how do you think the insurance approach should be applied?**

14. Part a). We do not agree with the conclusion reached by IPSASB on making the insurance approach optional. If a social benefit scheme is run as an insurance scheme then one would expect the entity to have all the information available to account for and disclose that information in accordance with the requirements of relevant international or national accounting standards dealing with insurance contracts (such as IFRS 17 Insurance Contracts). We do not believe that cost/benefit comes into the equation for this reason.
15. Part b). We broadly agree with the criteria for determining whether the insurance approach may be applied but question the practicality around 'intended to be fully funded'. The preceding consultation on social benefits stated, in paragraph 6.21, that

the insurance approach may be appropriate where there are significant cash contributions in respect of the scheme, and where these can be measured reliably. We agreed with this criterion and therefore ask IPSASB to consider whether schemes could still be accounted for using the insurance approach if these were substantially funded, rather than fully funded.

16. Part c). We agree with the ED.
17. Part d). It is not clear how the disclosure in paragraph 12 relates to the disclosures required by IFRS 17. Are the disclosures in paragraph 12 a) and b) additional disclosures over and above the requirements of IFRS 17 or are they clarifications to couch IFRS 17 in terms suitable for social benefits disclosures for the public sector? It may be advisable to include a paragraph similar to other IPSAS disclosures such as:

*If the disclosures required by this Standard, together with disclosures required by other relevant international or national accounting standards, do not meet the objective in paragraph 2, an entity shall disclose whatever additional information is necessary to meet that objective.*

#### Specific Matter for Comment 4:

**Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?**

**If not, what past event should give rise to a liability for a social benefit?**

18. This question is arguably one of the most important concerning the whole social benefits project. We recognise that this has been debated extensively for quite some time and commend IPSASB's progress in publishing this ED.
19. We do not agree with the recognition criteria proposed in this ED, that under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive. We do not believe that this approach would lead a true and fair financial reporting for social benefits.
20. We feel that AG 19 is too uncompromising by stating that a liability cannot extend beyond the point at which the next social benefit is provided. Whilst this may hold true for some social benefits, we believe there are other situations where an entity has a present obligation for all future benefits. We regard some long-term social benefits, primarily the state pension, as being similar to an annuity and consider it should be measured accordingly using actuarial measures, including expected longevity. In other words, the need to be alive to claim a benefit is a measurement issue, not a recognition issue.
21. We concur with AV 16, that we do not believe that 'being alive' at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the liability recognition. Accounting for social benefits should not treat being alive differently to other IPSAS standards such as IPSAS 39 Employee Benefits. Being alive should only impact the measurement through actuarial valuation such as mortality rates.

22. We also agree with AV 15 that a liability may arise from a key participatory event that occurs prior to the eligibility criteria for the next benefit having been satisfied. We therefore believe that in some circumstances the obligating event is likely to occur at the ‘threshold eligibility criteria have been satisfied point’. For example, in the UK, once people reach retirement age and start receiving a state pension, they can expect to do so for the rest of their lives. Government's ability to modify and change social benefits entitlement is without question; however, governments tend to make changes to benefits that effect future claimants, not active recipients.
23. We are mindful that some regard the recognition of potentially very large liabilities without recognising the cash flows that will fund those payments as being misleading and likely to result in financial statements that do not satisfy the qualitative characteristics. We are of the opinion that liabilities should not be on or off balance sheet depending on whether they are funded or unfunded or how they will be paid for. This argument does bring into sharp relief however, the boundary between what should be recognised in financial statements and what should be in long-term fiscal sustainability reports.
24. A broader picture emerges on the topic of social benefits, that is one of intergenerational fairness and how, fundamentally, governments are going to support an ageing population. Whilst some may find it difficult to accept recognition of large liabilities without the assets of corresponding tax revenues also being recognised, the social liabilities facing governments are nevertheless real and the funding of them falls on the younger still-working cohort in most countries.
25. Using definitions of elements from the conceptual framework to argue about liability recognition is clearly not that straightforward for social benefits and some will argue for these to be included within long term fiscal sustainability reports (alongside projected tax revenues). Others will argue for these to be included within the financial statements. We are of the opinion that disclosing social benefit liabilities, even without disclosing the corresponding tax revenue, will provide useful information for decision-making that will also be relevant to society in general.

#### **Specific Matter for Comment 5:**

**Regarding the disclosure requirement for the obligating event approach, do you agree that:**

- a) **The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;**
- b) **The disclosures of the amounts in the financial statements (paragraphs 32-33) are appropriate; and**
- c) **For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):**
  - i. **It is appropriate to disclose the projected future cash flows: and**
  - ii. **Five years is the appropriate period over which to disclose those future cash flows.**

**If not, what disclosure requirements should be included?**



26. Part a). The disclosures about the characteristics are designed to provide qualitative information about an entity's social benefits schemes, which we support. We also agree with IPSASB's decision not to provide specific guidance on aggregating the disclosures for social benefits that are not individually material as this guidance is available in IPSAS 1, Presentation of Financial Statements.
27. Parts a) and b). There is a risk that potentially lengthy social benefits disclosures may obfuscate information, therefore a sensible application of materiality to the disclosures will be important.
28. Part c). We consider that future cash flow disclosures would not be necessary if the obligating event approach were applied as we describe in SMC4 since the social benefit liability would not be constrained to receiving the next benefit. However, given the ED's current proposal, having information on future cash outflows in the financial statements would provide decision-useful and relevant information. It would enable users to hold those responsible to account, facilitate analysis of the cost/benefits of social benefit expenditures and encourage people to think about long-term fiscal sustainability. This would be especially true for those governments not producing long-term fiscal sustainability reports or producing them infrequently.
29. We do question why a five-year time horizon has been chosen and query whether this would enable users to properly evaluate the costs of the benefits provided. Longer time horizons would undoubtedly blur the boundary between long-term fiscal sustainability reports and financial statements and could be seen as making long-term fiscal sustainability reporting mandatory through the back door. However, on balance, our view is that including future cash outflow projections beyond five years would be most beneficial to users. These would need to link to fiscal sustainability reports to complement the bigger picture and thus increase understandability.
30. Similar to the point made in paragraph 19 above, the disclosures should include an additional paragraph as follows:
- If the disclosures required by this Standard, together with disclosures required by other IPSASs, do not meet the objective in paragraph 2, an entity shall disclose whatever additional information is necessary to meet that objective.*
31. We believe that government financial reporting needs to, in certain aspects, go beyond private sector reporting, given the accountability of public money. In this respect we believe that a future standard on social benefits should also include disclosure requirements in relation to fraud and error. Below are extracts of such disclosure in the financial statements from UK's Department for Work and Pensions (DWP), the body responsible for social benefits. Showing amounts that are under and overpaid as well as fraudulent claims would add to accountability mechanisms.

### 3. State Pension and disability benefits

	Employment and Support Allowance		Incapacity Benefit		Disability Living Allowance		State Pension	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
<b>Overpayments</b>								
Fraud	2.2%	*1.7%	0.3%	0.3%	0.5%	0.5%	0.0%	0.0%
	£320m	£250m	£0m	£0m	£60m	£60m	£0m	£0m
Claimant error	0.6%	*0.5%	0.9%	0.9%	0.6%	0.6%	0.1%	0.1%
	£90m	£80m	£0m	£0m	£70m	£80m	£80m	£70m
Official error	*1.2%	*0.6%	1.2%	1.2%	0.8%	0.8%	*0.0%	0.0%
	£180m	£80m	£0m	£0m	£90m	£100m	£10m	£30m
<b>Total overpayments</b>	<b>*3.9%</b>	<b>2.8%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>1.9%</b>	<b>1.9%</b>	<b>0.1%</b>	<b>0.1%</b>
	<b>£590m</b>	<b>£410m</b>	<b>£0m</b>	<b>£0m</b>	<b>£220m</b>	<b>£250m</b>	<b>£90m</b>	<b>£110m</b>
<b>Total underpayments</b>	<b>2.8%</b>	<b>*2.3%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>0.1%</b>	<b>0.3%</b>
	<b>£420m</b>	<b>£340m</b>	<b>£0m</b>	<b>£0m</b>	<b>£290m</b>	<b>£330m</b>	<b>£60m</b>	<b>£260m</b>
<b>Total expenditure</b>	<b>£15.0bn</b>	<b>£14.5bn</b>	<b>£0.0bn</b>	<b>£0.1bn</b>	<b>£11.5bn</b>	<b>£13.3bn</b>	<b>£91.6bn</b>	<b>£89.4bn</b>

### 4. Fraud and error in other benefits

	Carer's Allowance		Interdependencies		Other Unreviewed	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
<b>Total overpayments</b>	<b>5.5%</b>	<b>5.5%</b>	<b>z</b>	<b>z</b>	<b>1.8%</b>	<b>1.7%</b>
	<b>£150m</b>	<b>£140m</b>	<b>£30m</b>	<b>£30m</b>	<b>£320m</b>	<b>£270m</b>
<b>Total underpayments</b>	<b>0.1%</b>	<b>0.1%</b>	<b>z</b>	<b>z</b>	<b>1.8%</b>	<b>1.8%</b>
	<b>£0m</b>	<b>£0m</b>	<b>z</b>	<b>z</b>	<b>£330m</b>	<b>£290m</b>
<b>Total expenditure</b>	<b>£2.7bn</b>	<b>£2.6bn</b>	<b>z</b>	<b>z</b>	<b>£18.0bn</b>	<b>£16.2bn</b>

32. DWP's accounting policy note from the 2016-17 year end:

#### 1.14 Benefit overpayments

*We seek to recover all overpayments where we have the legal basis to do so unless it would cause financial hardship or wouldn't be cost-effective. Where recovery isn't cost-effective we write off overpayments – with the exception of fraud cases and direct payments after death.*

*We recognise receivables in the accounts when there is a legal basis to seek recovery. Benefit receivables are valued at the difference between the amount the customer has been paid and what they should have been paid, less any impairment of these receivables.*

*We don't recognise certain categories of identified benefit overpayment as receivables, including:*

- those due to official error where there is no statutory right of recovery*
- cases satisfying Secretary of State waiver policies*
- where the customer has died and the estate isn't large enough to recover the overpayment.*

*We periodically review the quality and consistency of write-off decision making. Our write-off policy has been agreed with HM Treasury.*

**Specific Matter for Comment 6:**

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalising ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

ADVANTAGES	DISADVANTAGES
Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing. This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognised in the financial statements.	The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.
Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.	The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.  Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.
Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.	RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

**Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?**

**If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?**

33. Balance sheets contain useful information on the fiscal consequences of past government activity, including its implications for some future cash flows. But to assess long-term sustainability, readers also need to understand how future government activity might affect the balance sheet. For this reason, we are very supportive of RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances*.



34. At this time, considering the stage of IPSAS development and, more importantly, adoption of these standards by governments around the globe, we would not encourage making any of the RPGs mandatory. It is 'early days' yet for IPSASs and we believe that best practice needs to have time to develop on these key areas.
35. Comparing the guidance within RPG 1 and the UK's 2017 fiscal sustainability report (which can be found [here](#)), it is noticeable how much additional sensitivity analysis there is compared to the RPG guidance. For example, in the UK's sustainability report a whole chapter is devoted to fiscal gap analysis (fiscal gap is the immediate and permanent change in the primary balance needed to achieve a chosen debt-to-GDP ratio in a given year).
36. Following on from the point made above, RPG 1 does acknowledge in paragraph 8 that it is only outlining minimum information levels. In the future, when best practice has developed sufficiently, reviewing RPG 1 to include guidance on sensitivity analysis would provide users with more insight and depth of analysis of the long-term fiscal sustainability of an entity.

29 March 2018

Mr Ian Carruthers  
Chair  
International Public Sector Accounting Standards Board  
529 Fifth Avenue  
New York, NY10017  
UNITED STATES OF AMERICA

(Submitted by: IFAC 'Submit comment' link)

Dear Ian

**IPSASB Exposure Draft ED 63 *Social Benefits***

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the IPSASB Exposure Draft ED 63 *Social Benefits*. The views expressed in this submission represent those of all Australian members of ACAG.

The information needed to evaluate the nature and financial effect of a social benefit scheme, and the impact of social benefits on the finances of the government would be enhanced by the proposals in the exposure draft. In addition, ACAG believes that the proposals serve as an opportunity to improve the accountability, transparency and decision-making of social benefits more broadly.

However, our view is that more work is required. The current exposure draft is expected to be difficult to implement, with potentially questionable results.

ACAG appreciates the opportunity to comment and trust that you will find the attached comments useful.

Yours sincerely



Andrew Greaves  
**Chairman**  
**ACAG Financial Reporting and Accounting Committee**

*Copy to: Australian Accounting Standards Board*

## APPENDIX

### ACAG comments on IPSASB Exposure Draft ED 63 *Social Benefits*

Specific Matter for Comment 1
<p>(a) Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?</p> <p>If not, what changes to the scope would you make?</p>

Yes, the scope is supportable including the exclusion of universally accessible services in para. 5(d). However, the scope is inconsistent, as it excludes insurance contracts which are within the scope of other standards. This raises the question about the insurance approach, which is included in paragraphs 7 to 9. Permitting social benefit schemes which, are similarly managed, as an issuer of insurance contracts to apply the insurance approach appears unusual. ACAG suggests greater clarity and consistency in the eventual standard.

It is ACAG's view that the approach of excluding universally accessible services by way of defining universally accessible services is overly complex and confusing. The definition of social benefits already makes the definition of universally accessible services redundant as universally accessible services do not mitigate the effect of social risks and would therefore not be considered social benefits in the first instance. This approach also leaves open the issue as to whether or not universally accessible services which do address social risks would be included, this should be addressed in finalising the standard. ACAG suggest an approach that applies the social benefits definition to universally accessible services would be easier for preparers to understand and apply.

IPSASB may want to consider whether the payment purpose is more relevant than eligibility criteria when determining if universally accessible services are social benefits. Using eligibility criteria creates additional complexity where social benefit payments that are directed at social risks include some eligibility criteria that do address social risk and other eligibility criteria that do not address social risks, for example, the person must be a citizen of the country or to receive unemployment benefits, the person cannot be a full time student or hold a working visa.

**Specific Matter for Comment 2**

Do you agree with the definitions of social benefits, social risks and universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the definitions would you make?

ACAG agrees with the intentions of the definitions, but notes that the definitions are drafted in a manner that will be subject to varying interpretations. They may be further improved / expanded to provide a more definitive / specific principle. For example, the definition 'social benefits' refers to benefits that 'address the needs of society as a whole'. The extent of 'society as a whole' will be subject to significant variations of interpretation. In addition, to contradict the definition, the benefits must not be universally accessible services.

While using principles in definitions is a reasonable practice, it will need some degree of specificity for this particular topic, which covers a broad range of benefits. In addition, as the proposals will apply to an international audience, this may result in further divergence in interpretation.

This divergence will be exacerbated by the referencing of Government Finance Statistics (GFS) terms, use of significantly amended GFS definitions and measurement and recognition that is different from GFS. A consequence of applying this ED would be government reporting social benefits and related assets, liabilities and revenue in financial statements which potentially have little correlation (other than like terminology) to what the same government would be reporting in statements prepared using GFS. Prior to the issuing of an Australian Accounting Standard (AAS) to harmonise GFS and AAS (AASB 1049), it was Australia's experience that users of government financial information found this particularly confusing and there was constant questioning and debate as to which representation was 'correct'. IPSASB may want to consider whether users would consider this a significant adoption issue.

The definition of 'social risks' refers to the characteristics of individuals and households, followed by examples. The definition appears vague and non-specific. The risk of events or circumstances adversely affecting welfare does not help with identifying what social risks are. Given the stated outcome in BC 22 of aligning the definition with GFS terms, ACAG suggests that IPSASB replace the definition with reference the GFS Manual<sup>1</sup> which provides extensive and detailed guidance. This approach has the additional benefit of having a consistent definition for the reporting of budget results and financial reporting.

The definition 'universally accessible services' does not focus on the capacity to provide services, instead focusing on eligibility criteria. ACAG are of the view that this definition is flawed because a lack of capacity (e.g. limited budgeted resources) to provide services may be interpreted as limiting eligibility for services. Examples may include healthcare and education. This definition is critical because it determines whether there is a social benefit or not. To the extent that the definition of 'universally accessible services' relies on the definition of 'social services' in GFS, ACAG suggests that IPSASB uses the relevant GFS reference with relevant guidance on how to apply for the purposes of this standard.

ED 63 should include both a definition and guidance of what constitutes a 'scheme'. Recognition and measurement (paras. 7-9) is based on the existence of a scheme yet there is no definition or guidance for determining whether or not a scheme exists. Further, while para. 9 does indicate that

<sup>1</sup> See System of National Accounts 2008

there should be an intention that the scheme be fully funded from contributions, this requirement is ambiguous; what is the relevant source for the intention (legislation, department guidance, government policy, election promise, etc.)? Does fully funded mean able to make payments as, and when, due or that there are sufficient assets to cover the estimated liabilities? Is the scheme fully funded where government legislation states that they will meet all payments? What constitutes contributions? Is it only contributions from beneficiaries? What if the contributions are not paid by beneficiaries e.g. employers? What if contributions contain a significant element of redistribution? What happens when the intention is that the scheme be fully funded but it isn't (should this only be a consideration in the medium or long term)?

**Specific Matter for Comment 3**

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

ACAG does not have a specific detailed comment for this issue. IFRS 17 is not yet operative and the public sector impact remains unclear. Practical application of the pronouncements are required before a useful and reliable response is provided. ACAG however finds the basis for the analogy tenuous because social benefits are not underpinned by any form of insurance premiums or contractual arrangements with the recipients of social benefits. In considering possible approaches to addressing this issue, IPSASB may want to consider the nature of any contributions and in particular, whether or not contributions are a basis for accessing benefits or serve as a basis for determining the level of benefit available to the beneficiary. This discussion would need to distinguish between funding mechanisms intended to address social equity i.e. attribute the cost from government to a particular group of beneficiaries or those responsible for the cost from a social benefit scheme.

**Specific Matter for Comment 4**

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit? *This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

ACAG agrees with the obligating event approach, which will best represent the nature of social benefits in Australia. The current practice provided in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* para. Aus26.1 points to the specific experience where it is stated 'A present obligation for social welfare payments arises only when entitlement conditions are satisfied for payment during a particular payment period' is aligned with the obligating event approach. ACAG suggest that IPSASB include guidance clarifying whether eligibility criteria; confirms claim, alters entitlement or constitutes an obligating event.

The recognition of social benefits liability may be further complemented with a note on social benefits commitments according to existing policy. If deemed useful information, the disclosure may include quantitative information of the costs of social benefits over financial periods as estimates. In considering the issue of forward estimates and possible references to budget estimates<sup>2</sup> (generally prepared using GFS), it is important to consider the impact of where ED 63 departs from and is different to GFS (discussed in detail later).

It is ACAG's view that the absence of a contract and the broad range of mechanisms available to a government in establishing and delivering social benefits mean that the explicit requirement that 'satisfaction of eligibility criteria' is the only past event is overly prescriptive. ACAG suggests that while this is likely to be a frequent occurrence, the standard should also consider that other circumstances may indicate a different past event. ACAG consider that an approach consistent with that used for consideration of 'constructive obligations' as an 'obligating event' as provided for in AASB 137 (IAS 37) would be relevant.

ACAG notes the three IPSASB members' alternative view and supports some additional research about the economic substance of social benefits. The underpinnings relating to 'economic substance' are not particularly clear. ACAG further notes that the reference to recognition of a liability at an earlier point may lead to unreliable measurement, which may not achieve the qualitative characteristics of relevance and faithful representation in some circumstances.

However, ACAG agrees with the notion that social benefits will generally be short-term liabilities because a liability cannot extend beyond the point at which eligibility criteria are next required to be satisfied. This may result in entities knowing the social benefit amounts involved without the need to make material estimates of the liability. Consequently, most social benefit liabilities recognised will be recorded at nominal amounts without the need for discounting.

In accepting that social benefits will generally be short-term liabilities, ACAG acknowledges that typically social benefits represent a significant long-term commitment by governments and such

<sup>2</sup> For example; Australian Commonwealth Budget Paper No. 1 2017-18 (Statement 6-Expenses and Net Capital Investment) <http://budget.gov.au/2017-18/content/bp1/download/bp1.pdf>

information is useful to users. ACAG would therefore encourage IPSASB to develop long-term financial sustainability reporting. In developing an approach to reporting long-term commitments ACAG offer the following for consideration:

- There should be a logical relationship between financial statement reporting and financial sustainability reporting. Universal agreement on liability recognition point seems unlikely, however from a practical consideration what will matter is that users understand the different recognition points and how the long-term reporting flows through to financial reporting.
- Disclosures on the long-term reporting should clearly differentiate between actuarial movements and changes in recognition criteria.
- The approach taken should be consistent when applied to both payment and revenue items.



**Specific Matter for Comment 5**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32-33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - i. It is appropriate to disclose the projected future cash flows; and
  - ii. Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

ACAG supports the disclosure requirements excluding para. 34 disclosures or item (c). ACAG believe the 'projected future cash flow' information would be of limited use for the public sector and as a consequence the costs are likely to outweigh the limited benefits. ACAG's view is that disclosing future cash flows relating to social benefit schemes is incongruent with the obligating event approach; it is effectively stating that future cash flows represent some form of liability or commitment over the future periods. While this may not be the intention, it is a foreseeable outcome. ACAG instead suggest that IPSASB develop long-term financial sustainability reporting.

**Specific Matter for Comment 6**

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

**Advantages**

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.

This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

**Disadvantages**

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

ACAG is of the view that reporting on long-term fiscal sustainability should be separately considered as part of the integrated reporting project. ACAG do not believe that an overlay of additional information would add value to the financial reporting of social benefits. Users would likely find the information more complex and voluminous, and potentially less useful.



EKONOMISTYRNINGSVRKET

Date  
March 28, 2018  
Reference number  
2018-00319  
Our reference  
Ulrica Sandstedt

International Public Sector  
Accounting Standard Board (IPSASB)

## Comments on Exposure Draft 63, Social Benefits

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the proposals in Exposure Draft 63, Social Benefits.

ESV is the government agency responsible for financial management and development of GAAP in the Swedish central government.

### Overall opinion

We believe that our comments for specific matters in the consultation paper have been taken accounted for in Exposure Draft 63. We do not have any further comments.

We will not comment on the specific matters in the Exposure Draft. However, if you want our opinion on some of the specific matters outlined in the Exposure Draft, please feel free to contact us for further discussion.

### Concluding remarks

We would like to take this opportunity to express our support for the development of International Public Sector Accounting Standards.

Senior Advisor Anne-Marie Ögren and advisor Ulrica Sandstedt have prepared the comments given in this report.

Yours sincerely,

Anne Bryne

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Comments on IPSAS Exposure Draft 63 (Social Benefits, October 2017)
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## **Task force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII**

*March 21, 2018*

### **Acknowledgement and Disclaimer**

The IPSAS ED63 asked several questions in its REQUEST FOR COMMENTS. The responses prepared by the Task Force IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are presented hereafter.

The IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are three research networks that focus on Public Sector Accounting. The Task Force is made up of 15 researchers from these networks. The responses being presented are based on an analysis of the Consultation Paper, the IPSASB Conceptual Framework, relevant IPSAS, and various published research papers on the subject. Following various meetings and discussions, the members of the Task Force have reached the following common conclusions and suggestions.

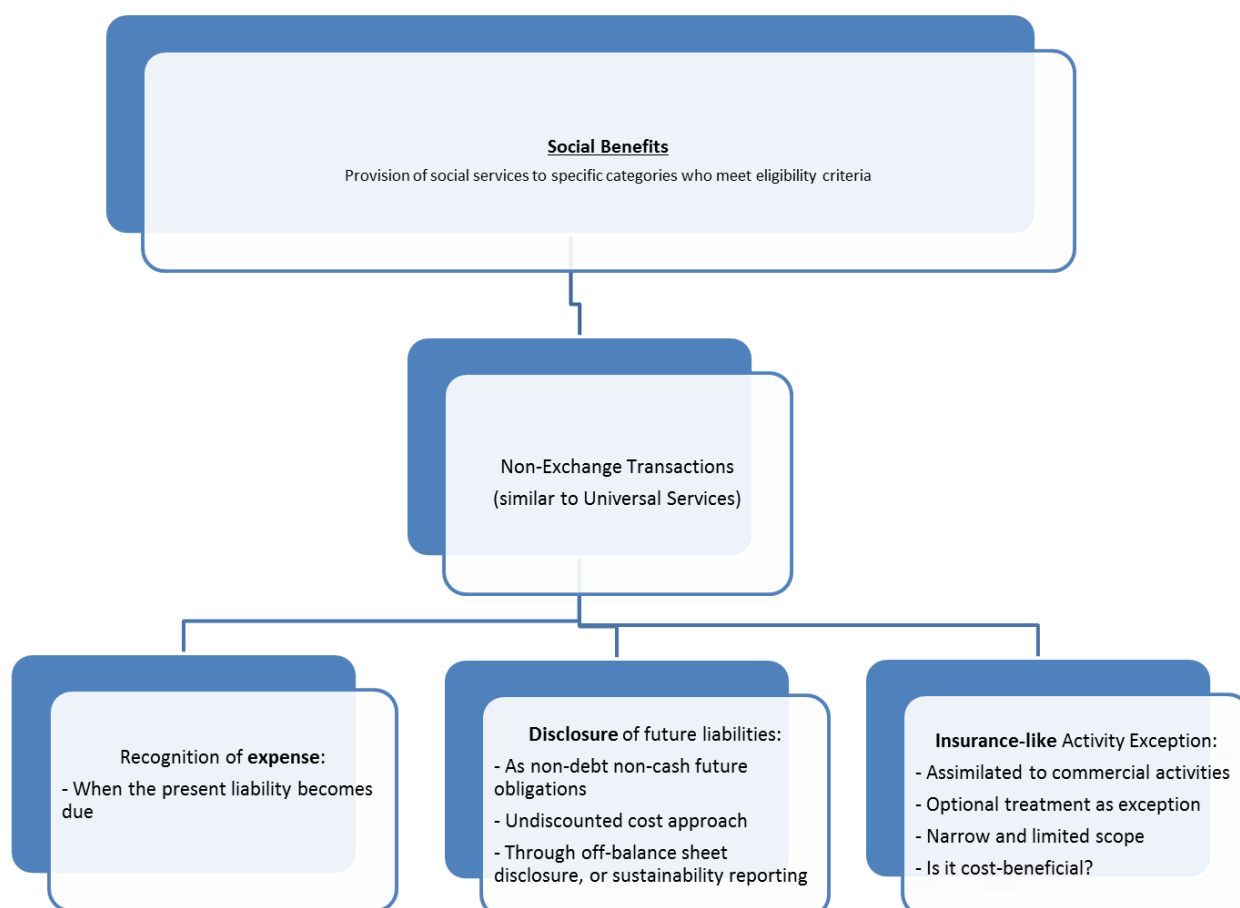
The views expressed in this document represent those of the members of the Task Force and not of the whole research community represented by the networks, and neither of the Institutions/Universities with which they are affiliated.

The following response on the IPSAS ED 63 on social benefits comprises two sections: the first section provides general remarks and suggestions; while the second one provides specific comments on requested matters.

### **General Comment on IPSAS Exposure Draft 63 (Social Benefits, October 2017)**

This section provides a rationale to better comprehend the comments and suggestions developed by this response. It comprises: an overview; a general comment on recognition; a general comment on measurement; and some concluding remarks and general recommendation.

This rationale is visualised by the following chart:



## Overview

In July 2015, the IPSASB issued the Consultation Paper on Recognition and Measurement of Social Benefits, followed by the Exposure Draft 63 on Social Benefits in October 2017. The objective of this IPSASB project is to establish the recognition and measurement requirements for social benefits.

Social benefits were previously considered by IPSAS19 on provisions, contingent liabilities and contingent assets. IPSAS19 excludes provisions related to social benefits from its scope when provided in non-exchange transactions.

The Exposure Draft 63 (ED63 hereafter) aims to recognise and measure social benefits as a current liability, with initial recognition and subsequent changes to be reported directly through the income statement as expenses.

The ED63 defines social benefits (ED63, #6) as an insurance-like activity aimed to (b) mitigate the effect of social risks on (a) specific categories who meet eligibility criteria, in view to (c) address the needs of society as a whole, while (d) differing from universally accessible services.

Drawing upon this definition as an insurance-like activity, the ED63 provides two accounting options:

- A) The insurance approach permits, but does not require, adherence to IFRS17 (insurance contracts) or equivalent national standards, when the social benefit scheme is fully funded from contributions and managed as an issuer of commercial insurance contracts. The insurance

approach involves recognising and measuring the liability at the present value of estimated future cash flows.

- B) The obligating event approach recognises the liability for the present obligation on the nearest next benefits which are estimated to be paid to current beneficiaries who do already meet all eligibility criteria at the reporting date.

### **General comment on matters of recognition**

Social benefits refer to goods, services and financial transfers provided in the pursuit of the social policy objectives of a government. Their provision does not therefore constitute an exchange transaction with its beneficiaries. These benefits may include the delivery of health, education, housing, transport and other social services to beneficiaries without exchange consideration, as well as payments of benefits to families, the aged, the disabled, the unemployed, veterans, and other social categories.

Provision of social benefits relates to specific mandates and/or missions of the public sector, where it performs specific economic functions of redistribution and spending. The management of social policy objectives targeting specific social categories may generate the provision of an ongoing flow of benefits through time and circumstances.

This provision depends on the ongoing specific policies run by governments, which are decided by fiat and may evolve over time. Incumbent beneficiaries may hold reasonable expectations to receive future benefits as long as they meet eligibility criteria, but future benefits do not constitute a commercial promise or current obligation by governments. In particular, eligibility criteria and other terms and conditions may be amended in due course. Therefore, the provision of social benefits should be assimilated to that of universal services. Both may then be treated as non-exchange transactions which involve current expenses by governments which provide them.

**From this general perspective, it is questionable that a new and specific standard is required to account for social benefits.**

**Instead, illustrative and interpretative guidelines may be included in the standard for non-exchange expenses.**

The ED 63 especially focuses on the possible recognition of a liability related to the flow of social benefits. At one point of time (i.e., the reporting date), a part of this ongoing flow constitutes a current liability when expense is incurred and payment is due, while the remaining part refers to future liabilities – incurred in the future or from past events - which may become due in future periods (Heald and Georgiou 2011, page 450-1 and figure 1; see also ED63, BC12). The current liability relates to the current expense that is incurred to provide the current period social benefits (ED63, BC59, points d and e). On the contrary, the future liabilities neither involve a current cash outflow to be paid, nor involve a past cash inflow to be repaid to a financial creditor. Until they become due, these future liabilities constitute non-debt non-cash obligations for the reporting entity. When they become due, their payment may be covered by contributions, general taxation, and public debt issuance proceedings (Biondi and Boisseau-Sierra 2017a).

One of the critical issues raised during the debate on the Consultation Paper (CP) and now the ED63, has been the identification of the specific point when future social benefits become a present obligation which triggers the measurement of a current liability (ED63, BC59). The dissenting opinion summarised by the Alternative View in the ED63 insists that no universal recognition point may be established for all social benefit schemes. We recommend recognising the current liability when payment becomes due (ED63, BC59, points d and e), at the same time when the expense is incurred. This reliable and easily identifiable criterion reduces uncertainty and complexity concerning the universal recognition point. It also makes financial reporting more compatible with budgetary accounting.

The definition of social benefits as an insurance-like activity points to the mitigation of social risks (ED63, #6 and #BC20). Risk occurrence is an occasional event. When the triggering event occurs, the risk materialises and the insurance is paid to mitigate the negative effects of that risk. Some social benefits, such as unemployment transfers, may fit this definition. However, other social benefits such as state pensions are regular events, triggered by social conditions. When beneficiaries meet the eligibility criteria (such as passing the age threshold), they shall receive the benefits from that particular social benefit scheme. Ageing is not as much a risk as a condition that is regularly met when time goes by and eligibility criteria are satisfied.

From this perspective, the insurance-like definition does identify a narrow subset of social benefit policies (see also ED63, #BC44), while failing to provide a general definition and a consistent distinction from universally accessible services, such as healthcare systems and financial assistance to access them. Universally accessible services are certainly provided for the benefit of society as a whole; they may be limited to some categories (not for all) and access to them may be subject to eligibility criteria and non-commercial consideration (not for free) (comp. with ED63, #6 and AG7). For instance, primary school level is made accessible for free when the age threshold is triggered; while higher school levels are provided against non-commercial consideration and may involve some admission tests and other eligibility criteria. Moreover, universal healthcare services may be made accessible through some financial aid scheme that enables access for those who are unable to afford the required consideration. Therefore, we recommend assimilating social benefits to universal services, treating both consistently.

For the sake of this specific standard focusing on social benefit liability, our recommended treatment of social benefits as universal services makes it easier to account for provisions in kind and in cash. When a social benefit is generally provided in kind, it may be assimilated to the production of a universal service. When a social benefit is generally provided in cash, the recognition of a specific liability occurs when the payment becomes due, making its specific expense similar to other current expenses for universal service provision.

### **General comment on matters of measurement**

Concerning measurement, the insurance approach accounting option introduced by ED63 requires applying accounting for insurance contracts as established by IFRS17 or equivalent national standards. In this context, the ED63 may better clarify the distinction between life-insurance (pensions) and non-life insurance. Non-life insurance transactions should not be set forward as a

reference for social benefits because non-life insurance amounts to be paid are only recognised when they become due.

The alternative option develops measurement requirements for the obligating event approach. As a general principle (ED63, #17, #19, #22), this latter approach requires estimating the present discounted value of the future fulfilment costs that will be incurred for current beneficiaries until the next period at which eligibility criteria are required to be satisfied. This value is then recognised as a liability, which is immediately passed through the income statement as an expense. Over time, the unwinding of discounting is also passed through it as an interest expense (ED63, #25).

However, the application guidance (ED63, #AG21, #AG22) clarifies that the liability cannot extend beyond the point at which eligibility criteria will be next satisfied and is therefore expected to be short-term and settled within twelve months of the reporting date. The time value of money will be therefore not material. Consequently, the recognised amount will be generally not discounted, and this accounting option ends up applying a cost approach to the liability measurement. From this perspective, to avoid any possible misunderstanding, the standard may be more clear-cut and simple treating the liability measurement straightforwardly as a short-term liability.

Accordingly, information provided under the two accounting options – the insurance approach and the obligating event approach – are generally incomparable with each other.

The disclosure requirements for the obligating event approach option establish another measurement method which refers to the best estimate of undiscounted estimated cash outflows related to current and future beneficiaries in the next five reporting periods (ED63, #34). This latter method promises to respond to longer-term information needs without having recourse to discounting. Discounting of expected long-term cash flows raises major conceptual and application difficulties and requires systematic updates, exposing reported information to hazardous fluctuations and structuring opportunities (Biondi and Sierra 2017 and 2017b).

The retained measurement of the social benefit liability raises general concerns for public debt management and reporting. As such, this liability constitutes a non-debt obligation which should be distinguished from debt obligations which are generally issued as marketable financial securities. In particular, the non-cash amount derived from its discount unwinding should be distinguished from the cash amounts to be paid for debt service (interest charges and debt instalments).

Moreover, its initial measurement requires the whole liability to be expensed at injection through the income statement (ED63, #17). While this may be a minor issue if the liability is short-term, the retained accounting method should be made more consistent with the flow of time in splitting the liability progression between current and future periods. The fact that a liability is a present obligation for future costs does not imply it to become a full expense at the time of its recognition.

Last but not least, since users risk mingling together debt and non-debt obligations under a single liability class, off-balance sheet disclosure should be preferred. At the present, the IPSAS1 (#88) does not include a specific class for these non-debt non-cash obligations which differ from provisions and financial instruments.

In conclusion, we do recommend excluding social benefit future obligations from balance sheet recognition. Off-balance sheet information may be based upon estimation of future undiscounted



cash outflows, in line with the disclosure requirements for the obligating event approach in the ED63. This disclosure may be included either in the notes to financial statements, or in specific sustainability reporting statements to be developed.

### **Concluding remarks and general recommendation**

The ED63 aims to provide a single standard for recognition and measurement of social benefit liabilities.

Its insurance-like definition of social benefit schemes enables the application of IFRS17 or equivalent national standards to those schemes, but points to a limited subset of them, failing to provide a general and consistent approach to social benefits in general.

The standard may become more useful for users and more consistent with the economic substance by focusing on a working definition of non-exchange transactions and related expenses incurred to provide regular social services over time and circumstances, including social benefits. This focus would make their definition closer to the scope of social benefits in GFS, which includes social benefits with employee benefits and universally accessible services. In this context, social benefits may be provided both in kind and in cash and are assimilated to universal services.

The measurement of future obligations related to social benefits may exclude the recourse to discounting, in line with the alternative method introduced for disclosure requirements under the obligating event approach by the ED63.

These non-debt future obligations for social benefits should be clearly distinguished from debt obligations owed by public sector entities.

Since users risk mingling debt and non-debt obligations under a single liability class, off-balance sheet disclosure should be preferred, in line with the ESA2010 on employee benefits.

The passing through the income statement should be submitted to a restrictive test, limiting the expense to the part of the liability which has become due, in line with GFS.

### **Requested Comments by Exposure Draft 63 (Social Benefits, October 2017)**

This section addresses the specific matters for comment requested by the ED63.

#### **Specific Matter for Comment 1:**

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

We recommend assimilating social benefits to the provision of universal services. Both are non-exchange transactions and involve non-exchange expenses. Social benefits may then be assimilated

to universal services triggered by specific conditions (eligibility criteria). From this perspective, it is questionable that a different standard specific to social benefits is necessary or suitable.

The IPSAS Board itself seems to be aware that the distinction between social benefits and universal services is functionally and substantially inconsistent (ED 63, BC 20, c): "... social benefits and non-exchange expenses form a continuum, and [...] any boundary will, to some extent, be artificial". Both perform social policy objectives by governments.

The reference to the individual's eligibility seems appropriate to identify both the current expense and the future obligations associated with these activities. This criterion may characterise social benefits as non-exchange transactions providing social services that target eligible individuals.

On the contrary, the notion of social risks seems too narrow and difficult to apply (ED63, BC20), since some eligibility criteria are not triggered risks but social conditions such as ageing.

In sum, universal services are not substantially different from social benefits since the former are not necessarily for all and for free (see also response to comment 2).

**Specific Matter for Comment 2:**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

We disagree with the definition of social benefits as an insurance-like activity targeting mitigation of social risks. Risk is an occasional event possibly triggered in some circumstances. When that event occurs, the risk materialises and the insurance benefit is paid to mitigate its negative effects.

On the contrary, social benefits are non-exchange transactions with beneficiaries. They accomplish social policy objectives of a government. They respond to specific eligibility criteria which are not necessarily risks, but social conditions such as ageing, poverty, disability or unemployment.

The retained distinction with universally accessible services is weak, since the latter may involve non-commercial consideration payments (not for free) and conditions equivalent to eligibility criteria for access (not for all).

Therefore, we do recommend assimilating social benefits to universal services, treating both consistently. Both may be provided in cash (consistent with social benefit payments) and in kind (consistent with production of regular social services, including to specific categories).

**Specific Matter for Comment 3:**

Do you agree that, with respect to the insurance approach:

(a) It should be optional;

- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?
- If not, how do you think the insurance approach should be applied?

We do agree that the insurance approach should be optional, and the retained application criteria do clearly identify the key characteristics of fully funded schemes that are managed as commercial insurance activities. Additional disclosures are consistent with this identification.

However, the reference to IFRS17 or equivalent national standards may be too narrow. Since the economic substance of these schemes is identified as a commercial insurance activity, national standards on insurance may be acceptable.

Although appropriate, this insurance approach targets a narrow subset of social benefit schemes, with a very limited scope of application (ED63, #BC33 and #BC44). Its burdensome application may outweigh its benefits.

From this perspective, this subset may be treated as an exception to the general application of the accounting for non-exchange expenses.

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

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

The dissenting opinion expressed by the Alternative View clearly expresses the difficulties raised by choosing one universal point of time when future obligations trigger a current liability. Moreover, this choice may raise distorting incentives, inducing behaviours which seek to reduce the time span of social benefits to avoid recognition of bigger liabilities and bigger related expenses.

More generally speaking, although incumbent beneficiaries may develop reasonable expectations to receive future social benefits as long as they meet the eligibility criteria, the eventual provision depends on social policy decisions by governments, which are taken by fiat and may evolve over time.

Therefore, the satisfaction by the individual beneficiary of all eligibility criteria for the next benefit is not an appropriate criterion to identify the short-term part of the social benefit future obligations that is expected to become due in the next period. The recognition of the current liability for social benefits should occur when the current expense is incurred and its payment is due (ED63, BC59, points d and e).

A different approach may be based upon the alternative accounting method introduced by the disclosure requirements under the obligating event approach (ED63, #34). This approach is based upon the passage of time and subject to eligibility conditions. It should clearly distinguish between the current liability which is due, and the future obligations that may become due in future periods, while the non-debt non-cash nature of the latter is clearly acknowledged.

The impact on the income statement should be consistent with the incurrence of expense related to social benefits, imposing a restrictive test on whether (and which part of) the current liability has become payable (ED63, BC59, points d and e).

Since users risk mingling debt and non-debt obligations under a single liability class, off-balance sheet disclosure should be preferred.

Therefore, information about the future obligations related to social benefits may be disclosed by off-balance sheet notes to financial statements, or by sustainability reporting statements to be developed.

**Specific Matter for Comment 5:**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

We agree on the disclosure requirements, although a clear distinction should be made between these future obligations which do not involve past or present cash flows, and the cash liability related to public debt obligations.

In this context, five years may offer a conventional time horizon, although the most appropriate time horizon depends on the economic substance of each and every social benefit scheme with reference to current and/or future beneficiaries.

**Specific Matter for Comment 6:**

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

**Advantages**

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.

This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

**Disadvantages**

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

We agree that the IPSASB should undertake further work on reporting on long-term financial sustainability of public sector entities.

Special attention should be paid to the overall economic functions of redistribution and spending; the public sector specific recourse to non-debt obligations; and the public sector specific use of public debt management in deficit-spending mechanisms.

The ongoing evolution of future obligations may then be covered through such a specific report on financial sustainability, while being scoped out from financial reporting. A summary of this report may be disclosed in off-balance sheet notes to financial reporting statements when relevant.

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Signed: **Task force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII**

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**Date: 27<sup>th</sup> March 2018**

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**CANADA**

**IPSASB EXPOSURE DRAFT 63 ON SOCIAL BENEFITS**

The Public Sector Accounting Standards Board (PSASB), Kenya was established by the Public Finance Management Act (PFM) No.18 of 24<sup>th</sup> July 2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28<sup>th</sup> February, 2014 and has been in operation since.

The Board is mandated to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all state organs and Public entities in Kenya and to prescribe internal audit procedures which comply with the Public Finance Management Act, 2012.

The Public Sector Accounting Standards Board, Kenya is pleased to submit its comments on Exposure Draft 63 on Social Benefits to the International Public Sector Accounting Standards Board. PSASB Kenya supports the work of IPSASB in providing guidelines on accounting for Social Benefits in the public sector in order to meet the needs of users of General Purpose Financial Reports for the purposes of accountability and decision making. In many jurisdictions, expenses relating to Social Benefits form a significant proportion of the total expenditure.

PSASB Kenya responses on Specific Matters for Comment are documented in the attachment for your consideration.

With kind regards,

**BERNARD NDUNGU, MBS**  
**CHAIRMAN, PUBLIC SECTOR ACCOUNTING STANDARDS BOARD**



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**PSASB's Responses to Exposure Draft 63 on Social Benefits****Specific Matters for Comment 1**

Do you agree with the scope of this Exposure Draft and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

*PSASB agrees with the Scope of this Exposure Draft and specifically the exclusion of universally accessible services in order to provide a more principles based, less artificial boundary between social benefits and non- exchange expenses. PSASB is of the view that this distinction is necessary since the on- going project on Accounting for revenue and non- exchange expenses covers universally accessible services.*

**Specific Matter for Comment 2**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

*PSASB agrees with the definition of universally accessible services as outlined in the exposure draft. However, it's the Board's opinion that the definition given for social benefits is more of a description than a definition. The definition of social risks should also be modified. PSASB proposes the following definitions for social benefits and social risks.*

*Social benefits: These are cash transfers, goods in kind and/or services in kind provided to individuals and/or households who meet eligibility criteria, mitigate the effect of social risks and address the needs of the society as a whole but are not universally accessible services.*

*Social risks: Social risks are events or circumstances that relate to the characteristics of individuals and/or households and may adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.*

**PSASB's Responses to Exposure Draft 63 on Social Benefits****Specific Matter for Comment 3**

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate? If not, how do you think the insurance approach should be applied?

*PSASB agrees with all the aspects above in relation to the insurance approach. However under the criteria for determining the appropriateness of the insurance approach under paragraph 9 of the exposure draft should be qualified as follows:*

- 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 insurer of insurance contracts, including assessing the financial performance and the financial position of the scheme on a regular basis.*
- c. Where one or both of the criteria above are not met, the Social Benefit Scheme should be recognized and measured under the Obligating Event Approach.*

**Specific Matter for Comment 4**

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement*



## **PSASB's Responses to Exposure Draft 63 on Social Benefits**

*PSASB does not agree with this approach as presented in the Exposure Draft. This approach prescribes a single recognition point applicable to all social benefits which the Board considers inappropriate. For example, an unemployment benefit scheme may give rise to short term liabilities while a retirement benefit will give rise to a long term liability.*

*PSASB opines that each Social Benefit Scheme should be recognised and measured in accordance to its economic substance. Prescribing a single recognition point to all Social Benefit Schemes will not provide users of financial statements with the information they require to assess the impact of social benefits. In Kenya, the Government transfers cash to all its citizens who are aged 70 years and above on a monthly basis, through budgetary allocation irrespective of their economic status. It would be more useful for the Government to assess the implication of this Scheme in their Statement of Financial Position for decision making purposes in the short and long term over the life of eligible beneficiaries. In this case being alive also becomes a criterion of measuring the liability.*

### **Specific Matter for Comment 5**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
  - (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
  - (c) For the future cash flows related to an entity's social benefit schemes (see paragraph 34):
    - (i) It is appropriate to disclose the projected future cash flows; and
    - (ii) Five years is the appropriate period over which to disclose those future cash flows.
- If not, what disclosure requirements should be included?

*PSASB agrees with the disclosure requirements under the obligating event approach. However, given our response to Specific Matter for Comment 4, disclosure c above on future cash flows related to an entity's social benefit schemes will be applicable to schemes that give rise to short- term liabilities since this information on schemes that give rise to long term liabilities will be captured in the Statement of Financial Position of the reporting entity.*

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

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

**PSASB's Responses to Exposure Draft 63 on Social Benefits****Advantages**

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing. This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

**Disadvantages**

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

**PSASB's Responses to Exposure Draft 63 on Social Benefits**

*IPSASB should undertake further work on reporting on long-term fiscal sustainability in order to assess convergence of issues for a mandatory standard to be developed. This will enhance the use of prospective information derived from GPFs for decision making process.*

*In addition to increased debt within our jurisdiction, there are significant engagements on Public Private Partnerships (PPPs). Information on long- term fiscal sustainability of the PPP projects will enhance the Government's assessment of these projects' sustainability, its ability to settle the obligations that arise from these projects and its risk exposure while taking on new projects.*





29 March 2018

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**Re.: Exposure Draft 63: Proposed International Public Sector Accounting  
Standard: Social Benefits**

Dear Mr. Stanford,

We would like to thank you for the opportunity to provide the IPSASB with our comments on Exposure Draft 63: Proposed IPSAS: Social Benefits; hereinafter referred to as "ED 63". The IDW also contributed to previous work including halted initiatives by predecessors of the current IPSASB, and more recently responded to the 2015 Consultation Paper: Recognition and Measurement of Social Benefits in a letter dated 20 January 2016.

The provision of social benefits is likely one of the most significant policy (and accounting) issues for most, if not all, governments, and accounting for social benefits could potentially impact the future design of many social benefit schemes worldwide. This project is therefore highly sensitive from a political and a practical point of view, besides being of reputational importance for the IPSASB itself.

The IPSASB's Conceptual Framework underlines the objectives of financial reporting. If financial statements are not to lose significance, it is essential that they and any further supplementary financial reports are perceived as useful for accountability and decision-making purposes, especially in the context of social benefits, by the wide range of intended users.

We continue to support this highly important project and outline the IDW's significant concerns as to specific key issues within general comments in this letter.

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
Dr. Klaus-Peter Feld, WP StB;  
Dr. Daniela Kelm, RA LL.M.

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We have included our responses to the various Specific Matters for Comment in the appendix to this letter.

### **General Comments**

#### *Key concerns in regard to ED 63's approach to liability recognition and disclosure*

As explained in our responses to Specific Matters for Comment 4 and 5 in the appendix to this letter, we have several significant concerns as to the approach proposed in ED 63 to liability recognition for social benefits. The proposed accounting outcome fails to recognize the fundamental difference in economic substance between social benefits schemes that are designed to transfer wealth within a reporting period (i.e., where tax revenue is used to provide social benefits to the needy – e.g., benefits are provided to newly arrived refugees etc.) and those social benefit schemes designed to transfer wealth between generations. The latter type of scheme generally suggests that future beneficiaries will have a well-founded expectation or often even a legal right to receive benefit subsequent to the end of reporting period; thus under the Conceptual Framework, the reporting entity would recognize a liability. Of course some social benefit schemes may have components of both, where, for example, individuals' contributions made in one period finance current beneficiaries in that period and also "earn" the contributor an entitlement to receive benefit at a later point in time. We also reject the proposal to treat being alive as a recognition criterion, as we explain in more detail below. In addition, we view the proposed disclosures as inadequate. In our opinion, the proposed approach is not in line with either the Conceptual Framework's approach to liability recognition for all social benefit schemes and cannot fulfil the objective set forth in either the Conceptual Framework or ED 63.2. For these reasons, we support the Alternative View.

Specifically, proposing a one-size-fits-all accounting treatment that is, in essence, a scheme administration approach whereby no liability beyond the next instalment of a benefit will be recognized, is counterintuitive in respect of certain social benefit schemes in our jurisdiction. Accounting under ED 63 cannot result in a fair presentation of the economic substance of different social benefits and their respective impact on an entity's financial position. Specifying "being alive" at the level of an individual beneficiary as a recognition criteria constitutes flawed logic, since such criterion is incapable of being either proven or disproven into the future. In our view this must constitute a measurement criterion, as is the case elsewhere in accounting standards and other literature. This aspect of the proposal introduces an entirely artificial construct, which lacks real justification. Indeed, the IPSASB's

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extant conceptual approach in regard to long-term liabilities elsewhere e.g., IPSAS 25/39 treats “being alive” as a measurement criterion.

Social benefit schemes are not all comparable; thus striving for comparability (the primary argument cited in the Basis for Conclusions) at the expense of other qualitative characteristics set forth in the Conceptual Framework is misplaced.

In our view, irrespective of whether the IPSASB were to revise the approach for liability recognition, the proposed disclosures cannot meet the objective of disclosure as described in paragraph 29, as they will generally be insufficient for both accountability and decision-making purposes. Firstly, for some schemes it may be inappropriate to limit disclosure to future cash outflows to current beneficiaries and beneficiaries becoming newly eligible to receive benefit. For some schemes, additional disclosures may be needed as to the current entitlement to receive benefits at a future point in time which current contributors accrue as their contributions grow. Secondly, disclosure of future cash outflows is one-sided, as it does not indicate the magnitude of any corresponding anticipated contributions or other earmarked funding and shortfall/ excess, which may be appropriate for certain schemes. Finally, disclosure for a period of just five years may be inappropriate for social benefit schemes not designed to operate on a shorter term basis.

In this context, we also note that coordination with other current IPSASB projects (specifically revenue and non-exchange expenditure and the strategy and work plan) will also be essential.

*Impact on the perceived usefulness and relevance of financial statements*

In view of the high significance of social benefits for governments and those public sector entities tasked with administering social benefit schemes, including the impact on the financial position, financial performance and cash flows of the entity, we are extremely concerned that financial statements that include the very limited information that would result from application of ED 63, will themselves lose significance. In this context we also refer to our more detailed comments below on the need for financial statements to reflect the economic substance of social benefit schemes.

Financial information derived from robust accounting systems is highly important to governments in their capacity as users, because of its potential to inform policy making. Whilst information provided by general purpose financial statements and related reports will not drive policy decisions as such, a lack of transparent financial information is at best unhelpful and at worst may be a preventative factor in



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ensuring optimum and timely policy adjustments are made. For example, for various reasons an unsustainable scheme may not be addressed in good time if reliable and relevant information is not publically available to reflect the full financial extent of any given problem. Similarly, without transparent financial information the full financial impact of any policy changes addressing identified problems may not be made sufficiently transparent.

Individual citizens (who are potentially both contributors to, and recipients of, social benefit schemes) have a keen interest in the financial impact of social benefits. The individual interest of older generations may grow in proportion to certain factors including the amount of their own contributions toward state pensions, the size and nature of the benefit and their personal likelihood of becoming eligible to receive that benefit. Similarly, younger generations may have more interest in future developments of the pension system and sustainability of the scheme.

Major policy changes affecting social benefits, e.g., raising the entitlement age for state pensions, will generally be understood as being of major significance in any evaluation of public sector financial capacity. Financial statements that appropriately track such changes will gain in relevance for many users, who would otherwise have to turn to other sources of information to make their own assessments. Our concern is that ED 63's proposed approach to liability recognition for social benefits may serve to undermine the role of financial statements in providing information relevant for decision-making.

*Increased interest in IPSAS adoption adds pressure to finalize the social benefits project*

In recent years interest in the IPSASB's work has increased, with new jurisdictions applying IPSASs or using them as a firm reference point for their national financial reporting frameworks. This is a very positive development, and we congratulate the IPSASB on the increase in buy-in to IPSASs as a major ongoing achievement.

However, as governments are always in a position to be selective in deciding whether or not to adopt, and, where applicable, also how to transpose IPSASs to their particular circumstances, this development increases the pressure on the IPSASB to deliver accounting solutions that are acceptable to potential adopters within as short a period of time as possible.

There are demands from some quarters for the IPSASB to focus on ensuring that the accounting solution is politically palatable and straightforward in application rather than on achieving technical perfection, which some perceive could only be achieved at the expense of the former.

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The outcome under ED 63 – no significant liability for social benefits beyond prepayments and underpayments to current beneficiaries – may be politically palatable to some; however the message that an entity has no liability beyond the next payment may not be palatable to individual citizens, especially in respect of schemes which require them to contribute over their working life and for which they will have a valid expectation of entitlement or legal right to receive benefits in the future – an entitlement that often increases over the time (or in relation to the total amount) of contribution.

Consequently, in finalizing ED 63 the IPSASB is tasked with balancing calls for political acceptability with the Board's own reputational need for conceptual and technical soundness.

In our opinion, it is essential for the credibility of the Board that the latter be driven primarily by reference to, and appropriate alignment with, the Conceptual Framework. We agree with the Alternative View that closer alignment with the Conceptual Framework should be achieved in finalizing the standard.

In view of the significance and long-standing contentious nature of the issues involved, including concerns such as those discussed in this letter, we view the current plan whereby the IPSASB will commence its review of constituents' comments in June 2018 and approve a final IPSAS in December 2018 as overly optimistic and unrealistic.

#### *Reflection of the economic substance of social benefit schemes*

Previous initiatives relating to accounting for social benefits, and, in particular, determining whether or not public sector entities should present a liability in their statement of financial position in relation to social benefits, have proven highly contentious. Perspectives have differed widely as social benefit schemes themselves vary widely.

There continues to be discomfort surrounding the so-called accounting mismatch arising from the inclusion of a liability to reflect a commitment to provide benefits on an ongoing basis that are to be settled from future income, which according to the asset definition of the Conceptual Framework cannot be recognized as a balancing receivable in governments' balance sheets. Many state pension schemes operate, by design, on the basis of one generation's contributions (earmarked or otherwise) being used to pay state pensions to an older generation. Other social benefit schemes such as unemployment benefit or child allowance are also financed by current income, but follow wealth redistribution aims. For this reasons many governments have used a cash accounting basis in accounting for social benefits

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arguing that their aim is to match outgoings with income over the period. According to the Conceptual Framework, because an entity lacks control over future funding it cannot recognize an asset to match against a liability recognizable under a social benefit scheme (when based on valid expectations or legally enforceable). Many argue that recognition of a liability without “matching” recognition of its funding inappropriately distorts an entity’s financial position and does not result in fair presentation of the entity’s financial position.

There are various reasons for the discomfort and the desire to avoid so-called accounting mismatch when specific schemes are financed from future revenue. For example, in the private sector, the presentation of negative equity within an entity’s statement of financial position is generally highly problematic in the context of insolvency decisions, whereas, due to the nature of the public sector, a similar statement of financial position would have a different relevance in the public sector. Also, an initial recognition of an existing liability that had previously not been recognized would impact the statement of financial position rather than the statement of financial performance. From an accruals budgeting perspective there are concerns about the possible accounting impact of a significant change to a particular social benefit policy. Were a change resulting in a significant increase (or decrease) in liability to be accounted for as a one-off expense (or revenue item) in the period of change, not only would such accounting treatment not reflect the fact that the change is designed to be financed (or absorbed) over a future period, it would result in a significant – and thus not palatable – current budget imbalance. Given the potential for accounting to shape political decisions, an acceptable accounting solution would need to be developed to account for the impact of social benefit policy change so that they are acceptable for budgeting purposes.

In our opinion, where the intention is to fund a particular scheme from future income any liability for the ongoing provision of benefits is intentionally not matched with an existing asset. It is important that this scheme design feature is appropriately reflected in the entity’s financial position. Consequently the IDW believes that the ED 63’s denial of liability beyond the next payment in respect of all social benefits results in an unrealistic portrayal of the entity’s financial position and its interaction with citizens.

Indeed, where in a jurisdiction it is common knowledge that future generations will be called upon to finance specific ongoing benefits, citizens have a general awareness of the existence of a liability placed on the future generations. Most citizens will also be aware that anticipated demographical developments pose challenges which they expect their governments to address constructively. Taking corrective action cannot be equally palatable to all citizens. The message given by

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the approach proposed in ED 63 “no liability because you cannot prove you will be alive to collect in future” could at best be viewed as lacking transparency and, in the extreme, could lead to uncertainty and a public lack of trust in social benefit schemes.

All previous IPSASB projects were discontinued pending the completion of the Conceptual Framework, which, although non-authoritative, is intended to guide standard setting in the public sector. As the Conceptual Framework has now been completed, the IPSASB has committed to addressing the accounting for key public specific sector issues not fully dealt with in the current suite of IPSASs. We firmly believe that the IPSASB needs to refer back more closely to its Conceptual Framework in finalizing an IPSAS for social benefits.

In our response to the Consultation Paper, we expressed our support for the IPSASB to focus on the objectives of financial reporting identified in the Conceptual Framework, rather than follow constituents’ political preferences that may diverge therefrom. All stakeholders (i.e., fiscal managers, the voting public, providers of finance, etc.) need relevant, reliable, faithfully representative and transparent information as to the impact on an entity’s financial position and its financial performance of social benefit provision decisions. We continue to believe that this remains the most appropriate course of action.

#### *Specific concerns as to technical soundness*

The IDW supports the Alternative View expressed by three IPSASB members.

As explained above and detailed in the appendix to this letter, we have serious concerns as to the technical soundness of ED 63’s approach.

The IDW believes that the proposed approach to liability recognition is misplaced given the diversity of social benefit schemes. We note that both the Consultative Advisory Group (CAG) as well as a large majority of respondents to the Consultation Paper (25 of 36) – including the IDW – were of the opinion that an obligating event can arise at different points, depending on the nature of the social benefit.

We further note that the notion of using “being alive” as a recognition criterion was discussed in an earlier project that was discontinued pending development of the Conceptual Framework. The notion of using “being alive” as a recognition criterion was not put forward in the 2015 Consultation Paper and thus constituents’ views were not sought on this aspect. In addition, the treatment proposed in ED 63 is inconsistent with that in other standards, such as IPSAS 25/39. We therefore believe these aspects in particular need to be subject to more thorough Board

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deliberation now that the Conceptual Framework has been completed and once constituents' comments are analyzed.

As we discuss in more detail in the appendix, we are concerned that by focusing on comparability (which is unwarranted to the extent that schemes are not necessarily comparable) – which from our reading of the Basis for Conclusions (BCs) seems to be the IPSASB's primary argument for the approach taken in ED 63 – other qualitative characteristics identified in the Conceptual Framework, specifically relevance and faithful representation cannot be met.

- In our view, a more balanced approach to achievement of the qualitative characteristics (e.g., faithful representation and relevance) is needed. The final standard should allow for the fact that different social benefit schemes may need to be accounted for differently, particularly in regard to liability recognition.

Furthermore, as we explain in more detail in responding to the Specific Matters for Comment 4 and 5 in addition to developing a final standard to address issues raised in the Alternative View a more thorough consideration of specific measurement is warranted.

We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,

Klaus-Peter Naumann  
CEO

Gillian G. Waldbauer  
Head of International Affairs

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## Appendix

### **Specific Matter for Comment 1**

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?*

*If not, what changes to the scope would you make?*

We agree with the proposed scope.

We agree with the exclusion of universally accessible services for the reasons explained in BC21(b).

We also specifically agree that, where appropriate, the IPSASB should reduce differences with the statistical basis of reporting (BC15 and BC18).

### **Specific Matter for Comment 2:**

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?*

*If not, what changes to the definitions would you make?*

The definitions of social benefits and of universally accessible services specifically include and exclude references to social risks, respectively. Thus both these definitions need to be understood in the context of the definition of social risks. Each of these definitions must be sufficiently clear and self-contained to allow an unequivocal delineation between benefits within the scope of the standard and potentially (similarly motivated) benefit provision that is not. Application guidance cannot be used to change or limit the application of these definitions.

The proposed definition of social risks specifically relates the condition(s), event(s) or circumstance(s) to the characteristics of individuals and/or households that may (adversely) affect their welfare. For instance, an individual is, or has become, unemployed; and individual or household is, or has become, homeless, an individual exceeds, or has reached, retirement age etc. However, these definitions specify no limitations depending on the event or circumstance causing a change in the particular characteristic of the individual/household i.e. an event or circumstance triggering unemployment, homelessness etc.

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Whilst we agree with these definitions, we believe that two specific aspects of related application guidance need to be clarified.

Firstly, paragraphs AG 8-10 may lead to confusion, as they could be understood as implying that *total aid* provided in the aftermath of an earthquake would always be outside the scope of ED 63, whereas it seems to us that a component of the total aid typically provided could fall within the definition of social benefits.

AG 8-10 ought to specifically clarify that reporting entities may provide disaster aid relief comprising different components. Some components may fall within the scope of ED 63 (an individual may become unemployed or homeless in the aftermath of an earthquake, and – as noted above – the underlying cause is of no relevance for the definition of social benefits). Individuals or households may be provided with additional aid outside the scope of ED 63, e.g., a one-off payment to rebuild or refurbish homes provided in response to the risk that an earthquake causes structural damage, i.e., similar to expenditure for infrastructure needing to be replaced. Such aid would constitute discretionary non-exchange expenditure outside the scope of ED 63. A government may well use discretion in providing such aid – for example to discourage rebuilding in an area susceptible to further geological disruption etc.

Secondly, the provision of health care is also an area that we believe might be confusing in practice. According to the definitions in paragraph 6, social benefits are provided to mitigate social risks, the definition of which specifically includes health as a related characteristic of an individual. Thus under the proposed definitions, healthcare benefits and benefits for incapacity resulting from ill-health fall within ED 63. AG 6 distinguishes social benefits organized to ensure that the needs of society as a whole are addressed from insurance contracts organized for the benefit of individuals or groups of individuals; thus the insurance approach might be appropriate in accounting for some social benefits for healthcare (where criteria in paragraph 9 are satisfied).

However, AG 7 contradicts the definition of universally accessible services (it stipulates that there is no relation to social risks – social risks include the characteristic of health), by contrasting the provision of healthcare insurance to individuals who are unable to afford private healthcare (social benefit under ED 63) with a universally accessible healthcare service open to all, which according to AG 7 does not meet the definition of a social benefit for the purposes of ED 63. Healthcare arrangements may vary widely between jurisdictions. We believe AG 7 needs revising to be consistent with the definitions and that additional guidance will be needed in determining whether a particular healthcare service or scheme will, or will not, be within the scope of ED 63.



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**Specific Matter for Comment 3:**

*Do you agree that, with respect to the insurance approach:*

- (a) It should be optional;*
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;*
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

*If not, how do you think the insurance approach should be applied?*

We suspect that currently relatively few social benefits are actually managed as true insurance schemes. However, we would encourage the IPSASB to monitor the prevalence of insurance-based social benefits going forward, in order to determine whether it may become appropriate for the IPSASB to develop an IPSAS counterpart to IFRS 17 in future for the public sector. In the shorter term we agree with the proposed approach, and respond to the subsections of this Specific Matter for Comment in turn:

- (a) The existence of options within IPSASs is one aspect of IPSASB's output that continues to draw criticism from various parties. In the longer term – if social benefit schemes eligible for insurance accounting become more prevalent – consistency in accounting treatment would be preferable to the proposed introduction of an option. We would urge the IPSASB to review whether this option remains relevant in future. Furthermore, as drafted, the option is available on a scheme-by-scheme basis. Were the final standard to retain this option, it would be appropriate to clarify that an entity shall be consistent in applying the insurance approach where it operates more than one “insurance” social benefit scheme.
- (b) For a new social benefit scheme the criterion in paragraph 9 (a): “The social benefit scheme is intended to be fully funded from contributions” “intention” is appropriate, but for an established scheme intent alone is insufficient. We agree that the proposed criteria would be appropriate provided they are strengthened by specifying that “intent” (see paragraph 9(a)) also needs to be backed up by a suitable track record of full funding over time. Specifically, wording such as “look and feel of an insurance contract”



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(AG 14) should be avoided. This paragraph seems to require a consideration of substance over form – if this is the case, the wording should be clearer, such that schemes that are e.g., subsidized in part or include a hidden social assistance component or are designed to be financed on an inter-generational basis etc. (see page 10 of 20 of our response letter to the Consultation Paper) cannot be accounted for as insurance schemes.

- (c) Subject to our opening remarks above, we agree that in the absence of a public sector specific standard, IFRS 17 or a national equivalent that must be substantially the same is appropriate. We also refer to our response to (a) above on the need for consistent accounting treatment.
- (d) ED 63 allows social benefit schemes that are eligible to be accounted for under the insurance approach to be neither identified nor accounted for as such. If the insurance approach remains optional in the final IPSAS entities should be required to disclose which, if any, benefit schemes meet the criteria for applying the insurance approach and to which schemes the available option has been applied as well as name the relevant accounting standard applied.

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

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?*

*If not, what past event should give rise to a liability for a social benefit?*

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

We disagree with this aspect of ED 63 and support the Alternative View. Whilst we accept that satisfaction of eligibility criteria (not including being alive) may be the appropriate past event for recognition of a liability in respect of certain schemes, we believe it is not appropriate for **all** schemes.

As clearly outlined in the Alternative View, the establishment of a single obligating event as proposed in ED 63 does not reflect the economic substance of different social benefits and does not result in information that meets the needs of financial

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statement users. Specifically, the proposed accounting outcome fails to recognize the fundamental difference in economic substance between social benefits schemes designed to transfer wealth within a reporting period and those social benefit schemes designed to transfer wealth between generations – whereby some schemes may be designed to include components of both. It does not meet the objective set forth in paragraph 2 of ED 63 and is inconsistent with the Conceptual Framework. We firmly disagree that where all (other) eligibility criteria are satisfied the state of “being alive” should be explicitly included therein, and thus viewed as a recognition criterion.

Identification of a past event in liability recognition: Whilst in many countries the provision of social benefits forms a very significant part of public sector activities, even within a single jurisdiction, the way in which the various social benefits are designed, including in terms of their funding (e.g., from general income or from specific earmarked contributions) and administration (e.g., existence of eligibility criteria) varies considerably. For some schemes, and especially certain contributory social benefit schemes, an earlier past event than the satisfaction of criteria for the next payment may be appropriate in recognition of a liability.

As we had explained in more detail in our response to the Consultation Paper, we believe that the differences in substance between different social benefits schemes mean that determining the obligating event will need careful assessment on a case by case basis and thus an obligating event can arise at different points, depending on the nature of the social benefit or the legal framework under which the benefit arises. We continue to hold this view.

The Conceptual Framework deals with a range of factors, against which individual schemes (or types of schemes where these are the same in substance) should be compared in determining the specific stage at which they give rise to a liability. Reference to the IPSASB’s Conceptual Framework is essential in establishing factors to be included in an IPSAS for determining whether a particular social benefit scheme gives rise to a liability. According to the Conceptual Framework, there would be no doubt that a liability exists for obligations enforceable in law (CF 5.20).

For schemes not funded by earmarked contributions (here we refer to our comment letter responding to the Consultation Paper: Accounting for Revenue and Non-Exchange Expenses as to the need to look at substance over form in determining whether nomenclature constitutes earmarking or not), satisfaction of all eligibility criteria (but not including being alive) may be the point in time a liability should be recognized.

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The past event should therefore be determined with reference to the specific scheme (CF 5.17). Some schemes may convey a legal right to benefits (based on contribution or fulfilling eligibility for the next payment), others may be so designed whereby expectations are such that an entity would have little or no realistic alternative to avoid an outflow of resources, others still may only be payable when eligibility criteria (not including being alive) are fulfilled. For example, under the Conceptual Framework a non-legally binding obligation might exist (CF 5.15) in relation to a long-running, established social benefits scheme, because citizens' valid expectations mean the entity has little or no realistic alternative to avoid providing a benefit on an ongoing basis. Although the level of benefit or eligibility criteria for such a scheme might be adjusted over time, it is unlikely that such a benefit could be ceased outright (e.g., in the unlikely event that this were possible, the cessation of state pension would likely simply be replaced with hardship allowances to ensure subsistence and housing etc., which does not equate to the entity being able to avoid an outflow of resources).

Differentiation needs to be made between long running established schemes and new or short-term schemes. In determining whether there is little or no realistic alternative to avoid an outflow of resources (CF 5.15) and identifying the past event (CF 5.25) the IPSASB would need to establish factors such as, but not limited to, whether earmarked contributions are made by citizens, whether final entitlement is linked to a period of participation or to a contribution level, or both, etc. Whether individuals receive official notification of their future entitlement might also need to be taken into account. In contrast, a newly established social benefit, a social benefit designed as a temporary measure, or a social benefit that fails to have the desired impact may not fulfil the criteria of "little or no realistic alternative to avoid". Close examination would then be needed for each individual scheme or type of scheme.

Being alive as a recognition criteria: The single approach proposed under ED 63 uses the criterion "being alive" to preclude recognition of liability for the provision of future benefits across all social benefit schemes (even including those where scheme participants have a legal right to future benefits). On the basis that neither an individual nor the reporting entity can prove or disprove whether he/she is alive in future, the result will be that no future liability can be presented in the statement of financial position for any social benefit (AG 17), as only prepayments and underpayments at the reporting date will appear in an entity's statement of financial position.

We do not agree that being alive is a recognition criterion for financial reporting purposes. As social benefits are generally not provided to any deceased individual,

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being alive is a valid eligibility criterion for scheme administration purposes. In the context of financial reporting we note that being alive is consistently used as a measurement criterion elsewhere in accounting standards and other literature e.g., in calculating the liability for pensions payable to former employees (IPSAS 39). Mortality rates are generally used to estimate life expectancies within such a population for measurement purposes and we do not see justification for a different approach in the case of social benefits.

Indeed, the proposal to use being alive as a recognition criterion in ED 63 is entirely lacking in logic, as it would be equivalent to the entity acknowledging that it has a liability to today's recipients to provide the social benefit (assuming eligibility) and then arguing that because it is impossible for anyone to prove they will be alive in the future, no mortal being can ever be entitled to or be owed anything! For a population of beneficiaries it is realistic to expect that the time of individuals' death will be staggered according to various factors. It is counterintuitive to deny any liability on the grounds that a population of beneficiaries cannot prove longevity on an individual basis.

Further issues relevant to liability recognition: In our opinion measurement issues need due consideration, since a liability could not be recognized in the statement of financial position if it could not be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting (CF 6.9). The IPSASB may consider this relevant in certain more extreme constellations.

Schemes funded on an intergenerational basis mean that younger generations will fund benefits provided to older generations, whilst accruing their own expectations (or legal entitlement) to future benefit entitlement over time. In our comment letter dated January 15<sup>th</sup> 2018 on the Consultation Paper: Accounting for Revenue and Non-Exchange Expenses we pointed out the need to determine whether such contributions have more than one component. For example in some schemes, contributions may need to be recognised as revenue on the basis that in substance they fund benefits to current scheme beneficiaries; in others they may need to be accrued as liabilities to be paid out for future benefits to current and future scheme beneficiaries.

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**Specific Matter for Comment 5:**

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and*
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):*
  - i. It is appropriate to disclose the projected future cash flows; and*
  - ii. Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

As stated elsewhere, we do not support ED 63's proposed approach to liability recognition. We urge the IPSASB to revise this approach to reflect the fact that an obligating event may arise at different points in time for different schemes. Such a change would have a significant impact on both the sections of ED 63 dealing with measurement and disclosure, and we would urge the IPSASB to revise these sections also, as appropriate.

We do not believe that the proposed disclosures can provide sufficient information for decision making purposes on the intergenerational impact of social benefit schemes. Should the proposed approach to liability recognition be retained in a final standard, we believe that for some schemes explicit disclosures will be needed as the entitlement to receive future benefit that current contributors have accrued at the balance sheet date.

We respond to the three subsections in the Specific Matter for Comment:

- (a) A narrative statement as to the funding of each individual social benefit scheme certainly constitutes helpful information. However, paragraph 31(a) (iii) or paragraph 34 should be expanded to include an estimate of the expected monetary value of any corresponding anticipated contributions or other earmarked funding and the estimated shortfall or excess (to be covered by the entity or otherwise available to the entity) as well as, where relevant, intended remedial action on the part of the reporting entity. Such information is likely to be of essential interest to users in assessing the entity's financial position going forward. Without such quantification, we do

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not believe that the proposed disclosures can meet the objective of disclosure as described in paragraph 29.

(b) As we do not support the proposed approach in regard to the identification of the obligating event for recognition of a liability, we do not believe that the proposed disclosures can meet the objective of disclosure as described in paragraph 29. We urge the IPSASB to revise its proposals in this regard, which would also entail revision of the accompanying disclosures. Should the IPSASB retain its proposed approach to liability recognition we believe that more detailed projections of expenditure and income related to individual social benefit schemes will be essential.

(c)

- i. In line with the Conceptual Framework disclosure of projected cash flows cannot be considered as a substitute for recognition of a liability, where such recognition would be appropriate. As explained in this letter, we do not support ED 63's proposed approach to liability recognition. This notwithstanding, where no liability is recognized disclosure of an estimate of future cash outflows may provide helpful information (see also our response to point (a) of this Specific Matter for Comment above). We agree that any estimate of cash outflows should not be limited to those relating to current beneficiaries, but to expected beneficiaries of the scheme itself.
- ii. We do not agree that a five-year period is appropriate for all social benefit schemes, but believe that a longer period should be applicable for schemes not designed to operate on a shorter term basis. Key changes to longer-term social benefit schemes may be implemented in a phased approach (e.g., in Germany the age for eligibility to receive state pension was increased from 65 to 67 over a period from 2012 to 2029) and so a five-year disclosure would be inadequate to fully reflect the financial impact of policy change.

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

*The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, Reporting on the Long Term Sustainability of an Entity's*



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*Finances, was developed to provide guidance on presenting this additional information.*

*In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:*

#### **Advantages**

*Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.*

*This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.*

*Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.*

*Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.*

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

#### **Disadvantages**

*The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.*

*The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.*

*Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.*

*RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.*

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*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

We agree that general purpose financial statements that are based on historical information generally cannot provide, nor are they intended to provide, sufficiently detailed information to allow users to fully evaluate the long-term fiscal sustainability of all social benefit schemes. Nevertheless, information on the face of the financial statements and accompanying notes should provide a basis for users of those financial statements to make their own assessments of the possible effect that social benefit may have on the financial position, financial performance and cash flows of the entity.

We note that information presented in compliance with RPG 1 projects financial developments on an assumption that policies remain unchanged going forward. This is a useful tool for decision-making as it can demonstrate the necessity to refine certain policies, and show the point in time a policy change may be needed. However, information on the long-term fiscal sustainability of social benefits (e.g., RPG 1) fulfils a very different purpose to the information presented in general purpose financial statements, because the former seeks to make future projections, whereas the latter is by nature intended to depict historical information. Information on the long-term fiscal sustainability of social benefit schemes cannot be viewed as a substitute for adequate presentation in the financial statements, which, as we content, ED 63 as proposed cannot generate.

In our opinion, before undertaking further work in this area, the IPSASB should revise specific aspects ED 63, as discussed elsewhere in this letter, to ensure the information usefulness of general purpose financial statements in relation to social benefits is optimized.

Should the IPSASB not address the matters raised in our letter, and, given the financial significance of social benefit schemes in many jurisdictions, we would support the IPSASB developing material as to the content of general purpose financial reporting on social benefit schemes. In our opinion, in order for this to be decision-useful such financial information would need to be accompanied by text explaining key issues, such as anticipated demographical developments and approaches taken and possibly proposed future approaches, etc. – some of which may be beyond the remit of the IPSASB.



IPSASB Exposure Draft 63  
*Social Benefits*

**Response from the Chartered Institute of  
Public Finance and Accountancy (CIPFA)**

29 March 2018

**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at [www.cipfa.org](http://www.cipfa.org)

Any questions arising from this submission should be directed to:

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Our ref: Responses/ SC0244 180329  
Exposure Draft 63, *Social Benefits*

CIPFA is pleased to present its comments on this Exposure Draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

### **Main observations**

CIPFA welcomes the publication of this ED which takes a further step in the development of IPSAS material setting out the appropriate accounting treatment for social benefits. As noted in CIPFA's response to the 2015 Consultation Paper, this is a key category of non-exchange transactions which differentiate the conduct of the public sector from profit seeking entities. It is also a crucial issue which needs to be addressed before IPSAS can be seen to cover all of the major aspects of public sector financial reporting.

CIPFA generally supports the suggestions in the Exposure Draft although there are some points on which we do not fully agree. Specifically:

- The Insurance Approach will apply to a limited number of social benefit schemes, and where the criteria in the ED apply, we agree that the insurance approach will faithfully represent the scheme. However, CIPFA suggests that the insurance approach should be mandatory in these cases.
- In respect of the Obligating Event Approach, CIPFA does not agree that the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive, will *always* accurately capture when a binding obligation first exists, and therefore, when a liability should first be recognised. However, we do support this as a pragmatic and operationalisable basis for a standard.
- Some further consideration of disclosures relating to Long Term Fiscal Sustainability may be appropriate, but CIPFA would not support the development of mandatory guidance to replace RPG 1.

### **Response to Specific Matters for Comment**

Responses to the SMCs are attached as an Annex.

I hope this is a helpful contribution to IPSASB's work in this area.

Yours sincerely

Don Peebles  
Head of CIPFA Policy & Technical UK

**ANNEX****Specific Matter for Comment 1:**

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

CIPFA agrees with the scope of this ED, including the exclusion of universally accessible services.

The recognition and measurement of liabilities and expenses associated with social risks necessarily requires consideration of the pattern of eligibility to receive social benefit. This is not relevant to universally accessible services, the treatment for which is being developed as part of IPSASB's project on non-exchange expense.

**Specific Matter for Comment 2:**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

CIPFA agrees with the definitions proposed in the ED.

**Specific Matter for Comment 3:**

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

CIPFA agrees that (b) the criteria are appropriate.

We would emphasise the need to apply the self-funding requirement rigorously, having regard to the circumstances of the scheme at the reporting date. There should be no suggestion that such a scheme should be guaranteed by government. Furthermore, if circumstances change and the requirements no longer apply, this should automatically trigger a change in reporting.

CIPFA also agrees that

(c) preparers should be directed to follow standards similar or equivalent to IFRS 17

(d) the disclosures required by paragraph 12 are appropriate.

However, CIPFA disagrees with the proposal in (a) that the use of the insurance approach should be optional.

Where the criteria are satisfied, providing information using the obligating event approach will be unlikely to faithfully represent the circumstances of the scheme.

We note that the IPSASB is aware of this issue, and sets out its arguments on pragmatic grounds at BC32-41. The Basis for Conclusions also indicates that this could be revisited at a future date. However, where the evidence requirement in paragraph 9(b) of the draft IPSAS is satisfied, it seems very unlikely that the entity will not have the information necessary to apply the insurance approach.

**Specific Matter for Comment 4:**

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

The ED proposals require recognition in a situation where payment is virtually certain. CIPFA does not agree that this criterion will always accurately capture when a binding obligation first exists, and therefore, when a liability should first be recognised.

As noted in CIPFA's 2015 response, different arrangements in different countries may give rise to initial recognition being appropriate at different stages, and this may not always be linked to when the next payment is due and payable: in some cases earlier recognition may be appropriate. The key point is when a binding obligation exists, whether 'legally binding' or 'non-legally binding'.

CIPFA agrees with some of the argumentation in the ED which argues against earlier recognition. For example we agree that binding obligations will not normally arise from the promises of politicians, and do not in themselves arise from the expectations of individuals, for example, based on the fact that a contribution has been made. However, in CIPFA's view, societal expectations in a country or jurisdiction can have a role, and can drive the behaviour of governments in the short to medium term. The nature of societal expectations, and the extent to which they affect government behaviour is contextual. It differs markedly between countries, and it can change over time.

Additionally, while CIPFA agrees that it is not appropriate to recognise the sovereign power to tax as an asset, past practice and experience in terms of the income generation capacity of government (whether through taxation or otherwise) and the overall fiscal position will often be factors which are relevant to whether an arrangement is in practice binding, or is likely to be overturned through the exercise of sovereign power.

We would note that earlier recognition than that proposed in the ED could introduce measurement issues, such as the need to reflect uncertainty in whether payments would be made, and if recognition is substantially earlier than payment, it might be appropriate to make adjustments to reflect the time value of money.

Notwithstanding the above observations, CIPFA agrees that the ED proposal represents a positive step forward as the basis for a workable standard. While it may not capture the full liability for future payment in all countries, at the very least it provides a benchmark for the leading edge of that liability, and provides useful information for the readers of financial statements.

**Specific Matter for Comment 5:**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

CIPFA agrees that the above disclosure requirements are appropriate.

**Specific Matter for Comment 6:**

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

IPSASB's development of an IPSAS on *Social Benefits* naturally prompts consideration of RPG1 and issues relating to long term fiscal sustainability.

CIPFA would not support the development of a mandatory pronouncement – the disadvantages listed in the preamble to SMC 6 are similar to those considerations which led CIPFA and others to support development of Recommended Practice Guidance in the first place, and we do not consider that there have been significant changes which would lead to a different assessment.

However, for social benefits and other long term programmes, the fact that the continuing operation of a programme might have effects on fiscal sustainability is an important factor, which should potentially affect the way in which readers process the information in public sector financial statements. It will not generally represent a challenge to the going concern assumption used to prepare the financial statements, but it can signpost the fact that this assumption may be challenged in future accounting periods.

We therefore suggest that the IPSASB might conduct a limited review of fiscal sustainability considerations as they relate to General Purpose Financial Statements. This might result in an explanatory disclosure which either comments on the existence of LTFS analyses where these are produced, or, where they are not produced, explains the relevance of long term fiscal sustainability in general terms. Such disclosure might mainly be relevant at whole of government level.

## Exposure Draft 63, Social Benefits

Exposure Draft issued for comment by the International Public Sector Accounting Standards Board in October 2017

Comments from ACCA  
March 2018

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 200,000 members and 486,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 101 offices and centres and more than 7,200 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence. More information is here: [www.accaglobal.com](http://www.accaglobal.com)

Further information about ACCA's comments on the matters discussed here can be requested from:

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## GENERAL COMMENTS

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ACCA welcomes the opportunity to provide views in response to the IPSASB's Exposure Draft 63, Social Benefits. Social benefits represent an important part of government expenditure and we appreciate that consultation on this issue been challenging and involves many complex issues.

### ACCA



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The ED's obligating event approach represents a more straightforward solution that may help to increase adoption of the standard, but we are concerned that it would not result in relevant information. For this reason, we would favour the alternative view.

We agree with the definitions of social benefit and social risk set out in the draft and we agree that universally accessible services should be excluded for the definition of social benefit. It is our opinion that the criteria that set out the definition of universally accessible service does not effectively exclude universal healthcare services and should be refined.

We also have concerns that making the insurance approach an option, rather than a requirement, will limit the comparability of reporting.

This response reflects the views and experience of the members of ACCA's Public Sector Global Forum. If further information is needed on any aspects of our response, please get back to us.

## AREAS FOR SPECIFIC COMMENT

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### **Specific Matter for Comment 1:**

**Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?**

We agree that social benefits and non-exchange expenses operate on a continuum and that a principle-based approach is best placed for defining social benefits. It is also sensible to exclude universally accessible services (UAS) from the Exposure Draft (ED), but we feel that the definition of UAS does not achieve its intended purpose.

### **Specific Matter for Comment 2:**

**Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?**

We agree with the ED's definitions for social benefit and social risk, but not the definition of UAS.

The ED sets out two criteria in defining UAS:

- It must be made available by a government entity for all individuals and/or households to access, and
- Any eligibility criteria are not related to social risk.

From our reading of the ED, a universal healthcare service – which is cited as an example of a UAS under paragraph BC22 – would not be included under the current definition of UAS.

We think it is preferable to exclude healthcare services from the definition of social benefits, but feel the current definition of UAS does not effectively make this exclusion. This is because universal healthcare services are meant to limit the social risk of sickness and ill health. We believe sickness and ill health would meet the definition for social risk set out in paragraph 6a, and it would also impose additional demands on the individual's resources (i.e., paragraph 6b). This case can be further made by asking the question: 'would healthcare services be required if sickness and ill health did not exist?'. Furthermore, a universal healthcare service typically provides both proactive (e.g. preventative) and reactive (e.g. treatment) care – sitting uncomfortably with the distinction made in para BC21(b).

As such, we feel that a universal healthcare service would meet the first UAS criterion of being made available by a government entity for all, but would fail on the test of not having an eligibility criteria related to social risk. The second criterion from the UAS definition should be removed, as this does not in our view have a clear purpose.

**Specific Matter for Comment 3:**

**Do you agree that, with respect to the insurance approach:**

- (a) It should be optional;**
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;**
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and**
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?**

**If not, how do you think the insurance approach should be applied?**

We approach the issue of optionality with two factors in mind. First, the insurance approach is a much better approach for social benefits that meet the eligibility criteria in paragraph 9. Second, in principle optional treatments in accounting standards are undesirable.

We agree that there would be difficulties with making the IFRS17 approach mandatory for schemes given that IFRS17 has not yet been applied and national standards using the IFRS17 principles are not yet in place. At the same time, we do not agree that existing national accounting standards should be allowed, as that would create little comparability of reporting.

We consider that treatments broadly in line with the new insurance accounting model should be mandatory for eligible schemes, rather than allow the obligating event approach. Given IFRS17's current status, we suggest that the wording might be

modified and 'softened' so that the principles of IFRS17 in terms of recognition and measurement of the assets and liabilities should be applied by analogy. Likewise entities might consider the disclosure objectives of IFRS17 in deciding what to disclose.

The IPSASB should also review this position in future with a view to making IFRS17 directly and completely applicable for schemes described in paragraph 9, as its global take-up and acceptance develops.

We are concerned that permitting schemes that meet the criteria in paragraph 9 to be accounted for under the obligating event approach in this ED would fail to reflect the economic substance of such schemes. A very limited liability would be recognised, but any scheme assets built up by funding contributions would be recognised in full even though they might be ring-fenced to meet scheme obligations. We note there would be disclosures under paragraph 31(a)(iii)b, but these would not entirely rectify the position.

We agree with the eligibility criteria in Paragraph 9.

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

**Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?**

**If not, what past event should give rise to a liability for a social benefit?**

We have concerns with the ED's approach and we agree almost entirely with the alternative view. It is difficult to see how the information resulting will be very relevant.

In contrast to AV2, however, we do not believe it is sufficient to allow preparers to determine which obligating event is most appropriate for their social benefit schemes. This would give rise to inconsistency in practice. Specific requirements would help to ensure consistent criteria are applied in determining when the obligating event is deemed to occur. Further guidance in the form of illustrative examples could then clarify the distinction in economic substance and, as a consequence, accounting treatment, between state pensions funded on an inter-generational basis and shorter-term social benefits.

The requirements of the recognition of the expense of social benefits could be made clearer. Currently Paragraph 17 says the recognition of the liability and the expense would occur together. Paragraph 24 on the other hand implies that the cost of social benefits would be recognised as they are provided. Given that the liability for social benefits will generally be short-term, the practical impact of any difference may, however, be immaterial.

**Specific Matter for Comment 5:**

**Regarding the disclosure requirements for the obligating event approach, do you agree that:**

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;**
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and**
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):**
  - (i) It is appropriate to disclose the projected future cash flows; and**
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.**

**If not, what disclosure requirements should be included?**

We agree with the disclosures required by paragraphs 31, 32 and 33.

Providing estimates of the undiscounted cash flows in future periods in relation to the different social benefit schemes will provide useful information and will be especially important information given the limited obligations that will be recognised under the proposed model of ED63.

In terms of whether five years forward is an appropriate period, it very much depends on the type of social benefit. This might be suitable, for example, for unemployment benefits given the typical length of the economic cycle in many countries. For state pensions, however, this seems an inadequately short period and there should be longer-term projections or indicators of how these obligations are expected to change over time.

We very much support providing information along the lines of RPG 1 as encouraged in paragraph 35.

International Public Sector Accounting Standards Board  
Mr Ian Carruthers, IPSASB Chair  
and Mr John Stanford, IPSASB Deputy Director  
277 Wellington Street West  
Toronto, Ontario M5V 3H2  
Canada

E-mail: [Ian.Carruthers@cipfa.org](mailto:Ian.Carruthers@cipfa.org), [JohnStanford@ipsasb.org](mailto:JohnStanford@ipsasb.org)

30 March 2018

Dear Mr Carruthers, dear Mr Stanford,

**Exposure Draft on Social Benefits**

We are pleased to respond to the invitation from the International Public Sector Accounting Standards Board (IPSASB) to comment on Exposure Draft 63 Social Benefits on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Exposure Draft. “PricewaterhouseCoopers” or ‘PwC’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency and transparency of public sector financial reporting worldwide.

The Exposure Draft (ED) on Social Benefits addresses a very important topic in public sector accounting. Social benefits represent a significant portion of expenses for many governments and it is therefore key that the consequences of such transactions be properly reflected in government financial statements.

We however disagree with the proposal to require a single recognition point for all social benefits resulting in a liability being recognised when the eligibility criteria to receive the next social benefit have been satisfied.

We agree with the arguments put forward by IPSASB members in favour of the alternative view, in particular:

- the economic substance of social benefit schemes are different and may require different recognition points;
- the proposed treatment is not in accordance with the Conceptual framework;
- 'being alive' should be treated as a measurement criterion rather than a recognition criterion.

The proposed approach requires all eligibility criteria for the next benefit, including being alive, to be met in order to recognise a social benefit liability.

We believe that only considering one single recognition point will not reflect the substance of the various schemes that may exist and therefore may in various situations conflict with the definition of a liability in the Conceptual framework. Such an approach would also not be consistent with the concepts underlying the accounting for employee benefits under IPSAS 39 (e.g. pension or other post-employment benefit obligations).

Instead we believe that the variety of the types of social benefits and the specific circumstances of the legal environments and jurisdictions in which they are granted should inevitably lead to different conclusions as to the most appropriate timing for recognition. In particular, there may be situations linked to certain types of social benefits in specific jurisdictions where the obligation is created over time and which should trigger recognition of the social benefit liability and of the related expense over time as well. For example, certain schemes that are currently in place may be funded by future beneficiaries and create valid expectations towards them that they will receive the benefits later.

In other circumstances (other types of benefits and/or other jurisdictions), the obligating event may be the occurrence of one specific event which then should lead to the recognition of the social benefit liability and the related expense at one point in time.

We also believe that application of the proposals under ED 63 would most often lead to a small amount of liability being recognised in the balance sheet. When payments of benefits are scheduled every month, including being alive as one of the eligibility criteria to receive the next benefit will lead to only a one-month social benefit liability being recognised in the balance sheet. This would have very little predictive value. Most importantly, the accounting treatment proposed in ED 63 would conflict with the accountability and decision-making objectives of financial statements as it would not reflect the long-term impact of political decisions in financial statements. Being alive when the next benefit and series of benefits will be paid should rather be considered in the measurement of the liability (considering a mortality factor, etc.).

Timely issuance of a standard on social benefits is however crucial as it will fill one of the most important remaining gaps in the suite of IPSAS standards. The IPSASB should consider whether a standard including the current proposals might therefore be acceptable as an interim minimal

solution under the condition that the alternative view be reconsidered as part of a longer term project addressing again the issue of recognition of social benefits in order to achieve a more satisfactory treatment than the one currently proposed. The IPSASB should thereby clearly elaborate why the potential benefits of an interim minimal solution outweighs the compromise made with respect to issuing high-quality, conceptually sound standards for the public sector portraying the economic substance of social benefit schemes. We refer to the mission statement as laid out in the Proposed Strategy and Work Plan 2019-2023 document of the IPSASB.

The subject-matter is complex. We therefore recommend to provide sufficient practical guidance and illustrative examples in order to enhance consistency in application of the new rules.

Our responses to the specific questions in the ED can be found in the Appendix to this letter.

If you would like to discuss any of these points in more detail, please contact Henry Daubeney ((+44) 20 7804 2160), Patrice Schumesch ((+32) 2 710 40 28) or Sebastian Heintges ((+49) 69 9585 3220).

Yours sincerely,

A handwritten signature in dark ink, appearing to read "PricewaterhouseCoopers", is written in a cursive style.

PricewaterhouseCoopers

**Appendix: Responses to the questions in IPSASB's Exposure Draft on Social Benefits**

**1. Specific Matter for Comment 1**

**Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?**

**If not, what changes to the scope would you make?**

We agree with the scope as delineated in the Exposure Draft. We concur with the view that universally accessible services should be left out of the scope of the standard on social benefits since they are accessible without any eligibility criteria to be met in relation to social risk.

We would however recommend that the IPSASB provides more borderline examples illustrating the principles that govern whether some benefits are in scope or not in order to achieve greater consistency in application.

**2. Specific Matter for Comment 2**

**Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?**

**If not, what changes to the definitions would you make?**

We agree with the definitions of social benefits, social risks and universally accessible services.

**3. Specific Matter for Comment 3**

**Do you agree that, with respect to the insurance approach:**

**(a) It should be optional?**

**(b) The criteria for determining whether the insurance approach may be applied are appropriate?**

**(c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate? And**

**(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?**

**If not, how do you think the insurance approach should be applied?**



Our response to each of the sub-questions is provided below:

- (a) We agree that the insurance approach should be optional. Implementing IFRS 17 'Insurance contracts' is a challenge for private sector entities issuing insurance contracts, not only in terms of accounting complexity, but also in terms of the processes, actuarial models and systems that need to be implemented to produce the data and information needed for IFRS 17 reporting purposes. Mandating it under IPSAS may involve undue costs or efforts for public sector entities.

In addition, it should be noted that application of the insurance approach and the obligating event approach will produce very different pattern of revenue recognition. Public sector entities may prefer applying the obligating event approach for all their social benefits for consistency reasons.

- (b) We believe that the criteria to determine whether the insurance approach may be applied are adequate. If the social benefit scheme is fully funded from contributions and there is evidence that it is managed in the same way as private insurers manage their insurance contracts, it has the characteristics of an insurance contract. Therefore accounting for those schemes using the insurance approach seems appropriate.
- (c) Referring to IFRS 17 is appropriate as it represents best international practices in terms of insurance accounting in the private sector. However we believe that the standard should not refer to national standards that are substantially the same as IFRS 17 as this may create divergence in practice depending on how preparers interpret 'substantially the same'.
- (d) In our view, additional disclosures required by paragraph 12 of this Exposure Draft are appropriate.

We have the following additional comments:

- (e) We invite the IPSASB to clarify what is meant by 'fully funded from contributions' under paragraph 9 (a). Does it mean 'fully funded from contributions by the individual who will benefit from the scheme'? Making then the analogy with an insurance contract where an individual pays insurance premiums to get a coverage for himself/herself. Or does it mean something else (for example all contributions of one fiscal year cover the benefits paid in respect of that year, with possibly the current contributors (partly) belonging to a younger generation than the current beneficiaries)?
- (f) We note that the IPSASB estimates that the number of preparers to whom the insurance approach will be relevant is likely to be small and that this justifies not to engage additional efforts and resources to develop guidance in addition to the one included in IFRS 17. We would however welcome that some additional guidance be provided that addresses the specific characteristics of the public sector (for example, most of the schemes eligible for the insurance approach are likely to aim at cost recovery rather than at making a profit; if the intention is to be fully funded from contributions, does it imply that no onerous scheme can exist?; etc.).

#### 4. Specific Matter for Comment 4

**Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?**

**If not, what past event should give rise to a liability for a social benefit?**

***This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.***

We disagree with the proposal to require a single recognition point for all social benefits resulting in a liability being recognised when the eligibility criteria to receive the next social benefit have been satisfied.

We agree with the arguments put forward by IPSASB members in favour of the alternative view, in particular:

- the economic substance of social benefit schemes are different and may require different recognition points;
- the proposed treatment is not in accordance with the Conceptual framework;
- 'being alive' should be treated as a measurement criterion rather than a recognition criterion.

The proposed approach requires all eligibility criteria for the next benefit, including being alive, to be met in order to recognise a social benefit liability.

We believe that only considering one single recognition point will not reflect the substance of the various schemes that may exist and therefore may in various situations conflict with the definition of a liability in the Conceptual framework. Such an approach would also not be consistent with the concepts underlying the accounting for employee benefits under IPSAS 39 (e.g. pension or other post-employment benefit obligations).

Instead we believe that the variety of the types of social benefits and the specific circumstances of the legal environments and jurisdictions in which they are granted should inevitably lead to different conclusions as to the most appropriate timing for recognition. In particular, there may be situations linked to certain types of social benefits in specific jurisdictions where the obligation is created over time and which should trigger recognition of the social benefit liability and of the related expense over time as well. For example, certain schemes that are currently in place may be funded by future beneficiaries and create valid expectations towards them that they will receive the benefits later.

In other circumstances (other types of benefits and/or other jurisdictions), the obligating event may be the occurrence of one specific event which then should lead to the recognition of the social benefit liability and the related expense at one point in time.

We also believe that application of the proposals under ED 63 would most often lead to a small amount of liability being recognised in the balance sheet. When payments of benefits are scheduled every month, including being alive as one of the eligibility criteria to receive the next benefit will lead to only a one-month social benefit liability being recognised in the balance sheet. This would have very little predictive value. Most importantly, the accounting treatment proposed in ED 63 would conflict with the accountability and decision-making objectives of financial statements as it would not reflect the long-term impact of political decisions in financial statements. Being alive when the next benefit and series of benefits will be paid should rather be considered in the measurement of the liability (considering a mortality factor, etc.).

Timely issuance of a standard on social benefits is however crucial as it will fill one of the most important remaining gaps in the suite of IPSAS standards. The IPSASB should consider whether a standard including the current proposals might therefore be acceptable as an interim minimal solution under the condition that the alternative view be reconsidered as part of a longer term project addressing again the issue of recognition of social benefits in order to achieve a more satisfactory treatment than the one currently proposed. The IPSASB should thereby clearly elaborate why the potential benefits of an interim minimal solution outweighs the compromise made with respect to issuing high-quality, conceptually sound standards for the public sector portraying the economic substance of social benefit schemes. We refer to the mission statement as laid out in the Proposed Strategy and Work Plan 2019-2023 document of the IPSASB.

Finally we question the usefulness of paragraph 13 (b). We believe that specifically insisting on the need to have a measurement that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports is both not useful (these guidelines are already provided in the Conceptual framework) and not desirable as it might be misinterpreted and lead some preparers to give excessive weight to the cost of preparation of financial information when assessing the costs and benefits of such information.

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

**Regarding the disclosure requirements for the obligating event approach, do you agree that:**

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;**
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and**
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):**

- (i) It is appropriate to disclose the projected future cash flows; and**
- (ii) Five years is the appropriate period over which to disclose those future cash flows.**

**If not, what disclosure requirements should be included?**

As mentioned under Specific matter for comment 4, we do not agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive.

Should the ED 63 proposals be retained, we believe that the proposed disclosures are overall adequate.

However, disclosures about the nature and estimated amounts of the future cash flows in respect of social benefit schemes should in our opinion not be limited to five years but cover the longest possible horizon of time. When uncertainties arise about the numbers disclosed, appropriate information (including sensitivity analysis) should be given about such uncertainties.

## **6. Specific Matter for Comment 5**

**The IPSASB has previously acknowledged in its ‘Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities’, that the financial statements cannot satisfy all users’ information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1 ‘Reporting on the Long Term Sustainability of an Entity’s Finances’ was developed to provide guidance on presenting this additional information.**

**In finalising ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity’s finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:**

### **Advantages**

**Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing. This especially applies to information about the sustainability of the funding of social benefits given the limited**

### **Disadvantages**

**The extent and nature of an entity’s long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.**

**predictive value of the amounts recognized in the financial statements.**

**Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.**

**The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements. Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.**

**Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.**

**RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.**

**Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?**

**If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?**

We believe that reporting on the long-term sustainability of public finances is key in the public sector. It complements information included in financial statements which should reflect the impact of political decisions, including the long-term impact of such decisions.

Therefore we would welcome that the IPSASB undertakes further work on reporting on long-term fiscal sustainability.

It should however be highlighted that enhanced disclosure about long-term fiscal sustainability is not a substitute for proper recognition of social liabilities in the balance sheet, including long-term social benefit liabilities under the alternative view developed in ED 63.



IPSASB Exposure Draft 63

*Social Benefits*

## ***Comments on ED 63, Social Benefits***

March 30, 2018

March 30, 2018

John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, ON M5V 3H2 Canada

**Re: The comments on the Exposure Draft 63,  
Social Benefits**

Dear Mr. Stanford,

The Government Accounting and Finance Statistics Center (GAFSC) at the Korea Institute of Public Finance (KIPF) is pleased to provide comments on the Exposure 63, Social Benefits issued by the International Public Sector Accounting Standards Board (IPSASB).

The comments have been prepared and reviewed by the staffs of the GAFSC and are available in the following pages. Please feel free to contact us if you have any questions regarding our comments. You may direct your inquiries to the technical staff of GAFSC, Stella Kim ([sjkim@kipf.re.kr](mailto:sjkim@kipf.re.kr)).

Sincerely,



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Do-Jin Jung  
Director (GAFSC at KIPF)

### **Specific Matter for Comment 1**

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

[GAFSC comments] We agree to the idea that the IPSASB makes a distinction between social benefits and universally accessible services and excludes universally accessible services from the scope of the Exposure Draft. Social benefits, such as old age pensions, are intended to provide income to all individuals and/or households and therefore are different in nature from social benefits which provide income to specific individuals and/or households. Accordingly, it is appropriate to make distinctions between them and apply different accounting treatments.

### **Specific Matter for Comment 2**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

[GAFSC comments] We disagree. We are of an opinion that it is difficult for a preparer to make judgment on whether or not to apply the Exposure Draft because the definitions in the Exposure Draft are not practical or specific enough. For example, AG7 differentiates social benefits from universally accessible services by stating that “many benefits are provided in cash.” If such a characteristic of social benefits is significant, we believe that it needs to be included in the definition of social benefits.

In Korea, the government provides benefits for certain individuals, such as veterans and farmers. As far as we understand from the definitions in the Exposure Draft, those benefits fall into the scope of social benefits. So it is questionable whether or not the IPSASB intends to include such benefits in social benefits.

### **Specific Matter for Comment 3**

Do you agree that, with respect to the insurance approach :

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with



insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and

(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

[GAFSC comments] We fundamentally agree to all four conditions for the insurance approach. Yet, we think that the applicability of the insurance approach is a very sensitive and critical issue in a way that it may lead to a debate on fiscal sustainability of public sector entities. In reality, the applicability of the insurance approach is likely to be determined by political intentions rather than the results of cost-benefit analysis. Accordingly, we encourage entities to disclose the following information in the footnotes to help users make better decisions on whether or not to apply the insurance approach.

A complete list of all social benefits		
A list of social benefits that meet the conditions of the insurance approach		A list of social benefits that do not meet the conditions of the insurance approach
A list of social benefits that apply the insurance approach	A list of social benefits that do not apply the insurance approach	
The basis for application	The basis for application	

#### Specific Matter for Comment 4

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.

[GAFSC comments] In line with the Alternative View, “being alive” should be a measurement criterion instead of a recognition criterion. If “being alive” is to be recognition criterion, only the next due benefit may be recognized as liabilities and therefore the current obligations can be underestimated. Consequently, useful information to decide economic substance of social benefits is not likely to be provided to users.

If the intention on inclusion of “being alive” in the recognition criteria is to consider the applicability of the Exposure Draft to public sectors and recognize the least possible amount of unavoidable liabilities in relation to social benefits, it will be appropriate to defer the recognition till the point at which a claim is approved.

### **Specific Matter for Comment 5**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity’s social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity’s social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

[GAFSC comments] We agree to (a) and (b). For (c), we agree to disclose the projected future cash flows, but we disagree to 5 reporting periods for disclosing future cash flows. While financial statements indicate liabilities for a very short period of time for those social benefits applying the obligating event approach, the footnotes provide information on projected future cash flows for five years. Therefore, users might experience difficulties in comparing stock information and flow information. Accordingly, a preparer may need to disclose additional information explaining the relationship between liabilities on financial statements and projected future cash flows.

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

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB’s assessment of what work is required?

[GAFSC comments] We are of a view that it is too early to require preparers to report long-term fiscal sustainability. Usefulness of long-term fiscal sustainability report and the possibility to connect with financial statements cannot be upheld without sufficient experiences and cases. Therefore, it is appropriate to defer

reporting of long-term fiscal sustainability. Although Korea has been obligated to issue long-term fiscal sustainability reports, usefulness of those reports is still controversial mainly due to the massive amount of information on those reports.

**Our Ref:**

**Your Ref:**

**Date: March, 2018.**

Dear Sir,

## **RESPONSE TO THE EXPOSURE DRAFT 63 - SOCIAL BENEFITS**

The Association of National Accountants of Nigeria is pleased to comment on the Exposure Draft 63 - Social Benefits.

**Our response to Questions for respondents are set out below:**

### **Specific Matter for Comment 1**

The Association of National Accountants of Nigeria (ANAN) agrees with IPSASB on the scope of the Exposure Draft and specifically the exclusion of universally accessible services given in paragraph BC21(c) which states that there is a difference between benefits that are specifically provided to individuals or households and those that are universally accessible, the reason being that when access is restricted, either advertently or inadvertently, it means that some people will be technically denied of such benefits due to hindrance created by the restriction. The definition provided on page 7 of the Exposure Draft clearly point to the fact that social benefits are by this Exposure Draft restricted to those that are available to everybody regardless of status.

### **Specific Matter for Comment 2**

ANAN agrees with the definitions of social benefits, social risks and universally accessible services as contained in paragraph 6 of the Exposure Draft and as espoused on page 4 of the ED 63 Summary with concise indication of what qualify as social benefits.

### **Specific Matter for Comment 3**

In the opinion of ANAN, it seems to be more appropriate, that is, where preparers will follow the relevant international or national accounting standards dealing with insurance contracts under IFRS 17 that has been substantially adopted by several nations. This is to avoid a situation whereby another Exposure Draft will be required to amend the provisions of IFRS 17 that would have been eroded by either these alternative options specified above.

**Specific Matter for Comment 4**

ANAN agrees that under the obligating event approach, the past event that gives rise to liability for a social benefits scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (where this is explicitly stated or implicit in the scheme provisions) because this is in conformity with the recognition criteria set up on BC59 on page 36 of the Exposure Draft. The absence of anyone of the 5 criteria set will affect the application, and in any case, it is possible for government to bind its successor and thus prevent the possible change at the will of the succeeding government through enactment of specific laws to guide operations of such policies.

**Specific Matter for Comment 5**

- (a) ANAN agrees that the disclosure about the characteristics of an entity's social benefits schemes as contained in paragraph 31 are appropriate except that the latitude provided that (where this information is included in the entity's financial statements) should be removed to make it compulsory for such an information to be provided in the entity's financial statements.
- (b) We agree that the disclosure requirements as contained in paragraph 32-33 is appropriate and thus not seem to us that it requires additional information.
- (c) ANAN considers the disclosure requirements about the cash flows appropriate in as much as it takes care the projected future cash flows over a period of 5 years which covers a mid-term projection.

**Specific Matter for Comment 6**

ANAN considers that the information given so far is very adequate and does not think of the need to undertake any further work on reporting on long-term fiscal sustainability.

**ABOUT ANAN**

The Association of National Accountants of Nigeria (ANAN) is a statutorily recognized Professional Accountancy body in Nigeria. The body is charged among others, with the responsibility of advancing the science of accountancy.

The Association was founded on 1<sup>st</sup> January, 1979 and operates under the ANAN Act 76 of 1993(Cap A26 LFN 2004), working in the public interest. The Association regulates its practising and non-practising members, and is overseen by the Financial Reporting Council of Nigeria.

Active ANAN members are 20,049, who are either FCNA or CNA and are found in Business, Practice, Academic and Public Sector in all the States of Nigeria and Overseas. The members provide professional services to various users of accountancy services.

ANAN is a member of the International Federation of Accountants (IFAC), International Association for Accounting Education & Research (IAAER), The Pan African Federation of Accountants (PAFA), and Associate of Accountancy Bodies in West Africa (ABWA).

Yours faithfully,

**ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA**



**DR. SUNDAY A. EKUNE, FCNA**

*Registrar/Chief Executive*

MARCH 31, 2018

IPSASB EXPOSURE DRAFT 63:  
SOCIAL BENEFITS  
RESPONSE



KALAR CONSULTING

MANJ KALAR



KALAR CONSULTING



Manj has over 20 years' experience working in public sector, focusing on implementation of accrual accounting across UK central Govt departments and the Whole of Government Accounts consolidation. She has advised a number of jurisdictions on implementing accrual accounting.

Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.





International Public Sector Accounting Standards Board  
International Federation of Accountants  
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Toronto  
Ontario M5V 3H2  
CANADA

Submitted electronically

31 March 2018

Dear IPSASB secretariat

**ED 63: Social Benefits**

I am delighted to share my comments on social benefits.

The IPSASB and staff are to be commended for their efforts to develop well-considered approaches to defining, recognising, measuring and recording social benefits.

Given the significant potential impact of an accounting standard on social benefits on government financial statements it is understandable that there is an alternative view. I support the alternative view as this most aligns to the conceptual framework and the interpretation of other standards, in particular in relation to post-employment benefits.

I appreciate why the IPSASB would recommend a similar approach that aligns to the GFS but I do not think that this is sufficient reason when developing the accounting standard. The standard should follow the conceptual framework.

Specific responses to the IPSASB's six matters for comment are included in Annex A.

Thank you for the opportunity to comment on the Exposure Draft. If there are any questions, please do not hesitate to contact me.

Yours sincerely,

Manj Kalar

Principal consultant



## Annex: Detailed response to the Exposure Draft

### Specific matter for comment 1

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?

I agree with the scope of this Exposure Draft.

I appreciate the rationale to remain in alignment/consistent with the scope applied in the Government Financial Statistics (GFS) but employment benefits are already covered in IPSAS 39 (and is in alignment with IAS 19) – a key aim of the IPSASB strategy. Universally accessible services are covered non-exchange expenses –which, on balance, is a better fit as it is *more principles based*.

### Specific matter for comment 2

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?

I agree with the definitions of social benefits, social risks and universally accessible services included in this Exposure Draft. These are comprehensive, addressing all scenarios. Therefore, I have no changes to make to these.



### Specific matter for comment 3

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate? If not, how do you think the insurance approach should be applied?

I agree with proposal in particular that the insurance approach should be optional where government entities meet the criteria and are able to separate the social benefit. For example, if a social benefit is fully funded it would provide better (more complete) information to the user of the financial statements to see the direct link between the funding and the social benefit. This situation may not be the case for all social benefits so having the option is invaluable.

Also by following the requirements set out in IFRS 17 maintains the aim to remain consistent to international reporting standards applicable to the private sector.

### Specific matter for comment 4

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)? If not, what past event should give rise to a liability for a social benefit? This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.



I do not agree with this approach. I favour the approach to recognition and measurement as set out in the Alternative View presented some IPSASB members.

The alternative view best fits with the conceptual framework. For example, where a state pension is given this should be based on the same principles as applied to public sector pensions (these are covered in IPSAS 39 which is based on IAS 19) – this would present the ‘true’ long term liability (economic substance) on the government balance sheet rather than an arbitrary one-month approach. The latter may be more relevant to other social benefits such as unemployment benefits. However, trend data could be used to support any estimations made in this area.

#### Specific matter for comment 5

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity’s social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity’s social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows. If not, what disclosure requirements should be included?

I do not agree with this view and favour the Alternative View.

The Alternative View provides a more complete assessment of the economic substance of the impact of social benefits. By simply adding one month or 5 years seems arbitrary.



### Specific matter for comment 6

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how? If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

I would strongly support IPSASB conducting further work on reporting on long term fiscal sustainability.

The sustainability of public finances is often discussed nationally and internationally in the media having been brought into sharper focus since the sovereign debt crisis. However, there is no authoritative (accounting) standard on what this means.

Some countries have developed their own definitions such as UK's independent [Office of Budget Responsibility](#)<sup>1</sup> who publishes, amongst other reports, the [Fiscal Sustainability Report](#). This draws on the [Whole of Government Accounts](#) information and makes an assessment of future funding commitments based on the impact of current policies. The UK, like many other jurisdictions, faces huge pressure on funding an ageing population. The OBR has clearly evidenced the impact of this.

It would be helpful to the reader to have a consistent view of long term sustainability to bring into focus the global picture, allow international comparisons, and opportunity to consider what is the new normal in terms of financial sustainability.

It is essential that we have consistent information to have this important debate.

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<sup>1</sup> January 2017 is the latest currently available



5 April 2018

Mr John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto  
Ontario M5V 3H2  
CANADA

Submitted online via ipsasb.org

Dear Mr Stanford

### **Submission on Exposure Draft 63 Social Benefits**

Thank you for the opportunity to comment on Exposure Draft 63 Social Benefits ("the ED"). Chartered Accountants Australia and New Zealand (CA ANZ) supports strengthening public sector accounting standards. Many of our members are involved in government at the local, regional or federal government level as employees, auditors or advisors. We believe information reported on social benefits must be meaningful for stakeholders and we appreciate that social benefits impacts all citizens.

We are broadly supportive of a number of proposals in the ED, however we make the following key recommendations:

- The scope and definitions be further refined to avoid confusion and possible divergent accounting treatments.
- The insurance approach be mandatory for social benefit schemes that are managed in the same way as insurance schemes.
- The obligating event approach be further developed as an acceptable pragmatic approach to liability recognition.
- Long-term fiscal sustainability reporting be further encouraged, but not be made mandatory at this stage.

Our detailed comments and recommendations are enclosed in Appendix A. Appendix B contains more information about CA ANZ. Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Ceri-Ann Ross (Reporting Leader) via email; [ceri-ann.ross@charteredaccountantsanz.com](mailto:ceri-ann.ross@charteredaccountantsanz.com).

Yours sincerely

A handwritten signature in black ink that reads 'Liz Stamford'.

**Liz Stamford**  
General Manager, Policy  
Chartered Accountants Australia and New Zealand

# Appendix A

## Specific Matter for Comment 1 (SMC1)

**Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?**

While we understand that the IPSASB may wish to focus on a narrow scope definition of social benefits at this stage and consider universally accessible services as part of its broader non-exchange expenses project, we disagree with the reason given in paragraph BC21(c) that social benefits are not a type of non-exchange expense. We consider that social benefits are a subset of non-exchange expenses.

Many social benefits and universally accessible services transactions are similar in nature and share many of the same characteristics. Where this is the case, we believe that a consistent accounting approach for liability and expense recognition would be appropriate. In seeking to develop separate standards for the spectrum of public sector expenses, there is a risk that similar transactions could be subject to inconsistent accounting treatments. In addition, entities could face difficulty in determining which standard applies, particularly in the case of schemes with multiple expense components.

We recommend that the IPSASB considers either expanding the scope to include universally accessible services, or redefining the scope in terms of the nature of the transaction and sector of the recipient. For example, social benefits paid directly to individuals/households.

## Specific Matter for Comment 2 (SMC2)

**Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?**

We consider that some of the definitions proposed in the ED may be difficult to apply in practice.

In particular we question the eligibility criteria distinction made in the definitions and scope paragraphs, as we believe this may lead to diverse outcomes. For example, tuition fee scholarships are unlikely to be social benefits, but receipt of funds can depend on the individual meeting eligibility criteria that affect both recognition and measurement of the liability. In addition, payments under Australia's universally accessible healthcare service, 'Medicare', are classified as a social benefit under Australian Government Finance Statistics (GFS), but under the proposals in the ED (AG7), would be treated as a universally accessible service.

As noted in our response to SMC1, we recommend that the IPSASB either expands the scope, which may remove some of the more problematic definition elements, or reconsiders the definitions in the context of the nature of the transaction and the sector of the recipient.

## Specific Matter for Comment 3 (SMC3)

**Do you agree that, with respect to the insurance approach:**

- (a) It should be optional;**
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;**

# Appendix A

- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

**If not, how do you think the insurance approach should be applied?**

- (a) We believe that the insurance approach should be mandatory for social benefit schemes that are managed in the same way as insurance schemes. We consider that the insurance approach better reflects the economic substance of such schemes, particularly in regards to liability recognition, and would promote greater consistency, transparency and more comparable accounting treatment.
- (b) We agree with criterion 9(b) that the insurance approach should be used when the entity manages the scheme in the same way as an issuer of insurance contracts and consider that this should be the primary criterion. We question the relevance and value of criterion 9(a). It appears inconsistent with the definition of a liability under the IPSASB Conceptual Framework, and practical application could be problematic where, for example, schemes have multiple funding components. We recommend that this criterion either be clarified further, or removed.
- (c) We are broadly supportive of preparers following international or national insurance contracts standards, although note that questions have been raised about the appropriateness of discount rates and risk adjustments to the public sector.
- (d) We consider that the disclosure requirements appear reasonable and appropriate.

## Specific Matter for Comment 4 (SMC4)

**Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)? If not, what past event should give rise to a liability for a social benefit?**

We acknowledge that recognition and measurement of social benefit liabilities is a uniquely complex area for the public sector.

The obligating event approach and Alternative View are at opposite ends of the spectrum. We consider that the obligating event approach as proposed is too narrow and is out of step with the recognition principles for other liabilities. We also consider that being alive is a measurement criterion, not a recognition criterion. However, while our views from a conceptual perspective are more aligned to the Alternative View, we have to acknowledge the practical concerns and question whether recognising such large liabilities without also recognising the right to tax provides useful information to users of financial statements. We also see practical concerns over reliable measurement.

Recognising that this consultation is now at ED stage and needs to reach a conclusion, we can support the proposed recognition approach as a reasonable and pragmatic outcome. However, we recommend that the rationale is further developed based on discussions around both views, and that recognition is supported by appropriate long-term fiscal sustainability information.



# Appendix A

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## Specific Matter for Comment 5 (SMC5)

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.

**If not, what disclosure requirements should be included?**

We believe that the proposed disclosure requirements around characteristics and amounts in financial statements are appropriate and provide important information for users on the sustainability of such schemes. We recommend that the IPSASB considers including provisions for cross-referencing to other documents to avoid adding unnecessary length and clutter to financial reports. We view long-term fiscal sustainability information as important. For governments that publish such information, we consider that additional cash flow disclosures would not be needed. However, for those governments that do not publish fiscal sustainability reports, we consider that a minimum five-year forecast is acceptable for the purposes of this ED, but encourage the IPSASB to consider how it can continue to bring about improvements in this area.

## Specific Matter for Comment 6 (SMC6)

**The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.**

**Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?**

**If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?**

We believe the IPSASB has an important role in encouraging better quality financial reporting in the public sector, including long-term fiscal sustainability reporting. We consider that at the present time, RPG 1 is an appropriate vehicle for this and on balance, should continue to be optional.

# Appendix B

4

## About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 117,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.



**Australian Government**  
**Australian Accounting**  
**Standards Board**

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5 April 2018

Mr John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto  
Ontario M5V 3H2  
CANADA  
(Submitted to [www.ifac.org](http://www.ifac.org))

Dear John

**IPSASB Exposure Draft 63 *Social Benefits***

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on Exposure Draft 63 *Social Benefits* (ED 63).

Overall, the AASB supports the Alternative View in ED 63. However, we have some concerns about the recognition of a potentially large liability without also recognising in some way the right to tax that would contribute to funding the liability. Our concerns and alternative suggestions are explained in the Appendix to this letter. The Appendix also includes the AASB's comments on the specific questions in ED 63. The AASB encourages the IPSASB to seek the views of users of financial statements regarding the reporting of social benefits.

ED 63 was issued by the AASB as an Invitation to Comment ITC 38 *Request for Comment on IPSASB Exposure Draft Social Benefits* (November 2017). The AASB received two submissions, which are available on the AASB's website.<sup>1</sup>

If you have any questions regarding this letter, please do not hesitate to contact Janri Pretorius, Senior Project Manager ([jpretorius@aab.gov.au](mailto:jpretorius@aab.gov.au)).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'K. E. Peach'.

Kris Peach  
*Chair*

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<sup>1</sup> <http://www.aasb.gov.au/Work-In-Progress/Open-for-comment.aspx?id=2118>

## APPENDIX

### AASB's responses to the Specific Matters for Comment for Respondents to ED 63

The AASB's views on the specific matters for comment in ED 63 are set out below.

**Specific Matter for Comment 1:**

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

The AASB does not agree with the exclusion of universally accessible services from the scope of ED 63.

Some social benefit schemes appear to be similar in nature whether or not they are universally accessible. Therefore, a consistent accounting approach for liability and expense recognition would be appropriate where such transactions have similar characteristics. It might be more appropriate to address the accounting for social benefits, universally accessible services and collective services in a single project to mitigate the creation of diverse accounting treatments for similar transactions.

In addition, Australian Government Finance Statistics (GFS) issued by the Australian Bureau of Statistics (ABS), which is based on the IMF's GFS, places more emphasis on the nature of a transaction and the sector of the recipient as opposed to the eligibility criteria versus universally accessible services distinction. An Australian example of this is Medicare, which provides universal access to healthcare services in Australia. The eligibility criteria are broad and cover all people normally resident in Australia. Payment for services on the Medicare benefit schedule is classified as a social benefit to households in goods and services under ABS GFS. In this case, the exclusion of universally accessible services would not necessarily be consistent with GFS.

We acknowledge the IPSASB decided to adopt a narrower definition of social benefits (as opposed to a broader set of terms) in order to efficiently progress both the social benefits project and the non-exchange expenses project. By limiting the scope of the social benefits project and addressing the broader scope later on, there is a risk of inconsistent accounting treatments leading to diversity. We acknowledge that some government entities may choose to apply the 'narrow scope' social benefits accounting to other items by analogy, such as to universally accessible services. However, this would require bona fides on the part of the preparer and might not result in comparable accounting across entities. Consequently, we think adoption of the broader scope is appropriate.

**Specific Matter for Comment 2:**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

The AASB does not agree with the proposed definitions of ‘social benefits’ and ‘social risks’. We sought to test the definitions by applying them to a range of Australian benefits. They appeared difficult to apply in practice and we are concerned that this may lead to diverse outcomes. This might also create an artificial boundary between arrangements that may be economically similar in substance.

For example, the Australian Government’s “Crisis Payment” social benefit is a one-off payment to residents in severe financial hardship and extreme circumstances, such as leaving a violent relationship, getting out of jail or being a refugee. This scheme also includes natural disasters not covered by other specific disaster recovery benefits.

When applying the proposed definitions of ED 63 to this scheme, we note the following:

- the scheme is available to specific individuals/households who meet eligibility criteria;
- it addresses the needs of society as a whole;
- it is not universally accessible services; and
- it covers both social risks (eg refugees and financial hardship) and non-social risks (eg natural disasters).

A strict application of the ‘social risks’ definition would imply that certain payments of the scheme would be accounted for as social benefit payments under ED 63, whilst other payments under the scheme would fall outside the scope of ED 63. This could lead to a diverse outcome that would not be useful to users trying to understand the nature, characteristics and implications of this scheme.

As noted in the response to SMC 1, the AASB supports expanding the scope of ED 63 by including universally accessible services and collective services. If the scope of ED 63 were to change, we do not think that the definition of ‘social risks’ would be required.

**Specific Matter for Comment 3:**

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

The AASB is of the view that the insurance approach should be mandatory for social benefit schemes that are similar to insurance (ie ‘insurance-like’) and that are managed in the same way as insurance schemes to ensure that economically similar transactions are also similarly accounted for. We are particularly concerned where such schemes are fully or partially funded, as recognition of the scheme assets should not occur without appropriate recognition of the related liabilities. The AASB considers that insurance accounting provides the most appropriate recognition and measurement of such liabilities.

The insurance approach would be consistent with the proposals in the AASB Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* (November 2017). The Discussion Paper addresses the issue of whether AASB 17 *Insurance Contracts* (which incorporates IFRS 17) would appropriately capture all schemes with economically similar insurance risk once it is applicable to public sector entities, so that such insurance risk is appropriately reflected in the financial statements of public sector entities. The AASB is proposing in its Discussion Paper that the scope of AASB 17 be expanded to include ‘insurance-like’ arrangements that are created by statute, in addition to contractual arrangements. Additional guidance on determining whether an arrangement is insurance-like is proposed to be added to AASB 17. However, the Discussion Paper does not limit insurance-like arrangements to those that are fully funded, as neither the IASB Conceptual Framework nor the IPSASB Conceptual Framework defines liabilities based on their funding status. AASB Discussion Paper paragraphs BC19–BC29 provide a more detailed discussion.

The AASB is also of the view that should the IPSASB not want to make an appropriate insurance Standard mandatory, it should require the application of either an appropriate insurance Standard or IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* to social benefits that are similar to insurance. If IPSAS 19 is applied, it is recommended that the disclosures required by IPSAS 19 should be mandatory.

#### Responses to the specific questions

- (a) The insurance approach should be mandatory for social benefit schemes that are managed in the same way as insurance schemes;
- (b) the criteria are not appropriate as the IPSASB Conceptual Framework definition of a liability does not depend on the way a liability is funded (refer paragraph 5.25), and economically similar transactions might be accounted for differently under the proposed criteria, depending on their funding arrangements;
- (c) directing preparers to apply IFRS 17 or a national equivalent is appropriate; and
- (d) we agree that the additional disclosures required by paragraph 12 are appropriate.

**Specific Matter for Comment 4:**

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

The AASB generally supports the Alternative View presented in ED 63 (which would reflect a liability when the obligation arises), rather than the Obligating Event approach (which would reflect a liability only when all eligibility criteria, including staying alive, are met). The AASB believes the term ‘obligating event approach’ is misleading because, in our view, the event that gives rise to an obligation for the entity can occur much earlier than when ED 63 identifies it, based on its condition of all of the eligibility criteria being met.

However, the AASB acknowledges practical concerns in recognising a potentially large liability, without also recognising the right to tax as an asset that would contribute to funding the liability. The AASB considered possible ways of extending the obligating event approach recognition point by recognising the related asset, in order to provide more useful information in the financial statements. The AASB also acknowledges that for many schemes there will still be difficulties in determining an appropriate recognition point for social benefit liabilities (ie it will not always be clear whether the obligation arises upon the birth of an individual or when they satisfy key criteria).

The table below illustrates two possibilities for the recognition and measurement of the liability and the related asset that the AASB thinks could be supported. The underlying illustrative example referred to throughout the table is an age pension paid to citizens of a country who are 65 years or older *and* have passed a periodic means test prescribed under current legislation. A mandatory financial sustainability report is included in each case to provide users with more complete information useful for decision-making purposes that satisfies the qualitative characteristics of general purpose financial statements.

Even though the suggestions in the table are not fully developed models, and there would be a number of practical implementation issues, the AASB hopes that the IPSASB will find them helpful as a potential way forward in addressing the difficulties with both the obligating event approach proposed in ED 63 and the Alternative View.

LIABILITY	ASSET	MANDATORY SUSTAINABILITY REPORT
<b>OPTION 1</b>		
<ul style="list-style-type: none"> <li>• Current liability for the next 12 months</li> <li>• Past event is the <b>threshold</b>, eg all citizens who are 65 years of age or older (irrespective of whether the means test has been passed)</li> <li>• Measured as age pension payments expected to be made for the following 12 months for all citizens <b>65 years of age and older at reporting date</b></li> </ul>	<ul style="list-style-type: none"> <li>• Asset is the <i>right</i> to future tax receipts – but recognition only of the current asset for the next 12 months</li> <li>• Past event is the <b>legislation</b> establishing income tax payable by taxpayers</li> <li>• Measured as the estimated tax income from all <b>existing taxpayers at reporting date</b> for the next 12 months</li> </ul>	<ul style="list-style-type: none"> <li>• Past event is the legislation establishing both the age pension benefit payments and the future income tax receipts</li> <li>• All expected cash flows are included, ie both inflows and outflows for all individuals currently eligible as well as those expected to become eligible during the period of the sustainability report</li> </ul>
<b>OPTION 2</b>		
<ul style="list-style-type: none"> <li>• Current liability for the next 12 months</li> <li>• Past event is the <b>legislation</b> establishing the age pension social benefits</li> <li>• Measured as age pension payments expected to be made for all citizens who are <b>65 years or older at reporting date, as well as all citizens expected to turn 65 during the next 12 months</b></li> </ul>	<ul style="list-style-type: none"> <li>• Asset is the <i>right</i> to future tax receipts – but recognition only of the current asset for the next 12 months (same as Option 1)</li> <li>• Past event is the <b>legislation</b> establishing income tax payable by taxpayers (same as Option 1)</li> <li>• Measured as the estimated tax income from <b>existing taxpayers at reporting date and those expected to become taxpayers during the 12 months</b></li> </ul>	Same as Option 1

### *The Liability*

When formulating these options, the AASB has looked beyond the next eligibility assessment date as the basis for the liability. Our underlying view is that the liability is conceptually a very large amount, because it potentially covers everyone alive at the reporting date that is expected to be eligible for the benefit in the future, based on current actuarial assumptions. Such a liability would be subject to significant assumptions, a small change in which could lead to significant volatility in the size of the liability.

The AASB does not believe the recognition of the full conceptual liability is appropriate as it is not likely to constitute useful information, and would not be consistent with the IPSASB Conceptual Framework's Qualitative Characteristics: the underlying assumptions would be very uncertain and subject to significant estimation, and the total liability could be out of scale in comparison with other liabilities. Consequently, a departure from the Conceptual Framework might be warranted in accounting for the liability, resulting in a narrower basis for and smaller measurement of the liability.

In the AASB's view, the basis for the liability as set out in ED 63 (the expected payments up to the next eligibility assessment date) is too narrow.

Option 1 in the table presents a broader current liability measure than that in ED 63. The approach in Option 1 views the obligating event as a citizen reaching the age pension threshold of 65 years of age. The liability therefore would be measured as the expected age pension payments in the next 12 months to those citizens who were aged at least 65 years at



the reporting date. Satisfying the means test is reflected in the measurement of the liability, not when the liability should be recognised, as it is a criterion that is beyond the government's control.

Option 2 extends the basis for the current liability a little further than under Option 1. Option 2 does this by treating the pension legislation as the obligating event. Under this approach, the liability would be measured as the expected age pension payments in the next 12 months, which would therefore relate to citizens aged at least 65 years at the reporting date, but also to citizens aged between 64 and 65 at the reporting date, since they would become 65 (and potentially eligible for pension payments) within the next 12 months. As with Option 1, satisfying the means test is reflected in the measurement of the liability, not when the liability could be recognised.

Option 2 would therefore result in a liability that is broader than under the approach set out in ED 63, but still much narrower than a liability based on citizens alive at the reporting date. Option 2 presents a better view of the current liability for the age pension, but does ignore the non-current liability as a pragmatic response to the difficulties of measurement and scale noted above. It is difficult to find a basis for recognising some portion of the non-current liability, instead of none or all of the potential non-current liability.

The statement of financial position could usefully reflect the current liability in order to support assessments of the short-term liquidity and solvency of the entity providing the age pension. It is highly unlikely that a government could change its major social benefit policies and programs within a 12-month period. A 12-month measurement period would also be reflective of many (but not all) organisations' operating cycles and budgetary periods. Recognising a 12-month current liability would be more useful than measurement between two consecutive payment periods or to the next assessment date, because different countries and schemes may have different payment or assessment periods, which would reduce the comparability of financial statements and impair their understandability. The long-term position might be best presented in sustainability reports, presented with the financial statements, without recognising any non-current liability.

One suggestion for recognising part of the non-current liability would be to recognise and measure the liability for the period up to the issuance of the next long-term sustainability report. The Australian Federal Government typically publishes Intergenerational Reports at least every five years. Even though a social benefit liability for up to the next five years could be reliably estimated, this is still considered an arbitrary basis. The AASB therefore prefers applying the well-established current/non-current split over the use of an arbitrary period. This would be more in line with the qualitative characteristics of the Conceptual Framework and produce information that is relevant, understandable and comparable and overall a better representation of the nature and characteristics of social benefit schemes.

In the event the IPSASB decides to retain the approach proposed in ED 63, the AASB recommends that the IPSASB avoids using the term 'obligating event approach' and indicates that when recognising social benefit liabilities, the measurement of the liability is restricted to meeting the eligibility criteria (including staying alive) rather than stating this is the obligating event point of recognition. We consider this would be more consistent with the Conceptual Framework.

*The Asset*

The AASB notes that in some instances it is clear which government revenues will be used to fund a social benefit liability, but these schemes are likely to be insurance-like schemes where specific tax is collected to fund a particular scheme. In other cases it is normally not clear at collection for what purpose tax income will be used.

The AASB disagrees with the IPSASB's position in ED 63 paragraph BC13 that the future taxation income used to fund social benefits cannot be recognised as an asset because the entity does not currently control those resources. As stated in paragraph 6 of the Preface to the IPSASB Conceptual Framework, "taxation is a legally mandated, compulsory non-exchange transaction between individuals or entities and the government." Furthermore, existing tax legislation gives governments the sovereign power to tax individuals and entities. Consequently, the government has a **right** to receive the future tax income and this right should be recognised on the statement of financial position as an asset.

Paragraph BC5.18 of the Conceptual Framework states that the IPSASB agrees with the view that "... the power to levy taxes and fees must be converted into a right by legal means, and that such a right must be exercised or exercisable in order for an asset to come into existence ... the IPSASB concluded that a government's inherent powers do not give rise to assets until these powers are exercised and the rights exist to receive service potential or economic benefits."

The Conceptual Framework (paragraph 5.13) also states that "... An asset arises when the power is exercised and the rights exist to receive resources." That paragraph distinguishes between the establishment of a power through a statute and exercising the power to create a right, as factors to consider in assessing when an entity's control of rights to resources arises. Although not clear, this could be viewed as indicating that converting a right into statute via legal means does not constitute exercising the power and gaining the right to receive resources from external parties.

The AASB's view, however, is that if a government's general ability to tax has been converted into legislation and is currently in force, then an asset has come into existence. This view is symmetrical to the AASB's view of when a liability arises. The nature of the asset in these circumstances is more akin to an intangible asset, but it is a recognisable asset nonetheless.

For the purposes of illustrating symmetrical proposals, under Option 1, an asset would be recognised, measured as the estimated tax income from all existing taxpayers at the reporting date for the next twelve months. This basis is then broadened under Option 2 by measuring the current asset as the estimated tax income from existing taxpayers at the reporting date as well as from those expected to become taxpayers during the next twelve months.

Again, recognition of this current asset in the statement of financial position would facilitate liquidity and solvency assessments, and the long-term position could be presented in sustainability reports, presented with the financial statements.

As the options in the table above are limited to recognising a current liability, it could be appropriate to also limit the options to recognising a current asset, to facilitate assessment

of the short-term liquidity and solvency of the entity. Under this approach, a non-current asset would not be recognised. If a departure from the Conceptual Framework might be warranted in accounting for the liability, as previously explained, then similarly a departure from the Conceptual Framework might be warranted in accounting for the asset as well.

However, in order to avoid presenting a misleading impression that a government's current liquidity position is indicative of its longer-term liquidity position, an important consideration is whether the measurement of the asset should be restricted or aligned to the current liability in some way (ie in the next 12 months, the social benefit policy could be funded from general tax, however when operating expenses and the long-term nature of the social benefit policy are considered, the policy could not be funded without an increase in taxes etc). For example, the amount of the asset might be restricted to the amount of the liability.

Discussion with users would be necessary to determine which approach would better align with the qualitative characteristics of relevance, understandability and comparability of financial information, resulting in a better representation of the nature and characteristics of the asset.

#### *Executory Contracts*

It is also important to consider the existence of executory contracts. Consider an example where an unemployed (yet physically able) person is required to perform certain public service duties (eg removing refuse in parklands) for the government while they are unemployed, in exchange for receiving unemployment benefit payments.

This situation is different from the options illustrated in the table above. In this case, the government has both a liability (ie the payment of the unemployment benefit) and an asset (ie future services the government is going to receive in the form of work performed; this is *different* to the right to future income tax asset). This initially constitutes an executory contract, because the arrangement is equally proportionately unperformed by both parties. An offsetting asset exists along with the liability, but the traditional approach is not to recognise either the asset or the liability in this case. We suggest that the standard should clarify the identification and treatment of executory contracts.

#### **Specific Matter for Comment 5:**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32-33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

The AASB agrees the disclosures in paragraphs 31 through 34 are useful, although the AASB does not support the proposed five-year period for the disclosure of the future cash flows. Instead, the AASB supports mandatory disclosures of the long-term impact and sustainability of social benefits as an integral part of a public sector entity's financial reporting.

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

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalising ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

#### **Advantages**

- Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.
- This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognised in the financial statements.
- Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.
- Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

#### **Disadvantages**

- The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.
- The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.
- Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.
- RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

As noted in the response to SMC 5, the AASB supports mandatory disclosure of the long-term impact and sustainability of social benefits as an integral part of a public sector entity's financial reporting. The AASB does not propose requiring the long-term sustainability report to be included in the financial statements; however, the two separate reports should be clearly linked. This might be achieved by presenting the financial statements and the sustainability report together, by referring in the financial statements to the sustainability report, or by other means.

The AASB notes that even though the long-term sustainability report might not be updated annually, linking the most recent version to the financial statements would still provide the best context for users of the financial statements.

The AASB is of the view that the most useful and comprehensive disclosure would be the combined presentation of projected cash outflows for social benefit schemes and projected cash inflows. This would enable users of the financial statements to gain a better understanding of the government's social benefit schemes, including assessing their long-term sustainability, such as the government's estimated financial position at selected points in the future and potential fiscal challenges.

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**The Hungarian Actuarial Society (HAS) supports the position of the IAA as it is formulated by Social Security Committee in the letter to International Public Sector Accounting Standards Board (29 March, 2018) about IPSASB Exposure Draft 63 on Social Benefits.**

We understand the difficulties of establishing the reporting rules resulting in comparable measures for such diverse social benefit as exist throughout the world. However, we strongly believe that in this area the point of reference – in consistency with the objective of such systems – are “National compulsory and contributory or non-contributory social protection schemes based normally on the principles of universality (i.e. covering the whole of a country's population) and unified general coverage against the risks of [...] old age, unemployment, etc. [...]” (ILO Thesaurus). It is well known that in most countries, especially in Europe, the financial arrangement funding these institutions is according to the pay-as-you-go model (unfunded) where present obligations are financed from earmarked tax on the insured population, called social security (pension) contributions through a dedicated government account, usually referred to as social benefit (pension, etc.) fund. Reporting obligations should take into these arrangements in the first place, and regard other cases as exceptions.

Having said that, we agree with the concepts which are expressed by the IAA in responding to Special Matters for Comment 3, 4 and 5. The main reason is that Social security benefit funds are special institutions by purpose and financing and operating long over the general planning horizon of other economic entities, and the scheme rules like access to the scheme, accrual of rights, benefit events, going concern and state guarantees are set out in national legislation.

As a general rule government finances use cash basis by the nature of revenues and obligations, even if it is long term, and therefore such funds are basically unfunded. Their sustainability and comparability decided taking into account this, the level of redistribution by the state in the economy and the long-term financing capability of the guarantor. We would not propose to use measures using the usual interest rate definitions and GDP based measures for comparisons.

This leads us to the comments on the last point, Special Matter 6 on disclosure and additional information and interpretations. In most economies social benefits financed by the state in a scheme open to all workers are the largest part of the state budget. However, there is still no universal measure available to assess its long term sustainability and affordability in a specific economy, still less comparing it with others. Therefore it would be advisable leave room for the competent interpretation of the results.

Comment was worded by:  
Tibor Párnitzky, member (HAS)

The Executive Board of HAS agrees with the opinion expressed and fully supports it.

31 March, 2018.

## *Proposed International Public Sector Accounting Standard*

### **Social Benefits**

#### **Specific Matter for Comment 1:**

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

The NAO feels that the scope of this Exposure Draft fits exactly within the ultimate objectives and generally accepted parameters/definitions of Social Benefits; being

- a) Benefits given to specific individuals and/or households who meet eligibility criteria;
- b) Benefits given to mitigate the effect of social risks; and
- c) Benefits that address the needs of society as a whole.

Universally accessible services cannot be treated as Social Benefits, as they are not directly interconnected with the avoidance of social risks and are based on set criteria to be met.

#### **Specific Matter for Comment 2:**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

The NAO fully agrees with the proposed definitions in the Exposure Draft.

In Malta, the Social Security Department is committed to helping maintain the basic well-being and protection of the people. This is in-line with the definitions outlined.

#### **Specific Matter for Comment 3:**

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;

Being optional gives the Government or Entity in question the ability to determine whether it shall report in this manner, given the particular needs of the Government or Entity. However, this may give rise to lack of comparability between different Government Entities when it comes to analysis and the production of future cash flow figures.

- (b) The criteria for determining whether the insurance approach may be applied are appropriate;

The criteria set out are deemed appropriate.

- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and

The relevant international or national accounting standard dealing with Insurance Contracts is to apply, should the Government or Entity opt to treat Social Benefits in this manner.

- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

These additional criteria are very important to determine and disclose the characteristics of Social Benefits in question, given that the original Insurance Contracts Standard was set with a different scope. This added information disclosed to the users of Financial Statements shall help them to understand better the nature, function and ultimate beneficiaries of the Social Benefit in question.

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

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

The NAO is fully aware of the different views and opinions on the Obligating Event Approach.

Paragraph 16 of this Standard clearly states that the past event that gives rise to a liability for a social benefit is the satisfaction by the beneficiary of all eligibility criteria for the provision of the next social benefit, which includes being alive.

The NAO is aware that for a liability to be recognized, should this method be adopted, a beneficiary must satisfy the eligibility criteria for the provision of the next social benefit, even if formal validation of the eligibility criteria occurs less frequently, where it is possible. Where a beneficiary has not previously satisfied the eligibility criteria, or there has been a break in satisfying the eligibility criteria, a liability is recognized at the point that the eligibility criteria are first satisfied. Therefore, being alive at the point at which the eligibility criteria are satisfied is an eligibility criterion, whether explicitly stated or implicit. This implies that a liability cannot extend beyond the point at which the next social benefit will be provided.



On the other hand, the NAO also feels that the obligating event may be dependent on the economic substance of the social benefit scheme. For some social benefits, recognizing a liability when the eligibility criteria for the next benefit are satisfied will be appropriate. For others, a liability would be recognized at an earlier point. Moreover, there is no social benefit-specific reason to treat “being alive” differently to other transactions.

Therefore, NAO opines that there must be further discussions to identify the various opinions and to amalgamate these two lines of thought in order to have a clearer explanation to be able to establish an alternative efficient method for the Insurance Approach.

### **Specific Matter for Comment 5:**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity’s social benefit schemes (paragraph 31) are appropriate;

Yes, NAO feels that it is in the users’ interest for the Government and/or entity to disclose all relevant information as requested in the Standard being drafted.

- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate;

Disclosing this financial information in relation to the Social Benefit Scheme is also beneficial to the ultimate users of the Financial Statements and the public in general.

- (c) For the future cash flows related to from an entity’s social benefit schemes (see paragraph 34):

- (i) It is appropriate to disclose the projected future cash flows;

NAO opines that projected future cash outflows are also relevant, as these figures portray what/how much the Government or Entity are expected to finance in the future period. Thus, the Government or Entity will be able to plan its cash needs ahead to finance such liability which will be due in the forthcoming months/years.

- (ii) Five years is the appropriate period over which to disclose those future cash flows.

NAO feels that the five-year period mentioned in the draft Standard may be reduced to three years, given that Social Benefits vary according to the needs and requests of beneficiaries. The reason being that changes in circumstances and eligible criteria may occur frequently, without prior expectation, thus leading to inefficient cash outflow forecasts.

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

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

#### **Advantages**

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision-making, and that governments should therefore be providing.

This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

#### **Disadvantages**

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

The IPSASB may perform a further study or analysis on the availability, usefulness and effectiveness of such disclosed information and how this information may be of added value to the public. This will enable the Board to establish what the exact needs of the public are, and try to find realistic ways and means to address such requirements.

One must bear in mind that the ultimate reasons behind the disclosure of long-term fiscal sustainability are:

- a) to give the user a wider and complete picture of the financial position of the Government or Entity in question vis-à-vis Social Benefits;
- b) to determine the Government's or Entity's willingness and ability to continue financing such liability; and
- c) to give a complete picture of the social financial responsibility that the Government or Entity in question has to take care of in order to maintain a sustainable economy.



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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April 6, 2018

John Stanford, Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, ON M5V 3H2 Canada

**International Public Sector Accounting Standards Board Exposure Draft: *Social Benefits***

This letter provides the U.S. Government Accountability Office's (GAO) comments on the International Public Sector Accounting Standards Board's (IPSASB) Exposure Draft (Exposure Draft or ED) entitled *Social Benefits*. We welcome the opportunity to comment on the Exposure Draft and support the board's efforts to establish principles for the recognition, measurement, presentation and disclosure of social benefits.

Overall, we strongly support the ED's proposed recognition of a liability for social benefits in the financial statements under the obligating event approach when all eligibility requirements to receive the next benefit have been satisfied. In addition, we generally agree with the proposed insurance approach as an optional approach and with the proposed social benefit disclosures. We also believe that the Board should undertake further work on reporting on fiscal sustainability reporting.

This ED represents important progress on significant issues related to social benefits. We appreciate the opportunity to provide comments, which are included in the enclosure.

Please contact Robert Dacey, Chief Accountant at (202) 512-7439 or [daceyr@gao.gov](mailto:daceyr@gao.gov) if you have questions on GAO's perspectives.

Sincerely,

A handwritten signature in black ink that reads "J. Lawrence Malenich".

J. Lawrence Malenich  
Financial Management and Assurance  
Enclosure

**Enclosure: GAO Comments on the International Public Sector Accounting Standards Board Exposure Draft, *Social Benefits***

**Specific Matter for Comment 1:**

Do you agree with the scope of this Exposure Draft and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

**Response:**

In our view, social benefits and universally accessible services are conceptually similar non-exchange transactions and it is critical that the accounting for recognition and measurement of social benefits is consistent with the accounting for universally accessible services. Social benefits and universally accessible services are similar in many ways, such as (1) services are delivered on a nonexchange basis to beneficiaries, generally based on meeting all eligibility criteria; (2) the same types of services may be provided (e.g., health care); and (3) benefits ultimately may be provided for many years or a lifetime. Assuming the Board proceeds with the proposed accounting treatment in this ED, we would favor retaining universally accessible services in the non-exchange expenses project, while agreeing that their recognition and measurement would need to be consistent with social benefits. This approach would allow the standard on social benefits to be issued as scheduled without re-exposure, while allowing consistent treatment for all non-exchange expenses, including social benefits. If the Board determines that the ED should be re-exposed for any reason, we believe that universally accessible services should be incorporated into the re-exposed social benefits exposure draft so that the consistency of treatment can be considered in one standard. In either case, in our view, it is essential that the two types of benefits should be consistently treated to avoid differences in the recognition and measurement of conceptually similar transactions and programs and the user confusion that would likely result.

The Board's Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* (Consultation Paper) presented the Board's Preliminary View that resources provided for universally accessible services and collective services should be expensed as services are delivered. This Preliminary View, which was overwhelmingly supported by respondents, is conceptually consistent with this Exposure Draft. For example, if there are two entities, one which provides universally accessible health care under the Consultation Paper and one which provides health care benefits under this Exposure Draft, the accounting treatment would generally be consistent. Consistent with the Preliminary View in the Consultation Paper, the entity with universally accessible health care would recognize an expense when services are provided to beneficiaries meeting all of the eligibility criteria. For the entity that provides health care benefits under this Exposure Draft, a liability and an expense would be recognized when the beneficiary meets all of the eligibility criteria for the next benefit, which generally occurs when the service is provided—such as when an eligible doctor provides an eligible health care service to an eligible beneficiary.

**Specific Matter for Comment 2:**

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

**Response:**

We generally agree with the definitions of social benefits, social risks and universally accessible services. However, the distinction between universally accessible services and social benefits may be extremely difficult to apply in practice.

**Specific Matter for Comment 3:**

Do you agree that, with respect to the insurance approach:

- a) It should be optional;
- b) The criteria for determining whether the insurance approach may be applied are appropriate;
- c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

**Response:**

If the Board determines that the insurance approach is appropriate, we strongly support that its application should be optional, especially given the subjectivity involved in applying the criteria and our view that the insurance approach may not apply to very many social benefit programs. Further, we generally agree that (1) the criteria for determining whether the insurance approach may be applied are appropriate; (2) preparers should be directed to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17); and (3) the additional disclosures required by paragraph 12 of the Exposure Draft are appropriate.

We continue to have concerns with respect to the use of the insurance approach and the resulting inconsistent recognition and measurement across all social benefit schemes and other non-exchange expenses. However, if the criteria are met, we believe it will generally result in assets, liabilities and expenses similar to other social benefits.

**Specific Matter for Comment 4:**

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

**Response:**

We strongly agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all of the eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme's provisions). We believe that this approach, supported by appropriate disclosures in the financial statements and/or the general purpose financial reports (GPFR), best achieves the objectives of financial reporting and provides information about the public sector entity that is most useful to users of financial statements and GPFRs for accountability and decision-making purposes. Further, recognizing a present obligation or liability for social benefits when all of the eligibility criteria to receive the next benefit have been satisfied provides (1) an appropriate basis across the wide range of different types of social benefit schemes, and (2) information that is most consistent with the objectives of financial reporting and qualitative characteristics. This approach is straightforward, is easy to understand, is simple to calculate, can result in information being reported in a timely manner, and can be verified. It is our view that when all eligibility criteria to receive the next benefit have been satisfied, an entity has an obligation to provide non-exchange benefits, for both noncontributory and contributory social

benefit schemes. If the beneficiary fails to meet any of the eligibility criteria, the beneficiary would not be entitled to receive a benefit. In our view, most social benefits have an explicit criteria that the beneficiary is alive as part of the eligibility criteria; in others, it may be implicit. In the United States, for example, one of the explicit eligibility criteria for receiving monthly Social Security payments is that the beneficiary is alive.

Also, non-exchange social benefits and other non-exchange transactions are unique to public sector entities and are fundamentally different from exchange transactions. Although beneficiaries may anticipate that benefits will continue to be provided in the future, it is our view that a valid expectation does not occur until a beneficiary has met all eligibility criteria to receive the next benefit. Although past practice may indicate that the government has accepted a responsibility to provide social benefits, a public sector entity has a realistic alternative to avoid an outflow of resources, for example, by modifying legislation, until all eligibility criteria to receive the next benefit have been satisfied. Beneficiaries should be on notice of social benefit eligibility criteria and the public sector entity's ability to change eligibility criteria and benefits.

In addition, non-exchange social benefits differ from employer-provided benefit plans, which are considered exchange transactions. In an exchange transaction, the employee exchanges employment for current wages as well as deferred compensation, such as through an employee pension plan. The entity has a liability for the deferred compensation related to work that has already been performed. Conversely, under a typical non-exchange social benefit program, the individual does not exchange his or her taxes and/or contributions for a benefit from the public sector entity. Rather, collectively the citizenry pays taxes, whether dedicated or general taxation, to fund social benefits for those that meet eligibility criteria. Accordingly, the compulsory payment of taxes by an individual and the subsequent receipt of social benefits by that same individual in a typical social benefits scheme constitute separate non-exchange transactions. For example, in the United States, the compulsory payment of Social Security taxes does not entitle an individual to a benefit in a legal, contractual sense, and benefits paid to an individual are not directly based on taxes paid by that individual. Therefore, in those programs, the U.S. government has an obligation for the benefits only when all eligibility criteria to receive the next benefit have been satisfied.

It is important to use a consistent accounting approach for recognizing non-exchange expenses across the broad range of social benefit schemes to avoid inconsistent recognition treatment among similar programs. Public sector entities have significant flexibility in determining how they will fund social benefits and other non-exchange transactions. For example, a public sector entity determines whether social benefits and other programs will be funded solely through dedicated taxes, fees, and/or contributions; solely through general tax revenues; or, some other combination. Also, the public sector entity can decide whether to raise tax revenues, reduce benefits, or borrow to finance its programs, including social insurance benefits. This is true whether the social benefit scheme is designed to be fully funded from contributions or not. Further, social benefit schemes may communicate that benefits depend on the availability of funding or other caveats that may limit the payment of benefits. We do not believe that the contributory nature of a social benefit scheme affects a beneficiary's expectation of receiving benefits. Consequently, we do not believe that funding from contributions affects when a present obligation occurs for social benefits.

It is our view that "future benefits", those for which all eligibility criteria for the next benefit have not yet been met, do not represent present obligations. Further, the recognition of future benefits does not reflect the true nature of social benefit programs, the extent of the government's responsibilities for these and other programs, or the government's ability to revise these responsibilities. Just as future government spending on programs, such as universally

accessible services or defense that are relatively certain to continue, is not a present obligation of the government, future social benefits spending is also not a present obligation.

We have significant concerns that recognizing social benefit obligations based on key participatory events or threshold eligibility would result in misleading information and a lack of comparability between and within reporting entities. A public sector entity typically has significant discretion in determining whether to continue or to modify social benefits. Therefore, recognizing liabilities for social benefits based on key participatory events or threshold eligibility might not represent a likely or even reasonable policy option for policymakers or users to consider. Further, recognizing a liability for future social benefits does not faithfully represent an entity's financial position or performance and presents a misleading view of the entity's financial position. For example, two entities with comparable liabilities based on key participatory events or threshold eligibility may not be in comparable financial position, based on funding considerations. For these reasons, we do not believe that it is appropriate to recognize, in the financial statements, future social benefits that have yet to be delivered and consequently do not support recognition of a liability based on key participatory events or threshold eligibility.

Recognition of future social benefits without recognition of the future tax revenues related to the public sector entity's power to tax would not provide relevant information, would diminish significantly the relative size and importance of other liabilities and expenses shown on the financial statements, and would include long-term estimates that may be highly uncertain. Also, such estimated liabilities may be subject to significant volatility based on changes in underlying assumptions and would not provide information that is useful for accountability purposes. In addition, to the extent that a social benefit scheme is not sustainable based on dedicated tax revenues or other contributions, the amounts of social benefits that would be provided are also highly uncertain and may not be reliably estimable. Further, the time horizon for recognizing a liability for social benefits may be difficult to determine.

For example, social benefit programs, as currently structured, may be clearly unsustainable (as are Social Security and Medicare (Part A) in the United States), and reforms in these programs are a near certainty. For example, under current law in the United States, the trust funds for Social Security and Medicare Part A are projected to be exhausted in the future, after which only a portion of current benefits could be paid. However, it is not possible to predict what specific actions the entity will undertake to modify or change future benefits or taxes. Consequently, the inherent uncertainty surrounding agreement and settlement for amounts of future social benefits does not lend itself to recognizing a liability and expense for future benefits.

In addition, it is our view that the recognition of future social benefits would result in an inconsistency between the costs of services recognized during the year and the services provided during the year. The statements of financial position and of financial performance provide information for assessing the costs of providing goods and services during the period. Generally, a public sector entity has little exchange revenue and no profit motive, but instead has the goal of providing services collectively chosen to improve the well-being of its citizens. Accordingly, the accounting treatment for recognizing costs should be consistent with the delivery of related services year by year. Thus, costs can be associated with program delivery and analyzed in relation to outputs, outcomes, and relevant performance measures. These measures could assist in improving (1) resource allocation and program management, (2) the effectiveness and efficiency of service delivery, (3) the accountability to citizens for service delivery during the year, and (4) the adequacy of revenues to cover services provided during the year.



We respectfully disagree with the Alternative View's position that liability recognition would vary based on judgments about the level of expectations of the beneficiaries and that the extent of the liability for each program would be based on an assessment of the beneficiaries' expectations for each program. We do not believe that this would result in improved reporting. In our view, recognition of a liability on this basis would be highly subjective; result in entity-specific determinations and a lack of consistency and comparability; and misleadingly communicate that benefits for one program were more likely to be paid than another. Also, we question whether preparers could reasonably determine and differentiate the expectations of the beneficiaries between each social benefit program. In our view, there is generally a high expectation that social benefit and other non-exchange programs will continue to provide benefits unless the enacting law specifically limits the length or spending of the benefit program. For example, we believe that citizens expect that universally accessible services, such as health care or education, as well as collective goods and services, such as the military and police and fire, will continue in the future.

While we agree that users should be provided information to assist them in assessing the likelihood that the entity will be able to continue social benefit programs under current law, we believe that this goal cannot be achieved by recording a liability based on key participatory events or threshold eligibility, as such information would be incomplete to make this assessment. Rather, due to the complex nature of a public sector entity's finances, broader reporting on fiscal sustainability is necessary to fully reflect the complex interaction of future revenues and expenses and provide this information. Information only about long-term future benefits payments without a consideration of dedicated revenues and without considering other resources and other commitments would be incomplete and likely be misleading. Further, information on the long-term effects of current changes in policy should take into consideration much broader issues beyond simply future program benefits. Although the magnitude of future benefits may be similar in two public sector entities, many other factors should be considered to evaluate the overall financial condition of the entities and their ability to continue program benefits over time.

In conclusion, governments establish eligibility criteria for determining whether and when an individual is entitled to receive a benefit and publicly communicates such criteria. Accordingly, a liability should not be established and recognized until the beneficiary meets all of the eligibility criteria to receive the next benefit. We do not consider estimates for future social benefits to be present obligations for the reasons discussed above.

**Specific Matter for Comment 5:**

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - (i) It is appropriate to disclose the projected future cash flows; and
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

**Response:**

(a) We support disclosures about the characteristics of an entity's social benefit schemes, but caution that it should be presented at an appropriately aggregated level. Because a reporting entity may have a significant number of social benefit programs, detailed information on each program may be lengthy and not meaningful.

(b) We agree that entities should disclose information about the amounts in the financial statements, including significant assumptions used to discount the liability for social benefits and a reconciliation of the opening and closing balances of the liability for social benefits, considering the appropriate level of aggregation in situations where the reporting entity has a significant number of social benefit schemes.

(c) We agree that it is appropriate to disclose the projected future cash flows.

(d) Given the applicability of the standard to both national and sub-national entities, we support the use of a five year period for the disclosure of projected future cash flows, perhaps with an acknowledgement that an entity may present additional years.

In addition, we believe it would be appropriate to disclose significant known factors and trends that could result in significant or material changes to future social benefit cash flows (both benefits and any dedicated revenues) in relation to the economy or other appropriate measure. Such information would provide relevant information that could inform user judgments about future costs of the programs beyond the proposed five year projected cash flow period.

**Specific Matter for Comment 6:**

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social

benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

### **Advantages**

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.

This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting (IR) in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how? If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

### **Disadvantages**

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory. RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

### **Response:**

We strongly support reporting on long-term fiscal sustainability and believe that the Board should undertake further work to revisit RPG 1 to consider requiring fiscal sustainability reporting. We agree that current financial statements cannot satisfy all users' needs on social benefits. General purpose financial reports prepared in accordance with RPG 1 would provide information about expected obligations to be incurred and settled in the future. Such obligations do not meet the definition of a present obligation, and so are not recognized in the financial statements. In accordance with RPG 1, reporting would also include information about expected resources to be realized in the future that will be used to finance social benefits, or the right to tax. Because the entity does not currently control these resources, they are not recognized in the financial statements.

Therefore, in addition to disclosures discussed in our response to Specific Matter for Comment 5, a report or statement of fiscal sustainability with estimates of future costs, including social benefits, and future revenues, including dedicated revenues, would help provide a comprehensive perspective of the government's financial condition and its ability to continue to provide and finance social benefits and other goods and services. It will also provide useful information for users, in particular for evaluations of intergenerational equity.

In the United States, a statement of fiscal sustainability has been presented annually as an audited basic financial statement for the last three fiscal years and as unaudited information for five fiscal years prior to its presentation as an audited basic statement. In addition to providing an analysis of discounted, projected cash flows, such reporting provides information on "fiscal gap," the magnitude of noninterest spending reductions and/or receipts increases needed to maintain the current debt-to-GDP ratio over the valuation period. The American Institute of Certified Public Accountants (AICPA) has issued guidance for auditing and reporting on sustainability information. In our experience, fiscal sustainability reporting is used as a foundation for assessing the likelihood that the government will continue to provide public services, such as social benefits, to constituent groups and to assess whether financial burdens without related benefits are passed on by current-year taxpayers to future-year taxpayers. For example, fiscal sustainability reporting is used as a framework for analyzing the effect of proposed or implemented policy changes on fiscal sustainability, and was recently highlighted on the front page of a major national newspaper.

In summary, it is our view that "financial condition" is a forward-looking indicator that should provide predictive information about a government's long-term capacity to sustain and finance its current programs, including social benefits—information such as the right to tax that is not conveyed in the financial statements. Consideration of future taxes and other receipts are critical to assessing financial condition. In addition, the financial statements do not provide sufficient information for users to assess the extent that financial burdens have or will be passed on by current year taxpayers to future taxpayers without related benefits. Many countries face long-term challenges, including demographic and socioeconomic change with rapid increases in the old-age dependency ratio that will affect future fiscal health, level of spending for goods and services, and level of future receipts. Consequently, it is critical that the future impact of these challenges be considered in the framework of a comprehensive assessment of a government's financial condition.



8 April 2018

Honourable Chairman and Board Members:

**Re: ED 63 Social Benefits – Comments.**

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We admire your tremendous efforts and those of your team members and other stakeholders, in bringing out Exposure Draft on a difficult matter; for improving the accountability of public sector entities. I will be pleased to see these collective efforts achieving its objective. Thank you! Good job! We value and appreciate your efforts!

We are also pleased to contribute to the discourse with our views most respectfully.

**Summary of Comments:**

1. The title of the standard gives an impression of a comprehensive standard, Not all the social benefits schemes are described here but few. It is not a stand-alone document.
2. The definition of term social benefit is not what it is understood to be: significant deviation and exceptions create misunderstanding. Social benefits come in different forms: relief to a region hit by a natural calamity is an example though it may be classified differently.
3. Insurance approach is a sounder approach because its funded assets are marked separately.
4. The Standard is silent on the possibility if the management of a social benefits scheme is outsourced to a private sector entity.
5. In directing preparers to IFRS 17, the Board has embraced all its perils and weaknesses. Many preparers find understanding IFRS to be intimidating. In the long-run the IPSASB will need to develop a much focused insurance approach of its own.
6. The alternative approach to account for liabilities and charges is closer to our views. We admit that this will create additional challenges for the preparers.
7. Include a caveat in the standard that achieving the objective of accounting for social benefits properly in the financial statements may require additional measures on the part of the preparers for achieving a relevant and faithful representation.
8. Develop long term fiscal sustainability reporting over next three to five years. It will complicate the process of financial statement compilation but will add value to the use understanding.
9. Find ways to strengthen contact of the IPSASB with stakeholders like government institutions responsible for preparing financial statements, as they are not IFAC members.



## Specific Comments:

### **Specific Matter for Comment 1:**

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?*

*If not, what changes to the scope would you make?*

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### **Response 1: Yes.**

We do not find the title of the standard and its contents to be aligned. First, it gives an impression of a stand-alone document; it is not. Second, social benefits are generally understood to include universally accessible services.

The Board must be at a liberty to define terms the way a situation demands. A risk in defining terms that do not conform to what they are ordinarily understood to mean impair user understanding. Using terms in the general purpose financial statements that deviate significantly from the ordinary meanings is not at all helpful for the cause of user understanding.

We reluctantly concur with the Board because of our keenness to move forward on this issue. We are ready to accept that social benefits come in different forms. There are some which may not be a universally accessible service and there are others which are. We found the exchange and non-exchange nature of a social benefit scheme to be more meaningful and helpful.

### **Specific Matter for Comment 2:**

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?*

*If not, what changes to the definitions would you make?*

### **Response 2: Yes.**

Again, we find that the definition of social risk para 6(b) would not be satisfied in all cases and creates confusion. "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"<sup>1</sup>.

We do not agree that every social benefit "address the needs of society as a whole"<sup>2</sup>; apparently it contradicts the immediately following condition that social benefits "are not universally accessible services". We found the following to be adding to our confusion: "A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole"<sup>3</sup>.

<sup>1</sup> See AG 5

<sup>2</sup> See para 6(c).

<sup>3</sup> See AG-6.



Also, we believe that a disaster relief is also a social benefit of special kind of non-exchange transaction. Specifically, we do not agree that: “Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk”<sup>4</sup>. Or, that: “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”<sup>5</sup>.

Natural disaster such as earthquake are not predictable but they are inevitable. That is why many countries now have disaster relief authorities with dedicated budgets to deal with such eventualities. A geography is inhabited by a segment of society and the relief provided is a social benefit. The fact that the relief benefits a geographical segment and the relief is temporary, is not relevant.

Given the climate change, such relief is a part of wider social benefit. Disaster relief is a social benefit. It may be defined under a separate category.

### **Specific Matter for Comment 3:**

*Do you agree that, with respect to the insurance approach:*

*(a) It should be optional;*

*(b) The criteria for determining whether the insurance approach may be applied are appropriate;*

*(c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*

*(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

*If not, how do you think the insurance approach should be applied?*

### **Response 3:**

3(a) Yes.

We find the basis of insurance approach to be financially sound. However, we wonder if the option of doing so dilutes the objective of this standard<sup>6</sup> to make a comparison with a scheme doing so on obligating event method. The implications must be mentioned in the text of the Standard, if any.

We fully agree that: “..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”<sup>7</sup>.

<sup>4</sup> See AG-9.

<sup>5</sup> See AG-10.

<sup>6</sup> “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 social benefits...” See para 2.

<sup>7</sup> See AG-2.



The Standard is silent about the possibility of a government outsourcing the management of a social benefits scheme to a private sector entity. In that case, is the manner in which it is accounted for will completely change?

3(b) Yes, the criteria for determining whether the insurance approach may be applied are appropriate

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Our observation is about its requirements of ‘assessing the financial performance and financial position of the scheme on regular basis’<sup>8</sup>. Why is the same not made applicable in both approaches?

3(c) Yes, directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate. The Board took a smart decision of adopting IFRS 17 and conserving its resources and time. However this burden is now on the preparer whose familiarity with the IFRS is a big question mark.

We are sure that the Board must have considered that most of the IFRS are not stand-alone documents (not sure about this one!). The volume of an IFRS is a total let down for a preparer; its text normally contains a lot of stuff that may not be applicable for a social benefit scheme.

The combined effect of all of the above is that insurance scheme may be taken as a big no-no by most preparers, contrary to Board’s thinking that it is even sounder approach.

In the long run we think there will be no escape from developing a more relevant, less intimidating approach.

A standard should be a stand-alone document. There is a veil there which conceals challenges for the preparers in the standard on applying this approach.

3(d) Yes.

The additional disclosures required by paragraph 12 of this Exposure Draft are equally appropriate for both approaches.

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<sup>8</sup> “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” (para 9(b)).





**Specific Matter for Comment 4:**

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?*

*If not, what past event should give rise to a liability for a social benefit?*

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.* Page | 5

**Response 4: No.**

We are not clear why the condition of being alive is given so much importance. As long as the eligibility criteria is met, the liability exists irrespective of a person being alive or not. Similarly there are certain benefits which are directed towards the heirs.

We find the alternative view to better represent our thinking on this matter; It is more representative of financial reality. The facts mentioned should be a part of the financial statements, not as a non-financial information.

We are aware that the alternative view would create challenges for the preparers, possible delays, and total not adoption, if proceeded upon. However, we do not find such causes to be helping the Board in the longer term.

**Specific Matter for Comment 5:**

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

*(a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*

*(b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and*

*(c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):*

*(i) It is appropriate to disclose the projected future cash flows; and*

*(ii) Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

**Response 5:**

Subject to our agreement on alternative view on this matter and the changes it may bring:

(a) Yes.

(b) Yes.

(c) No.

(i) No.

(ii) No.

The IPSASB should make it a standard caveat to remind the preparers of its responsibility of relevant and fair presentation of financial statements. This will be primarily achieved by adhering to the requirements of the Standard. However, there may be additional aspects that may be required for achieving the objective and they must assume the responsibility for achieving the substance of such matters.



**Specific Matter for Comment 6:**

*In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits.*

*(a) Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

*(b) If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

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**Response 6:**

6(a) Yes, the Board should undertake further work on reporting on long-term fiscal sustainability over a period of next three to five years.

We consider that the advantages of mandatory approach outweigh its disadvantages.

6(b) We invite IPSASB to find a way to engage the governments. It's the professional bodies of a country which are members of IFAC whereas in case of public sector entities, the auditor general or equivalent are not. We feel there is a disconnect between the Board and those who are to apply IPSAS in preparing general purpose financial statements GFS in case of Pakistan. The gap should be reduced.

In Pakistan, the Federal and Provincial Governments present its financial statements annually.

Under Article 90 and 99 of the Constitution, Rules of Business 1973 were made which define the administrative structure, allocation and transaction of the business of the executive Federal Government.

"The financial statement of the federal government are prepared by the Accountant General Pakistan Revenues under section 5 of the Controller General of Accounts (Appointment, Functions and Powers) Ordinance 2001"<sup>9</sup>. The Auditor General of Pakistan certifies the financial statements.

"The format of International Public Sector Accounting Standards (IPSAS) Cash Basis – Financial Reporting under the Cash Basis of Accounting has been adopted for the preparation of the financial statements".

In December 2000, Auditor General of Pakistan prescribed New Accounting Model (NAM) with the approval of the President of Pakistan under Article 170 of the Constitution of Islamic Republic of Pakistan. NAM, which conforms to international best practices, comprises of seven volumes and is based on Modified Cash Basis of Accounting in which, though cash basis

<sup>9</sup> See "Financial Statements of the Federal Government for the year ended 30 June 2016. Preface on page 1.



of accounting is followed, the following additional concepts were introduced: Commitment Accounting, Physical and Financial Assets Accounting, Liabilities Accounting.

“Commitment, asset and liability accounting practices are not yet implemented and these financial statements have been prepared on cash basis of accounting and do not include accrued receipts and liabilities”.

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We wish to see our Government discharge its function of accountability and transparency with a sense of responsibly, in line with the substance of IPSAS. The reality is that it will be sometime before we reach a point where our federal, provincial and district government would graduate from primitive cash receipts and payments basis, which has been rightly discarded by most responsible representative governments (countries).

Why our governments have not been able to implement a system of fair representation<sup>10</sup> is difficult to guess. Enclosure 1 is an extract of a 2012 report prepared by world bank<sup>11</sup> which also ignores this question<sup>12</sup>. Perhaps its expedient and suits their political interests. For example, in cash receipt and payment basis, you do not disclose any details of elements of financial statements and that has been the case for last 70 years.

General Comments:

1. Reword para 2 as: “The objective of the {draft} Standard is to properly account (recognize, measure, and disclose) for the social benefits in the financial statements of the reporting entities, that is relevant, faithful representative and comparable”.
2. Provide references of the relevant paras of the Basis of Opinion and illustrative examples in the draft Standard as a memo or foot note.
3. Disclosures which are identical in both approaches may be laid out at a single place. For example, the text of para 10 and 29 is identical. Text is also identical for para 12(a) (i) and 9ii), and 31(a) (i) and (ii).

End of Comments.

Sincerely yours,

Altat Noor Ali

Chartered Accountant.

To: The Chairman and Board Members,

International Public Sector Accounting Standards Board. Submitted via email.

<sup>10</sup> It is difficult to say if anyone from the offices of Controller of Accounts or Auditor General of Pakistan ever engaged in contributing to the IPSAS.

<sup>11</sup> Pakistan: Federal Government Public Financial Management and Accountability Assessment June 2012

<sup>12</sup> The World Bank Report do not mention why non-compliance with New Accounting Model since 2000 did not result in a qualified or adverse audit opinion by the auditor general of Pakistan.



Enclosure 1: Pakistan: Federal Government Public Financial Management and Accountability  
Assessment June 2012. (Extract)

**PI-25 Quality and timeliness of annual financial statements**

3.139. Consolidated year-end financial statements are critical for transparency. To be complete, they must be based on details for all ministries, independent departments and de-concentrated units.

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Dimension	Score	Brief explanation of status	2009	2012
Overall			B+	C+
(i)		Completeness of financial statements	B	C
		The financial statements lack consolidation of independent departments, disclosure of third party payments and some of the grants/loans received. These issues were not considered during assessment in 2009.		
(ii)		Timeliness of submission of the financial statements	A	A
		The financial statements are prepared and submitted to AGP for audit within 2 months from the end of fiscal year.		
(iii)		Accounting standards used	B	C
		Financial Statements are being prepared under cash basis of accounting and are aligned with the format given by the cash basis IPSAS, but gaps remain as stated in note of compliance in the financial statements		

(i) Completeness of financial statements

3.140. Financial Statements of Federal Government are prepared annually on cash basis, which contains, a statement of cash receipts and payments, cash flow, comparison of budget and actual expenditure by function, comparison of budget and actual expenditure by division and statement of appropriation of grants by object for the year. In note 2 to the financial statements for 2010-11 it is stated: "commitment, asset and liability accounting practices have not yet been implemented and memorandum registers for assets and commitments do not exist and accounting of liabilities is not done in accordance with NAM". These issues were not highlighted in 2009 assessment. Considering the lack of full information on financial assets and liabilities, the dimension is rated 'C'.

3.141. Financial statements for the years 2008-09, 2009-10 and 2010-11 contain a stand-alone note on liabilities and assets, however, evidence in support of basis, correctness and completeness of the figures of the note is not available.

3.142. The function of recording and reporting of transactions is undertaken on a cash basis and therefore it does not capture fully the third party payments. The financial statements do not contain consolidated financial information of independent departments. Certain receipts from donors are not reflected in the financial statements e.g. urea received from Kingdom of Saudi Arabia in 2010.

(ii) Timeliness of submission of the financial statements

3.143. AGPR is responsible for preparing the financial statements on behalf of CGA. AGPR is now able to prepare the financial statements within two months from the close of financial year. The financial statements are prepared for fiscal year end i.e. June 30 and submitted to AGP by August 31 every year. The dimension is thus rated 'A'.

(iii) Accounting standards used

3.144. Financial Statements are being prepared under cash basis of accounting and are compliant with the format given by the cash basis IPSAS. NAM was developed using modified cash basis of accounting, which required recording and reporting of liabilities and assets as notes to the financial statements. The financial statements are yet not fully compliant with cash basis IPSAS or NAM. Commitment accounting has been notified but is yet to be made operational in the accounting practices of the Federal Government. Undrawn borrowing facilities and undrawn external assistance disclosure in the financial statement is also not present. Third party payments need to be disclosed separately in financial statements under the IPSAS cash basis for which a column has been included but no amounts are reported.

The full report is available at: <https://openknowledge.worldbank.org/handle/10986/26816>

Ian Carruthers  
Chairman  
International Public Sector Accounting Standards  
Board  
International Federation of Accountants

Submitted via website

12 April 2018

## Comments to IPSASB's Exposure Draft 63, Social Benefits

Dear Mr. Carruthers,

We are pleased to respond to the IPSASB's Exposure Draft 63, *Social Benefits*.

We have supported the development of accounting guidance for social benefits for many years. Against this background, we are pleased to note that with this ED the IPSASB intends to close the gap on accounting for social benefits within its suite of standards.

The main issue of our comment letter relates to the proposed recognition point under the obligating event approach. In our view, this recognition point does not seem to be appropriate for all social benefit schemes. As brought forward in the Alternative View, we support the view that the proposed recognition model does not reflect the economic substance of certain social benefits.

In our view, 'being alive' at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the liability recognition. Within EY, we still have difficulties understanding the reasons to treat 'being alive' differently to other transactions (e.g. post-employment benefits plans in the scope of IPSAS 39, *Employment Benefits*). In our view, and in line with other standards, 'being alive' should rather impact the measurement of the benefit through the actuarial calculation.

In EY's view, some consideration should be given to historical experience providing evidence of likelihood of future payment of obligations relating to existing claims to estimate the total obligation that arises.

In case that the IPSASB continues to favor that the eligibility criteria "staying alive" should be a recognition rather than a measurement criteria we would strongly be in favor of having a standard on reporting of the long-term sustainability of an entity's finance.

For our detailed responses, please see the Annex.

Please do not hesitate to contact Thomas Müller-Marqués Berger or Dr. Jens Heiling in case of any additional questions or remarks.

Sincerely,



Thomas Müller-Marqués Berger  
Partner



ppa. Dr. Jens Heiling  
Senior Manager

## *Annex - detailed responses*

### **SMC 1:**

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?  
If not, what changes to the scope would you make?*

In our view, the Application Guidance on the scope of ED 63 could be extended. We see for example some practical issues in applying the proposed scope of the standard. We found that the exclusion of universally accessible services from the scope of the proposed Standard could be difficult to apply. For example, the question could be asked why a vaccine provided to children under 6 years should be included but a vaccine available for all should be out of the scope of ED 63. A further question in this context is whether the vaccine being available to all children under 6 makes it universally accessible or if age could be considered an eligibility criterion. We also would like to encourage the IPSASB to ensure that the respective scope sections of IPSAS 19, a future standard on social benefits and a future standard on non-exchange expenses are all consistent and preparers find sufficient guidance in the standards to apply the requirements.

### **SMC 2:**

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?  
If not, what changes to the definitions would you make?*

We generally agree with the definitions of social benefits, social risks and universally accessible services. In our view, it could be questionable why a future standard should only cover social risks and not other risks such as risks from disasters, such as earthquakes or fire (not solely related to an individual). In our view, such risks could also be considered as a social risk affecting the welfare of citizens. As a consequence of the proposed requirements someone who requires a housing benefit due to poverty would be treated differently to someone who needs a house due to an earthquake. As it might not be the intention of the IPSASB to treat these two scenarios differently, we suggest to add Application Guidance to the Standard that explains the concept of universally accessible services and the definition of social risks in more detail. In our view, social risks can differ between different jurisdictions. Therefore, social risks would need to be considered in light of the general norms and living standards of the respective jurisdiction. In our view, such clarification is important if the standard should be applicable in more impoverished countries, for example, where the majority of citizens live in circumstances that might be considered abnormal social risks in other parts of the world.

**SMC 3:**

*Do you agree that, with respect to the insurance approach:*

- (a) It should be optional;*
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;*
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate? If not, how do you think the insurance approach should be applied?*

In our view, including an option in the proposed IPSAS will reduce comparability. The two models, obligating event approach and insurance model, would create significantly different outcomes given the fact that the insurance model will recognise the liability arising from an individual over the lifetime of the injury. Alternatively, the obligating event will only give rise to a liability up to the point of the individuals next validation point, i.e. fulfilling the eligibility criterion of staying alive. In our view, when an entity meets the requirements under the insurance model, the use of the insurance model will provide the most appropriate outcome. Therefore it should be a requirement not a choice.

IFRS 17 has not been incorporated in the suite of IPSAS and the IPSASB has not yet considered a project on this. However, assuming the social benefits are managed in a similar manner to an insurance contract then users are inclined to expect that the accounting outcome under IFRS 17 is appropriate. It could therefore be argued that IFRS 17 is an appropriate reference point. Given the proposed criteria that must be met in order to apply the insurance approach it would appear in our view reasonable that if social benefit arrangements are meeting these requirements that IFRS 17 is an appropriate standard and should be consistently applied by all. In our view, the cost for a mandatory requirement to apply the insurance approach is not too high for governments as information often seems to be available for financial reporting purposes.

In EY's view, the disclosures do not seem too onerous and are likely to already be applied by many entities. Where an entity has elected to use the insurance approach, it would be appropriate to provide information about the characteristics of the social benefit scheme, as well as a description of any significant scheme amendments during the reporting period.

**SMC 4:**

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)? If not, what past event should give rise to a liability for a social benefit?*

Using the trigger point proposed by the obligating event approach will significantly limit the liability recognised. Often the approval of the next benefit is a 'tick box exercise' and the obligation does effectively exist for periods past the re-validation point. In EY's view, the proposed recognition point (i.e. when an individual becomes eligible for social benefits) is not appropriate for all social benefit



schemes. As suggested in the Alternative View, the proposed recognition model does indeed not reflect the economic substance of certain social benefits (e.g. pay-as-you-go schemes).

'Being alive' at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the liability recognition. Within EY, we still have difficulties understanding the reasons to treat 'being alive' differently to other transactions (e.g. post-employment benefits plans in the scope of IPSAS 39, Employment Benefits). In our view, and in line with other standards, 'being alive' should rather impact the measurement of the benefit through the actuarial calculation (i.e. use of mortality table rates). Limiting the social benefit liability in such a way basically has the effect of reducing this standard to gradually widening the cash basis and which is presumably already being accounted for by many entities within the scope of the standard. In EY's view, some consideration should be given to historical experience providing evidence of likelihood of future payment of obligations relating to existing claims to estimate the total obligation that arises.

#### **SMC 5:**

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*
- (b) The disclosures of the amounts in the financial statements (paragraphs 32-33) are appropriate; and*
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):*
  - (i) It is appropriate to disclose the projected future cash flows; and*
  - (ii) Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

In EY's view, the disclosures seem reasonable as they require a clear description of the benefits, the scheme and the amounts recognised in the accounts. With regards to the requirement for 5 years future cash flows, it remains in our view unclear whether this relates to only recognised obligations or those that have not yet been recognized. We would also suggest to disclose all projected future cash outflows linked to a social benefit in the following time frames: due in less than 1 year, due between 1 and 5 years, due in more than 5 years. This would correspond to the maturity of items at the asset side of the balance sheet (cash and cash equivalents, receivables).

Finally, we agree not to limit the disclosure of the undiscounted projected cash outflows to current beneficiaries, i.e. also including future beneficiaries.

#### **SMC 6:**

*The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, Reporting on the Long Term Sustainability of an Entity's Finances, was developed to provide guidance on presenting this additional information.*

*In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits.*

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

In case that the IPSASB continues to favor that the eligibility criteria "staying alive" should be a recognition rather than a measurement criteria we consider that treating "staying alive" as a recognition criteria significantly reduces the long-term view of the obligation (and hence the value in terms of a reliable projection) for financial reporting purposes. Consequently, additional information on the long-term sustainability would become more important and we would therefore be in favor of having a standard on reporting of the long-term sustainability of an entity's finance. In any case, we agree that the work on long term sustainability would be useful given the mismatch between recognising obligations and non-recognition of the right to tax.



Paris, April 12, 2018

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**Re: Response to Exposure Draft 63 *Social Benefits***

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Exposure Draft 63 *Social Benefits* published in October 2017 (ED63).

We commend the IPSASB for the work performed on the complex issue of social benefits, yet critical for the public sector. While we agree that the obligating event is the approach to retain to account for social benefits that are not provided through fully contributory schemes, we would like to underline that the notion of eligibility criteria could benefit from further guidance, especially to distinguish those that are related to social risks from those that are not. That would greatly help draw the line between social benefits and universally accessible services.

To the best of our knowledge, the insurance approach does not apply to most social benefits schemes. We understand that it would be seldom applied. For that matter, we would then question why it should be discussed before the obligating event which is the approach likely to apply in most cases. We are concerned that presenting the insurance approach first in the standard might convey the idea that the obligating event is a “by default” approach.



Eventually, contingent liabilities are disclosed in the notes to the accounts and their measurement factors in prospective information in accordance with the principles set out in IPSASs. As far as disclosure is concerned, we would disagree with providing limited forward-looking information, due to its similarity to sustainability information, on items that are neither elements of the primary financial statements nor contingent liabilities. We firmly believe that information solely on projected long term future cash flows pertains to a sustainability report that is not part of the notes to the financial statements. In that sense, we would rather RPG 1 remained recommended practice guidance outside the financial statements.

Responses to the detailed questions set out in ED63 are presented in the appendix.

Yours sincerely,

Michel Prada



## APPENDIX

### *Specific Matter for Comment 1 (SMC 1)*

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?*

*If not, what changes to the scope would you make?*

As part of its process to respond to the IPSASB public consultation on ED63, the CNoCP presented the project to a panel of constituents in France comprising preparers and auditors. We observed then that constituents fail to fully grasp universally accessible services as defined in ED63. When facing practical examples, our constituents found that drawing a line between universally accessible services and social benefits proved challenging, hence raising implementation issues.

Social security in France provides financing for healthcare to beneficiaries that are either economically active or legal residents in France. The employers of those beneficiaries that are economically active contribute mandatorily to the healthcare scheme, though the scheme is now mostly funded by taxes. For each consultation with a doctor, those beneficiaries would pay for the fee for the consultation, then be reimbursed partially by a social security entity. Those beneficiaries that do not contribute to the scheme are still entitled to benefits on an individual basis. Based on this specific example and on the definitions proposed, the CNoCP understands that benefits to beneficiaries meet the definition of social benefits set out in ED63 be they provided in kind or in cash. This is because those benefits address the needs of society as a whole and are provided to specific individuals who meet eligibility criteria to mitigate the effect of social risks. Moreover, where benefits are provided to beneficiaries that do not contribute to the healthcare scheme (called “medical assistance” for the purpose of this letter), our additional rationale to assess that those benefits are social benefits, based on our interpretation of AG4, is that they are attributed only to those beneficiaries that consume healthcare assistance.

However, we are concerned that some could reach a different conclusion for our “medical assistance” based on paragraphs IE9 to IE11. Because one eligibility criterion is “residency”, our “medical assistance” could also match the case described in paragraphs IE9 to IE11. Because “residency” eligibility criterion is considered in IE11 to not relate to social risks, the conclusion would then be that our “medical assistance” should be considered universally accessible services, hence scoped out from ED63.



In our opinion, the perceived tensions mentioned above would call for further application guidance to be provided, especially where eligibility criteria related or not to social risks are concerned. We would suggest that the standard should put the emphasis on whether benefits are primarily provided specifically to individuals or households.

In addition, we struggle to see the difference between “universally accessible services” and “collective goods and services”; the latter were previously addressed –and scoped out- in the Consultation Paper. We would appreciate that some further explanation be provided in the Basis for Conclusions on what triggered the move from one terminology to the other.

In addition to our comment above on the exclusion of universally accessible services, while referring to the guidance in ED63.AG1 to AG3, we noted that AG1 states that similar transactions that are in the scope of other standards are excluded from the scope of ED63. To be thorough, there would be a need to ensure that if the economic substance is the same, even though those transactions are addressed in different standards, their accounting treatments should remain consistent. Because IPSAS standards are principles-based, it is somewhat difficult to reason that the standard, hence its principles, may not apply to all types of social benefits that meet the definition. This would only weaken those principles. One way forward could be to rewrite the paragraph along the lines of the suggested changes below:

AG1. [...] 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~~ such as 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*). Those transactions result either from formal agreements between an entity and individual employees, or groups of employees, or from contractual rights –still between an entity and an individual- to receive cash. However, though those transactions mitigate the effect of social risks and are provided to individuals, they do not meet the definition of social benefits in this [draft] Standard because they do not address the needs of society as a whole.

### ***Specific Matter for Comment 2***

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?*

*If not, what changes to the definitions would you make?*

We appreciate the effort that was put into streamlining the definitions and we note the improvement since the Consultation Paper.



However, as explained in our response to the question above, the scope of ED63 might be difficult to clearly grasp in some specific instances.

As concerns the perceived inconsistency mentioned in our response to SMC 1 above, we find that the word “poverty” included in the list of examples in subparagraph (a) of the definition of social risks is confusing. Poverty is a status that could as well be triggered by an earthquake, which is not a social risk as explained in AG9. We think that it should rather be considered a possible outcome of an event or circumstance that relates to the characteristics of individuals or households, such as illness, accident, unemployment, age limit, composition of the household, etc. It is merely the effect of the event or circumstance as described in subparagraph (b) of the definition of social risks.

Further still, reading together the definition of universally accessible services and the first sentence of IE11, one could question when an eligibility criterion might or not be related to a social risk. Therefore, we would strongly recommend that constituents should be given further guidance and examples as to what eligibility criteria related to a social risk might be as well as to how they could be identified. We believe that such guidance would help determine what universally accessible services are in contrast to social benefits.

Additionally, to comment on the form of the definition of social benefits, including subparagraph (d) “*Are not universally accessible services*”:

- reads poorly given the beginning of the sentence “*Social benefits are provided to:*”;
- defines social benefits by what they are not, which may weaken the three first positive characteristics and be of little help upon implementation.

### ***Specific Matter for Comment 3***

*Do you agree that, with respect to the insurance approach:*

- (a) It should be optional;*
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;*
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*



*(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

*If not, how do you think the insurance approach should be applied?*

The insurance approach would not address appropriately the way our social security system operates. Further, where contributions are mandatory, they would only remotely fit the conditions stated in paragraph AG12: beyond the contributions, transfers from the government to the social security entities are frequent to allow for the system to remain balanced year on year.

We therefore welcome the proposal that application of this approach should only be optional.

However, we would like to draw the Board's attention to the fact that the way the requirements to apply the insurance approach are expressed seems somewhat loose. For instance, we note that AG14 refers to "the **look** and **feel** of an insurance contract" and that AG15 (e) mentions that an entity may "**act like** an insurer". Our concern is mainly about the way judgement may apply and how application of the requirements in the standard may ensure comparability.

Eventually, we note that the insurance approach is mentioned in first position in the standard, though our understanding is that it is rarely applicable and though it is only optional. This could convey the idea that the insurance approach should be examined first. That feeling that the insurance approach should be a critical step in the analysis to determine the accounting treatment of social benefits is emphasised by the first sentence in paragraph 8: "Where an entity elects not to apply by analogy the requirements of [...] insurance contracts [...]". We would therefore recommend that the paragraphs on the insurance approach should be moved after those on the main approach, namely the obligating event approach.

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

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?*

*If not, what past event should give rise to a liability for a social benefit?*

In line with our response to the Consultation Paper, we agree that the obligating event approach is the approach that best applies to our social benefit schemes.





In the context of our social security system, eligibility criteria as described in the ED are non-contractual, emanate from the sovereign power and are enforced by law or regulation. Therefore they play a key role in contrast to a system based on contractual relationships. This is why we fully agree with the satisfaction of all eligibility criteria for the next benefit being the past event that gives rise to a liability.

Additionally, in relation to our response to SMC 1, constituents would appreciate further guidance on what eligibility criteria are in relation to social risks.

### ***Specific Matter for Comment 5 (SMC 5)***

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and*
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):*
  - i. It is appropriate to disclose the projected future cash flows; and*
  - ii. Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

We would agree with narrative disclosures that describe the characteristics of social benefit schemes.

However, when it comes to information that should be disclosed in the financial statements, we retain a strict understanding of the concept of information to be disclosed. In that sense, information in the notes should relate to either elements that are on the face of the primary financial statements or elements that do not meet the requirements for recognition (contingent assets or liabilities<sup>1</sup>). We believe that projected future cash flows related to any other items should be included in a sustainability report, rather than in the notes to the financial statements.

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<sup>1</sup> See IPSAS 19 paragraph 18: definitions of contingent assets and liabilities.



From a practical standpoint, we find that -for our constituents- a difficulty lies in the proper identification of the rights and obligations attached to the various reporting entities involved in social security schemes. As a matter of fact, some entities may have actual obligations for long term benefits that some other entities would operate within a restricted timeframe. In such instances, where disclosures are required, identifying the reporting entity that should provide such disclosures remains the critical issue.

We are currently in France in the process of examining further what information in the notes would be relevant to a public sector entity and especially at what level of aggregation of individual entities such information would make sense and prove useful information to users where an obligation exists. Discussions on this issue take time because they mainly relate to the way the social security system is organised. For instance, the French Central government financial statements provide forward-looking information on the benefits that the government finances.

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

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

Based on our response to SMC 5 above, we would recommend that RPG 1 on reporting on long term fiscal sustainability should remain a recommendation.

We do not think that the IPSAS *Board* should undertake further work on this issue in the medium term.

Paris, le 16/04/18

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Référence : 2018/04/4023

**Subject :** Response to Exposure Draft 63 "*Social Benefits*".

I am writing you on behalf of the French Directorate of Public Finances (hereinafter mentioned as DGFIP) to express our views on the mentioned above exposure draft (hereinafter mentioned as ED).

Head of Central Government Accounting Department

François Tanguy

This consultation relates to the complex issue of benefits.

The DGFIP contributed to the drafting of the reply and accordingly shares the position expressed by the Public Sector Accounting Standard Concil (CNoCP or The Concil) annexed to this dossier.

\*\*\*\*\*

**Version française**

Cette consultation est relative à la question complexe des avantages sociaux.

La DGFIP a contribué à la rédaction de la réponse et partage en conséquence la position exprimée par le Conseil de normalisation des comptes publics (CNoCP ou le Conseil) jointe en annexe au présent dossier.

\*\*\*\*\*



Paris, April 12, 2018

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**Re: Response to Exposure Draft 63 *Social Benefits***

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Exposure Draft 63 *Social Benefits* published in October 2017 (ED63).

We commend the IPSASB for the work performed on the complex issue of social benefits, yet critical for the public sector. While we agree that the obligating event is the approach to retain to account for social benefits that are not provided through fully contributory schemes, we would like to underline that the notion of eligibility criteria could benefit from further guidance, especially to distinguish those that are related to social risks from those that are not. That would greatly help draw the line between social benefits and universally accessible services.

To the best of our knowledge, the insurance approach does not apply to most social benefits schemes. We understand that it would be seldom applied. For that matter, we would then question why it should be discussed before the obligating event which is the approach likely to apply in most cases. We are concerned that presenting the insurance approach first in the standard might convey the idea that the obligating event is a “by default” approach.



Eventually, contingent liabilities are disclosed in the notes to the accounts and their measurement factors in prospective information in accordance with the principles set out in IPSASs. As far as disclosure is concerned, we would disagree with providing limited forward-looking information, due to its similarity to sustainability information, on items that are neither elements of the primary financial statements nor contingent liabilities. We firmly believe that information solely on projected long term future cash flows pertains to a sustainability report that is not part of the notes to the financial statements. In that sense, we would rather RPG 1 remained recommended practice guidance outside the financial statements.

Responses to the detailed questions set out in ED63 are presented in the appendix.

Yours sincerely,

Michel Prada



## APPENDIX

### *Specific Matter for Comment 1 (SMC 1)*

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?*

*If not, what changes to the scope would you make?*

As part of its process to respond to the IPSASB public consultation on ED63, the CNoCP presented the project to a panel of constituents in France comprising preparers and auditors. We observed then that constituents fail to fully grasp universally accessible services as defined in ED63. When facing practical examples, our constituents found that drawing a line between universally accessible services and social benefits proved challenging, hence raising implementation issues.

Social security in France provides financing for healthcare to beneficiaries that are either economically active or legal residents in France. The employers of those beneficiaries that are economically active contribute mandatorily to the healthcare scheme, though the scheme is now mostly funded by taxes. For each consultation with a doctor, those beneficiaries would pay for the fee for the consultation, then be reimbursed partially by a social security entity. Those beneficiaries that do not contribute to the scheme are still entitled to benefits on an individual basis. Based on this specific example and on the definitions proposed, the CNoCP understands that benefits to beneficiaries meet the definition of social benefits set out in ED63 be they provided in kind or in cash. This is because those benefits address the needs of society as a whole and are provided to specific individuals who meet eligibility criteria to mitigate the effect of social risks. Moreover, where benefits are provided to beneficiaries that do not contribute to the healthcare scheme (called “medical assistance” for the purpose of this letter), our additional rationale to assess that those benefits are social benefits, based on our interpretation of AG4, is that they are attributed only to those beneficiaries that consume healthcare assistance.

However, we are concerned that some could reach a different conclusion for our “medical assistance” based on paragraphs IE9 to IE11. Because one eligibility criterion is “residency”, our “medical assistance” could also match the case described in paragraphs IE9 to IE11. Because “residency” eligibility criterion is considered in IE11 to not relate to social risks, the conclusion would then be that our “medical assistance” should be considered universally accessible services, hence scoped out from ED63.





In our opinion, the perceived tensions mentioned above would call for further application guidance to be provided, especially where eligibility criteria related or not to social risks are concerned. We would suggest that the standard should put the emphasis on whether benefits are primarily provided specifically to individuals or households.

In addition, we struggle to see the difference between “universally accessible services” and “collective goods and services”; the latter were previously addressed –and scoped out- in the Consultation Paper. We would appreciate that some further explanation be provided in the Basis for Conclusions on what triggered the move from one terminology to the other.

In addition to our comment above on the exclusion of universally accessible services, while referring to the guidance in ED63.AG1 to AG3, we noted that AG1 states that similar transactions that are in the scope of other standards are excluded from the scope of ED63. To be thorough, there would be a need to ensure that if the economic substance is the same, even though those transactions are addressed in different standards, their accounting treatments should remain consistent. Because IPSAS standards are principles-based, it is somewhat difficult to reason that the standard, hence its principles, may not apply to all types of social benefits that meet the definition. This would only weaken those principles. One way forward could be to rewrite the paragraph along the lines of the suggested changes below:

AG1. [...] 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~~ such as 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*). Those transactions result either from formal agreements between an entity and individual employees, or groups of employees, or from contractual rights –still between an entity and an individual- to receive cash. However, though those transactions mitigate the effect of social risks and are provided to individuals, they do not meet the definition of social benefits in this [draft] Standard because they do not address the needs of society as a whole.

### ***Specific Matter for Comment 2***

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?*

*If not, what changes to the definitions would you make?*

We appreciate the effort that was put into streamlining the definitions and we note the improvement since the Consultation Paper.



However, as explained in our response to the question above, the scope of ED63 might be difficult to clearly grasp in some specific instances.

As concerns the perceived inconsistency mentioned in our response to SMC 1 above, we find that the word “poverty” included in the list of examples in subparagraph (a) of the definition of social risks is confusing. Poverty is a status that could as well be triggered by an earthquake, which is not a social risk as explained in AG9. We think that it should rather be considered a possible outcome of an event or circumstance that relates to the characteristics of individuals or households, such as illness, accident, unemployment, age limit, composition of the household, etc. It is merely the effect of the event or circumstance as described in subparagraph (b) of the definition of social risks.

Further still, reading together the definition of universally accessible services and the first sentence of IE11, one could question when an eligibility criterion might or not be related to a social risk. Therefore, we would strongly recommend that constituents should be given further guidance and examples as to what eligibility criteria related to a social risk might be as well as to how they could be identified. We believe that such guidance would help determine what universally accessible services are in contrast to social benefits.

Additionally, to comment on the form of the definition of social benefits, including subparagraph (d) “*Are not universally accessible services*”:

- reads poorly given the beginning of the sentence “*Social benefits are provided to:*”;
- defines social benefits by what they are not, which may weaken the three first positive characteristics and be of little help upon implementation.

### ***Specific Matter for Comment 3***

*Do you agree that, with respect to the insurance approach:*

- (a) It should be optional;*
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;*
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*



*(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

*If not, how do you think the insurance approach should be applied?*

The insurance approach would not address appropriately the way our social security system operates. Further, where contributions are mandatory, they would only remotely fit the conditions stated in paragraph AG12: beyond the contributions, transfers from the government to the social security entities are frequent to allow for the system to remain balanced year on year.

We therefore welcome the proposal that application of this approach should only be optional.

However, we would like to draw the Board's attention to the fact that the way the requirements to apply the insurance approach are expressed seems somewhat loose. For instance, we note that AG14 refers to "the **look** and **feel** of an insurance contract" and that AG15 (e) mentions that an entity may "**act like** an insurer". Our concern is mainly about the way judgement may apply and how application of the requirements in the standard may ensure comparability.

Eventually, we note that the insurance approach is mentioned in first position in the standard, though our understanding is that it is rarely applicable and though it is only optional. This could convey the idea that the insurance approach should be examined first. That feeling that the insurance approach should be a critical step in the analysis to determine the accounting treatment of social benefits is emphasised by the first sentence in paragraph 8: "Where an entity elects not to apply by analogy the requirements of [...] insurance contracts [...]". We would therefore recommend that the paragraphs on the insurance approach should be moved after those on the main approach, namely the obligating event approach.

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

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?*

*If not, what past event should give rise to a liability for a social benefit?*

In line with our response to the Consultation Paper, we agree that the obligating event approach is the approach that best applies to our social benefit schemes.



In the context of our social security system, eligibility criteria as described in the ED are non-contractual, emanate from the sovereign power and are enforced by law or regulation. Therefore they play a key role in contrast to a system based on contractual relationships. This is why we fully agree with the satisfaction of all eligibility criteria for the next benefit being the past event that gives rise to a liability.

Additionally, in relation to our response to SMC 1, constituents would appreciate further guidance on what eligibility criteria are in relation to social risks.

### ***Specific Matter for Comment 5 (SMC 5)***

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and*
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):*
  - i. It is appropriate to disclose the projected future cash flows; and*
  - ii. Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

We would agree with narrative disclosures that describe the characteristics of social benefit schemes.

However, when it comes to information that should be disclosed in the financial statements, we retain a strict understanding of the concept of information to be disclosed. In that sense, information in the notes should relate to either elements that are on the face of the primary financial statements or elements that do not meet the requirements for recognition (contingent assets or liabilities<sup>1</sup>). We believe that projected future cash flows related to any other items should be included in a sustainability report, rather than in the notes to the financial statements.

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<sup>1</sup> See IPSAS 19 paragraph 18: definitions of contingent assets and liabilities.



From a practical standpoint, we find that -for our constituents- a difficulty lies in the proper identification of the rights and obligations attached to the various reporting entities involved in social security schemes. As a matter of fact, some entities may have actual obligations for long term benefits that some other entities would operate within a restricted timeframe. In such instances, where disclosures are required, identifying the reporting entity that should provide such disclosures remains the critical issue.

We are currently in France in the process of examining further what information in the notes would be relevant to a public sector entity and especially at what level of aggregation of individual entities such information would make sense and prove useful information to users where an obligation exists. Discussions on this issue take time because they mainly relate to the way the social security system is organised. For instance, the French Central government financial statements provide forward-looking information on the benefits that the government finances.

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

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

Based on our response to SMC 5 above, we would recommend that RPG 1 on reporting on long term fiscal sustainability should remain a recommendation.

We do not think that the IPSAS *Board* should undertake further work on this issue in the medium term.

**February 20, 2018**

Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, ON M5V 3H2 Canada

**Re: Exposure Draft 63, *Social Benefits***

Thank you for the opportunity to comment on the proposals in IPSASB Exposure Draft 63, *Social Benefits* (ED 63). We commend the IPSASB for addressing this important and difficult public sector specific topic. Limited staff resources prevent us from commenting on all of the Specific Matters for Comment and the details of the proposals. Nevertheless, we want to go on record with our support for the pragmatic approach taken in ED 63.

Standard setting is an evolutionary process. Progress in improving the information provided in public sector financial statements for accountability and decision-making processes by users of the statements may need to be incremental, and is sometimes achieved through pragmatic compromise. The proposals in the ED represent such a compromise to those who believe that the obligating event for social benefit programs occurs earlier than proposed in the Obligating Event Approach in ED 63 for some programs, or would prefer that the Insurance Approach was not optional for qualifying programs.

Nevertheless, the proposals in ED 63 would, if adopted, represent a step forward in terms of getting information about social benefit programs recognized and disclosed in public sector financial statements. The IPSASB is building on the progress it achieved with the issue of Recommended Practice Guideline (RPG) 1, *Reporting on the Long-term Sustainability of Public Finances*, which provides guidance on presenting information, outside of the financial statements, about the capacity of an entity to provide social benefits at existing levels, to maintain existing taxation revenues and to meet its financial commitments.

The pragmatic proposals in ED 63 would facilitate the adoption of a financial statement recognition and disclosure standard on social benefits. Once information on social benefits is included in public sector financial statements, users will consider it and may ultimately demand more or different information on social benefit programs. This would provide the IPSASB with a future opportunity to

**PSAB Staff Response – IPSASB Exposure Draft 63 - *Social Benefits*, February 2018**

revisit a standard based on ED 63 in which it can reconsider the merits of the concerns raised in the Alternative View.

The fact that ED 63 does not include requirements for the Insurance Approach, but directs entities to apply relevant international or national accounting standards by analogy is also a good practical decision. This approach for an optional accounting treatment applying to only a specific subset of social benefit programs makes the best use of limited IPSASB resources by not duplicating the standards development work of the IASB in relation to IFRS 17, *Insurance Contracts*.

Please note that this letter represents the views of PSAB staff and not those of the Canadian Public Sector Accounting Board (PSAB).

Thank you again for the opportunity to provide you with input on this Exposure Draft. We hope you find our comments helpful.

Sincerely,

Martha Jones Denning  
Principal, Public Sector Accounting



Agency for Modernisation · Landgreven 4 · P.O. box 2193 · 1017 Copenhagen K - Denmark

Chairman

IPSASB

IFAC

Subject: Exposure Draft 63 Social Benefits

Date 20/4 - 2018

STR/majsk

Submitted via website

[www.IPSASB.org](http://www.IPSASB.org)

Dear IPSASB,

The Danish Agency for Modernisation is pleased to respond the Exposure Draft 63 Social Benefits (ED). We welcome and support the work IPSASB has presented in ED. The different arguments in ED illustrate the degree of difficulty by the subject.

We support the scope and definitions in ED, and so we have used the opportunity to highlight some potential issues in general and some specific for the social benefit schemes in Denmark.

The recognition criterion *all eligibility criteria for the next benefit are satisfied* induces an issue with identifying new beneficiaries. We also want to point out the fact that not all applicants who meet eligibility criteria for the next benefit would apply for it and this do not comply with the definition of a present obligation. By using a recognition point later in the application process the measurement of liabilities would also be more precise and this could e.g. be when a claim is approved.

The recognition criterion stated in ED would cause a difference between the [draft]standard and the recording for social benefit schemes in Government Finance Statistic (GFS). For GFS an expense is recorded when the payment is due. The difference requires an explanation and also the transparency and comparability would be affected. IPSASB has disused this<sup>1</sup> but the issues is not only relevant for social benefits but is a general discussion of accrual accounting. By using *being alive* as a recognition criteria for social benefits the term is used different than in the existing standard for employee benefits (IPSAS 39 Employee Benefits). We encourage IPSASB to use similar terms the same way through IPSAS.

If *being alive* is an eligibility criterion the maximum amount to recognized as a liability is the cost of the benefit schemes until the next point at which eligibility criteria are required to be satisfied. Almost all social benefit schemes in Denmark are paid for one month in advances or for the prior month. This would lead to a

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<sup>1</sup> ED 63 paragraph BC63-BC65





small effect of the accrual concept. Thereby we think the main advantages and purposes of the [draft]standard would not have a determining effect. In according to this the value for the stakeholder of the financial report has to be seen compared to the economic and administrative costs.

If *being alive* is not a recognition criterion the effect from ED would have a significant impact on the financial statement and balance sheet. Social benefit schemes are a considerable part of the government budget hence the amount to measure is very sensitive to variation in the elements in an actuary calculation. IPSASB could in advance describe the elements to include in measure specific social benefit schemes which are common for entities (e.g. State Retirement Pensions, Disability Pension and Unemployment Benefits).

In general the discussion of an IPSAS for social benefit and other public specific liabilities could distort the financial sustainability, even though the economic information increases, because the right to collect taxes (and cover the expenses of social benefit schemes) in the future is not recorded as assets.

ED<sup>2</sup> argues that because the entity does not currently control tax resources, they are not recognized in the financial statement. The same recognition criterion as the obligating event approach (all eligibility criteria for the next benefit/taxation) for taxes could be considered. This would be rather complex and defer the work with social benefits although the interpretation of the financial statement would be more precise.

Sincerely  
Maja Skov

The Danish Agency for Modernisation  
Ministry of Finance  
[modst@modst.dk](mailto:modst@modst.dk)

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<sup>2</sup> Exposure Draft 63 paragraph BC13

## Appendix 1

### **Specific Matter for Comment 1:**

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reason given in paragraph BC21(c) If not, what changes to the scope would you make?*

We support the definition of the scope in the ED including the exclusion of universally accessible services from scope.

### **Specific Matter for Comment 2:**

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Drafts? If not, what changes to the scope would you make?*

In general we support the definitions of social benefits, social risks and universally accessible services.

We would like to point out a specific social benefit scheme in Denmark that does not mitigate the effect of a social risk. The beneficiaries are all households with a child younger than 18 years. Instead of giving households with a child tax deduction it was decided years ago to give subsidies. The specific subsidies would be categorized as a social benefit scheme anyhow according to ED, but this could be wrong?

The opposite scenario could appear where households have tax deductions instead of receiving subsidies. These different types of social benefit schemes would in the future be treated different in the financial report in according to ED: The social benefit schemes are recognized when all eligibility criteria for the next benefit is satisfied but tax deductions are recorded at the same time as the tax related to the deduction.

### **Specific matter for Comment 3:**

*Do you agree that, with respect to the insurance approach?*

- a) *It should be optional;*
- b) *The criteria for determining whether the insurance approach may be applied are appropriate;*
- c) *Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*
- d) *The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

*If not, how do you think the insurance approach should be applied?*

It is supported that contributions to a specific social benefit scheme should be recognized after the Insurance Approach, when the scheme is fully funded by



contributions and the scheme can be managed in the same way as an insurance contract (IFRS 17). To avoid only the liability part for a specific scheme with contribution is recognized, we encourage IPSASB to make the Insurance Approach mandatory hence the Obligating Approach Event does not manage the contribution part of the schemes.

Very few Danish social benefit schemes involve contribution therefore the usability of the approach would be rather limited in Denmark.

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

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)? If not, what past event should give rise to a liability for a social benefit?*

We understand the definition of one single common recognizing criterion for all social benefit schemes are difficult and we support the ongoing work.

It has been discussed if the definition<sup>3</sup> of a present obligation is met by the recognition criterion *all eligibility criteria for the next benefit is satisfied*. For some social benefit schemes it would be more likely than not that the potential beneficiaries would send an application and it is approved. In this case the recognition criterion meets the definition of a present obligation.

Other scenarios are new beneficiaries who would be difficult to identify and the fact that not all applicants who meet all eligibility criteria for the next benefit would apply for benefit. In these two scenarios we do not see the recognition criterion *all eligibility criteria for the next benefit is satisfied* meets the definition of a present obligation. By using a recognition point later in the application process the definition of a present obligation would be more correct and the measurement of liabilities would be more precise eg. this could be a claim is approved or the payment is due.

Establish *being alive* as a recognition criterion for social benefits the term is used different than in the existing standard for employee benefits (IPSAS 39 Employee Benefits). We encourage IPSASB to use similar terms the same way through IPSAS.

For almost all social benefit schemes it is unexpected that beneficiaries die and therefore it would not align with the definition of a present obligation to use *being alive* as a recognition criterion. For State Retirement Pensions the social benefits must be refunded for remaining days in the month within the beneficiary dies, hence even for this benefit scheme *being alive* could not be a recognition criterion.

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<sup>3</sup> The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities 2014 (paragraph 5.15)

If *being alive* is an eligibility criterion the maximum amount to recognize as a liability is the expenses of the benefit schemes until the next point at which eligibility criteria are required to be satisfied. Almost all social benefit schemes in Denmark are paid for one month in advances or for the prior month. This would lead to a small effect of the accrual concept.

If *being alive* is not a recognition criterion the effect from ED would have a significant impact on the financial statement and balance sheet depending on the period the liability is measured. Social benefit schemes are a considerable part of the government budget hence the amount to measure is very sensitive to variation in the elements in an actuary calculation. IPSASB could in advance describe the elements to include in measure specific social benefit schemes which are common for entities (e.g. State Retirement Pensions, Disability Pension and Unemployment Benefits). The period to measure social benefit should depend on the specific social benefit scheme and cannot be defined in a general standard.

The recognition criterion presented in ED would cause a difference between the [draft]standard and the recognition for social benefits in Government Finance Statistic (GFS). For GFS an expense is recorded when the payment is due. This difference would require an explanation and also the transparency and comparability would be affected. IPSASB has disused this in ED<sup>4</sup> but the issue is not only relevant for social benefits the relevance is general for the discussion of accrual accounting.

#### **Specific Matter for Comment 5:**

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

- a) *The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*
- b) *The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and*
- c) *(c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):*
  - i. *It is appropriate to disclose the projected future cash flows; and*
  - ii. *Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

In Denmark the different characteristics of social benefit schemes are already described in the annual National Budget to explain the payments of the year. The difficult part would be to explain amounts which arise from an actuary calculation and all the required presumptions.

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

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

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<sup>4</sup> ED 63 paragraph BC63-BC65



*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

For social benefit schemes it could be valuable for stakeholders of the financial report to have a longer perspective than the next point at which eligibility criteria are required to be satisfied. The longer reporting period would give a more valuable knowledge of the fiscal sustainability than ED does currently. However, the value to the stakeholders of the financial report must be measured in relation to the cost of actuary calculations for a long-term sustainability.

How long the reporting period should be is depending on the specific benefit scheme. For some social benefit schemes it would be valuable and meaningful to report on long-term fiscal sustainability for e.g State Retirement Pensions. For other types of social benefit schemes it could be valuable to report on long-term perspective but it would not be meaningful, when the underlying law can be changed on a short-term and especially not if the history of the law includes frequently changes. ED refers to the Conceptual Framework<sup>5</sup> for the discussion about sovereign power of a state. It is relevant however if social benefit schemes should be a part of the financial report in a long-term fiscal sustainability.

Once again we would like to make the point, that reporting on long-term to strengthen the economic sustainability the whole picture should be represented and this include the right to collect taxes. The social benefit schemes could be significantly changed by law and this would impact the financial report but the same is relevant for the present taxation.

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<sup>5</sup> The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities 2014 (paragraph 5.22)