

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 19–22, 2018

From: Paul Mason

Agenda Item 7

For:

☐ Approval

☒ Discussion

☒ Information

SOCIAL BENEFITS

Project summary	To identify the circumstances and manner in which expenses and liabilities of certain social benefits of governments arise. The project will also consider how they should be recognized and measured in the financial statements.	
Meeting objectives	Topic	Agenda Item
Project management	Decisions up to March 2018 meeting	6.1.1
	Instructions up to March 2018 meeting	6.1.2
	Social Benefits Road Map	6.1.3
Decisions required at this meeting	Insurance Approach	7.2.1
	Reporting on the Long Term Sustainability of an Entity's Finances	7.2.2
	Obligating Event Approach	7.2.3
	Disclosure Requirements: Obligating Event Approach	7.2.4
	Other Issues Raised by Respondents	7.2.5
Other supporting items	Analysis of Respondents by Region, Function, and Language	6.3.1
	List of Respondents	6.3.2

There is considerable overlap between some *Social Benefits*, *Non-Exchange Expenses* and *Revenue* Agenda Items. To avoid replicating material, project management material (Decisions up to the March 2018 meeting; Instructions up to the March 2018 meeting; and project Road Maps), as well as some other supporting items are provided in one Agenda Item, with cross-references in other Agenda Items.

Insurance Approach

Questions

1. The IPSASB is asked to note the issues raised by respondents about the insurance approach, and to provide direction to staff about how to address these issues in the final IPSAS.

Detail

2. Exposure Draft (ED) 63, *Social Benefits*, included the following Specific Matter for Comment:

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?

Should the Insurance Approach be Optional?

3. Respondents were divided on whether the insurance approach should be optional:

Response	Number of Respondents
Agree	10
Partially Agree	9
Disagree	
<i>Approach should be mandatory</i>	13
<i>Approach should not be included in an IPSAS</i>	3
<i>Subtotal</i>	35
No Comment	6
Total	41

4. Respondents who agreed that the insurance approach should be optional generally referred to the costs and benefits of the approach, and also commented that the approach may be complex for some jurisdictions to implement. One respondent commented that Public sector entities may prefer applying the obligating event approach for all their social benefits for consistency reasons.

5. Respondents who partially agreed that the insurance approach should be optional made the following points:
 - The existence of options within IPSAS may reduce the ability of users to make comparisons, and continues to draw criticism from various parties. (Respondents 24, 35 and 36)
 - Applying the criteria may involve subjectivity and inconsistency. (Respondents 35, 38 and 39)
 - The insurance approach may not be suitable for social benefit schemes that are based on intergenerational and intragenerational solidarity, and financed on an open group basis, taking into account contributions and benefits for many generations. (Respondent 15)
 - It is not appropriate to make the insurance approach mandatory at this stage as the IPSASB has not yet developed an insurance accounting Standard, and the appropriateness of IFRS 17 to social insurance arrangements has not been tested. (Respondent 05)
 - The insurance approach may give the appearance of suggesting that social benefits should be organized in a similar way to a for-profit insurance fund, which is not appropriate. (Respondent 01)
6. Respondents who considered the insurance approach should be mandatory considered that the approach provides relevant information in the financial statements about an entity's social benefit schemes. Some respondents commented that applying the obligating event approach when the substance of a scheme is that of insurance, is inappropriate. Removing that option would help ensure greater international consistency, transparency and accountability.
7. Of the respondents who did not consider that the IPSASB should include the insurance approach in a final IPSAS, two considered that the entity should apply IFRS 17 directly, and the third considered that, as few entities were expected to adopt the approach, including the insurance approach would not achieve consistency in the accounting for such social benefits among entities and jurisdictions.
8. These issues were previously considered by the IPSASB in developing and approving ED 63. In staff's view, no new issues were raised by respondents that seem significant or persuasive enough to lead to a modification of the proposals in ED 63 in respect of the insurance approach.
9. In [Agenda Item 7.2.3](#), staff recommend that the IPSASB progress an IPSAS based on ED 63, with a commitment to undertake a post implementation review once the new standard has been in effect for a number of years. This is due to the fact there is no consensus regarding the obligating event approach. Staff considers that it would be appropriate to include a review of the insurance approach at that stage, as preparers will have more experience of accounting under IFRS 17, in the private sector as well as for social benefits.

Are the criteria for determining whether the insurance approach may be applied appropriate?

10. Respondents generally agreed with the criteria for determining whether the insurance approach may be applied appropriate:

Response	Number of Respondents
Agree	16
Partially Agree	6
Disagree	5
<i>Subtotal</i>	<i>27</i>
No Comment	14
Total	41

11. However, Respondents 05 and 12 considered that 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. These respondents considered that such contributions should be included in when assessing whether a scheme was fully funded.
12. Respondents 09, 31 and 32 did not consider that the requirement that a scheme be fully funded was appropriate, and considered that the requirements in IFRS 17 would be appropriate where a scheme was not fully funded. Respondent 09 referred to the Discussion Paper issued by the Australian Accounting Standards Board (AASB) as providing additional support for their view. In particular, they had concerns that a scheme could be classed as fully funded by an individual entity, where another entity made contributions on behalf of those who could not afford to do so, but that the scheme would not be classed as fully funded at the whole of government level. Similarly, Respondent 19 considered that “substantially funded” would be more appropriate. Both respondents considered that the management of the scheme was more significant than the funding approach.
13. Staff notes that the respondents raising these concerns generally have experience of insurance accounting. Staff considers that amending the requirement from “fully funded” to “substantially funded” along with additional clarification in the guidance would address these concerns.
14. Respondents 04 and 24 expressed concern that the Application Guidance on the management of the scheme appeared to focus on the structure of the entities rather than the substance of the social benefit scheme. Staff notes a number of respondents suggested drafting changes to these paragraphs, and proposes to bring amended wording to a later meeting.
15. Respondent 17 proposed limiting the use of the insurance approach to funded non-pension benefits (with funded pension benefits being accounted for in accordance with IPSAS 25, *Employee Benefits*). Staff notes that the IPSASB has already rejected the use of the IPSAS 25 (now IPSAS 39) model, and that only one respondent proposed using this approach. Consequently, staff does not recommend aligning the accounting for funded pension benefits with employee benefits.

Is directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17s and national standards that have adopted substantially the same principles as IFRS 17) is appropriate?

16. Respondents generally agreed with directing preparers to IFRS 17 or national standards that have adopted substantially the same principles as IFRS 17:

Response	Number of Respondents
Agree	20
Partially Agree	7
Disagree	3
<i>Subtotal</i>	<i>30</i>
No Comment	11
Total	41

17. Respondents who partially agreed with the use of IFRS 17 generally considered that additional guidance on applying the insurance approach to social benefits would be helpful. In particular, some respondents (including two who disagreed with the use of IFRS 17) considered that the IPSASB should provide guidance on discount rates and risk adjustments for social benefits, as these would be different than for commercial insurance contracts. Respondent 11 noted that the Discussion Paper issued by the Australian Accounting Standards Board (AASB) addressed these issues.
18. Respondent 22 (who disagreed with the IPSASB's proposals) considered that the reference to IFRS17 or equivalent national standards may be too narrow, and that other national standards on insurance may be acceptable.
19. Staff notes that many of the respondents requesting additional guidance have experience of the insurance approach. However, staff is also aware that the IPSASB did not wish to develop additional guidance at this stage because of the resources and time that would be required. Given the responses, the IPSASB is asked if it wishes to maintain this approach. If it does, staff recommends considering such guidance at a later date, perhaps as part of the post implementation review discussed above.

Additional Disclosures in Respect of the Insurance Approach

20. Respondents generally supported the additional disclosures:

Response	Number of Respondents
Agree	20
Partially Agree	2
Disagree	3
<i>Subtotal</i>	<i>25</i>
No Comment	16
Total	41

21. Respondents who partially agreed with the additional disclosures suggested additional disclosures:
 - A general requirement to provide additional disclosures if requirement to meet the objective of the Standard. (Respondent 19)

- A requirement 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 a requirement to name the relevant accounting standard applied. (Respondent 24)
22. Respondent 06, who disagreed with the additional disclosures, expressed concern about disclosure overload and suggested information about the characteristics of a scheme could be presented outside of the financial statements
23. Respondents 15 and 33, who also disagreed with the additional disclosures, proposed a requirement to include in financial statements disclosure information on the long-term sustainability of programs prepared in accordance with RPG1.
24. In staff's view, the comments made do not make a sufficiently persuasive case for amending the disclosure requirements

Decisions required

25. The IPSASB is asked to consider the following issues raised in this paper, and provide directions to staff regarding the insurance approach:
- (a) Does the IPSASB agree that the insurance approach should remain optional? If so, does the IPSASB agree that this should be reviewed as part of a post implementation review?
 - (b) Does the IPSASB agree with the staff proposals regarding the criteria for using the insurance approach:
 - (i) Amend the requirement from "fully funded" to "substantially funded" and provide additional clarification regarding funding in the guidance.
 - (ii) Review the wording regarding the management of the scheme to ensure these paragraphs focus on substance over form.
 - (c) Does the IPSASB wish to develop additional guidance on applying IFRS 17 to social benefits, in particular in relation to discount rates and risk adjustments? If so, does the IPSASB agree that the need for such guidance should be reviewed as part of a post implementation review?
 - (d) Does the IPSASB agree that no changes to the disclosure requirements are needed?

Reporting on the Long Term Sustainability of an Entity's Finances

Questions

1. The IPSASB is asked to note the issues raised by respondents about reporting on the long-term sustainability of an entity's finances, and to provide direction to staff about how to address these issues in the final IPSAS.

Detail

2. Exposure Draft (ED) 63, *Social Benefits*, included the following Specific Matter for Comment:

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.

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.

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?

3. Respondents generally supported the IPSASB undertaking additional work in this area, although there were differing views as to what the outcome of that additional work should be:

Response/ Number of Respondents	Undertake Additional Work on Sustainability Reporting
Agree	
<i>Requirements should be mandatory</i>	8
<i>Requirements should not be mandatory</i>	8
<i>No view expressed about whether requirements should be mandatory</i>	8
Partially Agree	4
Disagree	7
<i>Subtotal</i>	35
No Comment	6
Total	41

4. Respondents who considered that sustainability reporting should be mandatory commented that this would allow social benefits to be considered in the wider context. This would include:
- Taxation and other revenue;
 - Other obligations;
 - Intergenerational equity.
5. These respondents noted that such reporting would allow the long-term effect of policy decisions to be assessed. Some respondents acknowledged that sustainability reports might not be produced annually, but less frequently. Some respondents who supported the alternative view considered that sustainability reporting would be required to address what they saw as the weaknesses of the recognition approach proposed in ED 63. Respondent 30 also commented that it would be helpful

for users to have a consistent view of long-term sustainability, which would allow international comparisons to be drawn, and that mandatory requirements would assist with this.

6. Respondents who considered that sustainability reporting should not be mandatory commented that it was too early to mandate sustainability reporting. They also considered that some jurisdictions would struggle to comply with the requirements, which could be a disincentive to the adoption of IPSAS. Concerns were also expressed about the auditability of some of the information, and the fact that requirements would need to be very high level to avoid conflicts with existing legislative requirements.
7. Given the wide variety of views expressed by respondents, staff do not consider that there is a strong case for developing mandatory sustainability reporting requirements at this stage. In [Agenda Item 7.2.3](#), staff recommend that the IPSASB progress an IPSAS based on ED 63, with a commitment to undertake a post implementation review once the new standard has been in effect for a number of years. This is due to the fact there is no consensus regarding the obligating event approach. Staff considers that it would be appropriate to include a review of sustainability reporting at that stage due to the strong relationship between accounting for social benefits and sustainability reporting.
8. Respondents made the following suggestions and comments regarding further work on reporting on the long-term sustainability of an entity's finances:
 - Investigate whether any jurisdictions are producing reports that claim compliance with RPG 1; and if not, why not. (Respondent 11)
 - Require that entities refer, in their financial statements, to any published long-term fiscal sustainability reports. (Respondent 11)
 - Authoritative requirements will provide a consistent view of long term sustainability that will allow user to make international comparisons. (Respondent 30)
 - Incorporate a cost-benefit analysis in any future proposals. (Respondent 07)
 - Consider long term fiscal sustainability as part of integrated reporting (Respondents 13 and 20)
 - A supplementary statement on long term financial sustainability could be used to summarize 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. (Respondent 17)
 - The focus should be on measures of resilience rather than measures of sustainability as these have more traction with policy makers. (Respondent 05)
 - Develop measures that assess the balance sheet liquidity of entities that provide social benefits. (Respondent 17)
 - Develop an analysis of the legal security towards the investments in each jurisdiction or country, so that long-term fiscal sustainability can be reasonably estimated. Respondent 18)
 - "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. (Respondent 35, who noted that guidance for auditing and reporting on sustainability information is available in their jurisdiction.)

- Financial information about social benefit schemes included in sustainability reports should reflect their long-term social nature. (Respondent 15, who offered to work with the IPSASB on measurement issues and referred to their paper on this issue, [Measuring and Reporting Actuarial Obligations of Social Security Systems](#).)

Decisions required

9. The IPSASB is asked to consider the following issues raised in this paper, and provide directions to staff regarding reporting on the long-term sustainability of an entity's finances:
 - (a) Does the IPSASB agree that it would be appropriate to include a review of sustainability reporting as part of a post implementation review of an IPSAS based on ED 63?
 - (b) Assuming the IPSASB agrees that it would be appropriate to include a review of sustainability reporting as part of a post implementation review of an IPSAS based on ED 63, are there any topics suggested by respondents where work should be undertaken prior to the post implementation review?

Agenda Item

7.2.3

Obligating Event Approach

Questions

1. The IPSASB is asked to note the issues raised by respondents about the obligating event approach, and to provide direction to staff about how to address these issues in the final IPSAS.

Detail

2. Exposure Draft (ED) 63, *Social Benefits*, included the following Specific Matter for Comment:

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?

3. Identifying the appropriate obligating event for recognizing a social benefit has been the most challenging aspect of the social benefits project. In developing ED 63, the IPSASB was unable to reach consensus on this issue. The Board had also failed to reach consensus on this issue in its earlier work on social benefits.
4. Respondents were similarly divided on the issue of the appropriate obligating event:

Response	Number of Respondents
Agree	14
Partially Agree	
<i>Support Outcome but not Rationale</i>	5
<i>Support as Part of a Phased Approach</i>	2
<i>Other Reasons</i>	4
Disagree	
<i>Support Alternative View</i>	14
<i>Other Reasons</i>	1
No Clear Preference Expressed	1
<i>Subtotal</i>	<i>41</i>
No Comment	0
Total	41

5. Regionally, respondents from Australasia and North America were most likely to support the proposals in the ED, with respondents in Africa, Asia and Europe more likely to support the alternative view. Considering respondents by function, most groups reflected the wide range of views, with the exception of preparers (where there was no support amongst those who submitted individual responses for the alternative view) and accounting firms (where all who submitted individual responses supported the alternative view).
6. In light of the lack of consistency in responses to SMC 4, staff notes that some respondents have indicated that it is important that the IPSASB issue a standard on social benefits even if it is not perfect (Respondents 06, 12, 25, 31, 35, 36, 37 and 40).
7. Respondents also suggested:
 - (a) A post implementation review (respondents 14 and 27); or
 - (b) The subsequent development of a standard with earlier recognition of a liability (Respondents 06, 13 and 40).
8. Most of the issues discussed by respondents (whether agreeing or disagreeing with the proposals in ED 63) were issues that the IPSASB had already debated at length in developing the ED. As the IPSASB has already discussed these issues, they are listed below with limited commentary from staff.
 - **Being alive.** Respondents who supported the alternative view considered that being alive affected measurement, not recognition. Some respondents who supported or partially supported the proposals in ED 63 considered that being alive affected recognition. However, others questioned if this would always be the case. For example, they:
 - Suggested that the recognition point should be the satisfaction of the eligibility criteria, which may or may not include being alive;
 - Noted that some benefits might be paid to other family members; and
 - Considered the proposals were overly prescriptive and rules-based rather than principles-based.

Staff notes that as not all those who support the proposals in the ED agree that being alive is necessarily an eligibility criterion, the IPSASB may wish to consider further how to address this. Some respondents suggested referring to satisfying the eligibility criteria without making explicit reference to being alive in the core text, with guidance included on when it would be appropriate to consider being alive an eligibility criteria. Staff considers this would produce a workable approach, and recommends that the wording be amended accordingly.

- **When a present obligation arises.** Respondents who supported the alternative view considered that a present obligation may arise earlier than proposed in the ED. Some of these respondents referred to the definition of a liability in the Conceptual Framework (and in particular to non-legally binding obligations), and differentiated between long-term and short-term social benefits. Respondents had different views on whether an obligation could be avoided prior to all eligibility criteria being met, including being alive.
- **Objectives of financial reporting and qualitative characteristics (QCs).** Respondents who supported the proposals in the ED considered that:

- The alternative view introduces a risk that the QC of comparability might not be achieved; and
- Recognizing future obligations to provide social benefits without recognizing the right to future taxation would not meet the objectives of financial reporting and might not meet the QC of understandability. (In this context, some respondents suggested disclosures for revenue that matched those for social benefits).

Some of these respondents considered that future obligations were more appropriately reported in financial sustainability reports.

Some noted that consistency with non-exchange expenses would be required to meet the objectives of financial reporting. These respondents generally considered that the proposals in ED 63 were consistent with the proposals for non-exchange expenses in the Consultation Paper, but noted that any changes would need to be applied to both types of transaction.

Respondents who supported the alternative view considered that the proposals in the ED would not meet the objectives of financial reporting and would not meet the QC of relevance. Respondent 19 did not believe that the approach in the ED would lead to “true and fair” financial reporting for social benefits (which IPSAS refers to as “fair presentation”). Some respondents considered that the proposals in the ED would not provide the information needed to assess intergenerational equity.

- **Comparison with Employee Benefits.** Respondents 16 and 35 considered that social benefits differ from employer-provided benefit plans because of their non-exchange nature. Other respondents, particularly those who supported the alternative view, noted that being alive is used as a measurement attribute elsewhere in IPSAS, particularly employee benefits. These respondents did not see any conceptual reasons for treating social benefits differently.
 - **Practicality.** Respondents who supported, or partially supported, the proposals in ED 63 considered that there would be practical issues in recognizing a liability for a social benefit at an earlier point. Some respondents also considered that it would be difficult for the IPSASB to operationalize the alternative view in a standard that applied internationally. Respondents who supported the alternative view acknowledged that there would be practical issues. They considered that cost-benefit considerations would need to be taken into account, and in rare cases it may not be possible to recognize a liability because it could not be measured in a manner that achieves the QCs. However, the view was also expressed that this should not prevent the IPSASB reaching a longer-term solution, as the difficulties with earlier recognition points referred to above could be addressed over time.
 - **Consistency with GFS.** Some respondents noted that neither the proposals in ED 63 nor the alternative view are consistent with the recognition approach in GFS. Staff notes that the IPSASB was aware of this when developing and approving ED 63.
9. New issues identified by respondents (including proposals for alternative approaches to recognition) are discussed below:
- **Actuarial Concerns.** Respondent 15 expressed concerns regarding the closed group method of valuing liabilities proposed in the alternative view. They consider that serious communication issues, including potential misunderstanding, can result by reporting a single number in accordance with the closed group approach, which they see as taking a backward-

looking perspective. This respondent considers the use of an open group method is necessary to provide information about the sustainability of a social benefit scheme; they note that 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.

Staff notes that financial statements are backward looking, and hence consistent with the use of a closed group method. Staff accepts that an open group method would provide more useful information about the sustainability of a social benefit scheme, but considers this information is more appropriate for a fiscal sustainability report. Because it takes into account future events, it includes obligations for which there is no past event, and which therefore do not satisfy the definition of a liability in the Conceptual Framework.

- **Impact on Future Policy Decisions.** Respondent 22 expressed concern that the alternative view, by including more than one recognition point, may raise provide perverse incentives to reduce the time span of social benefits and thus avoid recognition of bigger liabilities and bigger related expenses.
- **Enforceability.** Respondent 10 noted that 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 recognizing 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. Staff considers that most social benefits do not involve such a lengthy approval process. It is possible that, for the benefit referred to by Respondent 10, eligibility criteria for the next would not be satisfied until the application has been approved.
- **Management of Social Benefit Schemes.** Respondent 11 commented that 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, they 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, in their view, unlikely to result in financial statements that meet the objectives of general purpose financial reporting and satisfy the qualitative characteristics. They also noted 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. Staff notes that the approach described would require the scope of the insurance approach to be extended, and for that approach to be mandatory.
- **Alternative Approach (Disclosure Focused).** Respondent 22 proposes an alternative approach. An expense and a liability would be recognized only when they become payable. Future obligations that may become due in future periods would be disclosed. Staff notes that this approach would, in many cases, recognize a liability at a later date than under the proposals in ED 63.

- **Alternative Approach (Liability for Twelve Months).** Respondent 32 generally supports the alternative view on the basis that it applies the definition of a liability in the Conceptual Framework. However, this respondent does not believe that recognition of the full amount of the liability is appropriate as it is not likely to provide useful information. The respondent considers that “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, the respondent considers that 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. The respondent proposes measuring the liability as the expected payments in the next twelve months (i.e., only the current portion of a potentially long-term liability) in order to avoid the practical issues that will arise in measuring a longer-term liability. In making this proposal, Respondent 32 identified two possible obligating events – the satisfaction of threshold eligibility criteria, and the passing of the legislation. If the obligating event is the passing of the legislation, the current liability will include benefits that will be paid to individuals who have not currently satisfied the threshold eligibility criteria

In the same way that the legislation might be the obligating event for recognizing a liability for a social benefit, Respondent 32 also considers that legislation might provide the past event for recognizing future taxation revenue. They disagree with the IPSASB's position that the future taxation income used to fund social benefits cannot be recognized as an asset because the entity does not currently control those resources. Consequently, they would recognize the current portion of a future taxation asset.

Members who wish to review the proposed approach in more detail should refer to the [comment letter provided by Respondent 32](#). Staff notes that if legislation were to be accepted as the past event for the purposes of a social benefit, it would be logical to extend this to cover collective and universally accessible services.

10. Staff have reviewed the issues raised by respondents. In staff's view, no new issues were raised by respondents that seem significant or persuasive enough to lead to a modification of the proposals in ED 63 for recognition (and measurement). Given the wide range of strongly held views, both within the IPSASB and amongst stakeholders more widely, staff considers it very unlikely that a consensus can be reached at this stage.
11. If the IPSASB concurs with this view, staff consider that there is merit in progressing to an IPSAS based on ED 63, with a commitment to undertake a post implementation review once the new standard has been in effect for a specified and publicly communicated number of years (staff considers a period of between three and five years would be appropriate).
12. This would be the first post implementation review undertaken by the IPSASB. To date, no decision has been made as to whether post implementation reviews will be undertaken for other projects. The new Standard is expected to have an effective date of January 1, 2021. A post implementation review would, therefore, be expected to commence between 2024 and 2026. By this time, the major projects currently in progress, and proposed in the IPSASB's consultation on its *Strategy and Work Plan 2019-2023* are expected to have been completed. It is likely that the IPSASB's strategic focus will be moving from completing major projects to a maintenance phase, and this should allow sufficient resources to undertake the post implementation review. Although it would be unusual for the IPSASB to take a decision that binds a future Board, staff considers this would be justified in this case because of the importance of the issue and the current lack of consensus.

13. Preparers' experiences of providing the information required by the standard, and users' experiences of using that information may provide further insights that could lead to a further development of the standard. At this stage it is not possible to predict whether that further development would result in different recognition points, or a more robust understanding of why the current recognition point is appropriate. The CAG is being asked to comment on whether such an approach would be in the public interest. The CAG's views will be reported verbally to the IPSASB by the CAG Chair and staff.
14. Given the concerns raised by respondents about the treatment of being alive, staff also consider that it would be appropriate to explore alternative descriptions of the recognition point that make less explicit references to being alive as an eligibility criterion for all benefits. If being alive were to be retained as an explicit eligibility criterion, staff considers that further explanation and examples would be required.

Decisions required

15. The IPSASB is asked to consider the following issues raised in this paper, and provide directions to staff regarding the obligating event approach:
 - (a) Does the IPSASB agree that it is appropriate to progress an IPSAS based on ED 63, with a publically communicated commitment to undertake a post implementation review once the new standard has been in effect for a number of years? If not, how does the IPSASB wish to proceed?
 - (b) Does the IPSASB agree that it would be appropriate to explore alternative descriptions of the recognition point that make less explicit references to being alive being an eligibility criteria for all benefits?

Agenda Item

7.2.4

Disclosure Requirements: Obligating Event Approach

Questions

1. The IPSASB is asked to note the issues raised by respondents about the disclosure requirements for the obligating event approach, and to provide direction to staff about how to address these issues in the final IPSAS.

Detail

2. Exposure Draft (ED) 63, *Social Benefits*, included the following Specific Matter for Comment:

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?

3. The analysis of responses to this SMC are based on the assumption that the IPSASB agrees to retain the recognition approach in ED 63. Should the recognition approach be changed, staff considers that the disclosure requirements would also need to be reconsidered.
4. Respondents generally supported the disclosure requirements relating to the characteristics of an entity's social benefit schemes and the amounts in the financial statements:

Response/ Number of Respondents	Characteristics of Social Benefit Schemes	Amounts in Financial Statements
Agree	25	25
Partially Agree	5	3
Disagree	5	6
<i>Subtotal</i>	<i>35</i>	<i>34</i>
No Comment	6	7
Total	41	41

5. Respondents' major concerns regarding the characteristics of the social benefit scheme related to the level of detail required. These respondents were concerned about disclosure overload, particularly where an entity provided a number of social benefits. As some pointed out, this can partially be addressed by only making disclosures for material social benefit schemes, and aggregating disclosures where appropriate. However, a number of respondents supported allowing preparers to cross refer to other documents where this information could be found (although one respondent proposed requiring an entity to disclose social contributions related to a social benefit scheme even when these were not included in the entity's financial statements). Should the IPSASB wish to allow preparers to cross refer to other documents, it will need to consider how this would affect the auditability of the financial statements.
6. Some respondents also raised questions about the level of detail required when presenting the amounts in the financial statements. Given the short-term nature of the liabilities that would be recognized under ED 63, these respondents did not consider that the proposed reconciliation would provide any information that would not be available elsewhere in the financial statements. They considered that the requirement to present the reconciliation could be removed without any loss of information. Staff concurs with this view, and the IPSASB is asked to consider whether it wishes to retain the requirement to present the reconciliation.
7. There was less consensus in the responses regarding future cash flows:

Response/ Number of Respondents	Appropriate to Disclose Projected Future Cash Flows
Agree	15
Partially Agree	9
Disagree	12
<i>Subtotal</i>	<i>36</i>
No Comment	5
Total	41

Response/ Number of Respondents	Five Years is the Appropriate Period
Agree	6
Partially Agree	5
Disagree	
<i>Longer than five years</i>	11
<i>Shorter than five years</i>	2
<i>Other reasons</i>	12
<i>Subtotal</i>	<i>36</i>
No Comment	5
Total	41

8. Respondents who partially agreed that it was appropriate to disclose projected future cash outflows made the following points:
 - Cash inflows should be disclosed as well as cash outflows;
 - Where entities publish financial sustainability reports that include additional information, they should be able to cross refer to this report instead of disclosing five year cash outflows; and
 - The time period may not be appropriate (this is discussed below when discussing whether five years is the appropriate period).
9. Respondents who did not agree that it was appropriate to disclose projected future cash outflows made the following points:
 - Future cash flows are not required for other transactions (such as tax revenue).
 - Disclosure should be optional, not mandatory.
 - Financial statements report on the current position of an entity, whereas future cash outflows are part of an entity's budget forecast information, not information about the current position.
 - Information about future cash flows should be provided as part of wider sustainability reporting, not as part of the financial statements.
 - 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.
 - Disclosing future cash outflows could imply that the future cash outflow represent a liability or obligation, which is inconsistent with the obligating event approach.
 - The proposed disclosures do not provide sufficient information for decision making purposes on the intergenerational impact of social benefit schemes.

And

 - Information about future cash outflows will be difficult to audit.
10. Respondents who partially agreed that a five year period was appropriate for disclosing future cash flows commented that while a longer period, or separate sustainability reports, would be preferable, a five year period was an acceptable minimum requirement.
11. Respondents who considered that future cash flows should be disclosed for a longer period than five years commented that some social benefits, for example pensions, extend well beyond five years. Some suggested that the disclosure period should match the period over which it is expected that benefits will be provided.
12. Respondents who considered that future cash flows should be disclosed for a shorter period than five years proposed a three year period as appropriate
13. Six of the respondents who disagreed with the proposed five year period for other reasons considered that such disclosures should be made outside the financial statements, and one respondent considered the disclosures should be optional. Other reasons given were:

- Future cash outflows are part of an entity's budget forecast information, not information about the current position;
 - The proposed disclosures did not meet the disclosure objective set out in ED 63; and
 - The link between the financial statements and the notes was not clearly explained to users.
14. The IPSASB is asked to consider whether it wishes to retain the requirement to disclose five years' future cash outflows, or whether this disclosure should be amended or removed. In this context, staff note that:
- There is some support for disclosing future cash flows in a separate financial sustainability report. However, RPG 1 is not currently mandatory, and following the review of responses in [Agenda Item 7.2.2](#), staff do not recommend mandatory requirements at this point. However, staff consider it would be possible to allow entities an accounting policy choice of either cross referring to a sustainability report or disclosing future cash flows.
 - In [Agenda Item 7.2.3](#), staff recommend that the IPSASB progress an IPSAS based on ED 63, with a commitment to undertake a post implementation review once the new standard has been in effect for a number of years. The IPSASB may wish to consider whether the proposed disclosure requirements will affect that review.

Decisions required

15. The IPSASB is asked to consider the following issues raised in this paper, and provide directions to staff regarding the obligating event approach:
- (a) Does the IPSASB agree that the disclosures about the characteristics of an entity's social benefit schemes should be retained?
 - (b) Does the IPSASB agree that the disclosures of the amounts in the financial statements are not required, assuming that the IPSASB retains the current recognition point?
 - (c) What, if any, disclosures does the IPSASB wish to include in relation to projected future cash flows? If the IPSASB considers it important to disclose future cash flows, does it wish to allow entities an accounting policy choice of either cross referring to a sustainability report or disclosing future cash flows?

Other Issues Raised by Respondents**Questions**

1. The IPSASB is asked to note the additional issues raised by respondents, and provide guidance to staff on what actions, if any, should be taken to address these issues.

Detail

2. The following paragraphs discuss suggestions made by respondents to ED 63, *Social Benefits*, that have not been considered elsewhere on this Agenda.

Structure of the Standard

3. Respondents 38 and 39 commented that the insurance approach is considered first in ED 63, even though it is optional and likely to be used in a limited number of cases. They suggest relocating the insurance approach after the obligating event approach.

Amendments to Other IPSAS

4. Respondent 03 noted that the proposals in ED 63 would have an impact in terms of reconciling the financial statements with GFS due to the different classification of social benefits. They suggested that the IPSASB include a specific reference to this in IPSAS 22, *Disclosure of Financial Information about the General Government Sector*.

Reclassifications

5. Respondent 04 commented that guidance on how to account for reclassifications between social benefits and universally accessible services would be required.

Additional Disclosures

6. A number of respondents suggested additional disclosures. Suggestions regarding mandatory sustainability reporting and the disclosure of future cash flows have already been considered in Agenda Items [7.2.2](#) and [7.2.4](#). Additional suggestions were as follows:
 - (a) 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. (Respondent 04)
 - (b) Entities should disclose an estimate of social benefit commitments. (Respondents 14 and 20)
 - (c) Entities should use sensitivity analysis or similar models to disclose the uncertainty inherent in the disclosure of future cash flows. (Respondent 15)
 - (d) Entities should be required to disclose any additional information that is necessary to meet the objective of the Standard and achieve fair presentation if the disclosures in the Standard do not achieve this. (Respondents 19 and 36)

- (e) The Standard should include disclosure requirements in relation to fraud and error; the UK Department of Work and Pensions was cited as an example of such disclosures. (Respondent 19).
- (f) Entities should disclose which, if any, social 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. (Respondent 24)
- (g) Entities should 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. (Respondent 35)

Insurance Approach

- 7. Respondent 11 comments that the insurance approach refers to entities applying the requirements of IFRS 17, *Insurance Contracts*, “by analogy” and recommends that the IPSASB explain why it has used this term. Staff notes that IFRS 17 applies to contracts. Social benefits do not arise from contracts, and so would be outside the scope of IFRS 17.
- 8. Respondent 04 considered that some schemes that meet the definition of universally accessible services would also potentially qualify to apply the insurance approach. They encourage the IPSASB to address this.

Decisions required

- 9. The IPSASB is asked to provide guidance to staff on whether:
 - (a) The structure of the Standard should be amended;
 - (b) Additional guidance should be added to IPSAS 22;
 - (c) Guidance on how to account for reclassifications between social benefits and universally accessible services should be provided;
 - (d) Any additional disclosure requirements should be included in the Standard; and
 - (e) Any additional requirements in respect of the insurance approach are required.