



Australian Government
Australian Accounting Standards Board

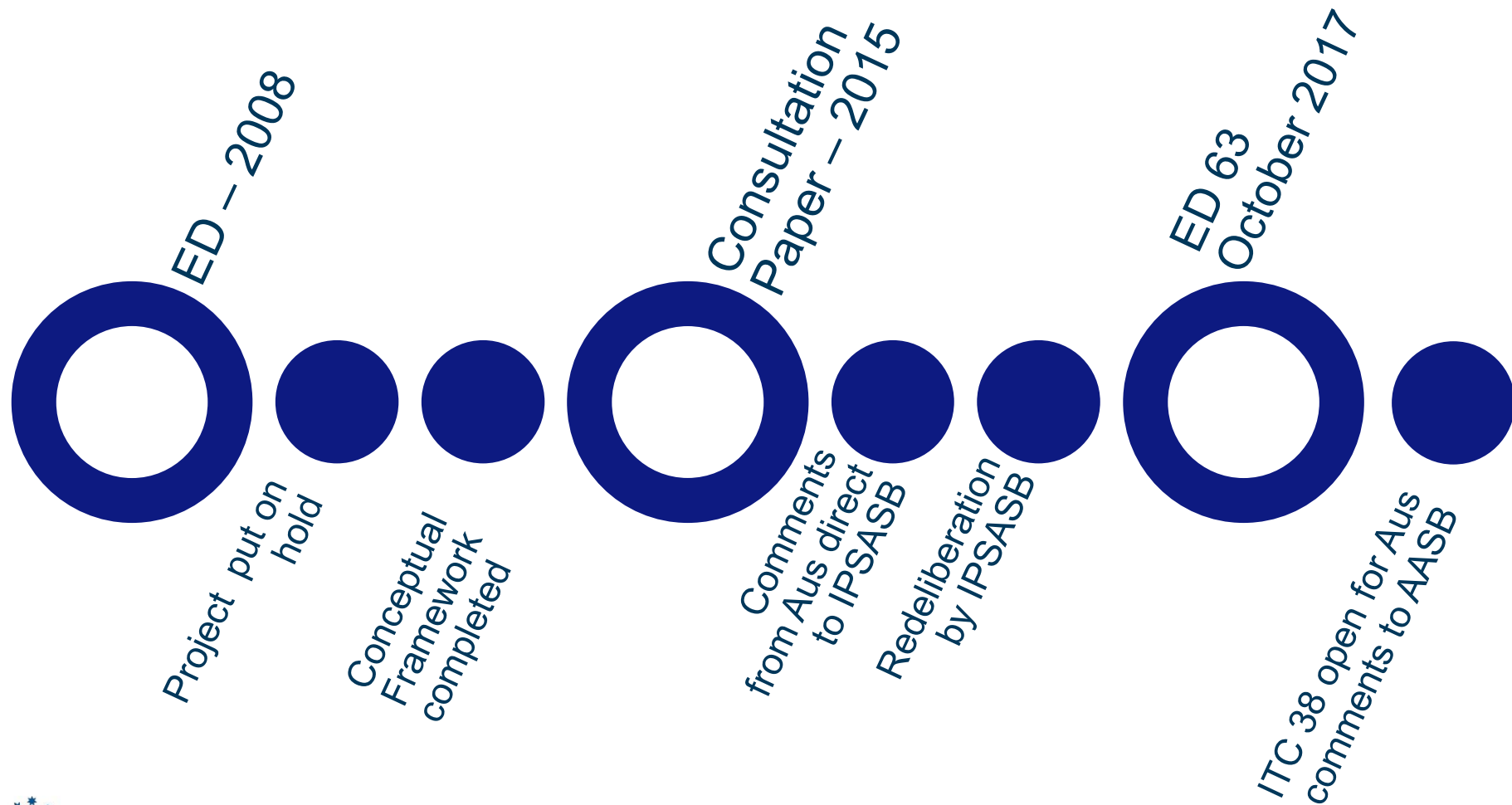
Education Session: IPSASB ED 63 *Social Benefits*

**AASB Board Meeting
M162 - 14 February 2018**

Contacts:

Janri Pretorius, Senior Project Manager, AASB
James Barden, Technical Associate, AASB

IPSASB Project History



Strategy 1 Develop principles-based Aus-specific Standards

- Current gap in Australian Accounting Standards for social benefits
- The AASB needs to conduct its own Social Benefits project

Strategy 3 Actively influence IPSASB Standards

- Influence IPSASB using conceptual input
- Opportunity to adopt IPSASB's proposals or build on them in developing Australian requirements

Strategy 4 Engage stakeholders through collaboration

- Conducting outreach for both IPSASB and Australia at the same time
- Opportunity to understand views of IPSASB jurisdictions and respondents for the AASB's own project



Provisions, Contingent Liabilities and Contingent Assets

Requirements for Social Benefits

- Para's Aus26.1-Aus26.2
- No updates to requirements since pre-IFRS Standards

What is happening in practice

- recognising a liability for the **next payment** when eligibility criteria has been met

Social benefits are provided to:

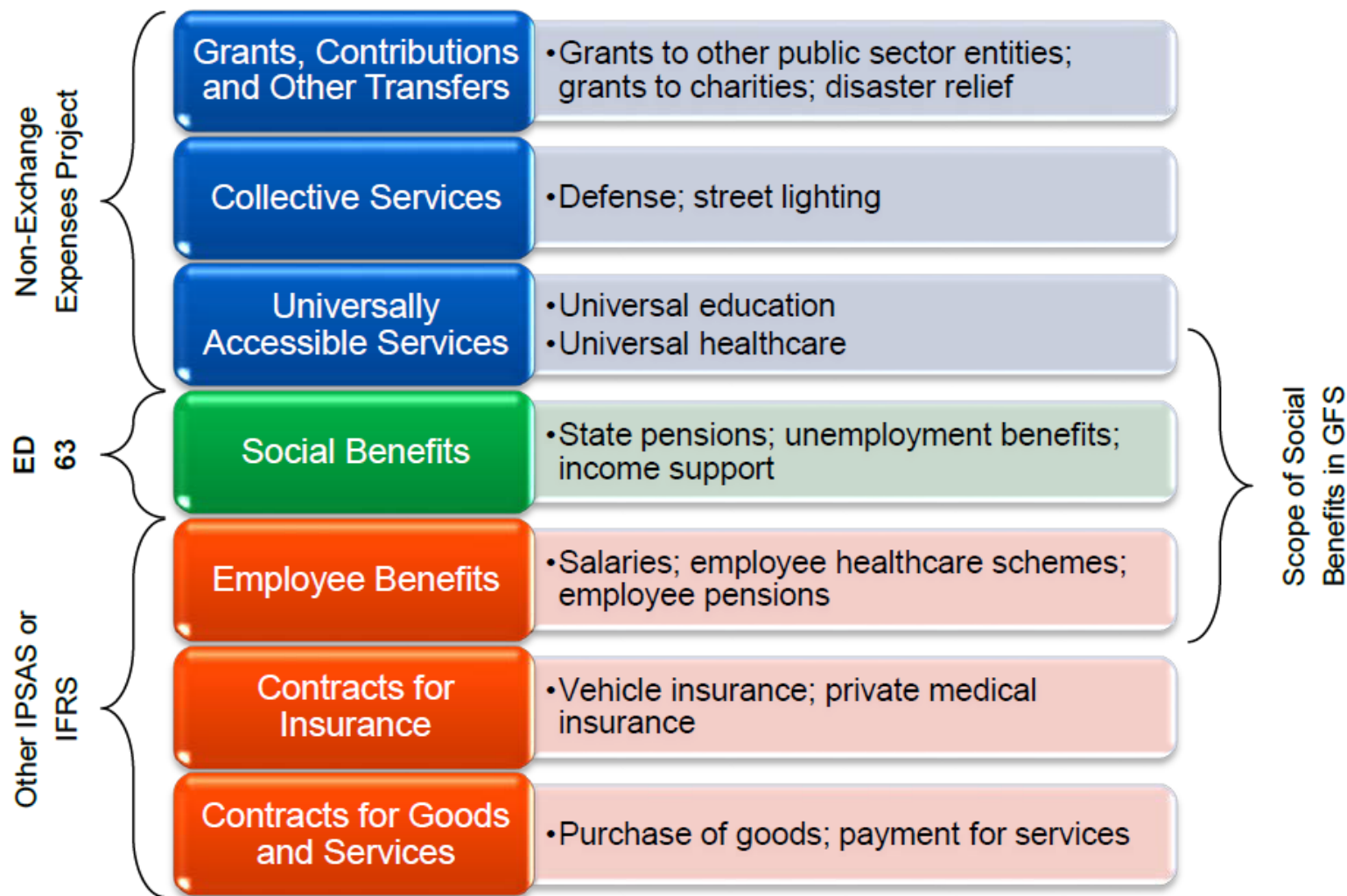
- a) Specific individuals and/or households who meet eligibility criteria ;
- b) Mitigate the effect of **social risks**; and
- c) Address the needs of society as a whole; but
- d) Are not **universally accessible services**.

Social risks are events or circumstances that:

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

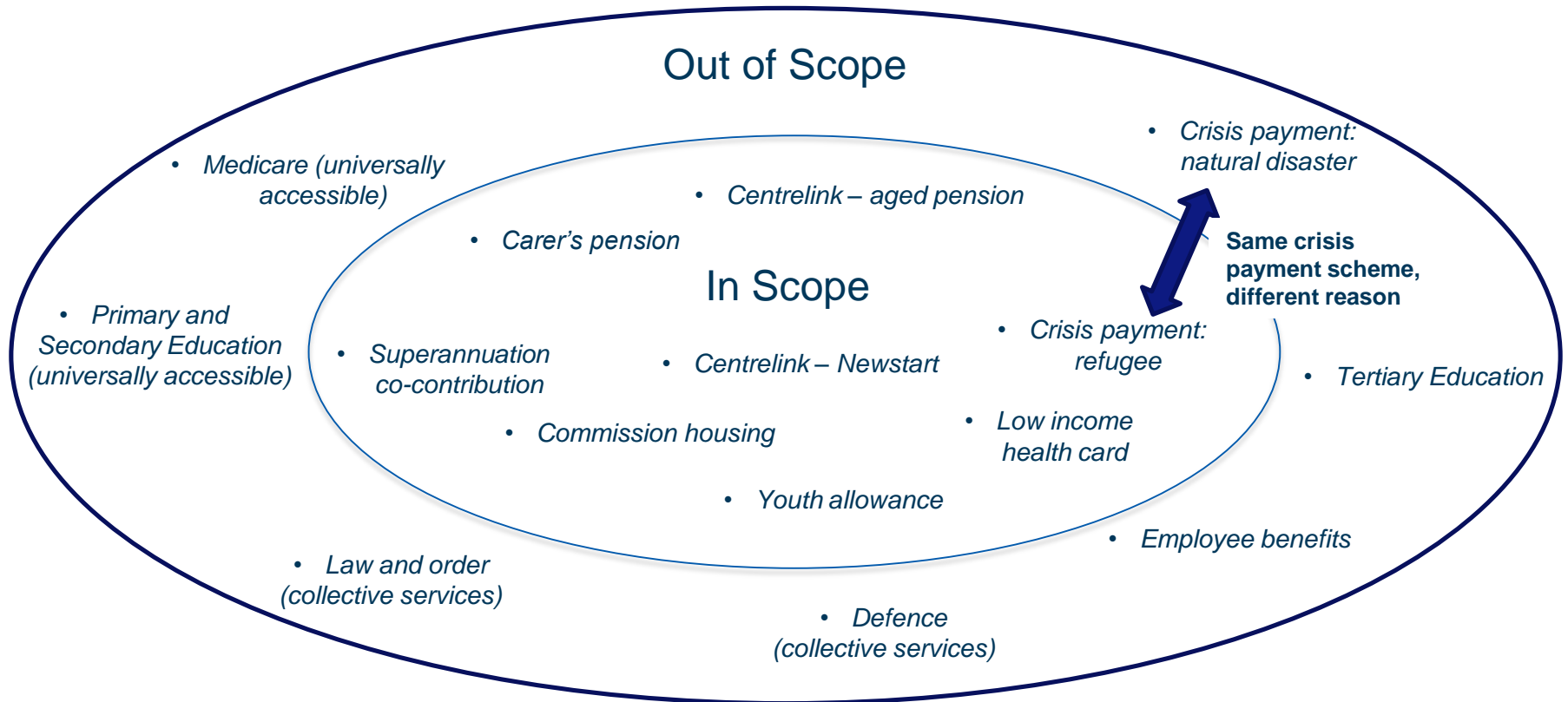
Universally accessible services are those that are made available by a government entity for all individuals and/or households to access, and where eligibility criteria (if any) are not related to social risk.

ED 63 – Scope for IPSASB jurisdictions

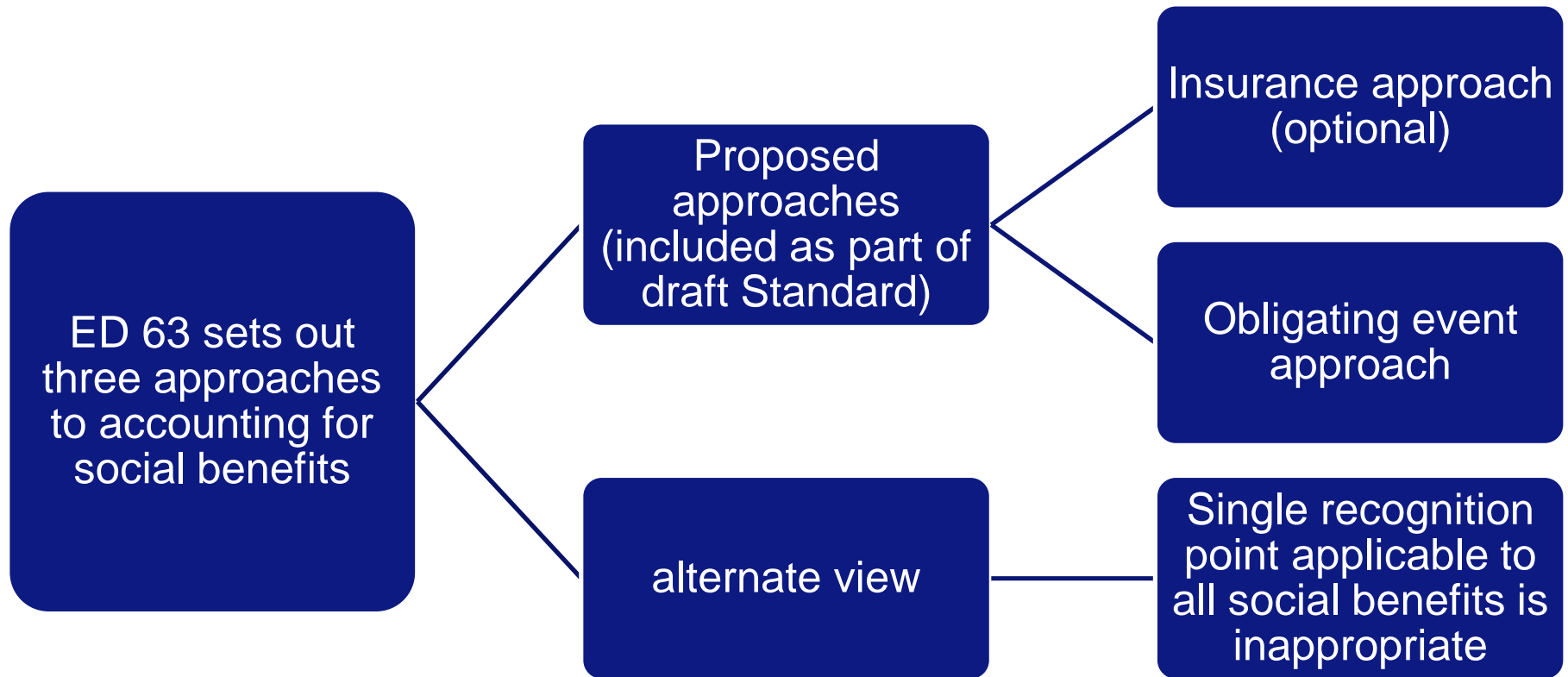


Source: IPSASB, *Exposure Draft 63 Summary: Social Benefits*, October 2017





SMC	Questions to the Board
<p>1. Agree with the scope, specifically the exclusion of universally accessible services? [universally accessible services are addressed in the IPSASB non-exchange expenses project.]</p>	<p>Staff observed that some schemes appear to be similar in nature whether universally accessible or not. It may be preferable to combine social benefits and non-exchange expenses project. Do Board members have any comments?</p>
<p>2. Agree with definitions of social benefit, social risk and universally accessible services in ED? (slide 3)</p>	<p>Staff observed that it was difficult applying the definitions to a small sample of the many Australian social benefits. Do Board members have any comments on the definitions?</p>



Entities would have an **option** to apply AASB 17 *Insurance Contracts* if a scheme is:

Intended to be fully funded by contributions

Managed as insurer manages insurance contracts



IPSASB insurance approach was considered as part of AASB 17 amendments project

Board did not adopt IPSASB approach as:

- IPSASB definitions could be difficult to apply
- Funding criteria could result in economically similar transactions being accounted for differently
- Conceptual Framework definition of a liability does not depend on the way a liability is funded

SMC	Questions to the Board
(a) should the insurance approach be optional?	Staff consider that scheme's that look and feel like insurance should use insurance accounting. Does the Board agree?
(b) criteria for determining whether insurance approach is available are appropriate?	Staff consider that the Board should respond consistent with reasons outlined in previous slide. Does the Board agree?
(c) is it appropriate that entities under this approach apply AASB 17 or equivalent?	Staff consider this to be appropriate. Does the Board agree?
(d) additional disclosures	Does the Board have any comments?

Sets out a single recognition point for all social benefits

Recognition

- Present obligation for an outflow of resources
- Resulting from a past event
- Can be measured in a way that achieves the qualitative characteristics of financial reporting
- **Past event specified as the satisfaction of all eligibility criteria for the next benefit, which includes being alive.**

Being alive

Para AG19 states that being alive is an eligibility criterion, therefore a liability cannot extend beyond the next assessment date. Some constituents are concerned that this is inconsistent with concepts in other Standards.

Measurement

- Best estimate of costs incurred to fulfil present obligation
- Cannot extend beyond point at which eligibility criteria are next required to be satisfied

Disclosure

- Characteristics of social benefit schemes
- Explanation of amounts in the financial statements
- Explanation of future cash flows
- Long-term sustainability of entity's finance **encouraged**

Three IPSASB members held the following alternate view to the obligating event approach:

Does not reflect the economic substance of different social benefits

- Obligating events can occur at different points
- Depends how a scheme is designed
- The accounting should reflect this

Not in accordance with the conceptual framework

- Will not achieve qualitative characteristics of relevance, faithful representation, understandability or comparability.

Treats “being alive” as a recognition criteria not a measurement criteria

- Do not believe there is a social benefit-specific reason to treat “being alive” differently to other transactions.

Basic example:

- Payment from government to beneficiary for medical expenses after car accident
- Beneficiary met eligibility criteria to receive \$500 in monthly instalments of \$100

Measurement of liability:

\$500*



Insurance: Liability for remaining coverage

\$100



Obligating Event: Liability for next payment

\$500



Alternate view: Liability for enforceable obligation

* For purposes of this simplified example, assume that the liability for remaining coverage has been appropriately calculated in accordance with AASB 17



Future payments?



Sovereign power

Actuarial assumptions

AASB Conceptual Framework

IPSASB Conceptual Framework

Present obligation?

Staying alive

Long-term employee benefits

Constructive obligation



When does an old-age pension liability arise?

IPSASB Obligating Event Approach
and current approach in Australia

Since last payment until
next payment
(Fortnightly)

Between previous means test until next
(for example, monthly)

From first reaching eligibility (eg 65 years old) until expiry
(May require actuarial assumptions of when beneficiary might expire)

From Australian citizen being born until expiry
(As political necessity and community expectations make it nearly impossible to avoid)



New Zealand

- Insurance approach supported
- Obligating event not consistent with conceptual framework
- Being alive should not be a recognition criterion
- Support alternative view from measurement perspective
 - Concerned that recognising large liabilities without corresponding asset does not meet objectives of general purpose financial reporting
- Definitions difficult to apply, create artificial boundary

HoTARAC comment letter

- Agreed with the proposed obligating event approach
- Concerned with recognising long-term liabilities due to faithful representation, sovereign power, divergence in practice if left to judgement
- Agreed with definitions, insurance approach



SMC	Questions to the Board
5. Asking for comments on obligating event disclosure requirements.	Does the Board have any comments?
6. Would long-term information on social benefits be appropriately addressed in IPSASB RPG 1 <i>Reporting on Long Term Sustainability of an Entity's Finances</i> ?	Does the Board have any comments?