

# **Request for Comment on IPSASB Exposure Draft *Social Benefits***

Comments to the AASB by 15 January 2018



**Australian Government**

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**Australian Accounting  
Standards Board**

## **How to Comment on this AASB Invitation to Comment**

Constituents are strongly encouraged to respond to the AASB and the IPSASB. The AASB is seeking comment by 15 January 2018. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IPSASB, which are due by 31 March 2018.

### **Formal Submissions**

Submissions should be lodged online via the “Work in Progress – Open for Comment” page of the AASB website ([www.aasb.gov.au/comment](http://www.aasb.gov.au/comment)) as a PDF document and, if possible, a Word document (for internal use only).

### **Other Feedback**

Other feedback is welcomed and may be provided via the following methods:

E-mail: [standard@asb.gov.au](mailto:standard@asb.gov.au)  
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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## AASB REQUEST FOR COMMENTS

In light of the Australian Accounting Standards Board's (AASB's) decision to contribute to the work of the International Public Sector Accounting Standards Board (IPSASB), the AASB is inviting comments on:

- (a) any of the proposals in the attached IPSASB Exposure Draft, including the specific question on the proposals as stated in the preface to the attached IPSASB Exposure Draft; and
- (b) the 'AASB Specific Matters for Comment' listed below.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

### AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including GAAP/GFS implications;
2. whether, overall, the proposals would result in financial statements that would be useful to users;
3. whether the proposals are in the best interests of the Australian economy; and
4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

### Relationship to Other AASB Projects

#### Australian-specific Insurance Issues for Public Sector Entities

The AASB is proposing that the scope of AASB 17 *Insurance Contracts* be expanded to include 'insurance-like' arrangements that are created by statute, rather than contractual arrangements.

The AASB considered adopting the 'insurance approach' proposed in IPSASB ED 63 paragraphs 7-12 to possibly capture insurance-like arrangements. However, the AASB tentatively determined that the insurance approach was not preferred for reasons further explained in the forthcoming AASB Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities*. Consequently, the AASB have developed insurance-like criteria using the IPSASB criteria as a starting point.

The AASB intends to consider the outcomes and ongoing progress of the IPSASB's *Social Benefits* project to the extent it may impact the proposed amendments to AASB 17.

## **Social Benefits**

The AASB intends to consider the outcomes and ongoing progress of the IPSASB's *Social Benefits* project as a basis for its own forthcoming project on Social Benefits.

Exposure Draft 63  
October 2017  
*Comments due: March 31, 2018*

IPSAS®

*Proposed International Public Sector Accounting  
Standard®*

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## Social Benefits

IPSASB

International Public  
Sector Accounting  
Standards Board®

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

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

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

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

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

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## REQUEST FOR COMMENTS

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

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by March 31, 2017.**

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

### Objective of the Exposure Draft

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

### Guide for Respondents

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

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

#### 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?

#### 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?

#### 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?

**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.*

**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?

**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.

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 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.

# EXPOSURE DRAFT 63, SOCIAL BENEFITS

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## Objective

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

## Scope

4. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for social benefits.**
5. **This [draft] Standard applies to a transaction that meets the definition of a social benefit. This [draft] Standard does not apply to:**
  - (a) **Financial instruments that are within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement*;**
  - (b) **Employee benefits that are within the scope of IPSAS 39, *Employee Benefits*;**
  - (c) **Insurance contracts that are within the scope of the relevant international or national accounting standard dealing with insurance contracts; and**
  - (d) **Universally accessible services, as defined in paragraph 6 of this [draft] Standard.**

Paragraphs AG1–AG3 provide additional guidance.

## Definitions

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

**Social benefits are provided to:**

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

**(d) Are not universally accessible services.**

**Paragraphs AG4–AG7 provide additional guidance.**

**Social risks are events or circumstances that:**

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

**Paragraphs AG8–AG10 provide additional guidance.**

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

## **Insurance Approach**

### **Recognition and Measurement**

- 7. Where a social benefit scheme satisfies the criteria in paragraph 9, an entity is permitted, but not required, to recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts<sup>1</sup>. Paragraph AG11 provides additional guidance.**
- 8. Where an entity elects not to apply by analogy the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme in accordance with paragraphs 13–35 of this [draft] Standard.
- 9. An entity may recognize and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts where:
  - (a) The social benefit scheme is intended to be fully funded from contributions; and
  - (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

Paragraphs AG12–AG15 provide additional guidance.

### **Disclosure**

- 10. The objective of the disclosures is for entities to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and statement of cash flows, gives a basis for users of financial statements to assess the effect that social benefits may**

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<sup>1</sup> In this [draft] Standard, the term “the relevant international or national accounting standard dealing with insurance contracts” refers to IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17.

have on the financial position, financial performance and cash flows of the entity. Paragraphs 11 and 12 specify requirements on how to meet this objective.

11. **Where an entity recognizes and measures the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall disclose:**
  - (a) **The basis for determining that the insurance approach is appropriate;**
  - (b) **The information required by the relevant international or national accounting standard dealing with insurance contracts; and**
  - (c) **Any additional information required by paragraph 12 of this [draft] Standard.**
12. To meet the requirements of paragraph 11(c) of this [draft] Standard, an entity shall disclose:
  - (a) Information about the characteristics of its social benefit schemes, including:
    - (i) The nature of the social benefits provided by the scheme (for example, retirement benefits, unemployment benefits, child benefits); and
    - (ii) Key features of the social benefit scheme, such as a description of the legislative framework governing the scheme, for example, a summary of the main eligibility criteria that must be satisfied to receive the social benefit, and a statement about how additional information about the scheme can be obtained; and
  - (b) A description of any significant amendments to the social benefit scheme made during the reporting period. Amendments to a social benefit scheme include, but are not limited to:
    - (i) Changes to the level of social benefits provided; and
    - (ii) Changes to the eligibility criteria, or to the individuals and/or households covered by the social benefit scheme.

## **Obligating Event Approach**

### **Recognition of a Liability for a Social Benefit Scheme**

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

#### *Outflow of Resources*

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

level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

#### *Past Event*

16. 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).

Paragraphs AG16–AG19 provide additional guidance.

#### **Recognition of an Expense for a Social Benefit Scheme**

17. **An entity shall recognize an expense for a social benefit scheme at the same point that it recognizes a liability.**
18. An entity shall not recognize an expense for a social benefit scheme where a social benefit is provided prior to all eligibility criteria being satisfied. Rather, an entity shall recognize a payment in advance in the statement of financial position, unless the amount is irrecoverable, in which case it shall recognize an expense.

#### **Measurement of a Liability for a Social Benefit Scheme**

##### *Initial Measurement of the Liability*

19. **An entity shall measure the liability for a social benefit scheme at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability.**
20. Being alive is an eligibility criterion for social benefit schemes. Consequently, the maximum amount to be recognized as a liability is the costs that the entity will incur in fulfilling the present obligations represented by the liability until the next point at which eligibility criteria are required to be satisfied.
21. 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.
22. 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.
23. Paragraphs AG20–AG22 provide additional guidance on measuring the liability.

##### *Subsequent Measurement*

24. **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*.**
25. **Where a liability is discounted in accordance with paragraph 22, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.**
26. **The liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate.**

*Discount Rate*

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

**Measurement of an Expense for a Social Benefit Scheme**

28. **An entity shall initially measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 19. Where the entity provides a social benefit prior to all eligibility criteria being satisfied, it shall measure the payment in advance or expense recognized in accordance with paragraph 18 at the cost the entity has incurred in providing the social benefit.**

**Disclosure**

29. **The objective of the disclosures is for entities to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and statement of cash flows, gives a basis for users of financial statements to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 30–35 specify requirements on how to meet this objective.**
30. **An entity shall disclose information that:**
- (a) **Explains the characteristics of its social benefit schemes (see paragraph 31);**
  - (b) **Identifies and explains the amounts in its financial statements arising from its social benefit schemes (see paragraphs 32–33); and**
  - (c) **Quantifies and explains future cash flows that may arise from its social benefit schemes (see paragraph 34).**

*Characteristics of Social Benefit Schemes*

31. An entity shall disclose:
- (a) Information about the characteristics of its social benefit schemes, including:
    - (i) The nature of the social benefits provided by the scheme (for example, retirement benefits, unemployment benefits, child benefits).
    - (ii) Key features of the social benefit scheme, such as a description of the legislative framework governing the scheme, for example, a summary of the main eligibility criteria that must be satisfied to receive the social benefit, and a statement about how additional information about the scheme can be obtained.
    - (iii) A description of how the scheme is funded, including whether the funding for the scheme is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means. If a scheme is funded (whether in full or in part) by social contributions, the entity shall provide:

- a. A cross reference to the location of information on those social contributions and any dedicated assets (where this information is included in the entity's financial statements); or
  - b. A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements (which may be a government's consolidated financial statements) and how that information can be obtained.
- (b) A description of any significant amendments to the social benefit scheme made during the reporting period, along with a description of the expected effect of the amendments on future obligations. Amendments to a social benefit scheme include, but are not limited to:
- (i) Changes to the level of social benefits provided; and
  - (ii) Changes to the eligibility criteria, or to the individuals and/or households covered by the social benefit scheme.

*Explanation of Amounts in the Financial Statements*

32. Where the liability in respect of a social benefit scheme is not expected to be settled by the end of the next reporting period, an entity shall disclose the significant assumptions used to determine the present value of that liability, including the basis on which the discount rate has been determined.
33. An entity shall disclose the total expense recognized in the statement of financial performance, and provide a reconciliation from the opening balance to the closing balance of the liability for each social benefit scheme, showing each of the following, if applicable:
- (a) Liabilities and expenses recognized in the reporting period, comprising:
    - (i) Amounts recognized in the reporting period (including those settled in the reporting period);
    - (ii) Changes in accounting estimates; and
    - (iii) Interest expense;
  - (b) Prepayments; and
  - (c) Liabilities settled in the reporting period.

*Explanation of Future Cash Flows that May Arise from an Entity's Social Benefit Schemes*

34. For each social benefit scheme, an entity shall disclose:
- (a) Its best estimate of the undiscounted projected cash outflows that will arise from the scheme in each of the five reporting periods immediately following the reporting date; and
  - (b) The key assumptions that the entity has relied on in making its best estimate of the projected cash outflows.

The amounts to be disclosed include all projected cash outflows that will arise from the social benefit scheme in the five reporting periods immediately following the reporting date. The amounts are not limited to those relating to current beneficiaries.



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

35. Entities with social benefits are encouraged, but not required, to prepare general purpose financial reports that provide information on the long-term sustainability of the entity's finances. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, provides guidance on the preparation of such reports.

**Transitional Provisions****Insurance Approach**

36. **An entity shall apply the transitional provisions in the relevant international or national accounting standard dealing with insurance contracts in accounting for a social benefit scheme that is recognized and measured in accordance with the insurance approach (see paragraphs 7–12).**

**Obligating Event Approach**

37. **In accounting for a social benefit scheme that is recognized and measured in accordance with the obligating event approach (see paragraphs 13–35), an entity shall apply this [draft] Standard retrospectively, in accordance with IPSAS 3.**
38. In the first financial statements in which the requirements of this [draft] Standard are adopted, an entity shall report the total expense recognized in the current reporting period and the comparative period.

**Effective Date**

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

## Application Guidance

*This Appendix is an integral part of [draft] IPSAS [X] (ED 63)*

### Scope (see paragraphs 4–5)

- AG1. This [draft] Standard is applied in accounting for transactions and obligations that meet the definition of a social benefit in paragraph 6 of this [draft] Standard. This [draft] Standard does not address transactions that are similar to social benefits, but which are addressed in other IPSASs. Examples of such transactions in some jurisdictions might include employee pensions (which are accounted for in accordance with IPSAS 39, *Employee Benefits*) and concessionary loans such as student loans (which are accounted for in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*).
- AG2. Similarly, this [draft] Standard does not apply to insurance contracts, even if the risk covered by the insurance contract is a social risk as defined in paragraph 6 of this [draft] Standard. Insurance contracts are accounted for in accordance with the relevant international or national accounting standard dealing with insurance contracts.
- AG3. This [draft] Standard does not apply to universally accessible services as defined in paragraph 6 of this [draft] Standard. The definition of social benefits specifically excludes universally accessible services. Universally accessible services are accounted for in accordance with other IPSASs.

### Definitions (see paragraph 6)

#### *Guidance on the Definition of Social Benefits*

- AG4. Social benefits are only provided when eligibility criteria are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the scheme potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria.
- AG5. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the criteria that they are provided to mitigate the effect of social risks.
- AG6. Social benefits are organized to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance contracts, which are organized for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each social benefit covers all members of society; in some jurisdictions, social benefits are provided through a range of similar benefits that cover different segments of society. A 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.

- AG7. Because social benefits are provided individually, many social benefits will be provided in cash. However, some social benefits may be provided in kind; for example where a government program provides healthcare insurance for those who are unable to afford private healthcare insurance. Where benefits in kind are universally accessible, for example a universal healthcare service, these do not meet the definition of a social benefit for the purposes of this [draft] Standard.

*Guidance on the Definition of Social Risks*

- AG8. Social risks relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.
- AG9. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the unemployment benefit arises from characteristics of the individuals and/or households – in this case a change in an individual’s employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.
- AG10. Risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks, and consequently benefits provided in respect of these risks are not social benefits.

**Insurance Approach (see paragraphs 7–9)**

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

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<sup>2</sup> Exposure Draft ED/2013/7 *Insurance Contracts*

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

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

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

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

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

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

*Guidance on Determining Whether an Entity is Managing a Scheme in the Same Way as an Insurer*

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

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

- (a) Does the entity consider itself bound by the scheme in a similar manner to an insurer being bound by an insurance contract? For example, there may be evidence that the entity considers that it can amend the terms of the scheme for existing participants in a manner that an insurer could not (such as where the entity can make retrospective changes to the scheme). In such cases, the entity will not be bound in a similar manner to an insurer, and the social benefit scheme will not have commercial substance or look and feel like an insurance contract. An entity will be bound by the scheme in a similar manner to an insurer where its ability to amend the scheme for existing participants is limited to:
  - (i) Circumstances prescribed by the legislation that establishes the scheme (equivalent to a contractual term permitting changes in specific circumstances); or

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

### **Obligating Event Approach (see paragraphs 13–28)**

#### *Recognition of a Liability for a Social Benefit Scheme*

AG16. In accordance with paragraph 16 of this [draft] Standard, 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.

AG17. 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. Examples may include:

- (a) Reaching retirement age (in the case of a retirement pension);
- (b) The death of a partner (in the case of a survivor benefit);
- (c) Becoming unemployed (in the case of an unemployment benefit without a waiting period); and
- (d) Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period).

An entity will recognize a liability where beneficiaries satisfy the eligibility criteria at or prior to the reporting date. Where a beneficiary satisfies the eligibility criteria prior to the point at which the next social benefit will be provided, but after the reporting date, no liability is recognized, as there is no present obligation as at the reporting date.

AG18. Where a beneficiary has previously satisfied the eligibility criteria, and there has been no break in satisfying those criteria, a liability for future social benefits is recognized each time the criteria are satisfied. This will be the point at which a social benefit is provided.

AG19. Being alive at the point at which the eligibility criteria are satisfied is an eligibility criterion, whether explicitly stated or implicit. Consequently, a liability cannot extend beyond the point at which the next social benefit will be provided.

*Measurement of a Liability for a Social Benefit Scheme*

AG20. In accordance with paragraph 19 of this [draft] Standard, an entity shall measure the liability for a social benefit scheme at the cost of fulfilment. The maximum amount to be recognized as a liability is the costs that the entity will incur until the next point at which eligibility criteria are required to be satisfied.

AG21. In measuring the liability, an entity takes into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria are required to be satisfied. Examples include:

- (a) The death of the beneficiary;
- (b) Commencing employment (in the case of an unemployment benefit); and
- (c) Exceeding the maximum period for which a social benefit is provided (for example, where an unemployment benefit is provided for a maximum of one year).

Because a liability cannot extend beyond the point at which eligibility criteria will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorized for issue, an entity may receive information regarding beneficiaries who have ceased to be eligible for the social benefit. IPSAS 14, *Events After the Reporting Date*, provides guidance on using this information.

AG22. Because a liability cannot extend beyond the point at which eligibility criteria will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities, and the time value of money will not be material. Nevertheless, this [draft] Standard requires an entity to discount the liability in those cases where the liability is not expected to be settled within twelve months of the

reporting date. IPSAS 39, *Employee Benefits*, provides additional guidance on the discount rate to be used.

## Amendments to Other IPSAS

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

Paragraphs 1, 12, 19, and 77 are amended, paragraph 111G is added and paragraphs 7–11, 99 and 104 are deleted. New text is underlined and deleted text is struck through.

### Scope

1. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:
  - (a) ~~Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits~~Social benefits within the scope of [draft] IPSAS [X] (ED 63);

...

### Social Benefits

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



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

- ~~10. Where an entity elects to recognize a provision for such obligations, the entity discloses the basis on which the provisions have been recognized and the measurement basis adopted. The entity also makes other disclosures required by this Standard in respect of those provisions. IPSAS 1 provides guidance on dealing with matters not specifically dealt with by another IPSAS. IPSAS 1 also includes requirements relating to the selection and disclosure of accounting policies.~~
- ~~11. In some cases, social benefits may give rise to a liability for which there is:~~
- ~~(a) Little or no uncertainty as to amount; and~~
  - ~~(b) The timing of the obligation is not uncertain.~~

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

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

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

...

### **Definitions**

...

### **Provisions and Other Liabilities**

- ~~19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:~~
- ~~(a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and~~

...

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

...

## Onerous Contracts

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

...

## Disclosure

...

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

...

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

...

## Effective Date

...

111G. Paragraphs 1, 12, 19, and 77 were amended and paragraphs 7–11, 99 and 104 were deleted by [draft] IPSAS [X] (ED 63), *Social Benefits*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 63) at the same time.

...

## Basis for Conclusions

...

### Revision of IPSAS 19 as a result of [draft] IPSAS [X] (ED 63)

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

- BC4. This Standard did not, however, prohibit the recognition of provisions relating to social benefits, and required disclosures where an entity elected to recognize a provision for such obligations.
- BC5. Following the publication of [draft] IPSAS [X] (ED 63), all social benefits will be accounted for in accordance with that Standard. This Standard has therefore been revised to exclude all social benefits within the scope of [draft] IPSAS [X] (ED 63) and to remove the requirements within this Standard that related to social benefits.

### Comparison with IAS 37

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

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

### Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

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

...

### Scope

- 2 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to:
- (a) A a-public sector combination that is a non-exchange transaction; and
- (b) Contributions to social benefit schemes that are accounted for in accordance with paragraphs 7–12 of [draft] IPSAS [X] (ED 63), *Social Benefits* (the insurance approach).

...

- 124F Paragraph 2 was amended by [draft] IPSAS [X] (ED 63), *Social Benefits*, issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 63) at the same time.

...

## Basis for Conclusions

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

...

### Compulsory Contributions to Social Security Schemes

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

BC26A The IPSASB reconsidered this issue in developing [draft] IPSAS [X] (ED 63), *Social Benefits*. The IPSASB concluded that such contributions are non-exchange transactions, and should be accounted for in accordance with this Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to social benefit schemes accounted for under the insurance approach are not accounted for as revenue under this Standard.

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

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

...

### Effective date

60E. Paragraph AG23 was amended by [draft] IPSAS [X] (ED 63), *Social Benefits*, issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 63) at the same time.

## Application Guidance

...

### Definitions (paragraphs 9–12)

*Financial Assets and Financial Liabilities*

...

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

- Obligations to pay income taxes are accounted for in accordance with the relevant international or national accounting standard dealing with income taxes.
- Obligations to provide social benefits are accounted for in accordance with ~~IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors and IPSAS 19[draft]~~ IPSAS [X] (ED 63), Social Benefits.
- Other statutory obligations are accounted for in accordance with IPSAS 19.

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

Paragraph 36 is amended and paragraphs 134A, 134B and 157 are added. New text is underlined and deleted text is struck through.

...

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

...

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

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

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

- (a) **Inventories (see IPSAS 12, *Inventories*);**
- (b) **Investment property (see IPSAS 16, *Investment Property*);**
- (c) **Property, plant and equipment (see IPSAS 17, *Property, Plant and Equipment*);**
- (d) **Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);**
- (e) **Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);**
- (f) **Intangible assets (see IPSAS 31, *Intangible Assets*);**
- (g) **Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*); ~~and~~**
- (h) **Financial instruments (see IPSAS 29, *Financial Instruments; Recognition and Measurement*); ~~and~~**
- (i) **Social benefits (see [draft] IPSAS [X] (ED 63), *Social Benefits*).**

...

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

...

### [Draft] IPSAS [X] (ED 63), Social Benefits

134A. On the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for a social benefit scheme at that date in accordance with [Draft] IPSAS [X] (ED 63).

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

## Effective Date

...

157. Paragraph 36 was amended and paragraphs 134A and 134B were added by [draft] IPSAS [X] (ED 63), Social Benefits, issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 63) at the same time.

## Basis for Conclusions

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

...

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

...

### [Draft] IPSAS [X] (ED 63), Social Benefits

BC60A. The IPSASB issued [draft] IPSAS [X] (ED 63), Social Benefits, in Month YYYY. The IPSASB acknowledged that the recognition and/or measurement of liabilities related to social benefits may be challenging for some public sector entities. The IPSASB therefore agreed that a first-time adopter should be given a three year relief period for the recognition and/or measurement of liabilities related to social benefits.

## Implementation Guidance

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

...

## Presentation and Disclosure

...

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

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

...

	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
<u>[Draft] IPSAS XI (ED 63), Social Benefits</u>			✓ <u>liabilities for social benefits not recognized under previous basis of accounting</u>	✓ <u>liabilities for social benefits recognized under previous basis of accounting</u>				

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 63)*

### Objective (paragraphs 1–3)

BC1. In the absence of an International Public Sector Accounting Standard (IPSAS) dealing with social benefits, public sector entities are required to develop their own accounting policies for recognizing, measuring and presenting social benefits. As a result, there may not be consistent or appropriate reporting of transactions and obligations related to social benefits in general purpose financial statements (GPFSS). Consequently, users may not be able to obtain the information needed to identify the social benefits provided by an entity and evaluate their financial effect. The IPSASB believes that [draft] IPSAS [X] (ED 63) will promote consistency and comparability in how social benefits are reported by public sector entities.

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

#### *History*

- BC2. In developing [draft] IPSAS [X] (ED 63), the IPSASB noted that existing IPSASs do not define social benefits. Instead, a broad description is given in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.
- BC3. IPSAS 19 describes social benefits as “goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:
- (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
  - (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.”
- BC4. The IPSASB also had regard to its previous work in this area. The 2004 Invitation to Comment (ITC), *Accounting for Social Policies of Government*, sought views on how to account for a wide range of social benefits. The ITC noted that “Social benefits could also be provided under other categories of government activity (for example, Defense, Public Order and Safety and Community Amenities).” These are often referred to as “collective services” or “collective goods and services.”
- BC5. Responses to the ITC supported the development of an IPSAS on social benefits. However, the IPSASB failed to reach a consensus on when a present obligation arises especially for contributory cash transfer schemes. Consequently, in 2008 the IPSASB issued Exposure Draft ((ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, and a Consultation Paper (CP), *Social Benefits: Issues in Recognition and Measurement*. At this time the IPSASB also issued a Project Brief, *Long-Term Fiscal Sustainability*.
- BC6. Respondents did not consider that the proposed disclosures in the financial statements could convey sufficient information about social benefits. Consequently, the IPSASB agreed not to proceed with ED 34.



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

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

*Role of Government Finance Statistics (GFS)*

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

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

- BC19. A majority of respondents supported the scope of the project as set out in the CP, and the IPSASB's intention to align the scope of the project, and the definitions of social benefits and social risks, with GFS. These respondents considered that alignment with GFS would assist with interpreting an IPSAS and help ensure consistency in its application.
- BC20. However, a significant minority raised concerns. The main concerns were:
- (a) Definition of social risk. A number of respondents considered that the definition of social risk was difficult to apply in practice, and that it was therefore difficult to differentiate between social benefits and certain other non-exchange expenses of government.
  - (b) The boundary between social benefits and non-exchange expenses. Some respondents considered that social benefits in kind and other transfers in kind give rise to the same issues. These respondents considered that the scope of the CP creates an artificial boundary between social benefits and non-exchange expenses.
- BC21. The IPSASB considered these concerns in developing [draft] IPSAS [X] (ED 63), as follows:
- (a) The definition of social risks has been reframed to fit an accounting framework as opposed to an economic/statistical framework. Although the wording of the definition has been amended in [draft] IPSAS [X] (ED 63), the IPSASB's intention in so doing has been to clarify the meaning of the definitions for preparers, rather than to modify the risks that are considered to be social risks. The definition of social benefits has also been amended to improve the clarity of the definition.

- (b) [Draft] IPSAS [X] (ED 63) distinguishes between social risks and other risks, for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring. The hazards or events that give rise to these risks are not related to the characteristics of individuals and/or households, which is a distinguishing feature of social risks. The IPSASB also noted that governments' responses to social risks is often different to their response to other risks. Governments usually plan for the occurrence of social risks, with schemes, backed by legislation, in place to address these risks. By contrast, governments' responses to other risks such as geographical risks is often reactive, with any schemes being put in place following the occurrence of an event such as flooding or an earthquake. The IPSASB considered that the reactive nature of responses to other risks was more suited to its non-exchange expenses project than this [draft] Standard. The IPSASB also noted that this approach would be consistent with the approach taken in GFS.
- (c) [Draft] IPSAS [X] (ED 63) distinguishes between those benefits that are provided to specific individuals and/or households and those that are universally accessible. This distinction is intended to provide a more principles based, less artificial boundary between social benefits and non-exchange expenses. Liabilities and expenses associated with social risks can be measured by reference to an individual's eligibility to receive the social benefit, which does not apply to non-exchange expenses. In developing this boundary, the IPSASB acknowledges that social benefits and non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. However, the IPSASB's earlier experiences convinced the Board that a boundary would be required for a social benefits project to be manageable.

BC22. The effect of these decisions is to align the scope of [draft] IPSAS [X] (ED 63), and its definitions of social benefits and social risks, with those in GFS, with the exception of universally accessible services. Universally accessible services such as a universal healthcare service are considered to be social benefits under GFS, but are outside the scope of [draft] IPSAS [X] (ED 63). The IPSASB considered that outcome would satisfy the majority of respondents who supported alignment with GFS, whilst addressing the concerns of the significant minority of respondents who had concerns with the boundary between social benefits and non-exchange expenses.

### **Approaches to Accounting for Social Benefits**

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

- BC27. In developing the CP, the IPSASB came to a preliminary view that a combination of the obligating event approach and (for some or all contributory schemes) the insurance approach might be required to reflect the different economic circumstances arising in respect of social benefits.
- BC28. Respondents to the CP supported this preliminary view. The IPSASB therefore agreed to develop both the insurance approach and the obligating event approach in [draft] IPSAS [X] (ED 63).

#### *Non-Exchange Expenses Project*

- BC29. As noted in paragraph BC14, the IPSASB has adopted a narrower definition of social benefits, considering that this would best meet the project management needs of both the social benefits project and the non-exchange expenses project.
- BC30. The IPSASB issued a CP, *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. In this CP, the IPSASB expressed a preliminary view a performance obligation approach would be appropriate for recognizing and measuring some types of non-exchange expense transaction. Consequently, the IPSASB considered whether such an approach could be applied to social benefits.
- BC31. The IPSASB noted that social benefits are provided where a social risk has occurred, for example an individual has become unemployed or an individual has reached retirement age. The IPSASB concluded that social risks do not involve performance of an obligation by the individual and, consequently, the performance obligation approach would not be appropriate for recognizing and measuring social benefits. For similar reasons, the IPSASB is not proposing to adopt the performance obligation approach to non-exchange expenses for universally accessible services and collective services.

#### **Insurance Approach (paragraphs 7–12)**

##### *Application of the Insurance Approach*

- BC32. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed an approach based on insurance accounting for some or all contributory schemes. The IPSASB proposed that this approach should be based on the IASB's proposed IFRS Standard on insurance contracts, contained in Exposure Draft ED/2013/7, *Insurance Contracts* (June 2013). This ED has subsequently been further developed and issued as IFRS 17, *Insurance Contracts*.
- BC33. Respondents to the CP generally supported the IPSASB's proposals regarding the insurance approach, although a number of concerns were raised. Respondents considered that the insurance approach should only be applied in limited circumstances. These were that the social benefit scheme operated in a similar manner to an insurance contract, and that the scheme was funded from dedicated sources of revenue, not general taxation. Respondents considered that applying the insurance approach to other social benefit schemes would not faithfully represent the economic substance of those schemes.
- BC34. The IPSASB concurred with this view. Consequently, the IPSASB agreed that the insurance approach should only be applied where:
- (a) The social benefit scheme is intended to be fully funded from contributions; and
  - (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

- BC35. In developing [draft] IPSAS [X] (ED 63), the IPSASB then considered whether the insurance approach should be mandatory for social benefit schemes that meet the criteria, or optional.
- BC36. The IPSASB considered that, for social benefit schemes that meet the criteria to apply the insurance approach, that approach is expected to provide the information that best meets users' needs. In order to assess whether the entity is managing the financial performance of the social benefit scheme appropriately, users will need information as to whether the contributions are sufficient to meet the expected liabilities. Where a loss is recorded under the insurance approach, this will provide users with the information they need to question whether a scheme is sustainable without changes to contribution rates or benefits. Similarly, if a social benefit scheme has ongoing large surpluses, this will allow a debate as to whether that scheme is being used to subsidize other expenditure, and if so, whether this is appropriate. The IPSASB initially considered that the fact that users' needs are best met by the insurance approach was the main reason for making the insurance approach mandatory.
- BC37. The insurance approach is, however, expected to be more costly and complex to implement than the obligating event approach. Actuarial estimates may not be required under the obligating event approach. Where actuarial estimates are required, only estimates of cash outflows for the next five years are required. The insurance approach will require those estimates and estimates of cash outflows for subsequent years, along with estimates of cash inflows. In addition, the IASB had only recently issued IFRS 17 and that Standard has significantly different requirements from many existing national standards dealing with insurance. Consequently, it may take some time for any practical issues to be fully identified and addressed. Applying these new requirements to social benefits would introduce a further level of complexity. The IPSASB considered that there may be cost/benefit reasons for not using the insurance approach, and that this was the main reason for making the insurance approach an optional approach.
- BC38. The IPSASB did note that, if an entity is managing a social benefit scheme as if it were a portfolio of insurance contracts, the entity may already have the information required to implement the insurance approach. It may also need that information in order to be able to effectively manage the social benefit scheme. This suggested that, where a social benefit scheme meets the criteria to be accounted for under the insurance approach, the costs associated with so doing may not be as high as it would initially appear.
- BC39. The IPSASB considered that a further advantage of making the insurance approach optional would arise where an entity is having difficulty determining whether the criteria for applying the insurance approach have been met. The entity could avoid expending additional resources to make that determination by electing to apply the obligating event approach.
- BC40. However, the IPSASB accepted that making the insurance approach optional would carry the risk that very few entities adopt the approach, and that users would not be provided with the most appropriate information about some social benefit schemes. Social benefit schemes that could be accounted for under the insurance approach are likely to have a different economic substance to other social benefit schemes, which the obligating event approach may not fully capture.
- BC41. On balance, the IPSASB considered that the insurance approach should be optional, based on the cost/benefit reasons given above. The IPSASB noted that this could be revisited at a future date, once entities have experience with applying the new IFRS Standard, and the insurance approach in [draft] IPSAS [X] (ED 63).

*Accounting Requirements*

- BC42. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed that the insurance approach should be based on the IASB's Exposure Draft.
- BC43. The IPSASB identified three options for introducing the insurance approach:
- (a) Develop the insurance approach in [draft] IPSAS [X] (ED 63). The IPSASB noted that this option would be consistent with the proposals in the CP, and would be tailored to social benefits. However, this option would significantly increase the duration of the project, and would not have wider application.
  - (b) Develop a separate IPSAS on insurance. The IPSASB noted that this would fill a gap in the IPSASB's literature and could address social benefits as well as having wider application. However, the IPSASB noted that such an IPSAS was not included in the IPSASB's work plan, and that developing an additional Standard would delay the social benefits project.
  - (c) Direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes that meet the criteria for applying the insurance approach. The IPSASB noted that this would require less resources and would ensure consistency with IFRS. However, guidance on social benefit specific issues might be required.
- BC44. The IPSASB noted that the number of preparers to whom the insurance approach will be relevant is likely to be small. The IPSASB also noted that the criteria for applying the insurance approach meant that only those social benefit schemes that were very similar to insurance contracts would be affected.
- BC45. The IPSASB concluded, therefore, that the additional time and resources required to develop the insurance approach, either in [draft] IPSAS [X] (ED 63) or as a separate IPSAS on insurance, could not be justified. The IPSASB agreed to direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes:
- (a) That meet the criteria for applying the insurance approach; and
  - (b) Which the entity elects to account for under the insurance approach.
- BC46. The IPSASB then considered whether any guidance on social benefit specific issues was required when applying IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes. In particular, the IPSASB considered whether the arrangements in IFRS 17 in respect of the discount rate and the risk adjustment were appropriate for a social benefit scheme. In considering these questions, the IPSASB agreed to limit the application of the insurance approach to those cases where an entity would be referring to IFRS 17 or a national standard that has adopted substantially the same principles as IFRS 17. This is because other standards, for example IFRS 4, *Insurance Contracts* (and national standards based on IFRS 4) may not provide information that meets users' needs and satisfy the qualitative characteristics.
- BC47. The requirements in IFRS 17 specify that the selected discount rate should adjust the future cash flows to reflect the time value of money. Such rates should be consistent with observable market prices for instruments with cash flows that are consistent with the timing, currency and liquidity of the insurance contract. The IPSASB noted that these requirements differ from those in IPSAS 39, *Employee Benefits*, where no liquidity adjustment is included in the discount rate.

- BC48. The IPSASB noted that statistical reporting uses consistent discount rates for accounting for employee benefits and social benefits. Consistency with statistical reporting would suggest adopting the approach to discount rates specified in IPSAS 39.
- BC49. The IPSASB considered the nature of a liquidity adjustment. Where financial markets are illiquid, a seller of a financial instrument may have to accept a lower price for the instrument. This may lead them to demand a higher market yield. Longer duration insurance contracts may be seen as illiquid. In developing the CP, the IPSASB questioned whether the notion of a policy holder demanding a higher market yield is relevant where the terms of a social benefit are prescribed by government.
- BC50. For these reasons, the IPSASB came to the view, in developing the CP, that the discount rate used under the insurance approach should not include a liquidity adjustment. The IPSASB took the view at that time that the discount rate approach in IPSAS 39 was appropriate. Respondents to the CP generally concurred with this view.
- BC51. The IPSASB noted that IFRS 17 requires the use of a risk adjustment. In developing the CP, the IPSASB had noted that there were differing views on the appropriateness of a risk adjustment in the context of social benefits:

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

- BC52. The IPSASB sought the views of respondents to the CP regarding a risk adjustment. Respondents generally considered that the cost of fulfilment measurement basis, which does not include a risk adjustment, was the most appropriate measurement basis for social benefits.
- BC53. In the light of these comments, the publication of IFRS 17 by the IASB, and the decision to direct preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy, the IPSASB revisited its conclusions in the CP.
- BC54. The IPSASB acknowledged that the views discussed in the CP were still valid. The IPSASB also accepted that adopting the discount rate included in IPSAS 39, and not including a risk adjustment, would produce greater consistency with social benefit schemes recognized and measured using the obligating event approach. Conversely, retaining the discount rate included in IFRS 17, and retaining the risk adjustment, might result in significantly different amounts being included in the financial statements.

- BC55. However, the IPSASB considered that amending the requirements of IFRS 17 could only be achieved by undertaking significant due process on that standard, in order to ensure there were no unintended consequences. This would require a significant use of resources, which would defeat the IPSASB's intentions in directing preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy (see paragraph BC45 above).
- BC56. The IPSASB also noted that inconsistencies in the application of discount rates was a wider issue, and that a number of standard setters, including the IASB, were undertaking work on this area.
- BC57. Finally, the IPSASB noted that the insurance approach was optional, not a requirement (although, as noted in paragraph BC41 above, this might be subject to review at a later date). An entity that considered the use of different discount rates problematic could elect to account for all its social benefit schemes using the obligating event approach.
- BC58. For these reasons, the IPSASB agreed not to amend the requirements in IFRS 17 when applying that standard by analogy to social benefit schemes.

### **Obligating Event Approach (paragraphs 13–35)**

#### *Recognition*

- BC59. In developing the CP, *Recognition and Measurement of Social Benefits*, the IPSASB identified five distinct points at which a case could be made for recognizing an obligation in the financial statements. These were:
- (a) Key participatory events have occurred;
  - (b) Threshold eligibility criteria have been satisfied;
  - (c) The eligibility criteria to receive the next benefit have been satisfied;
  - (d) A claim has been approved; and
  - (e) A claim is enforceable.
- BC60. The CP sought respondents' views on these possible obligating events. The CP also asked respondents whether a future IPSAS should consider that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose.
- BC61. In reviewing the responses to the CP, the IPSASB noted that there was substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose. The IPSASB agreed to take this view into account in determining which obligating events should be included in [draft] IPSAS [X] (ED 63).
- BC62. The IPSASB also noted, however, that there was no consensus as to the range of different points at which an obligating event could arise. The IPSASB therefore focused on analyzing the various obligating events by reference to the Conceptual Framework, noting respondents' comments where these provided evidence about a particular obligating event or raised other matters that required consideration.
- BC63. In developing the CP, the IPSASB had initially agreed that aligning the recognition and measurement of social benefits with GFS could only be considered once responses had been



reviewed. Subsequently, the IPSASB noted that a range of recognition points might be appropriate under the obligating event approach.

- BC64. If this were the case, this would implicitly reject aligning the recognition and measurement of social benefits with GFS under the obligating event approach. This is because, under GFS, an expense is recorded only when the payment of the social benefits is due (i.e., in line with the claim is enforceable obligating event only).
- BC65. The IPSASB also concluded that the recognition and measurement of social benefits should be consistent with the Conceptual Framework, and that this should take priority over alignment with the GFS treatment. Any alignment that emerged from the IPSASB's deliberations would, therefore, be coincidental.

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

- BC66. The IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement. This could be the case where a social benefit was intended to be provided on a "one-off" or short-term basis. The IPSASB therefore considered when it would be appropriate to recognize a liability that took account of the requirement to satisfy ongoing eligibility criteria.
- BC67. The first possible obligating event identified in the CP that took account of the requirement to satisfy ongoing eligibility criteria was that the eligibility criteria to receive the next benefit have been satisfied. Respondents to the CP gave significant support to the inclusion of this obligating event. Respondents noted that for some social benefits, the satisfaction of the eligibility criteria by a potential beneficiary would be sufficient to give rise to a legal obligation for an entity. Where this was not the case, respondents considered that this obligating event would give rise to a non-legally binding obligation. The IPSASB agreed with these comments.
- BC68. A small number of respondents did not support this obligating event, arguing that an entity still had discretion to avoid payment until a claim has been approved. These respondents commented that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power.
- BC69. The IPSASB did not support this view. The IPSASB noted that paragraph 5.22 of the Conceptual Framework addressed the issue of sovereign power:
- "Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability."
- BC70. The IPSASB concluded that a beneficiary satisfying the eligibility criteria to receive the next social benefit would give rise to an obligation that meets the definition of a liability. Consequently, the IPSASB agreed that the eligibility criteria to receive the next social benefit have been satisfied obligating event should be included as an obligating event in [draft] IPSAS [X] (ED 63).
- BC71. The IPSASB next considered the claim has been approved and claim is enforceable obligating events. The IPSASB noted that respondents generally did not support the use of these obligating events. In particular, a significant majority of respondents opposed the use of the claim is enforceable obligating event, arguing that it would limit the recognition of a liability to those cases where a legal obligation existed. Respondents argued that this was inconsistent with the

Conceptual Framework, which recognized that liabilities could arise from non-legally binding obligations.

- BC72. Respondents also argued that, once eligibility criteria have been satisfied, an obligation that the entity would have little or no realistic alternative to avoid would usually arise. Consequently, a liability would arise prior to a claim being approved or becoming enforceable.
- BC73. The IPSASB concurred with respondents' views, and agreed that, for social benefits where there was a requirement to satisfy ongoing eligibility criteria only the 'eligibility criteria to receive the next social benefit have been satisfied' obligating event should be included in [draft] IPSAS [X] (ED 63).
- BC74. In coming to this conclusion, the IPSASB noted that there may be social benefits where the eligibility criteria are not met until a claim has been approved or is enforceable. The IPSASB considered these obligating events to be effectively subsets of the 'eligibility criteria to receive the next social benefit have been satisfied' obligating event. Consequently, these obligating events did not need to be separately addressed.

#### Requirement to Satisfy Ongoing Eligibility Criteria (Including Revalidation) Affects Measurement Only

- BC75. As noted in paragraph BC66, the IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement.
- BC76. The IPSASB considered whether, for some other social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition.
- BC77. The IPSASB noted that for a liability to exist, there has to be a past event that gives rise to the liability. The IPSASB considered the nature of the past event for a social benefit and concluded that the past event is the satisfaction of all eligibility criteria, including being alive. Consequently, any liability that arises is only for the next social benefit. Additional liabilities only arise when all eligibility criteria, including being alive, are met for further social benefits. Until an individual has remained alive, they have not satisfied the eligibility criteria and hence the past event that is required for a liability to be recognized has not occurred.
- BC78. In coming to this conclusion, the IPSASB also had regard to a number of supporting points:
- (a) Accepting that the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition, could result in obligations for long-term social benefits for certain social benefit schemes (primarily old-age pensions). Other social benefit schemes would recognize relatively short-term social benefits, even though for certain schemes, they may ultimately be paid to beneficiaries over a long-term horizon (e.g., income-based welfare benefits).
  - (b) Being alive is an explicit eligibility criterion for some social benefits programs, established through law or policy, and in these cases there is frequently active compliance monitoring and enforcement. Many public sector entities take active steps to periodically validate that a beneficiary is alive and actively monitor and enforce compliance with this eligibility criterion. For example, annual certifications that the beneficiary is alive may be required. Also, there may be requirements for hospitals, funeral homes, or others to report deaths. Further, many public sector entities retract social benefits improperly paid to beneficiaries who are not alive or prosecute fraudulent non-reporting of a beneficiary's death.

- (c) Meeting all eligibility requirements creates an obligation to provide a social benefit related to eligibility requirement(s) that are met, consistent with social benefit schemes where there are ongoing eligibility requirements. Typically, for an individual social benefit scheme, eligibility requirements and related social benefits are clearly established. For example, a social benefit may be paid monthly based on meeting eligibility criteria as of the end of the prior month. This would be true both for schemes that have ongoing eligibility criteria (other than being alive) and those where being alive is the only ongoing eligibility criteria.
  - (d) The requirement to satisfy ongoing eligibility criteria (including revalidation) is consistent with the approach the IPSASB proposed for universally accessible services and collective services in its CP, *Accounting for Revenue and Non-Exchange Expenses*.
- BC79. The IPSASB also considered paragraph 5.21 of the Conceptual Framework, which states (emphasis added):
- “Some obligations related to **exchange transactions** are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.”
- BC80. The IPSASB considered whether, although social benefits are not exchange transactions, a liability should be recognized for social benefit schemes such as retirement benefits when threshold eligibility criteria are met. This would be as a result of legal obligations arising with the passage of time without the beneficiary having to take any further action or meet further conditions.
- BC81. The IPSASB concluded this was not appropriate. Paragraph 5.21 of the Conceptual Framework relates solely to legal obligations in the context of exchange transactions, as indicated. Specifically, this paragraph would apply where the external party in the exchange transaction has met all of the conditions of the exchange transaction and it is unconditionally enforceable, but the public sector entity will not meet its conditions until after the reporting date.
- BC82. Consequently, the IPSASB considered that the only appropriate obligating event is that all eligibility criteria for the next social benefit have been met. The IPSASB concluded that this approach, combined with the insurance approach, would recognize the nature of the social benefit and the legal framework under which the social benefit arises.
- BC83. The IPSASB also considered that there would be practical difficulties with recognizing a liability prior to all eligibility criteria (including being alive) being satisfied. The IPSASB noted that approaches such as ‘threshold eligibility criteria have been met’ are said to give rise to a non-legally binding obligation where there is a valid expectation that results in an entity having little or no realistic alternative to settling the obligation. The basis for including threshold eligibility is that a valid expectation will arise when there are no further eligibility criteria (excluding being alive) to be satisfied. The IPSASB was not convinced that this would be the case in all instances, and considered that there may be situations where:
- (a) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation did not arise, even though there were no further eligibility criteria (excluding being alive) to be satisfied; or

- (b) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation arose, even though there were further eligibility criteria (excluding being alive) to be satisfied.
- BC84. The IPSASB considered that similar difficulties would arise with other obligating events that occur prior to all eligibility criteria (including being alive) being satisfied, such as 'key participatory events have occurred'.
- BC85. The IPSASB considered that, under these alternative obligating events, determining whether a valid expectation that results in an entity having little or no realistic alternative to settling the obligation has arisen could only be determined on a case by case basis. The IPSASB considered that this would result in inconsistent application of [draft] IPSAS [X] (ED 63), and considered that this was a further reason for not including the 'threshold eligibility criteria obligating event' in [draft] IPSAS [X] (ED 63).
- BC86. The IPSASB concluded that only the 'eligibility criteria for the next social benefit have been met' recognition point should be included in [draft] IPSAS [X] (ED 63), and that the accounting treatment should reflect that being alive is an eligibility criterion (whether explicitly stated or implicit) that affects recognition.

#### Approach to Developing Exposure Draft 63

- BC87. In coming to the conclusion that only the 'eligibility criteria for the next social benefit have been met' recognition point should be included in [draft] IPSAS [X] (ED 63), the IPSASB did not reach consensus, with some members holding the view that other recognition points should also be included in ED 63.
- BC88. As a consequence of the lack of consensus, the IPSASB agreed to develop ED 63 in a manner that would allow stakeholders to consider the different arguments. The 'eligibility criteria for the next social benefit have been met' recognition point was included in ED 63 as all members agreed that this would be appropriate for at least some social benefits. Other recognition points were not included in ED 63 as some members considered that these recognition points would never be an appropriate recognition point for a social benefit. In agreeing to develop ED 63 in this manner, the IPSASB noted that members who supported the inclusion of other recognition points were likely to set out their reasoning in an Alternative View. The IPSASB considered it important from a public interest perspective that this reasoning was exposed to stakeholders.
- BC89. In agreeing to develop ED 63 in this manner, the IPSASB confirmed its previously expressed view that the financial statements cannot satisfy all of a user's information needs on social benefits. Further information about the long-term fiscal sustainability of those schemes is required. The IPSASB considered that adoption of the guidance in RPG 1, would provide users with the information they need. Consequently, the IPSASB agreed to encourage entities to prepare general purpose financial reports that provide information on the long-term sustainability of the entity's finances.

#### *Measurement*

- BC90. In developing the CP, the IPSASB came to a preliminary view that, "under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits." The Conceptual

Framework defines the cost of fulfillment as “the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.”

BC91. The IPSASB came to this view because:

- (a) Many social benefits liabilities will arise from non-exchange transactions. There may be no consideration on which a historical cost value could be based. Historical cost can also be difficult to apply to liabilities that may vary in amount, which may be the case with some social benefits.
- (b) It is extremely unlikely that there will be a market value for social benefits.
- (c) In the context of social benefits, the cost of release is the amount that “a third party would charge to accept the transfer of the liability.” For social benefits, a transfer of the liability will rarely be practically possible.
- (d) Assumption price “is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.” This is not relevant to the measurement of social benefits under the obligating event approach. Under this approach, the liability is viewed as arising as a result of the public sector entity’s own actions.

BC92. Respondents to the CP supported this view. Consequently, the IPSASB agreed that liabilities in respect of social benefits should be measured using the cost of fulfillment.

#### *Revenue*

BC93. At the time of developing ED 63, the IPSASB had an ongoing project to review the requirements in all of its revenue standards. The IPSASB decided that social contributions (revenue in respect of a social benefit scheme) would be best addressed in that project, to ensure that all revenue is accounted for on a consistent basis.

#### *Disclosure*

BC94. The IPSASB agreed that entities should disclose information that explains the characteristics of its social benefit schemes; identifies and explains the amounts in its financial statements arising from its social benefit schemes; and quantifies and explains the future cash flows that may arise from its social benefit schemes.

BC95. The IPSASB considered whether to provide guidance on aggregating the disclosures for social benefit schemes that are not individually material. The IPSASB noted that IPSAS 1, *Presentation of Financial Statements*, contains guidance on materiality and aggregation, and concluded that no further guidance was required.

BC96. As part of the explanation of the characteristics of a social benefit scheme, the IPSASB agreed that an entity should explain how a social benefit scheme is funded. Where a scheme is funded, (whether in full or in part) by social contributions, an entity is required to provide a cross reference to the location of information on those social contributions. Although [draft] IPSAS [X] (ED 63) does not address social contributions (as explained in paragraph BC93 above), the IPSASB considers that users will need information about social contributions in order to make assessments of social benefit schemes. However, the IPSASB acknowledges that in some jurisdictions, social contributions for various social benefits may be collected by one entity, and the social benefits provided by another entity. In these circumstances, the entity that provides the social benefits would

include a cross reference to the financial statements of the entity that collects the social contributions.

- BC97. The IPSASB considered whether to require an entity to describe how its social benefit schemes may give rise to future obligations. The IPSASB decided not to require such disclosures. However, the IPSASB agreed that providing the entity's best estimate of the projected cash outflows for the next five reporting periods would provide useful information for users of the financial statements. Such information would assist users in assessing the liquidity and solvency of the entity. The IPSASB considered that a five-year period was appropriate as it would encompass the political cycle in many jurisdictions. The IPSASB also noted that IPSAS 1 permits an entity to present additional information to assist users in assessing the performance of the entity<sup>3</sup>. IPSAS 1 also requires an entity to provide additional disclosures when compliance with the specific requirements in IPSAS is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance<sup>4</sup>. Consequently, where an entity considers that, in order to understand the impact of a social benefit scheme, users will need information on cash outflows over a longer period or information on cash inflows (for example, social contributions or earmarked taxation revenue), IPSAS 1 permits or requires the disclosure of that information.
- BC98. The IPSASB considered whether the disclosure of projected cash flows should be limited to current beneficiaries. The IPSASB decided that limiting the disclosure to current beneficiaries would artificially limit the amounts disclosed. The IPSASB considered that decision makers need to take into account all future social benefits cash flows and, therefore, limiting the disclosure to current beneficiaries would not satisfy the qualitative characteristic of relevance.
- BC99. The IPSASB noted that different entities may develop their cash flow projections using various estimation approaches. Some entities may develop detailed projections using actuarial models. Other entities may develop their projections by rolling forward existing budgets, updated for inflation and limited demographic information. The IPSASB noted that, as a result, the qualitative characteristic of comparability may not be met. However, the IPSASB considered that the advantages of providing relevant, timely information outweighed the potential loss of comparability, particularly as ED 63 requires entities to disclose the key assumptions that the entity has relied on in making its best estimate of the projected cash outflows. In this context, the IPSASB noted that the disclosure of projected cash flows would supplement the information in the financial statements.
- BC100. In coming to its decision to require an entity to disclose its best estimate of projected cash outflows, the IPSASB considered the costs and benefits of providing information about future obligations. The IPSASB considered that disclosing projected cash outflows for the next five years would provide information that partially meets users' needs regarding the performance of the entity, the liquidity of the entity, the sustainability of the entity's service delivery, and the capacity of the entity to adapt to changing circumstances<sup>5</sup>. The IPSASB considered that the benefits of providing this information would outweigh the costs involved. The IPSASB noted that this disclosure would not fully satisfy users' needs, but it considered that the costs of providing additional information about the present value of all future obligations would outweigh the benefits of that additional information.

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<sup>3</sup> IPSAS 1, paragraph 25.

<sup>4</sup> IPSAS 1, paragraph 29.

<sup>5</sup> See paragraph 2.11 of the Conceptual Framework.

## Alternative View

### Alternative View of Ms. Lindy Bodewig, Mr. Sebastian Heintges and Mr. Kenji Izawa

- AV1. These members are of the opinion that prescribing a single recognition point applicable to all social benefits is inappropriate, as this approach:
- Does not reflect the economic substance of different social benefits;
  - Is not in accordance with the Conceptual Framework; and
  - Treats “being alive” as a recognition criterion instead of a measurement criterion.
- AV2. These members therefore propose that the obligating event should 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 other social benefits, a liability would be recognized at an earlier point. For example, a liability for all remaining benefits might be recognized when an individual reaches retirement age, or a liability might be accrued over time as an individual makes contributions. Preparers would determine which obligating event is most appropriate for their social benefit schemes, based on their economic substance.

*The approach set forth in ED 63 does not reflect the economic substance of different social benefits and thus does not result in information that meets the needs of financial statement users*

- AV3. These members note that IPSASB's constituents who responded to the Consultation Paper, *Recognition and Measurement of Social Benefits*, expressed substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose. Therefore, these members do not dispute that in some cases a liability in respect of social benefits should be recognized only when the eligibility criteria for receipt of the next benefit (but not with the inclusion of being alive) have been satisfied, but they dispute this for other cases.
- AV4. They consider that since social benefit schemes vary, they can give rise to differing expectations throughout the population as a whole. For example, a social benefit scheme designed to be funded by future beneficiaries (i.e., operating on a pay-as-you-go basis) will give rise to expectations at the reporting date of entitlement amongst current recipients and potential future recipients, for example, based on the fact that individuals have contributed in the past. A differently designed social benefit scheme may not give rise to equal expectations.
- AV5. These members accept that relative validity of these expectations may differ, for example expectations may be based on a legal right to receive a benefit notified to the scheme's recipients and participants, on a long running precedent, on other, or less compelling grounds. Thus they contend that the nature of the expectations in any given case must be taken into account in the determination of whether an entity has a realistic alternative to avoid an outflow of resources when recognizing a liability in relation to social benefits.
- AV6. These members therefore consider that treating all social benefits in the same manner, regardless of different economic substance, will not provide users with the information they need to assess social benefits.

- AV7. These members believe that financial statement users need relevant, faithfully representative information as to the economic substance of social benefits for their different decision making purposes, including, where relevant, assessing the intergenerational impacts of social benefits.
- AV8. For example, in respect of a state pension scheme designed to be funded on an inter-generational basis, the amount of the entity’s present obligation at the reporting date (excluding being alive as an entitlement criterion) to both current beneficiaries and participants provides useful information as to the magnitude as at the reporting date of pension payments that will need to be funded by future contributions from current and future participants.
- AV9. Not recognizing a liability at the reporting date beyond the next payment will not facilitate, for example, the reflection of changes in policy for state pensions (e.g., raising retirement age) in the amount of the liability at a subsequent reporting date. It will also give a false message to current beneficiaries and participants as well as to future contributions as to the entity’s acknowledgement of their respective entitlements.
- AV10. Furthermore, not recognizing an obligation at the reporting date beyond the next payment does not reflect the economic substance of contributory schemes. Contributions will be shown as revenue when paid by the participant, whereas the part of the benefit that is earned with this payment will not be shown at this point in time as obligation, but only (probably years later) when the payment is made to the then beneficiary, respectively the former participant.

*The approach set forth in ED 63 is not in accordance with the IPSASB’s Conceptual Framework*

- AV11. In their view the approach in ED 63 will not achieve the qualitative characteristics: relevance, faithful representation, understandability or comparability.
- AV12. These members also consider that reflecting the economic substance of a social benefit is necessary to meet the qualitative characteristic of comparability, which the Conceptual Framework defines as “the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena.” Therefore, these members refute their fellow board members’ argument of inconsistent application, as explained in ED 63 paragraph BC85. In contrast these members content that if the economic substance of the social benefit differs amongst schemes and jurisdictions, those differences should be reflected in the financial statements accounting for social benefits. This is consistent application of accounting principles to different economic phenomena resulting in different accounting outcomes.
- AV13. Consequently, these members consider that, for some social benefits, it is appropriate to recognize a liability that exceeds the amount of benefit until the next point at which eligibility criteria are required to be satisfied. They note that paragraph 8.15 of the IPSASB’s Conceptual Framework’s explains that disclosure (in the notes accompanying the financial statements) is not a substitute for display (on the face of a financial statement).
- AV14. They point out that the IPSASB’s Conceptual Framework states the following:

5.14. A liability is: A present obligation of the entity for an outflow of resources that results from a past event.

5.15. Public sector entities can have a number of obligations. A present obligation is a **legally binding obligation** (legal obligation) or **non-legally binding obligation**, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless



they are binding and there is little or no realistic alternative to avoid an outflow of resources.

- 5.20. ...For some types of non-exchange transactions, judgement will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law, there can be no doubt that an entity has no realistic alternative to avoid the obligation and a liability exists.
- 5.25. The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgements whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid an outflow of resources include:
- The nature of the past event or events that give rise to the obligation...
  - The ability of the entity to modify or change the obligation before it crystallizes...
  - There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation....
- 5.26. "Economic coercion", "political necessity" or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur an outflow of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation."

AV15. They contend that in accordance with the IPSASB's Conceptual Framework, in some cases a liability may arise from a key participatory event that occurs prior to the eligibility criteria for the next benefit having been satisfied. This may be the case, for example, in respect of certain contributory social benefit schemes, or where there is a legally binding present obligation.

*The criterion "being alive" is not a recognition criterion, but a measurement criterion*

AV16. These members do not consider 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 recognition of an entity's present obligation in respect of all social benefits.

AV17. They note that whilst it cannot be certain that a specific individual who meets the eligibility criteria at the reporting date will be alive at the point in time the next provision of social benefit is due, it is reasonable to assume that a given number of individual beneficiaries (measurable) will be alive into the future and therefore the entity can have a binding present obligation at the reporting date in respect of provision of the social benefit beyond the next due installment of the social benefit.

AV18. They do not believe that there is a social benefit-specific imperative to treat "being alive" differently in comparison to its treatment in regard to other economic phenomena such as a pension payable as a post-employment benefit to public sector employees pursuant to IPSAS 25 (IPSAS 39). Where applicable, reference to e.g., mortality statistics etc. can equally be made in measuring liabilities for social benefits.

AV19. These members consider that the inclusion of being alive as a recognition criterion resulting in a present obligation for only the next due benefit for all social benefits, would distort the recognition of entity's present obligation in relation to social benefits e.g., pension schemes, since in many

cases it would result in recognition of a liability for only the provision of the next social benefit. Such an approach fails to recognize the valid expectation of longevity in a given recipient population and cannot provide relevant information about social benefit schemes.

- AV20. In their view, being alive is therefore a criterion to be taken into account in the measurement of social benefit liabilities. In this context, they also note that the material in ED 63 in regard to measurement may need further consideration in order to include being alive as a measurement criterion.
- AV21. The definition of a liability in the Conceptual Framework requires that an item can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in general purpose financial reports. These members consider that recognizing that accounting estimates are subject to inherent estimation uncertainty; this requirement can usually be met when recognizing liabilities existing at the reporting date for future payments for appropriate social benefits. Uncertainties as to the actual amount likely to be settled at a future date or the ability of the entity to settle would be reflected in the measurement of the liability. Uncertainties such as how many recipients will reach which age before dying are dealt with by reference to mortality statistics etc.

*The disclosures proposed in ED 63*

- AV22. These members believe that the proposed disclosures in ED 63 similarly will not provide sufficient information to meet users' needs (see AV1–AV10). They do not consider that restricting the disclosure of future payments for the immediate next few years can provide a view of the impact of social benefits in line with the qualitative characteristics (see AV11–AV15).
- AV23. In their view, relevant information for disclosure will need to be determined during the IPSASB's ongoing project in relation to revenue. In particular for contributory social benefit schemes, disclosure of future expectations as to contributions from social benefit scheme participants might provide useful information in regard to a liability recognized for that scheme.

## Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 63)

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of [draft] IPSAS [X] (ED 63).

### Scope of [draft] IPSAS [X] (ED 63)

IG2. The following diagram illustrates the scope of [draft] IPSAS [X] (ED 63) and the boundaries between social benefits and other transactions.

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

Scope of Social Benefits in GFS

**Recognition and Measurement of Liabilities and Expenses in [draft] IPSAS [X] (ED 63)**

- IG3. **Where a retirement pension is paid monthly in arrears, how will the liability at the reporting date be the same as the amount paid in the following month?**
- IG4. The liability at the reporting date is unlikely to be exactly the same as the amount paid the following month. The extent of the difference will depend on the circumstances of the retirement benefit. Factors that will affect the extent of the difference include the following:
- (a) Timing differences. The payment in the month following the reporting date may include payments that do not form part of the liability at that reporting date. For example, an entity prepares its financial statements as at December 31. If retirement benefits are paid on the 15<sup>th</sup> of each month, the payment made on January 15 may include payments made to individuals who reached retirement age between January 1 and January 15. The payments to these individuals will not form part of the liability as at December 31, because, at that date, those individuals had not met the eligibility criteria for the retirement pension.
  - (b) Incomplete information. The information which is used to calculate payments may be incomplete, and consequently the payment in the following month may not exactly match the liability at the reporting date. For example, payments are usually calculated a number of days prior to the payment being made. Changes in circumstances notified after that date are not reflected in the payment, but are adjusted in subsequent periods.
- IG5. In considering the liability to be recognized as at the reporting date, entities may find it helpful to refer to the discussion of materiality in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.
- IG6. **How do breaks in meeting the eligibility criteria for a social benefit scheme affect the recognition and measurement of the liability?**
- IG7. For social benefit schemes that have ongoing eligibility criteria in addition to being alive, an individual may alternate between periods when they meet the eligibility criteria for the social benefit, and periods when they do not meet those eligibility criteria. In these circumstances, each instance of an individual satisfying the eligibility criteria is recognized and measured separately.
- IG8. For example, an entity prepares its financial statements as at December 31. As at that date, an individual was unemployed, and eligible to receive unemployment benefits. Consequently, the entity has a present obligation to the individual at the reporting date. The individual finds temporary employment on January 10 and ceases to be eligible for the unemployment benefits. This employment ends on January 24, when the individual once more becomes eligible for unemployment benefits. Only the first period of unemployment would be included in the liability at the reporting date, as the eligibility criteria for the subsequent period were not satisfied until after that reporting date.

## Illustrative Examples

*These examples accompany, but are not part of, [draft] IPSAS [X] (ED 63)*

### Scope and Definitions

*Illustrating the Consequences of Applying Paragraphs 4–6 and AG1–AG10 of [draft] IPSAS [X] (ED 63)*

IE1. The following scenarios illustrate the process for determining whether a transaction is within the scope of [draft] IPSAS [X] (ED 63). These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying [draft] IPSAS [X] (ED 63).

#### *Example 1—Provision of Retirement Benefits to Government Employees*

IE2. Employees of Province A are entitled, under the terms of their employment contracts, to retirement benefits once they reach the age of 65. The employees are required to contribute a percentage of their salary while they are employed. The retirement benefits provided are based on the final salary of the employees, and their length of service.

IE3. The retirement benefits are provided to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that the employees have sufficient income once they reach retirement age. The retirement benefits are not universally accessible services.

IE4. However, the retirement benefits do not address the needs of society as a whole, as they are only available to former employees of Province A. The retirement benefits are paid as compensation for employment services rendered. It follows that the retirement benefits do not meet all the elements of the definition of a social benefit. Consequently, the retirement benefits are outside the scope of [draft] IPSAS [X] (ED 63).

#### *Example 2—Provision of State Retirement Pension*

IE5. Government B pays a minimum state retirement pension to all citizens and residents who have reached the retirement age of 65. The state retirement pension is governed by legislation. Individuals are required to make contributions during their working life, based on their salary. However, the state retirement pension pays the same amount to each retiree regardless of the contributions made.

IE6. The retirement benefits are provided to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income once they reach retirement age.

IE7. The retirement benefits address the needs of society as a whole. Paragraph AG5 of [draft] IPSAS [X] (ED 63) notes that the “assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met.”

IE8. The state retirement pension does not meet the definition of universally accessible services. Consequently, the state retirement pension is within the scope of [draft] IPSAS [X] (ED 63).

*Example 3—Provision of Universal Healthcare Services*

- IE9. Government C provides basic healthcare services to all its citizens, and to other individuals who meet residency requirements. The healthcare services are provided free at the point of delivery.
- IE10. The healthcare services are provided to specific individuals who meet eligibility criteria. The healthcare services are intended to mitigate social risks, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by ill health. In doing so, they address the needs of society as a whole.
- IE11. However, the healthcare services meet the definition of universally accessible services, in that they are made available by Government C for all individuals and/or households to access, and the eligibility criteria relate to citizenship or residency, not to social risk. Consequently, the healthcare services are outside the scope of [draft] IPSAS [X] (ED 63).

*Example 4—Provision of Disability Pensions*

- IE12. State Government D pays disability pensions to individuals who have a permanent disability that prevents them from working, regardless of their age. A disability pension is only payable after a medical examiner certifies that the disability is permanent, and that the disability will prevent the individual affected from undertaking paid employment. The level of disability pension is dependent on the individual, and is intended to cover basic needs and to allow the individual to pay for an appropriate level of care.
- IE13. The disability pensions are provided to specific individuals who meet eligibility criteria. The disability pensions are intended to mitigate the social risk of ill health, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by disability. In doing so, they address the needs of society as a whole.
- IE14. The disability pensions do not meet the definition of universally accessible services. Consequently, the disability pensions are within the scope of [draft] IPSAS [X] (ED 63).

*Example 5—Provision of Unemployment Benefits*

- IE15. Province E pays unemployment benefits to individuals who are resident in the province and who become unemployed. The unemployment benefits are payable for a maximum of one year, and there is a two week 'waiting period' before the unemployment benefits are payable.
- IE16. The unemployment benefits are provided to specific individuals who meet eligibility criteria. The unemployment benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income during periods of unemployment. In doing so, they address the needs of society as a whole.
- IE17. The unemployment benefits do not meet the definition of universally accessible services. Consequently, the unemployment benefits are within the scope of [draft] IPSAS [X] (ED 63).

*Example 6—Provision of Disaster Relief*

- IE18. Following an earthquake that has caused significant damage in a region, Government F provides disaster relief to assist with reconstruction and with providing services such as temporary housing to those affected by the earthquake.

- IE19. Some costs will relate to providing benefits to specific individuals who meet eligibility criteria. Other costs will relate to the provision of assets and services that are universally accessible, for example the reconstruction of roads damaged by the earthquake.
- IE20. However, the disaster relief does not mitigate the effects of social risks, but instead mitigates the effects of a geographical risk – the risk of earthquake. Paragraph AG10 of [draft] IPSAS [X] (ED 63) explains that risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks. Consequently, the disaster relief is outside the scope of [draft] IPSAS [X] (ED 63).

*Example 7–Provision of Defense Services*

- IE21. Government G maintains an army, navy and air force to provide defense for the country.
- IE22. These defense services are not provided to specific individuals who meet eligibility criteria, but instead are collective services, in that:
- (a) They are delivered simultaneously to each member of the community or section of the community; and
  - (b) Individuals cannot be excluded from the benefits of collective goods and services.
- IE23. Consequently, the provision of defense services is outside the scope of [draft] IPSAS [X] (ED 63).

**Obligating Event Approach: Recognition and Measurement**

*Illustrating the Consequences of Applying Paragraphs 13–28 and AG16–AG22 of [draft] IPSAS [X] (ED 63)*

*Example 8*

- IE24. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.
- IE25. Government H provides a retirement pension to its citizens and permanent residents. The scheme pays a fixed amount of CU250 per month to each individual who has reached the retirement age of 65. Amounts are paid in full to those individuals who satisfied the eligibility criteria in full at the end of the previous month.
- IE26. Government H prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.
- IE27. As at December 31, 20X1, Government H recognized a liability for retirement pensions of CU1,950,500. During 20X2, Government H paid retirement pensions as follows:

<b>Month(s)</b>	<b>Pensions Paid (CU)</b>
January 20X2	1,950,500
February - December 20X2	22,258,000
Total	24,208,500

- IE28. During January 20X3, Government H pays retirement pensions totaling CU2,095,750.

- IE29. As at December 31, 20X2, Government H recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Consequently, Government H recognizes a liability of CU2,095,750, the full amount of the retirement pensions paid in January.
- IE30. During 20X2, the total amount recognized as an expense is CU24,353,750. The breakdown of this amount is as follows:

	<b>CU</b>
Pensions paid in February 20X2 (recognized in January 20X2) to December 20X2 (recognized in November 20X2)	22,258,000
Pensions paid in January 20X3 (recognized in December 20X2)	2,095,750
<b>Total</b>	<u>24,353,750</u>

- IE31. The movement in the liability during 20X2 can be summarized as follows:

	<b>CU</b>
Liability as at January 1, 20X2	1,950,500
Total expense recognized in 20X2	24,353,750
Total liabilities settled/benefits paid in 20X2	<u>(24,208,500)</u>
Liability as at December 31, 20X2	2,095,750

*Example 9*

- IE32. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.
- IE33. Government I provides a retirement pension to its citizens and permanent residents. The scheme pays a fixed amount of CU100 per month (in arrears) to each individual who has reached the retirement age of 70. Amounts are pro-rated in the months in which an individual reaches the retirement age, and in the months in which an individual dies.
- IE34. Government I prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.
- IE35. As at December 31, 20X7, Government I recognized a liability for retirement pensions of CU2,990,656. During 20X8, Government I paid retirement pensions as follows:

<b>Month(s)</b>	<b>Pensions Paid (CU)</b>
January 20X8	3,024,997
February - December 20X8	33,435,183
<b>Total</b>	<u>36,460,180</u>

- IE36. In this example, it is assumed that Government I has complete information at the date it pays retirement pensions. Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the



pro-rated retirement pensions paid to those who reached retirement age during January 20X8 (CU34,341).

- IE37. During January 20X9, Government I pays retirement pensions totaling CU3,053,576. There are three elements to this payment:

	<b>CU</b>
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	<u>37,556</u>
<b>Total</b>	<b>3,053,576</b>

- IE38. As at December 31, 20X8, Government I recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 20X8 financial statements are issued after the January 20X9 retirement pensions have been paid, Government I uses the information available at that time to prepare its financial statements.

- IE39. Consequently, Government I recognizes a liability of CU3,016,020. This includes the full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions paid to those pensioners eligible at December 31 who died during January 20X9 (CU36,420). The liability does not include the pro-rated pensions paid to those who reached retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.

- IE40. During 20X8, the total amount recognized as an expense is CU36,485,544. The breakdown of this amount is as follows:

	<b>CU</b>
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid in February 20X8 (recognized in January 20X8) to December 20X8 (recognized in November 20X8)	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31 who died during January 20X9 (recognized in December 20X8)	<u>36,420</u>
<b>Total</b>	<b>36,485,544</b>

IE41. The movement in the liability during 20X8 can be summarized as follows:

	<b>CU</b>
Liability as at January 1, 20X8	2,990,656
Total expense recognized in 20X8	36,485,544
Total liabilities settled/benefits paid in 20X8	<u>(36,460,180)</u>
Liability as at December 31, 20X8	3,016,020

*Example 10*

IE42. The following example illustrates the process for recognizing and measuring the liability and expense for an unemployment pension. This example is not based on actual transactions.

IE43. State Government J provides unemployment benefits to its citizens and permanent residents. The scheme pays monthly amounts of 50% of an individual's previous salary, to a maximum of CU500 per month (in arrears). Unemployment benefits are payable for a maximum of eighteen months. To be eligible to receive benefits, an individual must have been in paid employment in the State for at least 100 days in the past twelve months. Eligibility commences fourteen days after the individual last worked. Amounts are pro-rated in the months in which an individual first meets the eligibility criteria, and in the months in which an individual's eligibility comes to an end (finding paid employment, becoming self-employed, expiry of the eighteen month maximum period, moving out of the State or dying).

IE44. State Government J prepares its financial statements as at June 30. Unemployment benefits are paid on the 15<sup>th</sup> day of each month.

IE45. As at June 30, 20X1, State Government J recognized a liability for unemployment benefits of CU125,067. During the financial year July 1, 20X1–June 30, 20X2, State Government J paid unemployment benefits as follows:

<b>Month</b>	<b>Unemployment Benefits Paid (CU)</b>
July 20X1	129,745
August 20X1 – June 20X2	<u>1,582,131</u>
Total	1,711,876

IE46. In this example, it is assumed that State Government J has complete information at the date it pays unemployment benefits. Consequently, the difference between the amount paid on July 15, 20X1 (CU129,745) and the liability recognized as at June 30 20X1 (CU125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between July 1, 20X1 and July 15, 20X1 (CU4,678).

IE47. On July 15, 20X2, State Government J pays unemployment benefits totaling CU132,952. There are four elements to this payment:

**CU**

Unemployment benefits paid to unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits paid to those unemployed persons eligible at June 15 20X2 whose eligibility had come to an end by July 15, 20X2	9,975
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between July 1, 20X2 and July 15, 20X2	4,812
<b>Total</b>	<b>132,952</b>

- IE48. As at June 30, 20X2, State Government J recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. Because its July 20X1–June 20X2 financial statements are issued after the July 20X2 unemployment benefits have been paid, State Government J uses the information available at that time to prepare its financial statements.
- IE49. Consequently, State Government J recognizes a liability of CU128,140. This includes:
- (a) The unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2 (CU113,120);
  - (b) The pro-rated unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 whose eligibility had come to an end by July 15, 20X2 (CU9,975); and
  - (c) The pro-rated unemployment benefits paid to those unemployed persons who became eligible who became eligible between June 15, 20X2 and June 30, 20X2 (CU5,045).
- IE50. The liability does not include the pro-rated unemployment benefits paid to those who became eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.
- IE51. During the financial year July 1, 20X1–June 30, 20X2, the total amount recognized as an expense is CU1,714,949. The breakdown of this amount is as follows:

	<b>CU('000)</b>
Pro-rated unemployment benefits paid in July 20X1 to those who became eligible between July 1, 20X1 and July 15, 20X1 (recognized in July 20X1)	4,678
Unemployment benefits paid in between August 20X1 and June 20X2 and recognized in the financial year July 1, 20X1–June 30, 20X2	1,582,131
Unemployment benefits paid in July 20X2 to unemployed persons eligible at June 15, 20X2, both those remaining eligible and those whose eligibility had come to an end by July 15, 20X2; and those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (recognized in June 20X2)	128,140
	<b>1,714,949</b>

IE52. The movement in the liability during the financial year July 1, 20X1–June 30, 20X2 can be summarized as follows:

	<b>CU</b>
Liability as at July 1, 20X1	125,067
Total expense recognized in year	1,714,949
Total liabilities settled/benefits paid in year	<u>(1,711,876)</u>
Liability as at June 30, 20X2	128,140

### **Obligating Event Approach: Disclosure**

*Illustrating the consequences of applying paragraphs 29–34 of [draft] IPSAS [X] (ED 63)*

*Explanation of Amounts in the Financial Statements*

#### *Example 11*

IE53. The following example illustrates some of the disclosure requirements that explain the amounts in the financial statements; it is not based on actual transactions. The example assumes that the Government K provides unemployment benefits and employment injury benefits.

#### **Paragraph reference**

33

#### **Amounts Recognized in the Statement of Financial Position as at December 31, 20X4 and Statement of Financial Performance for 20X4**

	<b>Unemployment Benefits CU (,000)</b>	<b>Employment Injury Benefits CU (,000)</b>
Balance as at December 31, 20X3	16,675	3,098
Liabilities and expenses recognized during 20X4	213,704	41,355
Liabilities settled during 20X4	<u>(212,456)</u>	<u>(40,992)</u>
Balance as at December 31, 20X4	17,923	3,461

#### *Example 12*

IE54. The following example illustrates some of the disclosure requirements that explain the amounts in the financial statements; it is not based on actual transactions. The example assumes that the Agency L provides retirement pensions.

**Paragraph  
reference**

33

**Retirement Pension Amounts Recognized in the  
Statement of Financial Position as at December 31, 20X6 and  
Statement of Financial Performance for 20X6**

	<b>CU (,000)</b>
Balance as at December 31, 20X5	122,371
Liabilities recognized in 20X6	1,537,228
Liabilities settled in 20X6	(1,523,919)
Balance as at December 31, 20X6	135,680

*Explanation of Future Cash Flows that May Arise from an Entity's Social Benefit Schemes*

*Example 13*

IE55. The following example illustrates some of the disclosure requirements that explain future cash flows that may arise from an entity's social benefit schemes; it is not based on actual transactions. The example assumes that Agency M provides unemployment benefits and retirement benefits.

**Paragraph  
reference**

34(a)

**Expected Cash Outflows during the Years Ending  
December 31, 20X5 - December 31, 20X9**

Agency M estimates that the undiscounted cash outflows in respect of its social benefit schemes will be as follows:

<b>Year Ending</b>	<b>Unemployment Benefits CU (,000)</b>	<b>Retirement Benefits CU (,000)</b>	<b>Total CU (,000)</b>
December 31, 20X5	413,400	2,445,900	2,859,300
December 31, 20X6	415,700	2,507,100	2,922,800
December 31, 20X7	416,800	2,571,900	2,988,700
December 31, 20X8	418,100	2,640,500	3,058,600
December 31, 20X9	420,000	2,705,000	3,125,000
<b>Total projected cash outflows in the next five years</b>	<b>2,084,000</b>	<b>12,870,400</b>	<b>14,954,400</b>

**Paragraph  
reference**

34(b)

**Key Assumptions**

Agency M has based its estimates of the undiscounted cash outflows in respect of its unemployment benefit scheme on the following key assumptions:

Unemployment rate 20X5	6.4%
Unemployment rate 20X6	6.4%
Unemployment rate 20X7	6.3%
Unemployment rate 20X8	6.3%
Unemployment rate 20X9	6.2%
Inflation	2.5% per annum

Agency M has based its estimates of the undiscounted cash outflows in respect of its retirement benefit scheme on the following key assumptions:

Life expectancy at age 70 – Male	15.9 years
Life expectancy at age 70 – Female	17.6 years
Inflation	2.5% per annum

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