



**Australian Government**  
**Australian Accounting  
Standards Board**

AASB 23 March 2018  
AGENDA PAPER 8.1 (M163)

---

Postal Address  
PO Box 204  
Collins Street West VIC 8007  
Telephone: (03) 9617 7600

---

DRAFT

[date]

Mr John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto  
Ontario M5V 3H2  
CANADA  
Submitted to: [www.ifac.org](http://www.ifac.org)

Dear John

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

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on Exposure Draft 63 *Social Benefits* (ED 63).

Overall, the AASB supports the Alternative View in ED 63. However, we have some concerns about the recognition of a potentially large liability without also recognising in some way the right to tax that would contribute to funding the liability. Our concerns and alternative suggestions are explained in the Appendix to this letter. The Appendix also includes the AASB's comments on the specific questions in ED 63.

ED 63 was issued by the AASB as an Invitation to Comment ITC 38 *Request for Comment on IPSASB Exposure Draft Social Benefits* (November 2017). The AASB received two submissions, which are available on the AASB's website.<sup>1</sup>

If you have any questions regarding this letter, please do not hesitate to contact Janri Pretorius ([jpretorius@asb.gov.au](mailto:jpretorius@asb.gov.au)).

Yours sincerely,

Kris Peach  
*Chair*

---

<sup>1</sup> <http://www.aasb.gov.au/Work-In-Progress/Open-for-comment.aspx?id=2118>

## APPENDIX

### AASB's responses to the Specific Matters for Comment for Respondents to ED 63

The AASB's views on the specific matters for comment in ED 63 are as follows:

#### **Specific Matter for Comment 1:**

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

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

The AASB does not agree with the exclusion of universally accessible services from the scope of ED 63.

Some social benefit schemes appear to be similar in nature whether they are universally accessible or not. Therefore, a consistent accounting approach for liability and expense recognition would be appropriate where such transactions have similar characteristics. It might be more appropriate to address the accounting for social benefits, universally accessible services and collective services in a single project to mitigate the creation of diverse accounting treatments for similar transactions.

In addition, Australian Government Finance Statistics (GFS) places more emphasis on the nature of a transaction and the sector of the recipient as opposed to the eligibility criteria versus universally accessible services distinction. An example of this is Medicare, which provides universal access to healthcare services in Australia. There is a set of eligibility criteria but it is broad and covers all people normally resident in Australia. Payment for services on the Medicare benefit schedule is classified as a social benefit to households in goods and services under GFS. In this case, the exclusion of universally accessible services would not necessarily be consistent with GFS.

We acknowledge the IPSASB decided to adopt a narrower definition of social benefits (as opposed to a broader set of terms) in order to efficiently progress both the social benefits project and the non-exchange expenses project. By essentially limiting the scope of the social benefits project and addressing the broader scope later on, there is a risk of inconsistent accounting treatments leading to diversity. We acknowledge that some government entities may choose to apply the 'narrow scope' social benefits accounting to other items by analogy, such as to universally accessible services. But this would require bona fides on the part of the preparer and might not result in comparable accounting across entities. Consequently, we think the adoption of the broader scope is appropriate.

#### **Specific Matter for Comment 2:**

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

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

The AASB does not agree with the proposed definitions of ‘social benefits’ and ‘social risks’. We sought to test the definitions by applying them to a range of Australian benefits. They appeared difficult to apply in practice and we are concerned that this may lead to diverse outcomes. This might also create an artificial boundary between arrangements that may be economically similar in substance.

As noted in the response to SMC 1, the AASB supports expanding the scope of ED 63 by including universally accessible services and collective services. If the scope of ED 63 were to change, we do not think that the definition of “social risk” would be required.

**Specific Matter for Comment 3:**

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

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

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

The AASB is of the view that the insurance approach should be mandatory for social benefit schemes that are similar to insurance (ie ‘insurance-like’) and that are managed in the same way as insurance schemes.

The insurance approach would be consistent with the AASB Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* (November 2017). The Discussion Paper addresses the issue of whether AASB 17 *Insurance Contracts* would appropriately capture all schemes with economically similar insurance risk once it is applicable to public sector entities, so that such insurance risk is appropriately reflected in the financial statements of public sector entities. The AASB is proposing in its Discussion Paper that the scope of AASB 17 be expanded to include ‘insurance-like’ arrangements that are created by statute, in addition to contractual arrangements. Additional guidance on determining whether an arrangement is insurance-like is proposed to be added to AASB 17.

The AASB is also of the view that the IPSASB should consider requiring the application of either an appropriate insurance Standard or IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* to social benefits that are similar to insurance. If IPSAS 19 is applied, it is recommended that the disclosures required by IPSAS 19 should be mandatory.

Responses to the specific questions:

- a) the insurance approach should be mandatory for social benefit schemes that are managed in the same way as insurance schemes;

- b) the criteria are not appropriate as the IPSASB Conceptual Framework definition of a liability does not depend on the way a liability is funded (refer paragraph 5.25), and economically similar transactions may be accounted for differently under the proposed criteria, depending on their funding arrangements;
- c) directing preparers to use IFRS 17 or national equivalent is appropriate; and
- d) we agree that the additional disclosures required by paragraph 12 are appropriate.

**Specific Matter for Comment 4:**

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

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

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

The AASB generally supports the Alternative View presented in ED 63 (which would reflect a liability when the obligation arises), rather than the Obligating Event approach (which would reflect a liability only when all eligibility criteria, including staying alive, are met). The AASB believes the term ‘obligating event approach’ can be quite misleading because, in our view, the event that gives rise to an obligation for the entity can occur much earlier than when ED 63 identifies it, based on its condition of all of the eligibility criteria being met. The AASB also notes that the Alternative View may in some cases lead to a different outcome compared to GFS, as GFS recognises the social benefit expense only when payment of the next social benefit is due.

However, the AASB acknowledges practical concerns in recognising a potentially large liability, without also recognising the right to tax as an asset that would contribute to funding the liability. The AASB considered possible ways of extending the obligating event approach by recognising the related asset, in order to provide more useful information in the financial statements. As a result, we put forward a range of possible recognition points summarised in the table below.

The table below contains four scenarios intended to provide a range of possibilities for the recognition and measurement of the liability and the related asset. The underlying illustrative example referred to throughout the table is an age pension paid to citizens of a country who are 65 years or older *and* have passed a prescribed periodic means test under current legislation. A mandatory financial sustainability report is included in all scenarios to provide users with more complete information needed for decision-making purposes that satisfies the qualitative characteristics of general purpose financial statements.

We believe that Option 3 is the best approach of the options presented in the table.

LIABILITY	ASSET	MANDATORY SUSTAINABILITY REPORT
<p><u>Option 1</u></p> <ul style="list-style-type: none"> <li>• Current liability for the next 12 months</li> <li>• Past event is the threshold, eg all citizens who are 65 years of age or older (irrespective of whether the means test has been passed)</li> <li>• Measured as age pension payments expected to be made for the following 12 months for all citizens 65 years of age and older at reporting date</li> </ul>	<p><u>Option 1</u></p> <ul style="list-style-type: none"> <li>• Asset is the <i>right</i> to future tax income/receipts</li> <li>• Measured at <i>nil</i></li> </ul>	<p><u>Option 1</u></p> <ul style="list-style-type: none"> <li>• Past event is the legislation establishing both the age pension benefit payments and the future income tax receipts</li> <li>• All expected cash flows are included, ie both inflows and outflows</li> </ul>
<p><u>Option 2</u></p> <p>Same as Option 1</p>	<p><u>Option 2</u></p> <ul style="list-style-type: none"> <li>• Asset is the <i>right</i> to future tax income/receipts – recognition only of the current asset for the next 12 months</li> <li>• Past event is the legislation establishing income tax payable by taxpayers</li> <li>• Measured as the estimated tax income/receipts from all taxpayers at reporting date for the next 12 months</li> </ul>	<p><u>Option 2</u></p> <p>Same as Option 1</p>
<p><u>Option 3</u></p> <ul style="list-style-type: none"> <li>• Current liability for the next 12 months</li> <li>• Past event is the legislation establishing the age pension social benefits</li> <li>• Measured as age pension payments expected to be made for all citizens who are 65 years or older at reporting date, as well as all citizens <i>expected</i> to turn 65 during the next 12 months</li> </ul>	<p><u>Option 3</u></p> <ul style="list-style-type: none"> <li>• Asset is the <i>right</i> to future tax income/receipts – recognition only of the current asset for the next 12 months</li> <li>• Past event is the legislation establishing income tax payable by taxpayers</li> <li>• Measured as the estimated tax income/receipts from taxpayers at reporting date and those expected to become taxpayers during the 12 months</li> </ul>	<p><u>Option 3</u></p> <p>Same as Option 1</p>
<p><u>Option 4</u></p> <ul style="list-style-type: none"> <li>• Current liability – same basis as in ED 63</li> <li>• Past event is the eligibility criteria have been met, eg all citizens who are 65 years or older <i>and</i> have successfully passed the means test at the most recent assessment date</li> <li>• Measured as expected age pension payments that would be made for all <i>eligible</i> beneficiaries up to the next eligibility assessment date</li> </ul>	<p><u>Option 4</u></p> <ul style="list-style-type: none"> <li>• Asset is the <i>right</i> to future tax income/receipts – recognition only of the current asset for the next 12 months</li> <li>• Measured as the estimated tax income/receipts from existing taxpayers relating to the period up to the next age pension eligibility assessment date. The asset’s measurement is limited to the same period as that of the liability.</li> </ul>	<p><u>Option 4</u></p> <p>Same as Option 1</p>

### *The Liability*

When formulating these options, we have looked beyond the next eligibility assessment date as the basis for the liability. Our underlying view is that the liability is conceptually a very large amount, because it is potentially everyone alive at the reporting date that is expected to be eligible for the benefit in the future, based on current actuarial assumptions. The AASB does not believe the recognition of the full conceptual liability is appropriate as it is not likely to constitute useful information: the underlying assumptions would be very uncertain and subject to significant estimation, and the total liability could be out of scale in comparison with other liabilities. Consequently, a departure from the Conceptual Framework might be warranted in accounting for the liability, resulting in a narrower measure of the liability.

In the AASB's view, the basis for the liability as set out in ED 63 (the expected payments up to the next eligibility assessment date) is too narrow. This basis is set out in the table in Option 4, to facilitate comparison with the other options.

Option 1 in the table presents a broader current liability measure than that in Option 4. The approach in Option 1 (which is duplicated in Option 2) views the obligating event as a citizen reaching the age pension threshold of 65 years of age. The liability therefore would be measured as the expected age pension payments in the next 12 months to those citizens who were aged at least 65 years at the reporting date. Satisfying the means test is reflected in the measurement of the liability, not when the liability could be recognised.

Option 3 extends the basis for the current liability a little further than under Options 1 and 2. Option 3 does this by treating the pension legislation as the obligating event. Under this approach, the liability would be measured as the expected age pension payments in the next 12 months, which would therefore relate to citizens aged at least 65 years at the reporting date, but also to citizens aged between 64 and 65 at the reporting date, since they would become 65 (and potentially eligible for pension payments) within the next 12 months. As with Option 1, satisfying the means test is reflected in the measurement of the liability, not when the liability could be recognised.

Option 3 would therefore result in a liability that is broader than under the approach set out in ED 63, but still much narrower than a liability based on citizens alive at the reporting date. Option 3 presents a better view of the current liability for the age pension, but does ignore the non-current liability as a pragmatic response to the difficulties of measurement and scale noted above. It is difficult to find a basis for recognising some portion of the non-current liability, instead of none or all of the potential non-current liability.

The statement of financial position could usefully reflect the current liability in order to support assessments of the short-term liquidity and solvency of the entity providing the age pension. However, the long-term position might be best presented in sustainability reports, incorporated into the financial statements.

### *The Asset*

The AASB disagrees with the IPSASB's position in ED 63 paragraph BC13 that the future taxation income used to fund social benefits cannot be recognised as an asset because the

entity does not currently control those resources. As stated in paragraph 6 of the Preface to the IPSASB Conceptual Framework, “taxation is a legally mandated, compulsory non-exchange transaction between individuals or entities and the government.” Furthermore, existing tax legislation gives governments the sovereign power to tax individuals and entities. Consequently, the government has a **right** to receive the future tax income and this right should be recognised on the statement of financial position as an asset. This view is in line with the first view expressed in paragraph BC5.18 of the Conceptual Framework. The nature of the asset is more akin to an intangible asset, but it is a recognisable asset nonetheless. The important question to consider then becomes whether the measurement should be restricted or aligned in some way so as to provide the most useful information.

As the options in the table are limited to recognising a current liability, it is appropriate to also limit the options to recognising a current asset, to facilitate assessment of the short-term liquidity and solvency of the entity.

Options 1-3 follow a progressive approach for the various recognition and measurement options for the current asset in the table. Option 1 starts with the smallest asset possible, ie measured at nil. Under Option 2, an asset would be recognised, and measured as the estimated tax income from all existing taxpayers at the reporting date for the next twelve months. This basis is then broadened under Option 3 by measuring the current asset as the estimated tax income from existing taxpayers at the reporting date as well as from those expected to become taxpayers during the next twelve months. The final option is an asset basis aligned to the liability as illustrated in Option 4, and thus limited to tax income relating to the period to the next eligibility assessment date for the age pension. This could be a very difficult estimation.

Consequently, the AASB’s preference is for the current asset recognition and measurement basis as set out in Option 3. Again, recognition of this current asset in the statement of financial position would facilitate liquidity and solvency assessments, and the long-term position could be presented in sustainability reports, incorporated into the financial statements.

#### *Executory Contracts*

It is also important to consider the existence of executory contracts. Consider an example where an unemployed (yet physically able) person is required to perform certain public service duties (eg removing refuse in parklands) for the government while they are unemployed, in exchange for receiving unemployment benefit payments.

This situation is different from the scenarios illustrated in the table above. In this case, the government has both a liability (ie the payment of the unemployment benefit) and an asset (ie future services the government is going to receive in the form of work performed; this is *different* to the right to future income tax asset). This initially constitutes an executory contract, because the arrangement is equally proportionately unperformed by both parties. An offsetting asset exists along with the liability, but the traditional approach is not to recognise either the asset or the liability in this case.

**Specific Matter for Comment 5:**

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

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

If not, what disclosure requirements should be included?

The AASB agrees the disclosures in paragraphs 31 through 34 are useful. The AASB also supports mandatory disclosures of the long-term impact and sustainability of social benefits as an integral part of a public sector entity's financial statements.

**Specific Matter for Comment 6:**

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

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

**Advantages**

- Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.
- This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognised in the financial statements.
- Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.
- Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.



**Disadvantages**

- The extent and nature of an entity’s long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.
- The nature of the information required for reporting on the long-term sustainability of an entity’s finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.
- Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.
- RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

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

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

As noted in the response to SMC 5, the AASB supports mandatory disclosures of the long-term impact and sustainability of social benefits as an integral part of a public sector entity’s financial statements.

The AASB is of the view that the most useful and comprehensive disclosure would be the combined presentation of projected cash outflows for social benefit schemes and projected cash inflows. This would enable users of the financial statements to gain a better understanding of the government’s social benefit schemes, including assessing their long-term sustainability, such as the government’s estimated financial position at selected points in the future and potential fiscal challenges.