



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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**Agenda Item  
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**DATE:** 2 March 2007  
**MEMO TO:** Members of the IPSASB  
**FROM:** John Stanford  
**SUBJECT:** ED – Social Benefits: Disclosure and Presentation

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**OBJECTIVE OF THIS SESSION:**

**To approve** the Exposure Draft (ED) on social benefits

**AGENDA MATERIAL:**

**Papers**

- 5.1 Copy of 31 January Memorandum from Staff
- 5.2 Cut and Paste of Responses
- 5.3 Draft ED 33, “Social Benefits:Disclosure” (marked up)

**BACKGROUND**

On 31 January 2007 Staff issued a memorandum and a copy of the `revised draft ED 33, “Social Benefits: Disclosure and Presentation” The memorandum highlighted a number of issues on which confirmation of the staff approach was requested. That memorandum is included in these agenda papers as Item 5.1. A response was requested by 21 February 2007. Responses were received from Australia, Canada, China, Japan., South Africa and the United States. Agenda Item 5.2 summarizes these responses. References in this memorandum to those responses are cross-referenced. New Zealand and the Netherlands gave apologies that they were unable to provide comments in time for incorporation in second distribution materials, but would provide comments at the meeting. Copies of the responses are available from staff on request. Any further comments received prior to the meeting will be tabled.

The revised ED is a marked-up copy reflecting amendments to the version that was circulated in January. A clean copy is available from Staff on request.

**GENERAL POINTS**

Whilst there was considerable support for the existing ED from some respondents there were reservations. Australia (002) expressed reservations about the relationship between the Expanded Introduction and the Basis for Conclusions and the relationship between the boxed questions in

the Expanded Introduction and the Specific Matters for Comment. Australia considered that the Basis for Conclusions should be incorporated into the Explanatory Introduction.

Australia also questioned the structure of the section “Disclosure and Presentation of Liabilities Related to Social Benefits” as it includes components that go beyond disclosure (i.e. present obligations and measurement). Australia proposed that the text on present obligations and measurement of present obligation should precede the disclosure requirements.

Whilst accepting that the ED had been drafted in accordance with the directions at the November meeting the USA (004) had very fundamental reservations about the draft ED. Whilst understanding why the compromise represented by the ED had been proposed, the USA does not consider that it will result in a high quality standard and believes that a Preliminary Views (PV) document would be a more appropriate vehicle to move the project forward at this time. A PV document would allow the IPSASB Members to set forth a preliminary view of the Board (majority) and an alternative view (minority). In the view of the USA this approach would not force the IPSASB into a compromise that would satisfy few, if any, of the constituents. Much of the discussion at the meeting of the Consultative Group in Norwalk was on US Federal Accounting Standards Advisory Board’s publication, “Preliminary Views-Accounting for Social Insurance, Revised”. That publication contained a majority and alternative view.

The USA had particular problems with the proposal in paragraph 48 that if the eligibility requirements are met there is a liability, but that the liability need not be recognized. In the view of the USA, “the likelihood that this will be warmly received is remote. We will be one more year down the line after this round of due process and looking at the possibility of re-exposure. At least a PV moves us moving forward. We would not be facing a potential setback that a re-exposure would signal.”

## **ISSUES**

### **(a) Expanded Introduction**

The majority of respondents favored the insertion of the Expanded Introduction (Introduction to Key Issues in ED 33, “Social Benefits: Disclosure and Presentation”). However, Australia (002) questioned the relationship between the Expanded Introduction and the Basis for Conclusions, suggesting that the distinction is unclear. Australia considers that:

- The Basis for Conclusion should be incorporated into the Expanded Introduction; and
- The Introduction should be much briefer with discussion of policy issues moved to the Basis for Conclusions and a cross-reference from the Specific Matters for Comment to the background discussion in the Basis for Conclusions

#### *Staff View*

*Staff accepts that the relationship between the Expanded Introduction and the Basis for Conclusion is uneasy. The Expanded Introduction has been introduced in order to stimulate debate on a number of issues and give an indication of the areas that the IPSASB has found particularly challenging. It can be extracted from the ED and used by Members and Staff as a vehicle for promoting discussion. In the view of Staff the key issues are when a present obligation arises for different types of social benefit, whether the contributory nature of a*

*program or its financing from earmarked taxation has an impact on the obligating event and whether revalidation is a recognition criterion or measurement attribute: all other issues are second order. There is no intention to retain the Expanded Introduction in a final Standard. Staff therefore acknowledges that the Expanded Introduction does not sit totally comfortably with the rest of the ED, but for the above reasons is loath to modify it significantly.*

Australia also considered it vital that the paragraph on Background section of the Expanded Introduction make it immediately clear that the ED proposes requirements in respect of disclosure, not recognition and measurement.

*Staff View*

*Staff agrees with this point. A paragraph has been added to the Background section of the Expanded Introduction making it clear that the ED deals with disclosure not recognition and measurement and giving the reasons.*

Australia considers that each question in the Specific Matters for Comment should be discussed in the Introduction and then all the questions repeated as a list in the Specific Matters for Comment

*Staff View*

*Staff accepts that this would make the relationship between the boxed questions in the Expanded Introduction and the Specific Matters for Comment clearer. However, Staff has reservations that this would make the Expanded Introduction considerably longer and deflect attention from those fundamental issues highlighted above that are central to the progress of the project.*

Australia noted that there is no Specific Matter for Comment on fiscal sustainability although there is a section on “Fiscal Sustainability” in the Expanded Introduction.

*Staff View*

*Staff considered it essential to touch on the topic of fiscal sustainability in the Expanded Introduction to show that the IPSASB recognizes the importance of the topic and to outline the IPSASB’s intentions in addressing the topic. No Specific Matter for Comment was framed because fiscal sustainability will be considered in the Scope component of the Conceptual Framework project. A Specific Matter for Comment would pre-empt the conclusions of that project and would therefore be inappropriate. Some responses to the draft Strategic and Operational Plan considered that the IPSASB should be more assertive in launching a project on fiscal sustainability. If members consider that a Specific Matter for Comment should be added this can be done, although Staff has reservations about how this will be framed and what practical value any feedback from constituents will provide.*

USA (004) had fundamental reservations about the use of the terms “present obligation” and “liabilities” in an ED dealing with disclosure. These reservations are pervasive to the entire ED. USA particularly disagrees with use of the terms “present obligations and liabilities”. USA suggests using “obligation”, although unenthusiastic about even this alternative, because “an obligation infers a liability”. USA suggested that “if the Board truly believes that it is a liability

then it should be proposing that.” If not, then the Board should not try to tie the hands of a future Board by using terms like “obligation” or even worse in USA’s opinion, “liability”.

*Staff View*

*Staff understands the views of the USA. However, to eliminate terms like “present obligation” and “liabilities” at this stage would be to dismantle the conceptual underpinnings of the entire ED, which is based on an IPSAS 19 framework. Staff also emphasizes that this is an interim Standard and not the final word on the subject.*

**Action Requested: Confirm** Staff changes to ED and indicate whether a Specific Matter for Comment should be added in respect of fiscal sustainability.

**(b) Title and Format**

Australia (002) and Japan (003) questioned the use of “Presentation” in the title. Australia stated that they did not discern any presentation requirements (for example along the lines of those in IAS 32, “Financial Instruments: Presentation”). Australia also considered that the ED could be more informatively titled and proposed “Cash Transfer Social Benefits: Disclosure”

*Staff View*

*Staff agrees that the use of “Presentation” is potentially confusing to readers and agrees that it should be deleted. Whilst referring to cash transfers in the title has some merit the ED addresses the issue of present obligation in respect of collective and individual goods and services and a reference to “Cash Transfers” alone does not capture this. Staff therefore proposes that the title should be “Social Benefits: Disclosure”*

**Action requested: Confirm** that the change in title to “Social Benefits: Disclosure” is appropriate.

**(c) Scope**

Australia (002) identified a number of references to liability recognition, which were considered inappropriate in the light of the revised direction of the ED. These are detailed at Agenda Item 5.2.

*Staff View*

*Staff has reviewed the references identified by Australia and modified as appropriate.*

Japan (003) considered it appropriate to indicate clearly that the Standard applies to both recognized and unrecognized liabilities relating to social benefits. Australia also sought confirmation that the disclosure applies to both recognized and unrecognized liabilities. Australia proposed a number of changes if the requirements were held to only apply to unrecognized liabilities.

*Staff View*

*Staff confirms that the intention is for the requirements to apply to both recognized and unrecognized liabilities. Staff agrees with the Japanese proposal and acknowledges the*

*Australian points on this issue. Staff has amended paragraph 2 in accordance with the Japan's proposed wording as follows:*

***An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the disclosure ~~and presentation~~ of liabilities, either recognized or unrecognized, relating to social benefits provided in non-exchange transactions.***

Australia also raised the issue of inter-governmental cash transfers earmarked for social benefits. Australia argued that cash transfers from one level of government to another level or from one national government to another national government with the ultimate purpose of financing cash transfers to protect individuals against particular social risks are within the definition of social benefits in paragraph 11.

*Staff View*

*Staff does not think that it is intended to include inter-governmental cash transfers earmarked for social benefits within the definition of a cash transfer in paragraph 11. However, it is accepted that the definition of a cash transfer in the ED circulated on January 31<sup>st</sup> (and previous versions) does not exclude such inter-governmental transfers. The definition of social benefits has therefore been amended to require the resources to be paid directly to the individual and the term "social benefits" imported into the definitions of collective goods and services, individual goods and services and cash transfers. Commentary at paragraph 21 has been amended to clarify that inter-governmental transfers such as shared tax revenues earmarked for the purpose of providing social benefits are not within the definition of a cash transfer because they are not paid directly to the recipients of social benefits.*

Noting that paragraph 60(j) requires disclosure of the entity's accounting policy for recognizing liabilities and expenses relating to social benefits Australia questioned whether the ED should propose the prohibition of the recognition or disclosure in notes of liabilities related to collective and individual goods and services. This is because the ED states that liabilities to beneficiaries do not arise in respect of collective and individual goods and services.

*Staff View*

*The Australian view is completely logical. However, Staff is reluctant to introduce requirements in an interim Standard that would force entities to take a more restrictive approach to the recognition of liabilities relating to collective and individual goods and services than they might already be adopting. Staff thinks that Australia's suggestion of adding a Specific Matter for Comment on this issue is very sound. A Specific Matter for Comment (12) has been added as follows:*

*12. There should be no prohibition on the disclosure of liabilities recognized in respect of collective and individual goods and service under an entity's existing accounting policy, even though under the proposals in the ED present obligations do not arise to beneficiaries. If you think that entities should be prohibited from disclosing liabilities in respect of collective and individual goods and services please state your reasons*

*Paragraph BC 34 in the Basis for Conclusions states that in view of the interim nature of this Standard such a prohibition would be inappropriate.*

South Africa (005) considered that the link with the scope exclusion on IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” should be strengthened by using the same text as in IPSAS 19.

*Staff View*

*Staff agrees and has amended paragraph 3 to incorporate text from the paragraph 2 of the Scope section of IPSAS 19.*

**Action requested: Confirm** that the revisions to the Scope and Definition sections of the ED and the insertion of a new Specific Matter for Comment are appropriate.

**(d) Present Obligations**

With the exception of the USA (004) all respondents agreed with the general approach to the identification of present obligations. As already indicated Australia (002) questioned the location of the section on Present Obligations in a wider section on “Disclosure and Presentation of Liabilities Related to Social Benefits” (see above in General Points and below Measurement of Amount Disclosed).

In the context of the commentary on termination benefits in paragraph 41 South Africa (005) questioned the assertion that a present obligation does not arise until the eligibility criteria are no longer satisfied. South Africa believes that a present obligation arises when all threshold eligibility criteria are satisfied and this should be reflected in the original measurement estimate rather than waiting until the eligibility criteria are no longer satisfied before determining a separate liability. South Africa considers that a termination benefit is analogous to a lease liability with a balloon payment at the end: the balloon payment is included in the original measurement of the liability.

*Staff View*

*Staff considers the South African point is in accordance with the current approach in the ED and has amended paragraph 41. The revised commentary states that the present obligation arises when an individual satisfies threshold eligibility criteria and that an estimate of the proportion of those satisfying threshold eligibility criteria who will become eligible for the termination benefit will be a variable in the measurement of the liability. This revised approach has necessitated amendments to Example 4 in the Implementation Guidance.*

**Action requested: Reaffirm** the general approach to the identification of present obligations and **confirm** the amendment to paragraph 41 in respect of present obligations and termination benefits.

**(e) Measurement of Amount Disclosed**

With the exception of the USA (004) there was general support for the measurement approach and for the principle of “continuous entitlement”. Australia (002) proposed some drafting improvements.

Australia had some reservations about the demarcation within the ED between measurement of liabilities and disclosure of liabilities (see above in “General Points”). Australia also considered that there should be a black letter requirement in paragraph 51 that estimates of liabilities shall be actuarially based.

*Staff View*

*Staff has decoupled the sections on present obligations and measurement of liabilities from the section on disclosure. Staff agrees with the point that there should be a black letter requirement that estimates of liabilities shall be actuarially based and has amended paragraph 51 accordingly.*

**Action requested: Reaffirm** the approach to measurement and **confirm** the revised structure to the second part of the ED (paragraphs 38-70) and the amendment to paragraph 51.

**(f) Major Cash Transfers**

China (001) acknowledged that what constitutes a “major cash transfer program” differs from jurisdiction to jurisdiction and that designation should be left to entities’ professional judgment. Japan (003) generally supported the approach but suggested the use of the term “major cash transfer programs”

Australia (002) had some serious reservations about the introduction of the term “Major Cash Transfers”. Australia considered the requirements for disclosure of liabilities in relation to them unclear and felt that the notion has the potential for manipulation of financial information and ultimately the disclosure of items of information that are not comparable. Introduction of the term at this stage of the project in Australia’s view, without a thorough discussion in the draft ED, could lead to confusion amongst preparers and users.

*Staff View*

*Staff agrees with Japan’s proposal and has amended the text accordingly. Staff understands the view that the term “major cash transfer programs” is imprecise and may lead to a loss of comparability between entities. However, this reservation must be seen against the background to the project and the interim status of the proposed Standard. The alternative options are to require the disclosure of the liability for all cash transfer programs or to restrict disclosure to social security pensions. The former approach is too broad and onerous for an interim Standard whilst the latter will reduce its relevance in jurisdictions where the social security program is less significant than other cash transfer programs. Staff acknowledges that the current approach is imperfect, but does not consider the alternatives an improvement.*

**Action requested: Confirm** that an entity will use professional judgment in determining which cash transfer programs are major.

**(g) Disclosures**

There was general support for the proposed disclosures. Australia (002) questioned the requirement at paragraph 60(d) for disclosure of the number of eligible beneficiaries at the reporting date for each major cash transfer program. Australia considered that this would add to

the burden of disclosure without providing particularly useful information to users, because the financial implications of some beneficiaries differ from those of others due to individual circumstances and the period of future eligibility for benefits. Japan (003) suggested that there should be an additional requirement for disclosure of the amount of liabilities recognized in addition to the accounting policy.

Australia highlighted that Paragraph 60(f) requires the disclosure of estimated future increases in benefits. Australia assumed that the numeric impact of future increases is part of the actuarial assumptions disclosed under paragraph 60(g) and suggested that paragraph 60(f) require the disclosure of the basis on which benefits will be increased in future (e.g., the consumer price index plus X%) to better align the requirements of paragraphs 60(f) and 60(g).

China (001) considered it onerous to require the disclosure of information on the sensitivity of actuarial assumptions, as such information is difficult to obtain in practice.

*Staff View*

*Staff acknowledges that the number of beneficiaries may be of only partial value, but thinks that trend information is worthwhile and should be relatively easily available. Staff accepts the disclosure proposed by Japan and has added this to paragraph 60(j). Staff accepts the Australian proposal in respect of paragraphs 60(f) and 60(g) and has revised the disclosure requirement in paragraph 60(f). Staff notes that the commentary in paragraph 62 on the provision of information on the sensitivity of the actuarial assumptions provides an encouragement not a requirement.*

South Africa (005) proposed that paragraph 63 should be black lettered.

*Staff View*

*Paragraph 63 is meant to provide commentary on the requirement in paragraph 60(j). Staff has modified the language to clarify that it is a commentary paragraph and does not need to be black-lettered.*

**Action requested: Approve** the revised disclosure requirements.

**(g) Implementation Approach**

Japan (003) agreed the staff proposal. Australia (002) did not think that paragraphs 68 and 69 of the ED conveyed clearly the intention regarding the phased introduction of comparative disclosures. Australia has proposed clearer detailed requirements. South Africa (005) questioned whether paragraph 63 necessitated a consequential amendment to IPSAS 19.

*Staff View*

*Staff considers that Australia's suggestions are much clearer. Australia's revised wording has been inserted in paragraphs 68 and 69 of the ED. Staff does not think that paragraph 63 of this ED necessitates a consequential amendment to IPSAS 19 because of paragraph 63 in this ED, because of the current scope exclusion in IPSAS 19 relating to social benefits provided in non-exchange transactions.*

Action requested: **Approve** the revised wording of the implementation requirements

**(h) Amendment to IPSAS 19**

No respondent disagreed with the Staff view that, as the ED no longer deals with recognition and measurement, the consequential amendment to paragraph 99 in earlier versions of the ED is not necessary.

**Action requested: Reaffirm** that an amendment to paragraph 99 in IPSAS 19 is not necessary.

**(i) Other Issues**

**1. Encouragement for Disclosure of Fiscal Sustainability of Major Cash Transfer Programs**

Australia (002) considered that more assistance should be provided to those who follow the Board's encouragement for a disclosure of the fiscal sustainability of programs providing social benefits. In particular Australia considers it unclear what should be disclosed when the outflows for particular programs are funded from general taxation.

*Staff View*

*Staff has added a sentence to paragraph 65 stating that, if entities make such disclosure they should also disclose the main assumptions, and, in particular, how any inflows have been determined where programs are financed by general taxation. Staff does not consider it appropriate to go into a considerable amount of detail before initiating a project on fiscal sustainability.*

## **2. Partial Reimbursements**

Australia (002) expressed concerns that paragraph 16 does not specifically discuss the circumstances in which the reimbursement to an individual who has purchased goods and services only provides part of the cost of those goods and services.

### *Staff View*

*Staff considers that the same principles apply to partial reimbursements as to full reimbursements: the amount of the expense and liability to the transferor is the amount of the reimbursement to the beneficiary rather than the full cost of the goods and services incurred by the beneficiary. Paragraph 16(c) has been amended to acknowledge that reimbursements may be for part of the cost of goods and services purchased rather than the full amount.*

## **3. Implementation Guidance**

Australia (002) suggested that the Illustrative Examples should explain how a public commitment to provide disaster relief in the form of cash transfers would be treated.

### *Staff View*

*Example 8 has been added dealing with the provision of cash transfers as part of a disaster relief initiative. This example explains that a present obligation to beneficiaries arises when all eligibility criteria have been satisfied rather than when a public commitment is made.*

## **4. Basic /welfare and general contributory pensions**

Japan (003) is not satisfied with the commentary on basic/welfare pensions and general/contributory pensions in paragraphs 26 and 27. In Japan the basic/welfare pension is a contributory plan. Japan considers that the fundamental difference between the two types of pension program is whether the benefit is dependent on the amount of contributions or related to the amount of wages rather than whether the pension program is contributory. Japan has proposed wording to deal with these concerns (see Other Comments section of Agenda Item 5.2)

### *Staff View*

*The approach proposed by Japan was that originally adopted in the social security pension stream of this project. That original approach was amended in order to simplify the distinction between basic/welfare and general/contributory pensions. Currently the distinction between basic/welfare and general/contributory pensions has no impact on requirements, because a present obligation arises at the same point for all social security pensions i.e. when all threshold eligibility criteria have been satisfied. Staff acknowledges Japan's point and considers that it is likely to have a wider resonance. However, Staff is reluctant to modify the existing distinction at this stage of the project. This is because the Expanded Introduction includes an analysis of whether the contributory nature of a program has an impact on the obligating event. It would seem inappropriate in the context of that discussion to alter the current definitions of basic/welfare and general/contributory pensions.*

## **5. Non-exchange Transactions**

Australia (002) thinks that when the definition of non-exchange transactions in paragraph 10 (reproduced from IPSAS 23) is next reviewed, consideration should be given to omitting the

statement that non-exchange transactions are not exchange transactions (i.e. to express the definition wholly in the positive).

*Staff View*

*This has been noted for a future revision of IPSAS 23.*

#### **6. Definition of Collective Goods and Services**

South Africa (005) proposed amending the definition of collective goods and services so that it reads “**in order to protect the population or segment of the population ~~from~~ against certain social risks**”.

*Staff View*

*Staff agrees and has effected the proposed amendment.*

#### **7. Use of phrases “entire population” and “a particular segment” in definitions of social benefits, collective goods and services, individual goods and services , and cash transfers**

South Africa (005) highlighted the inconsistent use of the phrases “entire population” and “a particular segment” in the definitions of social benefits, collective goods and services, individual goods and services, and cash transfers in paragraph 11.

*Staff View*

*Staff has amended the definition of social benefits to include the phrases “entire population” and “a particular segment of the population”. Staff does not consider that it is necessary to incorporate these phrases in the definitions of individual goods and services and cash transfers.*

#### **8. Accounting for Contributions to General/Contributory Pension Programs and Composite Social Security Programs**

South Africa (005) asked whether paragraph 28 should contain a clear statement that we do not address contributions in this proposed Standard.

*Staff View*

Staff agrees and has added a sentence to paragraph 28 stating that this Standard does not deal with accounting for the contributions to general/contributory pension programs or the contributions to composite social security programs.

<b>Action requested: Confirm</b> the Staff approaches in the above areas.
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# Memo

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## **OBJECTIVE OF THIS SESSION:**

**To approve** the ED on social benefits

## **BACKGROUND**

At the Norwalk meeting in November 2006 there was a significant change of direction in the development of this Exposure Draft (ED). Staff was directed to develop an ED that will have in its scope the disclosure and presentation of liabilities related to major cash transfer programs and will not address recognition directly. The IPSASB indicated in November that it would like to review a revised ED in March based on this new approach with a view to approval.

The revised ED at pages 6-81 is a clean copy. A marked-up copy reflecting changes that have been made to the version discussed in Norwalk is available from Staff on request.

If approved, the revised ED would be the first public consultation on this subject since the Invitation to Comment that was issued in January 2004. The IPSASB commenced development of an ED in April 2005, almost two years ago. It is fair to say that the IPSASB has been struggling with garnering some sort of consensus on key issues in this project during this time. In the meantime, the landscape for this project has changed significantly. Most notable has been the publication of the US Federal Accounting Standards Advisory Board's Preliminary Views Paper, "Accounting for Social Insurance, Revised" in October 2006. The majority and minority views in that paper were extensively discussed at the Consultative Group meeting at Norwalk. The majority view undoubtedly represents a challenge to the general global approach that liabilities recognized at the reporting date related to social benefits are limited to cash transfers and on a "due and payable" basis.

Given the attention that this topic is receiving and the efforts of others, staff is of the view that the Social Benefits project will be best progressed by obtaining the input of constituents on the key issues. The issuance of a public document for comment is critical at this juncture in order to gauge the views of constituents and to continue appropriately through the transparent due process that was initiated when the project first commenced. In the view of Staff the IPSASB risks a loss of both its leadership role in this area and in its credibility as a standard-setter addressing crucial public sector specific issues if there are continuing delays.

## **ISSUES**

### **(a) Expanded Introduction**

In accordance with the IPSASB's directions at Norwalk, Staff has developed a paper entitled "Introduction to Key Issues in ED 33, "Social Benefits: Disclosure and Presentation", which is situated towards the front of the ED (pages 9 -18 of the version in this agenda item). This provides some background on the development of the ED and addresses those issues which the

IPSASB acknowledges have been particularly complex, including issues where Members and Technical Advisors have expressed diverse views. Staff views this paper as a mechanism for stimulating a global discussion on certain key issues, in particular the impact of contributions on initial obligating events, which was the focus of much of the debate in the Consultative Group at Norwalk.

In addition, the expanded introduction addresses the broader issue of reporting on long-term fiscal sustainability, an issue which the IPSASB indicated was of significance to them and which they made a commitment to reviewing. This section reflects the intention of the IPSASB to initially consider the role of fiscal reporting in the scope component of the conceptual framework project.

<p><b>Action Requested: Confirm</b> that this expanded introduction highlights key issues and <b>identify</b> any additional issues to be addressed.</p>
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**(b) Title and Format**

The ED is entitled “Social Benefits: Disclosure and Presentation”. Adoption of the term “social benefits” rather than “social policy obligations” was agreed at Norwalk. The use of this term harmonizes with the scope exclusion in IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets”. The only significant changes to the early sections of the ED on Scope and Definition (paragraphs 1 through 37) are:

- The modification of paragraph 3 in the Scope section to explain that the ED does not deal with the recognition and measurement of liabilities and expenses related to social benefits provided in non-exchange transactions and a reference to IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” as providing a basis for selecting and applying accounting policies in the absence of explicit guidance.; and
- At paragraph 11 the addition of a definition of threshold eligibility criteria and additional commentary on “Eligibility Criteria and Threshold Eligibility Criteria” at paragraphs 23 and 24.

The second half of the ED is now entitled “Disclosure and Presentation of Liabilities Related to Social Benefits”. It has sections on:

- Present Obligations
  - Cash Transfers
  - Collective and Individual Goods and Services
- Disclosure of Liabilities for Major Cash Transfer Programs
- Measurement of Amount Disclosed- Major Cash Transfer Programs
- Disclosures
  - Disclosure of Fiscal Sustainability of Major Cash Transfer Programs
- Initial Adoption of this Standard
- Effective Date

The commentary paragraphs on liability recognition criteria and contingent liabilities which were in the version of the ED on the agenda for the Norwalk meeting (and previous versions) have

been deleted on the basis that they are no longer relevant to an ED dealing with disclosure and presentation rather than recognition.

**Action requested: Confirm** that the change in title and format are appropriate..

**(c) Scope**

As noted above at (b) the scope has been modified at paragraph 3 to reflect that the ED deals with disclosure and presentation and that it does not address recognition. As in other IPSASs readers are directed to IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” for selecting and applying accounting policies in the absence of specific guidance. There is a disclosure requirement at paragraph 60(j) that entities provide information on their accounting policies for recognizing liabilities and expenses related to social benefits. All other aspects of the Scope section of the ED are the same as in the version considered at Norwalk, apart from some minor typographical changes.

**Action requested: Confirm** that the revised scope of the ED is appropriate. .

**(d) Present Obligations**

The ED reflects a requirement that present obligations arise for all cash transfer programs when all threshold eligibility criteria have been satisfied.

For collective and individual goods and services the current draft ED retains the assertion in the previous versions considered at the 2006 meetings at Paris and Norwalk that present obligations to beneficiaries do not arise in respect of collective and individual goods and services. The rationale for this is given at paragraph BC24 of the Basis for Conclusions.

**Action requested: Confirm** this approach to the identification of present obligations.

**(e) Measurement of Amount Disclosed**

Paragraph 48 states that the amount disclosed as a liability for major cash transfer programs shall be the amount that the entity has no alternative but to settle as at the reporting date following satisfaction of threshold eligibility criteria by beneficiaries. The formulation is based on the wording agreed at the Norwalk meeting, although Staff notes that that wording was in the context of recognition rather than disclosure. Staff has some concerns that the requirement is insufficiently rigorous and may lead to inconsistent approaches by reporting entities. However, inclusion of a more prescriptive black letter requirement would arguably be inappropriate for a principles-based Standard. Commentary at paragraph 49 explains that the amount that the entity has no alternative but to settle is an actuarially based estimate of the present value of the obligation.

In the context of measurement the ED also addresses the issue of beneficiaries who cease to satisfy eligibility in the future but then subsequently reconfirm eligibility. This can be illustrated most starkly using the example of a program delivering unemployment benefits. It is virtually certain that a proportion of those who have satisfied threshold eligibility criteria at the reporting date will cease to satisfy eligibility criteria in the future, but will subsequently have further periods of unemployment and resatisfy those eligibility criteria. The issue is whether the

measurement of the liability should take into account an estimate of the extent to which current participants will resatisfy eligibility criteria in the future after a break in entitlement or be limited to the future period in which their current entitlement is sustained. The ED adopts the latter approach and states that the liability should be estimated using the principle of “continuous entitlement”. Paragraph 50 explains this principle.

The approach to discounting mirrors that in ED 31, “Employee Benefits”. The discount rate is a risk-free rate that reflects the time–value of money but not investment risk or entity-specific credit risk. The rate used to discount obligations under major cash transfer programs is determined by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds the market yields (at the reporting date) on high quality corporate bonds should be used. The currency and term of the government bonds or high quality corporate bonds shall be consistent with the currency and estimated term of the obligation related to the major cash transfer program.

**Action requested: Confirm** the approach to measurement

**(f) Major Cash Transfers**

The ED states that it is for an individual entity to use professional judgment in determining which of its cash transfer programs are “major”. Paragraph 47 explains that this is based on assessment of the qualitative characteristics of financial reporting in Appendix A to IPSAS 1, “Presentation of Financial Statements”. There is a requirement at paragraph 60(c) that entities disclose the criteria used in making this assessment and also that entities disclose the reasons why any cash transfer program classified as “major” in the previous reporting period is no longer classified as “major” in the current reporting period. In developing a global Standard Staff does not consider that it is appropriate to attempt to list major cash transfer programs. Whilst it is tempting to specify that social security pension programs will be “major cash transfer programs” it is clear from discussion at previous IPSASB meetings and consultative group meetings that there are some jurisdictions where this may not be the case.

**Action requested: Confirm** that an entity will use professional judgment in determining which cash transfer programs are major.

**(g) Disclosures**

In addition to the amount of the liability in the current reporting period and the previous four reporting periods a number of ancillary disclosures are required at paragraph 60 on the following:

- A general description of the major cash transfer programs, including the principal legislation and regulations governing the programs, for which liabilities are disclosed
- The criteria used to determine whether a cash transfer program is a major cash transfer program and an explanation of reasons why any cash transfer program classified as a major cash transfer program in the previous reporting period is not classified as a major cash transfer program in the current reporting period;

- The number of eligible beneficiaries for each major cash transfer program at the reporting date (and the previous four reporting dates);
- The rate used to discount obligations under major cash transfer programs to their present value at the reporting date (and the previous four reporting dates);
- Estimated future increases of benefits;
- The principal actuarial assumptions used at the reporting date;
- Changes to the principal actuarial assumptions since the last reporting date; and
- The entity’s accounting policy for recognizing liabilities and expenses relating to social benefits

There are no requirements to provide information on the sensitivity of the actuarial assumptions, although entities are encouraged to provide this information if it is available.

**Action requested: Approve** the disclosure requirements.

**(h) Implementation Approach**

The requirements in the ED are likely to be challenging for entities operating in jurisdictions which have recently migrated to the accrual basis of reporting and other entities which do not currently have actuarially based data on their major cash transfer programs (although, arguably, sound financial management requires such information). Whilst this assumption suggests the need for a lengthy implementation period this is counterbalanced by the interim nature of the ED. The fact that accounting for social benefits is an evolving area and the ED is not intended as the final IPSASB Standard on this subject means that a lengthy implementation period risks delaying further developments. The Staff proposal is therefore a compromise: paragraph 70 requires that the ED takes effect for reporting periods on or after a date commencing three years after issuance. In order to facilitate orderly implementation relief is given, at paragraphs 66 and 67, from the provision of comparative information in the first year of adoption. In addition paragraphs 68 and 69 allow entities to provide disclosures requiring trend information covering the current reporting period and the previous four reporting periods prospectively, starting with the first year of adoption. In both cases entities are encouraged to provide comparative and prior-period information where this is available.

**Action requested: Approve** the implementation requirements

**(i) Amendment to IPSAS 19**

The previous version of the ED on the agenda at Norwalk included an amendment to IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” deleting black letter paragraph 99. Paragraph 99 of IPSAS 19 imposes requirements on entities that elect to recognize, in their financial statements, provisions for social benefits for which the consideration received is not approximately equal to the value of goods and services provided directly in return from

beneficiaries. Such entities are required to make the disclosures required for provisions by IPSAS 19. Because the ED no longer deals with recognition and measurement Staff does not consider that this amendment is appropriate and it has therefore been omitted from this version of the ED.

**Action requested: Confirm** that an amendment to paragraph 99 in IPSAS 19 is not necessary.

**Social Benefits: Disclosure and Presentation  
Cut and Paste Analysis of Responses**

**(a) Expanded Introduction**

**001 Lou Hong** I agree with the addition of expanded introduction to the ED as the issue of social benefits in the public sector especially governments of various levels is particularly important. Also, this is a very difficult area in public sector accounting, which warrants a more detailed introduction to constituents.

**002. Peter Batten/Jim Paul** We are of the view that a brief summary of the ED and its requirements should precede the Background on page 10.

We think it is important to say, immediately after the Background paragraph on page 10, that the ED proposes requirements only in respect of disclosure, not recognition and measurement. We think it is vital to say this before the discussion of present obligations—otherwise, readers might think the discussion of present obligations is delineating the items that would need to be recognised in financial statements.

The distinction between the expanded Introduction (pages 9 to 18) and the Basis for Conclusions (pages 65 to 77) is not clear. Two examples are mentioned below to illustrate this point.

- Draft ED page 10 paragraph 2 last sentence – “The IPSASB accepted this view and therefore adopted the principle that a present obligation for cash transfers arises when all eligibility criteria have been satisfied”. This sentence seems to belong in a Basis for Conclusions and not in an expanded Introduction if both documents are presented separately.
- Draft ED page 11 paragraph 2 – “the IPSASB’s reasons for determining that ...”. This section should be part of the Basis for Conclusions.

We think that, for clarity of purpose and to avoid repetition, the Basis for Conclusions should be incorporated into the Introduction. Conversely, if the IPSASB has committed that a separate Basis for Conclusions will be provided in each ED, we think the Introduction should be much briefer, with discussion of policy issues moved to the Basis for Conclusions and a cross-reference from the Specific Matters for Comment to the background discussion in the Basis for Conclusions.

We think it is very confusing that the draft ED includes two sets of questions. We note that the questions in boxes on pages 12-17 are the same as Questions 6, 8, 9 and 10 in the Specific Matters for Comment on pages 20-21, but most of the questions in the Specific Matters for Comment are not presented or discussed earlier. In addition, we note that:

- draft ED page 9 paragraph 1 – The last sentence of this paragraph states that “the IPSASB particularly seeks the views of constituents on the following issues which are considered in this Introduction”. (Further, the detailed questions are stated throughout the expanded Introduction and are not clearly linked to this paragraph. Perhaps it would be better to refer here to “topics” rather than “issues”.)

We think each question in the Specific Matters for Comment should be discussed in the Introduction (not just those discussed in this draft ED) and then all of those questions repeated as a list in the Specific Matters for Comment.

There is no specific question in respect of fiscal sustainability, although the draft ED page 9 paragraph 1 lists fiscal sustainability as a topic to be commented on.

**003 Tadashi Sekikawa** I have not identified any other issues to be addressed.

**004 David Bean.** Disagrees with use of terms “present obligations and liabilities”. Suggest using “obligation”, although an obligation infers a liability, so unenthusiastic about this alternative. If the Board truly believes that it is a

liability, then it should be proposing that. If not, then we should not try to tie the hands of a future Board by using terms like “obligation” or, even worse in my opinion, liability.

Suggest dropping paragraph on size of expenses and accumulated deficits and to a heavily negative net assets/equity position (in section on “Present Obligations for Cash Transfers and the Impact of Contributions and Earmarked Taxes”. It makes a great point in debate, but without an inter-period equity model, there is no conceptual basis for the position and it only makes the Board look bad. In my opinion the entire debate and the due process document should be based on what is the obligating event and dose the government have no realistic alternative but to settle.

**005 Erna Swart** We use ED instead of exposure draft in the introduction. I don’t mind which one we use, but we should be consistent.

I think the link to IPSAS 19 should be clearer, in that we should use the same text as used in the scope exclusion in IPSAS 19, to explain our approach (i.e. paragraph 7 to 11).

Last sentence of second last paragraph on p11: In my opinion, allowing preparers to exercise judgment, but requiring disclosure of the items that led to the decision to recognize, can address this problem.

Last paragraph on p11 is explained more clearly in BC18.

Distinction between individual goods and services and cash transfers. In my opinion, the distinction is that the first is an exchange transaction between the entity administering the programme and the supplier of the goods and services, while in cash transfers it is a non-exchange transaction between the recipient and the entity administering the program

## **(b) Title and Format**

**001 Lou Hong** I concur with the modification of paragraph 3 in the Scope section to explain that the ED does not deal with the recognition and measurement of liabilities and expenses related to social benefits provided in non-exchange transactions. This will explicitly address the content for which the ED prescribes.

I agree with the addition of a definition of threshold eligibility criteria at paragraph 11 and additional commentary on “Eligibility Criteria and Threshold Eligibility Criteria” at paragraphs 23 and 24. “Threshold Eligibility Criteria” is a key definition in recognizing the obligation involved regarding social benefits.

The second half of the ED as structured is appropriate given the deletion of the section of recognition

**002. Peter Batten/Jim Paul** We did not discern any presentation requirements in the draft ED (we have in mind, for example, the *presentation* of particular financial instruments as either liabilities or equity under IAS 32). Also, the ED could be more informatively titled. Therefore, we think the title of the ED should be “Cash Transfer Social Benefits: Disclosure”. However, if a reference to presentation were to be retained, we would prefer the order of the new title to change to “Cash Transfer Social Benefits: Presentation and Disclosure”, consistent with usage in other Standards.

**003 Tadashi Sekikawa** I agree the new title and format.

**005 Erna Swart** I am happy with the title. I don’t think the second half should have a different title to the first half.

IN3 Should we use similar text to IPSAS23 on non-exchange revenue?

IN6 Sometimes we use the phrase “major cash transfer programs” and sometimes we use “social benefits”. I prefer the first phrase

**(c) Scope**

**001 Lou Hong** I agreed with the requirement specified in paragraph 60(j) that entities provide information on their accounting policies for recognizing liabilities and expenses related to social benefits.

**002. Peter Batten/Jim Paul** The implementation of the IPSASB’s decision to change the scope of the draft ED to only deal with presentation and disclosure (and to not address recognition directly) is confusing, since the following parts of the draft ED still discuss liability recognition:

- page 12, third paragraph, first sentence
- page 13, second paragraph (various places)
- page 14, bold heading
- page 15, first line
- page 15, third paragraph, first and third sentences
- page 15, last paragraph, first sentence
- page 16, question in box
- page 21, question 9
- paragraph 30, first sentence
- paragraph 46, second sentence
- paragraph BC18, third-last and penultimate sentences
- paragraph BC24, fourth sentence
- paragraph BC30, first and fourth sentences

Obligations to make government-to-government cash transfers earmarked for social benefits

It would appear that cash transfers from one government to another to finance cash transfers to protect individuals against particular social risks, where use of the cash payment is at the discretion of the individual (the ultimate recipient), would qualify as social benefits as defined in paragraph 11 of the proposed Standard. If the transferor government enters an enforceable agreement to provide such cash transfers, it could be regarded as incurring a liability (either a legal or constructive obligation, depending on the circumstances) at some point. However, if it incurs a liability, it would seem that the time at which individuals (ultimate recipients) satisfy all eligibility criteria is not pertinent to when the transferor government incurs a liability, because its obligation is to the transferee government, not the ultimate recipients. Instead, in concept, the transferor government's liability would seem to arise either when the binding commitment is made or when that government collects the taxes it is obliged to share. Furthermore, its liability may not need to be actuarially determined.

Examples of such arrangements are:

- a national government enters an agreement to provide a fixed share of goods and services taxes to provincial governments, of which a predetermined percentage must be spent on particular social benefits; and
- a national government makes a firm commitment to donate a particular amount of cash to another national government in response to a tsunami, on the condition that the cash be provided to tsunami victims.

A contrary view to that provided above is that these transfers are not cash transfers for social benefits, because the immediate recipient of the transfer is not an individual or household and does not have discretion as to how the cash payment is used.

We think it is important to clarify the issues above in respect of government-to-government transfers for social benefits. See also our comments below on Example 7 of the Implementation Guidance.

Prohibiting disclosure of non-liabilities as liabilities

We note that paragraph 60(j) requires disclosure of the entity's accounting policy for recognizing liabilities and expenses relating to social benefits. The focus here seems to be on whether entities elect to recognize the liabilities that this proposed Standard merely requires to be disclosed. However, this raises another issue. If, as the proposed Standard says, liabilities do not arise in respect of collective and individual goods and services, shouldn't the proposed Standard prohibit disclosure (either by recognition or disclosure in notes only) of such items as liabilities? We suggest including a question about this in the Specific Matters for Comment.

**003 Tadashi Sekikawa** I do not think that reference to "presentation" of liabilities is appropriate. "Presentation of liabilities" may imply how to present liabilities in the balance sheet. In addition, it is appropriate to clearly indicate that this Standard does apply both recognized and unrecognized liabilities. Proposed wording is described as follows;

2. **An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the disclosure ~~and presentation~~ of liabilities, either recognized or unrecognized, relating to social benefits provided in non-exchange transactions.**

**005 Erna Swart** Paragraph 3: I think the link with IPSAS 19 should be clearer in that we should use the same text as used in the scope exclusion in IPSAS 19.

**(d) Present Obligations**

**001 Lou Hong** I agree with the approach to the identification of present obligations. This approach is adequate to governments because, in our view, present obligations to beneficiaries do not arise in respect of collective and individual goods and services.

**002. Peter Batten/Jim Paul** We confirm the approach to the identification of present obligations. However, see our comments on Issue (g) regarding the demarcation, within the ED, between identification of liabilities and disclosure of liabilities

**003 Tadashi Sekikawa** I agree with this approach.

**004 David Bean** Fundamental objections to use of terms “present obligations” and “liabilities”.

**005 Erna Swart** Paragraph 41: When you first meet all the eligibility criteria, is that not also the point for recognition of the termination benefits, because all the beneficiaries will eventually receive the payment. If I compare this with a lease liability with a balloon payment at the end, the balloon payment is included in the original measurement of the liability. I don't understand why a new obligation arises under these circumstances?

### **(e) Measurement of Amount Disclosed**

**001 Lou Hong** We preferred the latter approach, ie obligations limited to the future period in which their current entitlement is sustained. This is much more practicable than the former approach.

The approach to determining the discount rate not only mirrors that in ED 31, “Employee Benefits”, but also in generally in line with the practice in IAS 19.

#### **002 Peter Batten/Jim Paul**

We confirm the approach to the measurement of present obligations. However, see our comments on Issue (g) regarding the demarcation, within the ED, between measurement of liabilities and disclosure of liabilities.

We note that the third paragraph of paragraph 52 of the draft ED (in grey letter) says estimates of liabilities for cash transfers are actuarially based, which follows a black-letter paragraph about the qualitative characteristics of actuarial assumptions (paragraph 51). We think that paragraph 51 should include, at its beginning, a statement that estimates of liabilities for cash transfers shall be actuarially based.

**003 Tadashi Sekikawa** First of all, I have a concern on the Staff's note that wording “the entity has no alternative but to settle” was in the context of recognition rather than measurement. I suggest that we can replace this by “best estimate” concept as in IPSAS 19, such as “best estimate of expenditure required to settle the present obligation at the reporting date”

I agree with the staff proposal on “continuous entitlement” and discount rate.

**004 David Bean** Objects to use of term “measurement of liability”. We are not measuring a liability because we scoped recognition out. I totally disagree with that approach, but if we stick with it we do not use the term “liability”. Again it prejudices. This Board should not have it both ways by calling it a liability, but not requiring it to be reported as such. Either it is a real liability or it is an obligation.

### **(f) Major Cash Transfers**

**001 Lou Hong** What constitutes “major cash transfer program” is different from jurisdiction to jurisdiction. Accordingly, it has to be left the entities to perform professional judgment in jurisdiction's context.

**002 Peter Batten/Jim Paul** The purpose of the introduction of the term “major cash transfers” and the requirements to disclose liabilities for major cash programs are unclear. This notion has the potential for manipulation of financial information and ultimately the disclosure of items of information that are not comparable. The draft ED does not address the nature and definition of this new term sufficiently. A statement in paragraph 47 that “professional judgement is applied in determining which programs are major programs by reference to the qualitative characteristics of financial reporting in IPSAS 1” is not adequate. The introduction of this new term at this stage of the project, without a thorough discussion in the draft ED, could lead to confusion amongst preparers

and users. At the very least, examples of the distinction between major cash transfer programs and other cash transfer programs should be provided.

**003 Tadashi Sekikawa** I agree with this approach.

However, I suggest using “major cash transfer programs”, rather than “major cash transfers.

**(g) Disclosures**

**001 Lou Hong** I agree with the disclosure requirements outlined in the ED. I also personally think it is not necessary, at least at this stage, to provide information on the sensitivity of actuarial assumptions as there are a great deal of difficulties in practice to get the information..

**002 Peter Batten/Jim Paul** The identification of a comprehensive list of required disclosures in terms of this ED is difficult, since the section “Disclosure and Presentation of Liabilities Related to Social Benefits” includes subsections that go beyond disclosure (i.e. paragraphs 38 to 44 in respect of present obligations and paragraphs 48 to 59 in respect of measurement). We think the text on present obligations and measurement of present obligations should each be set out in a preceding section to the disclosure requirements.

We think requiring disclosure of the number of eligible beneficiaries for each major cash transfer program at the reporting date (paragraph 60(d)) would add to the burden of disclosure without providing particularly useful information to users of financial statements. The financial implications of some beneficiaries differ from those of others because of their individual circumstances and period of future eligibility for benefits. Therefore, knowing the number of eligible beneficiaries is not always useful in itself.

Paragraph 60(f) requires the disclosure of estimated future increases in benefits. We assume that the numeric impact of future increases is part of the actuarial assumptions disclosed under paragraph 60(g). We suggest that paragraph 60(f) require the disclosure of the basis on which benefits will be increased in future (e.g., the consumer price index plus X%) to better align the requirements of paragraphs 60(f) and 60(g).

**003 Tadashi Sekikawa** I propose an additional disclosure, “amount recognized as a liability”. I think is very essential to include information how much has been recognized in the balance sheet out of disclosed amount of liabilities.

**005 Erna Swart** Paragraph 63: As this is a requirement, should it not be black lettered?

**(h) Implementation Approach**

**002 Peter Batten/Jim Paul** We think paragraphs 68 and 69 of the ED do not convey clearly the IPSASB’s intention regarding the phased introduction of comparative disclosures. The second sentence of paragraph 69 says current period information is only required in the first year of adoption of the Standard—we think the intended meaning is that the reverse applies (namely, in the first year of adoption of the Standard, only current period information is required).

Then, in relation to subsequent periods, paragraph 69 refers to prospective provision of information about prior reporting periods, which is confusing without clarification. We think the notion that should be described here is that for each of the first four years of adoption of this proposed Standard, comparative information is not required for periods before the period of initial adoption.

We have prepared proposed amended wording for this section of the draft ED (see the attached mark up).

**003 Tadashi Sekikawa** I agree with the staff proposal

**(i) Amendment to IPSAS 19**

**002 Peter Batten/Jim Paul** We confirm that an amendment to paragraph 99 of IPSAS 19 is unnecessary.

**003 Tadashi Sekikawa** I agree with the staff proposal

**0005 Erna Swart** In view of paragraph 63, should we not have an amendment to IPSAS 19

**(j) Other Comments**

**002 Peter Batten/Jim Paul**

**Disclosure of recognised and/or unrecognised liabilities**

It is our understanding of this ED that the disclosure requirements in respect of liabilities related to social benefits apply to recognised and unrecognised liabilities. If this is not the case and the disclosure requirements are only in respect of unrecognised liabilities, we are of the view that the heading on page 41 should read “Disclosure and Presentation of Unrecognised Liabilities related to Cash Transfer Social Benefits” and that from there onwards all references to liabilities should be preceded by the word “unrecognised”. Either way, we suggest including a comment that the liabilities disclosed may be unrecognised.

Further, we interpret paragraph 45, which states that “where a present obligation has arisen for social benefits which are cash transfers a liability shall be disclosed for major cash transfer programs when ...”, as indicating that all recognised and unrecognised liabilities in respect of major cash transfers programs should be disclosed. If our interpretation is correct, we suggest requiring that these disclosures be split into two categories, i.e. recognised liabilities and unrecognised liabilities, and requiring disclosure of the basis on which liabilities have been recognised.

**Reimbursement in context of individual goods and services (Paragraph 16)**

We are concerned that paragraph 16 does not specifically discuss the circumstances in which the reimbursement only provides a substantial proportion of the cost of individual goods and services, for example where the government nominates a standard fee for the goods/services and only reimburses 85% of this, with the shortfall borne by the individual. We suggest adding another example to paragraph 16 to deal with partial reimbursements.

**Disclosures of Fiscal Sustainability in Paragraph 64**

We are not quite sure what information should be disclosed in terms of paragraph 64, especially when the outflows for particular programs are funded from general taxation. We think more assistance should be provided to those who follow the Board’s encouragement.

**Cash Transfers in Disaster Relief Implementation Guidance—Example 7**

We think the illustrative examples should also explain how a public commitment to provide disaster relief in the form of cash transfers would be treated under the proposed Standard.

**Definition of “Non-exchange transactions” in Paragraph 10**

We think that when the definition of non-exchange transactions (reproduced from IPSAS 23 in paragraph 10) is next reviewed, consideration should be given to omitting the statement that non-exchange transactions are not exchange transactions (i.e., to express the definition wholly in the positive). We don’t suggest changing the definition here, but request that you pass our comment on to the Technical Director.

**003 Tadashi Sekikawa**

**Commentary on basic/welfare and general/contributory pensions**

I am not satisfied with the explanation of basic/welfare pensions and general/contributory pensions (para. 26 and 27) because Japanese basic/welfare pension is contributory plan. I think fundamental difference between two types of pension scheme is whether benefit is dependent on amount of contribution or amount of wages. Proposed wording is as follows;

26. Under basic/welfare pensions, benefit is not dependent on amount of contribution or wages. In most jurisdictions they do not require contributions from, or on behalf of, beneficiaries. In some cases basic/welfare pensions operate as “safety nets” for individuals , who have not met the eligibility criteria for the

general/contributory pension or whose contribution record is insufficient to provide more than a low level of benefits under the general/contributory pension.

27. Under general/contributory pensions, benefit is determined by reference to amount of contribution or wages. They often require contributions by, or on behalf, of an individual during their working lives or other periods specified in governing legislation or regulations. Benefits may be:

- Related to the amount of those contributions but not approximately equal to the value of those contributions: and/or
- Linked to a minimum period over which contributions must be made in order for an individual to be eligible.

2. I have some difficulties to understand the paragraph 45 in the draft ED. I suggest the following change in wording.

**Disclosure requirement in paragraph 45**

45. ~~An entity shall disclose a liability arisen from cash transfers where a present obligation has arisen for social benefits which are cash transfers a liability shall be disclosed for major cash transfer programs when:~~

- (a) **It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and**
- (b) **A reliable estimate can be made of the amount of the obligation**

**Possibility of Changes to Measurement Requirements when Recognition and Measurement addressed**

**005 Erna Swart** Even with a disclosure and presentation standard you need measurement. As did the IASB, we should recognize that the measurement requirements contained in the ED may change when we develop the ED on recognition and measurement

**Binding Arrangements**

**005 Erna Swart** We have defined legal obligations, but in some IPSAS we use binding arrangements. Should we consider the possible difference, if any, and the impact on this document?

**Points re: definitions**

**005 Erna Swart** Collective goods and service: Change “from” to “against” in the last line of the definition.

We sometimes use “entire” population in the definitions and sometimes we don’t. I think we should be consistent.

We sometimes refer to “a particular segment” and sometimes we don’t include it in the definition at all. I think we should include it each time.

**Effective date**

**005 Erna Swart** We have removed the need for comparatives and provided relief for paragraph 68. Our effective date should be the same as in other standards.

**Editorial**

**005 Erna Swart** We start some sentences with: For example, in some jurisdictions...”. Or we say” In some cases ...”. When you do that I am looking for a description of the contrary practice in another jurisdiction. Can we redraft this?

I wondered whether paragraph 28 should contain a clear statement that we do not address the contribution in this standard?

**General Approach and Other Comments**

**003 Tadashi Sekikawa** I highly appreciate the staff on their effort in preparing the draft ED. I agree with the staff that it would be right time we ask constituents for comment.

**004 David Bean** I believe that you did exactly what the Board directed you to do at the November meeting. Although I understand why this compromise was proposed, I do not believe that it will result in a high quality standard. I believe that a Preliminary Views (PV) document (a Board document) would be a more appropriate vehicle to move the project forward at this time. A PV document would allow the IPSASB members to set forth a preliminary view of the Board (majority) and an alternative view (minority). It would not force the IPSASB into a compromise that would satisfy few, if any, of the constituents.

Two viable alternatives that could be considered for presentation in this document are:

- A due and payable recognition approach with disclosure of sustainability information for the major social benefit programs (likely the alternative view)
- An approach that would result in a liability being recognized at an earlier point(s). As you know, there are many alternatives to choose from, including using the measurement guidance in the proposed ED.

Where we are at is purgatory. The proposal flat out says that if the eligibility requirements are met, it is a liability (paragraph 48). However, the ED does not propose to report it as such. Again, the likelihood that this will be warmly received is remote. We will be one more year down the line after this round of due process and looking at the possibility of reexposure. At least a PV moves us moving forward. We would not be facing a potential setback that a reexposure would signal.

~~SIXTH-SEVENTH~~ DRAFT ED

International  
Public Sector  
Accounting  
Standards  
Board

*International Public Sector Accounting Standards Board*

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Social Benefits: Disclosure ~~and~~ Presentation

**REQUEST FOR COMMENTS**

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft *Social Benefits: Disclosure and Presentation*, for publication in xx xx xxxx. This proposed International Public Sector Accounting Standard may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by xx xx xxxx. All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

Email responses should be sent to: [publicsectorpubs@ifac.org](mailto:publicsectorpubs@ifac.org)

## **INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

## Introduction to Key Issues in ED 33, “Social Benefits: Disclosure and Presentation”

### Purpose of this Introduction

The purpose of this Introduction is to provide a brief background to the development of this Exposure Draft (ED) and to highlight some of the key issues that the IPSASB has found difficult to resolve. These are issues on which the IPSASB acknowledges that there are diverse and sometimes conflicting views amongst global public sector standard-setters and others with an interest in public sector financial reporting. The IPSASB particularly seeks the views of constituents on the following issues/topics that which are considered in this Introduction:

- Present Obligations for Cash Transfers and the Impact of Contributions and Earmarked Taxes
- Present Obligations for Individual Goods and Services
- Revalidation of Eligibility Criteria as a Recognition Criterion or Measurement Attribute
- Measurement of Liability Arising from Present Obligations
- Fiscal Sustainability

### Background

The IFAC Public Sector Committee (PSC), the IPSASB’s predecessor committee, issued IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” in October 2002. Social benefits provided in non-exchange transactions are outside the scope of IPSAS 19. The PSC issued an Invitation to Comment (ITC), “Accounting for Social Policy Obligations” in January 2004. The ITC was developed by a Steering Committee comprised of both PSC Members and Technical Advisors and others outside the PSC, such as representatives of finance ministries, with an interest in accounting for social benefits under the accrual basis of accounting. The ITC proposed that the framework of IPSAS 19 was applicable to accounting for social benefits provided in non-exchange transactions and the PSC accepted this proposal. The IPSASB commenced development of an Exposure Draft ED of a Standard on “Accounting for Social Policy Obligations” in April 2005. The title of this project was subsequently changed to “Social Benefits: Disclosure and Presentation.”

The ED that has been developed proposes requirements only in respect of disclosure. It does not propose requirements relating to recognition. The IPSASB’s intention when initiating this project and throughout much of the development of this ED was to produce requirements for the recognition and measurement of liabilities and expenses related to social benefits.

The IPSASB’s deliberations on present obligations and measurements led to a modification of the scope to disclosure of liabilities related to major cash transfer programs. This is because the recognition of expenses and liabilities based on this Standard’s analysis of present obligations and measurement would be a very major change for many jurisdictions and in the view of the IPSASB would be too great a step to achieve through one Standard.

### Present Obligations for Cash Transfers and the Impact of Contributions and Earmarked Taxes

The ED defines a cash transfer as “a non-exchange transaction, which is either settled in cash, or is an expense paid through the tax system, to protect individuals against certain social risks where use of the cash payment is at the discretion of the individual”. The IPSASB has explored when a present obligation arises in respect of cash transfers. In particular the IPSASB has debated at length whether the contributory nature of a program, or the fact that it is financed through earmarked taxation, has an impact on when a present obligation arises.

In the context of social benefits generally, rather than those financed by contributions or earmarked taxes the ITC acknowledged the view that an initial obligating event for cash transfers might arise at a number of points prior to the satisfaction of all eligibility criteria. Such points included birth, entry into the workforce, attainment of a legally specified retirement age or some intermediate point. The ITC referred to such points as “key participatory events”. The ITC concluded that practically there is difficulty in identifying the point at which the government or public sector entity has no realistic alternative but to provide benefits. This position was supported by the majority of respondents at consultation. The IPSASB accepted this view and therefore adopted the principle that a present obligation for cash transfers arises when all eligibility criteria have been satisfied.

The ITC did not deal with contributory programs or those financed by earmarked taxes in detail. The IPSASB acknowledges the robustness of the view that the payment of contributions by, or on behalf of, an individual may give rise to a present obligation at a point prior to the satisfaction of all eligibility criteria. According to this view, this is because the payment of a specified number or amount of contributions is an initial obligating event that creates a valid expectation or reinforces an existing expectation that an individual will receive benefits on the basis of a formula under the existing legal provisions governing the program. Allied to such an expectation it is unrealistic for the government or public sector entity to avoid settlement of that obligation.

This view has recently been put forward ~~forcibly~~ by the proponents of the majority view in the Preliminary Views Paper, “Accounting for Social Insurance (Revised)” issued by the US Federal Accounting Standards Advisory Board (FASAB) in October 2006. The majority view in that Preliminary Views Paper argues that, in the context of the US Social Security and Medicare programs, a present obligation arises when an individual achieves “fully insured” status. This is the point at which an individual becomes eligible for benefits without making further contributions, providing that they satisfy all other eligibility criteria in the future; for the US social security program this point is after an individual has been in 40 quarters of “covered” employment i.e. employment for which contributions are paid on behalf of an individual. The majority view relies on a notion which is similar to, although not exactly the same as, the “vesting” principle that underpins a number of national and international financial reporting standards, notably IAS 19, “Employee Benefits”. In IAS 19 “vested employee benefits” are employee benefits that are not conditional on future employment.

The IPSASB’s reasons for determining that a present obligation arises when all eligibility criteria have been satisfied rather than at an earlier point, regardless of whether a program is contributory or financed by earmarked taxes, are both conceptual and practical. They also reflect the global context of this proposed Standard.

First, in developing a Standard that is applicable throughout the world it may often not be clear at what point an obligating event arises. Determining that a present obligation arises at the point where an entitlement to benefits in the future has been established under the existing legal framework has the major advantage of providing a precise point at which an initial obligating event occurs. It therefore addresses one of the practical problems highlighted in the ITC: identification of the point prior to satisfaction of all eligibility criteria where the initial obligating event occurs. However, it is not clear that this point is necessarily valid for all programs globally that involve contributions.

Second, in the view of the IPSASB it is not fully clear that the payment of contributions or earmarked taxes will always be obligating events giving rise to constructive obligations that leave governments and public sector entities no realistic alternative but to settle. A government’s ability to avoid settlement may vary across time and may depend upon a range of factors such as the bargaining electoral position of particular social or demographic groups in a jurisdiction. Further, even where a scheme is non-contributory, individuals may have a very strong expectation of receiving benefits on the grounds that they are contributing indirectly through general taxation.

Thirdly, the IPSASB is mindful of the axiom that the funding or financing of a program should not be the determinant of the accounting treatment. Worldwide, it is possible to point to a number of instances where confusing and opaque accounting treatments have developed from attempts to relate recognition and measurement of particular elements to funding or financing arrangements; for example, the failure to recognize liabilities for post-employment benefits on the basis that pension plans are unfunded.

The IPSASB also realizes that the recognition of very large expenses and liabilities related to social benefits on the face of the statement of financial performance and the statement of financial position ~~would~~ give rise to very large annual and accumulated deficits and to a heavily negative net assets/equity position. In this context there is a general global acceptance that the right to tax does not give rise to an intangible asset, which might counter-balance such a large liability. Such a presentation, in which expenses and liabilities related to social benefits would dwarf most of the other figures presented in the primary statements, may not be readily understandable to users and the relevance of the information presented may be questionable.

For these reasons the ED’s ~~requirements-proposals~~ are on the basis that present obligations arise when all eligibility requirements have been satisfied, regardless of whether programs are financed by contributions and earmarked taxes

or by general taxation. Nevertheless the IPSASB wishes to obtain the views of constituents on these issues so it has a specific matter for comment relating to cash transfers (this and other specific matters for comment highlighted in this “Introduction to Key Issues in ED 33” are repeated in the full list of 12 Specific Matters for Comment in the Specific Matters for Comment section of this ED)

*(Whether you agree that) A present obligation in respect of cash transfers that are financed from contributions and earmarked taxes arises when all eligibility criteria have been satisfied? If you disagree please indicate at what point a present obligation arises and give your reasons.*

### **Present Obligations for Individual Goods and Services**

The ED defines individual goods and services as “goods and services provided for individual consumption to protect an individual or individual household against certain social risks”. Like cash transfer programs, programs for the delivery of individual goods and services have eligibility criteria. The IPSASB explored whether a present obligation arises to the beneficiaries of programs providing individual goods and services, and, if so, when such a present obligation ~~first~~ arises.

The IPSASB takes the view that governments and public sector entities do not have a present obligation to provide goods and services for individual consumption. The IPSASB’s view is because the recognition of liabilities related to individual goods and services would result in entities recognizing expenses and liabilities for the ongoing activities of government including where delivery of the service occurs in subsequent reporting periods. This is analogous to an entity engaged in manufacturing recognizing the production costs that will be incurred in future reporting periods.

Acceptance of the view that a present obligation exists for individual goods and services gives rise to a further difficult issue: the extent of that obligation. The obligation might be narrow or very broad, dependent upon the legal framework governing a program and whether a particular stipulation is deemed to operate as an eligibility criterion. For instance, in jurisdictions where free or subsidized education or health care is universally available to all citizens, would the present obligation be for education or health care services throughout an individual’s life or would it be more narrowly based on whether an individual had met the eligibility criteria of specific institutions, such as schools and hospitals: for example, admittance to the school roll or acceptance onto a hospital waiting list? The answer to this issue may be dependent upon whether the focus is on the individual entity or the economic entity such as the whole-of-government level.

In accordance with the above analysis the IPSASB’s tentative conclusion, reflected in the ED, is that present obligations do not arise to beneficiaries in respect of individual goods and services. The IPSASB does not consider that the existence of contracts with employees and third parties covering one or more future reporting periods give rise to present obligations to the recipients and beneficiaries of the goods and services to be provided under those contracts.

The IPSASB ~~is open about~~has the reservations ~~it has~~ about this conclusion and is not fully convinced that the method by which resources are transferred should necessarily dictate accounting treatments. Under the approach in the ED, liabilities will not be recognized for individuals who have confirmed eligibility for benefits under programs where resources are delivered other than in cash, for example programs providing medical benefits where the individual is treated by a third party medical provider under a contractual arrangement with a government agency and the agency pays the medical provider directly.

The IPSASB also acknowledges that there is a fine line between cash transfers and individual goods and services ~~is a fine one and, which is~~ arguably, is often blurred: for example, individuals may be authorized to purchase specified goods or services and be reimbursed for the expenditure incurred. Furthermore, under the definitions in the ED, some programs may operate to provide both cash transfers and individual goods and services: for example, where a housing support program includes both cash payments to beneficiaries and the provision of accommodation to beneficiaries by third party landlords under contractual arrangements with a government agency.

The IPSASB wishes to obtain the views of constituents on the issue of whether, and, if so, when, a present obligation arises to individuals for individual goods and services. It has therefore included a specific matter for comment on this issue.

*(Whether you agree that) A present obligation to beneficiaries in respect of collective and individual goods and services does not arise (paragraph 43). If you disagree please indicate at what point does such a present obligation arise and to whom. Please state your reasons.*

### **Revalidation as a Recognition Criterion or a Measurement Attribute**

A number of programs delivering social benefits require participants (those who have currently satisfied eligibility criteria) to revalidate their eligibility at a future date. Requirements for revalidation are normally laid down in the legislation or regulations governing the program.

The IPSASB's views on this issue have changed in the course of the project's development. Initially the IPSASB took the view, put forward in the ITC, that revalidation was a recognition criterion and that the extent of a present obligation could not exceed the maximum amount that an individual is entitled to receive from one validation point to the next.

The IPSASB also explored the notion that "staying alive" or demonstrating continuing existence is an implicit eligibility criterion for all cash transfers, so that even where an individual has satisfied all eligibility criteria explicitly laid down in governing legislation or regulations, an obligation might not extend beyond the reporting date. The IPSASB rejected this approach as artificial, whilst acknowledging that there might be rare cases of programs where "staying alive" is an explicit eligibility criterion.

The IPSASB has therefore modified its initial view that revalidation is a recognition criterion. There are two related reasons for this. First, treating validation points as key parameters in the determination of obligations and liabilities is not conducive to financial reporting that enhances comparisons between governments and public sector entities. It leads to the recognition of different liabilities, dependent completely upon the timing of the eligibility revalidation requirements in place. Thus, different liabilities will be reflected for two programs with identical benefits and eligibility requirements, dependent upon the date of revalidation. The consequences of this can be illustrated most starkly by considering two social security pension programs. One program has no revalidation requirement after eligibility criteria have been met; the other has an annual requirement that those receiving benefits complete and return a pro-forma confirming the beneficiary's address and that he/she is still alive. The obligation for the second program will extend only to the date of revalidation, which may be a matter of a few days or weeks after the reporting date, whilst the obligation for the first program will extend to the end of a beneficiary's life.

Second, restricting the extent of the present obligation to the maximum amount between validation points gives rise to the possibility of gaming, whereby expenses and liabilities can be artificially limited by instituting revalidation points shortly after the reporting date.

For these reasons the IPSASB has concluded that revalidation should be a measurement attribute rather than a recognition criterion. The IPSASB has included a specific matter for comment on this issue as follows:

*(Whether you agree that) Where a cash transfer program requires individuals to revalidate their entitlement to benefits, revalidation is a measurement attribute that should be taken into account in the measurement of the liability rather than a recognition criterion? If you disagree please state your reasons.*

### **Measurement of Liability Arising from Present Obligations**

The development of the IPSASB's views on the appropriate measurement requirements have reflected the evolution of views on present obligations and the revalidation of eligibility criteria highlighted above. The IPSASB initially took the view that measurement should be on a "due and payable" basis. This is the position adopted by the minority view in the FASAB Preliminary Views paper. The IPSASB rejected this because, although the term is very widely used in accounting policies for non-exchange cash transfers in jurisdictions which have already migrated to

the accrual basis, there appeared to be no consensus on its precise meaning. The IPSASB also explored whether, in accordance with the notion that a beneficiary needed to “stay alive” in order to benefit from a transfer of resources, any liability should not extend beyond the portion of the next payment relating to the reporting date.

The IPSASB concluded that measurement requirements should flow from the conclusions on the extent of present obligations and should be principles based. Therefore, paragraph 48 requires that “the amount disclosed as a liability for major cash transfer programs shall be the amount that the entity has no alternative but to settle as at the reporting date following satisfaction of threshold eligibility criteria.” Commentary explains that this will normally be an actuarially based assessment of the present value of the future cash flows to provide benefits to all those who have satisfied threshold eligibility criteria at the reporting date.

IPSASB has included a specific matter for comment on this issue as follows:

*(Whether you agree that)The amount disclosed as a liability for major cash transfer programs shall be the amount that the entity has no alternative but to settle as at the reporting date following satisfaction of threshold eligibility criteria. This will normally be an actuarially based assessment of the present value of the cash flows to provide benefits in the future to all those who are eligible at the reporting date. If you do not think that this is the amount of the liability, please state what is the amount of the liability and give your reasons.*

### **Fiscal sustainability**

The IPSASB acknowledges that accrual-based financial statements, which are historical documents, can only convey a partial picture of the viability of programs delivering social benefits. This is the case whether a very restrictive view of present obligations for social benefits is taken, as in the majority of jurisdictions ~~that~~<sup>which</sup> have migrated to the accrual basis, or a more expansive approach as in this ED. For this reason the IPSASB emphasizes the importance of fiscal sustainability reports providing estimates of outflows and inflows for the most significant programs delivering social benefits over a future period. At this point, the IPSASB has not considered it appropriate to include requirements for disclosures or separate statements related to fiscal sustainability in this ED. This is because:

- The IPSASB wishes to facilitate adoption of ~~the Standard that will result from this~~ ED by the largest feasible number of entities and considers that introducing requirements for fiscal sustainability disclosures may make it difficult for some entities to adopt it; and
- The IPSASB may initiate a project on fiscal sustainability reporting in the future. This project would consider fiscal sustainability in depth and would include a comparative analysis of current approaches.

Nevertheless the ED contains an encouragement for entities to provide information on the fiscal sustainability of major cash transfer programs. The project on the conceptual framework that the IPSASB has initiated in conjunction with national standard-setters will consider the scope of financial reporting. The role of long-term sustainability reporting in general-purpose financial reporting will be explored in this context.

### **Conclusion**

Accounting for social benefits is a developing area. The IPSASB accepts that current global approaches to recognizing and disclosing liabilities relating to social benefits provide inadequate information to users. It is also accepted that the proposals in the ED are merely a first step in ~~the development evolving an~~<sup>of a final</sup> -approach that is globally accepted. The IPSASB looks forward to receiving the views of constituents on the issues outlined in this Introduction ~~and the other Specific Matters for Comment on pages 19-22.~~

## Due Process ~~and Timetable~~

An important part of the process of developing IPSASs is for the Committee to receive comments on the proposals set out in Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

## Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the identification of present obligations in relation to social benefits and disclosure requirements for liabilities arising from those present obligations.

## Request for Comments

Comments are invited on any proposals in this Exposure Draft by ~~xx-xx~~30 November ~~-xx~~2007. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including Implementation Guidance and the Basis for Conclusions) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

## Specific Matters for Comment

The IPSASB would particularly value comment on whether you agree that:

1. Only obligations from social benefits provided by an entity in non-exchange transactions should be within the scope of the Standard rather than obligations arising from all non-exchange transactions (paragraph 2)? Please give your reasons.
2. Social security pensions and other social benefits giving rise to non-exchange transactions for which retirement age is an eligibility criterion should be included within the scope of this Standard (paragraph 4)? If you think that social security pensions and other social benefits for which retirement age is an eligibility criterion should be dealt with in a separate Standard, please give your reasons.
3. Contributory and non-contributory programs giving rise to non-exchange transactions should be within the scope of this Standard (paragraph 6)? If you think that contributory and non-contributory programs giving rise to non-exchange transactions should be dealt with in separate Standards please give your reasons.
4. The definition of social benefits at paragraph 11 is sufficiently clear and comprehensive? If you disagree ~~can you please~~ explain how this definition should be modified.
5. The definitions of collective goods and services, individual goods and services and cash transfers at paragraph 11 are necessary and appropriate. If they are not necessary or appropriate can you explain how they should be modified?
6. A present obligation in respect of cash transfers that are financed from general taxation arises when all threshold eligibility criteria have been satisfied (paragraph 38)? If you disagree please indicate at what point a present obligation in relation to cash transfers arises and give your reasons.

7. A present obligation in respect of cash transfers that are financed from contributions and earmarked taxes arises when all threshold eligibility criteria have been satisfied (paragraph 38)? If you disagree, please indicate at what point a present obligation arises and give your reasons.
8. A present obligation to beneficiaries does not arise in respect of collective and individual goods and services ~~does not arise~~ (paragraph 43)? If you disagree please indicate at what point does such a present obligation arise and to whom. Please state your reasons.
9. Where a cash transfer program requires individuals to revalidate their entitlement to benefits, revalidation is a measurement attribute that should be taken into account in the measurement of the liability rather than a recognition criterion (paragraph 52)? If you disagree please state your reasons.
10. The amount disclosed as a liability for major cash transfers shall be the amount that the entity has no alternative but to settle as at the reporting date following satisfaction of threshold eligibility criteria (paragraph 48)? This will normally be an actuarially based assessment of the present value of the cash flows to provide future benefits to all those who are eligible at the reporting date (paragraph 49). If you do not think that this is the basis for determining the amount of the liability, please ~~state what is the amount of the liability~~ identify which basis should be used and give your reasons.
11. The disclosure requirements in paragraph 60 are appropriate. If you think that they are unduly onerous ~~which~~ disclosures should not be required. Conversely, if you think that the disclosures are inadequate what further disclosures would you include?
12. There should be no prohibition on the disclosure of liabilities recognized in respect of collective and individual goods and service under an entity's existing accounting policy, even though under the proposals in the ED present obligations do not arise to beneficiaries . If you think that entities should be prohibited from disclosing liabilities in respect of collective and individual goods and services please state your reasons
13. The requirements for the implementation of this Standard in paragraphs and the relief from providing comparative information relating to periods preceding ~~in~~ the first year of adoption (paragraphs 66-71) are appropriate. If you do not think that they are appropriate please indicate ~~which~~ requirements for implementation should be included.

## International Public Sector Accounting Standard ED 33

### Social Benefits: Disclosure and Presentation

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International Public Sector Accounting Standard XX, “Social Benefits: Disclosure and Presentation” (IPSAS XX) is set out in paragraphs 1-70+. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusions and the “Preface to the International Public Sector Accounting Standards”. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Introduction

IN1. The Standard prescribes requirements for the disclosure and presentation by public sector entities of liabilities for social benefits arising from non-exchange transactions. It does not require recognition of these liabilities in the statement of financial position. For many governments and public sector entities<sup>2</sup> programs for the provision of social benefits in non-exchange transactions comprise a highly significant part of their operations. Liabilities related to such programs can potentially have a very significant impact on financial position.

IN2. The Standard deals with three categories of social benefits:

- (a) Collective goods and services
- (b) Individual goods and services
- (c) Cash transfers

IN3. The Standard does not deal with cash transfers that are provided as consideration in exchange for service rendered by employees, including where such cash transfers are provided through composite social security programs, which operate to provide both cash transfers in non-exchange transactions and benefits as consideration in exchange for service rendered by employees. The Standard also does not deal with:

- Goods and services provided in exchange transactions, including individual goods and services provided to individuals and households in exchange for consideration of approximately equal value; and
- Contracts with employees and third parties for the delivery of social benefits to individuals and households.

IN4. Under the requirements of this Standard no present obligation arises to the beneficiaries of collective goods and services and individual goods and services.

IN5. For all cash transfers present obligations arise when all threshold eligibility criteria have been satisfied, regardless of whether an entity has a legal obligation to transfer such resources. The method by which a program making cash transfers is financed does not affect the point at which a present obligation arises.

IN6. The Standard deals with the disclosure and presentation of liabilities arising from present obligations relating to major cash transfer programs. It does not deal with the recognition and measurement of any expenses and liabilities that may arise from present obligations relating to social benefits in the statement of financial performance and the statement of financial position. An entity makes a designation of cash transfer programs as “major” by reference to the qualitative characteristics of financial reporting in IPSAS 1, “Presentation of Financial Statements”.

IN7. Where present obligations arising from present obligations for major cash transfer programs meet recognition criteria they are disclosed as liabilities. The liability for major cash transfer programs is the amount that the entity has no alternative but to settle as at the reporting date following satisfaction of threshold eligibility criteria. This will normally be the present value of future cash transfers for all those who have satisfied threshold recognition criteria as at the reporting date. In determining the amount of such liabilities, the reporting entity ~~makes~~ estimates ~~of~~ the variables that will determine the ultimate cost of providing those benefits. These estimates include both demographic and financial assumptions. Where a major cash transfer program requires the revalidation of eligibility criteria, those assumptions will also include estimates of the proportion of those eligible at the reporting date who will revalidate their entitlement and the timescale over which revalidation will take place. The liability disclosed is not limited to the amount that the individual is entitled to from one validation point to the next.

IN8. In addition to the disclosure of liabilities for major cash transfer programs, ~~other~~ ancillary disclosures are required for such programs. These include details of the principal legislation and regulations governing the

programs, the criteria for designating a program as major, actuarial assumptions and policies for the recognition and measurement of expenses and liabilities related to social benefits.

| IN9. The Standard becomes effective for reporting periods beginning ~~on~~ a date three years after its issuance. Earlier adoption is encouraged. Relief is provided from the provision of comparative information in the first year of adoption of the Standard and information covering a number of prior reporting periods can be provided on a prospective basis starting in the first year of adoption.

## INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

### Social Benefits: Disclosure and Presentation

#### Objective

1. Governments and public sector entities provide constituents with social benefits in the form of goods, services and cash transfers in the pursuit of social policy objectives. The objective of this Standard is to identify the circumstances in which present obligations arise in relation to social benefits provided in non-exchange transactions and to provide requirements for the measurement ~~and~~ disclosure ~~and presentation~~ of liabilities related to those present obligations for certain programs. The Standard also includes ~~certain~~ other ~~disclosure~~ requirements ~~to disclose~~ ~~providing~~ details ~~of~~ the assumptions used in determining the amount of liabilities and the nature of major cash transfer programs.

#### Scope

2. An entity ~~that~~ ~~which~~ prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the disclosure ~~and presentation~~ of liabilities, either recognized or unrecognized, relating to social benefits provided in non-exchange transactions.
3. Social benefits are provided to members of the community in non-exchange transactions, ~~often without any consideration~~. The entity providing these benefits does not receive consideration that is approximately equal to the value of the goods and services provided, directly in return from the recipients of these benefits. Social benefits ~~They~~ include health and educational services and cash transfers such as unemployment benefits. This Standard deals with the disclosure and presentation of liabilities relating to social benefits provided in non-exchange transactions. It does not deal with the recognition ~~and measurement~~ of expenses and liabilities relating to social benefits provided in non-exchange transactions except for disclosure of the accounting policy selected by the entity in relation to recognition and the amounts recognized as expenses and liabilities in the reporting period. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.
4. This Standard applies to social security pension benefits provided in non-exchange transactions, as well as to other cash transfers and goods and services provided by governments in non-exchange transactions to individuals where attainment of retirement age is an eligibility criterion. In some jurisdictions cash transfers to individuals who have reached retirement age and satisfied other eligibility criteria are made through composite social security programs. Composite social security programs operate to provide benefits in non-exchange transactions and also as post-employment benefit plans. Transactions of composite social security programs ~~Cash transfers that are provided as~~ as consideration in exchange for service rendered by employees are not within the scope of this Standard (see also paragraph 7).
5. In some jurisdictions governments or public sector entities may provide individual goods and services such as health, housing and transport in exchange for consideration of approximately equal value - for example, when a hospital ~~has~~ uses a wing for patients who pay the full cost of medical services. Such transactions are exchange transactions and are outside the scope of this Standard.
6. It is also quite common for governments or public sector entities to provide individual goods and services in exchange for consideration that is not approximately equal in value to the benefits transferred by the government

or public sector entity- for example, an individual may be required to contribute a nominal amount to the cost of an educational course or pay part of the cost of a consultation with a doctor. Such arrangements are within the scope of this Standard. Certain cash transfer programs may also require contributions on ~~or~~ behalf of individuals. Such programs are within the scope of this Standard provided that the amount of the contributions is not approximately equal to the economic benefits transferred by the government or public sector entity. This Standard does not deal with accounting for such contributions.

7. This Standard does not apply to employee benefits, including post-employment benefits provided to government employees and other employees as consideration in exchange for their services. Requirements in respect of employee benefits should be accounted for in accordance with ED 31, "Employee Benefits". This Standard does also not apply to exchange transactions for the provision of goods and services by third parties.

### **Government Business Enterprises**

8. This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).
9. The Preface to International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB) explains that GBEs apply International Financial Reporting Standards, which are issued by the International Accounting Standards Board (IASB).

### **Definitions**

10. The following terms are used in this Standard with the meanings specified. These terms have been defined in other IPSASs (or EDs):

Composite social security programs are established by legislation, ~~;~~ and

- (a) ~~o~~~~O~~perate as multi-employer plans to provide post-employment benefits; as well as to
- (b) ~~p~~~~P~~rovide benefits that are not consideration in exchange for services ~~s~~ rendered by employees

A constructive obligation is an obligation that derives from an entity's actions where:

- (a) ~~b~~~~B~~y an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) ~~a~~~~A~~s a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

An exchange transaction is a transaction in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts available for beneficiaries regardless of whether or not they pay taxes.

A legal obligation is an obligation that derives from:

- a) ~~a~~~~A~~ contract through its explicit or implicit terms;
- b) ~~l~~~~L~~egislation; or

c) ~~o~~Other operation of law.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

11. The following terms are used in this Standard with the meanings specified:

A cash transfer is ~~a a non-exchange transactions~~social benefit, which is either ~~settled-provided~~ in cash, or is an expense ~~paid-incurred~~ through the tax system, to protect individuals against certain social risks where use of the ~~cash-payment-resources transferred~~ is at the discretion of the individual.

Collective goods and services are social benefits in the form of goods and services provided for consumption by the entire population or by a particular segment of the population in any jurisdiction in order to protect the population or segment of the population ~~against~~from certain social risks.

An eligibility criterion is a requirement that must be satisfied for entitlement to individual goods and services and cash transfers.

Individual goods and services are social benefits in the form of goods and services provided for individual consumption to protect an individual or individual household against certain social risks.

Retirement age is an age at which an individual will become eligible for social security pensions, subject to the satisfaction of other eligibility criteria.

Social benefits are cash transfers and ~~individual-and~~ collective and individual goods and services provided by an entity directly to recipients in a non exchange transaction to protect the entire population, or a particular segment of the population in any jurisdiction ~~or individuals or individual households~~ against certain social risks.

A social security pension is a cash transfer payable only to ~~those~~ that segment of the population that has ~~who~~ have reached retirement age

A social risk is an event or circumstance that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their incomes.

Threshold eligibility criteria are all the criteria ~~that~~ that an individual must satisfy when applying for a social benefit for the first time, or when reapplying for a social benefit after a period of ineligibility, in order to be entitled to individual goods and services ~~and-or~~ cash transfers.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards and are reproduced in the Glossary of Defined Terms published separately.

## Goods and Services Encompassed by Social Benefits

12. ~~Government social policies are developed to address and respond to certain social risks. In pursuit of these social policies, governments and public sector entities provide goods and services to their citizens without receiving approximately equal consideration in exchange. Such transactions are non-exchange transactions.~~ Goods and services provided by public sector entities in non-exchange transactions may be provided for collective consumption or for consumption by individuals or individual households. Government and public sector entities also provide social benefits in the form of cash transfers. These goods and services and cash transfers are generally termed social benefits. The definition of social benefits in this Standard requires resources to be transferred directly to the recipients. The definition of social benefits, therefore, does not include transfers from one level of government to another level such as shared tax revenues (for example, where the national government transfers a proportion of certain tax receipts to a provincial government), or from one national government to another national government (for example, resources for disaster relief). This is because such resources are not transferred directly to the recipients.

## Collective Good and Services

13. Collective goods and services are made accessible simultaneously to all members of the community or to all members of a particular section of the community, such as all households living in a particular region. Such goods and services differ from individual goods and services and cash transfers in that they are automatically available and consumed by all members of the community, or group of households in the community or section of the community. By their nature, collective services cannot normally be sold to individuals in the market place. Goods and services provided for collective consumption vary in different jurisdictions. Examples include:

- (a) National defense;
- (b) The conduct of international relations;
- (c) Public order and safety (including police services, fire protection services, law courts and prisons);
- (d) The efficient operation of the social and economic system of a country; and
- (e) The formulation and administration of government policy, setting and enforcement of standards, regulation and licensing of personnel and institutions, and applied research and experimental development.

## Individual Goods and Services

14. Governments and public sector entities provide a range of goods and services for individual consumption. Such goods and services are provided to an individual or ~~individual~~ household and are used to satisfy the needs and wants of that individual or members of that household. Unlike collective goods and services, individual goods and services can be bought and sold in the market place. However, in many cases, there is no requirement for the beneficiaries of these goods and services to pay an amount equivalent to the fair value of the goods and services provided. Goods and services provided for individual consumption vary in different jurisdictions. Examples include:

- (a) Health services,
- (b) Educational services,

- (c) Housing services,
- (d) Transport services; and
- (e) Social services to the community.

15. The provision of individual goods and services is often intended to contribute to the collective welfare by, for example, creating a workforce that is better educated or technically competent in certain areas, or a population that is in better health. However, individual goods and services are provided in the first instance for consumption by individuals or individual households. Unlike collective goods and services, individual goods and services are subject to the satisfaction of eligibility criteria (see paragraphs 23 and 24).

16. Individual goods and services can be provided in a number of ways. For example methods to provide free or subsidized health and education~~at~~ goods and services to individuals include:

- a) The direct provision of the goods and services. Governments and public sector entities may deliver services directly, for example, in government~~-~~controlled schools or hospitals with government employed teachers and medical staff.
- b) Paying another organization to deliver goods and services to individuals. For example, a government may pay a private hospital a set fee per service, such as for performing an operation on an individual. Normally such arrangements will require the hospital to meet certain criteria specified by the government. Governments may also pay private sector providers of education~~at~~ services a subsidy for each student. Frequently, upper limits are set on the amount that the government will pay under such arrangements.
- c) The reimbursement of households and individuals for certain types of expenditure. Rather than providing free or subsidized goods or services at the point of purchase or consumption, a government may require individuals to purchase the goods and services and then apply for reimbursement. For example, individuals attending a doctor's surgery may be required to pay a standard fee, which a government will reimburse in full or part for certain individuals or a government may reimburse individuals with disabilities for the full cost or part cost of certain home services when proof of ~~receipt~~ purchase of those services is provided; and
- d) Providing individuals with vouchers that can be redeemed for goods and services. For example, some jurisdictions provide individuals with vouchers that entitle them to free education at one of a selected number of schools. The school then redeems the voucher with the government.

17. ~~There may be certain~~In some instances ~~where~~ a service may be provided on both a collective and an individual basis. For example policing and criminal justice services may be both collective and individual goods and services. Members of the community are subject to the protection of the police as a component of the broader criminal justice system and normally do not have to satisfy eligibility criteria in order to consume such services. However, there are occasions when an individual does have to satisfy eligibility criteria in order to benefit from policing and criminal justice services. For example, an individual in a witness protection scheme may have to meet eligibility criteria.

18. Individual goods and services can be distinguished from cash transfers because the resources transferred are intended to be used for the service potential embodied in the goods and services specified by the transferor. ~~They~~It therefore they differ from cash transfers to individuals where the individual has a wider discretion over the purposes for which the economic benefits may be used (see below paragraphs 19-21). It may, of course, be possible for a recipient of goods to sell the goods rather than use them for the purposes intended by the transferor. Such a course of action, however, requires a positive further action by the recipient beyond receipt of the economic benefits transferred. Where the resources embodied in individual goods and services involve the transfer of cash as in~~at~~ paragraph 16(c) this is a specific reimbursement.

## Cash Transfers

19. In many instances, governments and public sector entities will provide social benefits in the form of cash transfers to address social risks facing individuals and/or their households. Such benefits include:

- a) Social security pensions
- b) Child benefits;
- c) Invalidity and sickness benefits;
- d) Unemployment benefits;
- e) Income supplements; and
- f) Housing benefits (where paid to the applicant rather than directly to the landlord).

20. As noted ~~in~~ paragraph 18, the characteristic distinguishing cash transfers from individual goods and services is that the purposes for which the cash transferred may be used are completely at the discretion of the recipient. If a recipient has to validate that the cash has been used for a purpose specified by the transferor the transaction is a reimbursement rather than a cash transfer and is within the definition of an individual good or service.

21. On occasions, cash transfers ~~will be~~ made to beneficiaries as reductions in the amount of income tax that they have to pay rather than as a direct cash payment. In such cases, for administrative efficiency, the taxation system is used to process a transfer, which would otherwise be made directly in cash. Such reductions in taxation are expenses paid through the tax system and are within the definition of cash transfers in this Standard. IPSAS 232, “Revenue from Non-Exchange Transactions (Taxes and Transfers)” provides additional commentary on tax expenses and tax expenditures. Tax expenditures are preferential provisions of the tax law that provide certain concessions to tax-payers that are not available to others. Tax expenditures are not within the definition of a cash transfer in this Standard.

22. There may be instances ~~in which~~ where a particular program or arrangement providing social benefits includes both cash transfers and individual goods and services. An example is a housing support program ~~where in which~~ rental allowances for the tenants of private landlords are paid to recipients in cash, whereas rental allowances to recipients who are tenants of public housing authorities are paid directly to the social housing authority. In such cases resource outflows under the program may be componentized ~~between~~ into cash transfers and individual goods and services.

## Eligibility Criteria and Threshold Eligibility Criteria

23. The eligibility criteria that an individual or household must satisfy in order to become entitled to individual goods and services or cash transfers are laid down in the legislation and regulations governing the program. Eligibility criteria can differ widely between types of benefits in their number and complexity. The term “threshold eligibility criteria” refers to all the eligibility criteria that an individual or household must satisfy when applying for a social benefit for the first time, or when reapplying for a social benefit after a period of ineligibility, in order to be entitled to individual goods and services ~~or~~ cash transfers. For example, an individual who has been making contributions to a program providing medical benefits to those aged 65 years and over cannot satisfy threshold eligibility criteria until he/she has reached the age of 65 years, even though that individual may have already made sufficient contributions to qualify for benefits when they reach the age of 65 years.

24. Eligibility criteria may need to be revalidated at specified intervals in order for an individual or household to maintain entitlement to social benefits—for example, where the provision of medical services is only available to those with incomes below a specified level individuals may be required to ~~verify~~prove that their incomes are below this level on a regular basis.

### **Social Security Pensions and other Social Benefits where Retirement Age is an Eligibility Criterion**

25. Social security pensions operate to provide cash transfers to individuals who have attained ~~the~~ retirement age laid down in governing legislation or regulations, as well as satisfying other eligibility criteria. The retirement age is normally the age at which an individual is no longer expected to be active in the full-time work-force and becomes eligible for the social security pension. As well as an eligibility criterion for the social security pension, the retirement age may also be the age at which an individual ceases to be eligible for certain other state benefits—for example unemployment benefit. The age varies between jurisdictions and may vary within jurisdictions. For example, in some jurisdictions an individual may work beyond retirement age and not be entitled to the retirement pension while he/she works. Programs for social security pensions vary across jurisdictions and often contain highly detailed and complex provisions. There are two types of social security pensions within the definition of social security pensions in this Standard:

- Basic/welfare pensions; and
- General/contributory pensions

26. Basic/welfare pensions do not require contributions from, or on behalf of, beneficiaries. In some cases basic/welfare pensions operate as “safety nets” for individuals ~~;~~ who have not met the eligibility criteria for the general/contributory pension or whose contribution record is insufficient to provide more than a low level of benefits under the general/contributory pension.

27. General/contributory pensions require contributions by, or on behalf, of an individual during their working lives or other periods specified in governing legislation or regulations. Benefits may be:

- Related to the amount of those contributions but not approximately equal to the value of those contributions: and/or
- Linked to a minimum period over which contributions must be made in order for an individual to be eligible.

28. General/contributory pensions may be administered as stand-alone programs or together with basic/welfare pensions. In some cases general/contributory pensions and basic/welfare pensions may be administered in composite social security programs that also operate as multi-employer plans in providing post-employment benefits. In such cases, it will be necessary to distinguish benefits provided as consideration for employment services rendered and benefits ~~which-that~~ are not consideration for employment services rendered. In accordance with paragraphs 5 and 7 only the latter are addressed in this Standard. This Standard does not deal with accounting for the contributions to general/contributory pension programs or the contributions to composite social security programs.

29. Many jurisdictions also provide citizens with other cash transfers and individual goods and services once they have reached retirement age. The requirements in this Standard apply to all social benefits provided in non-exchange transactions for which attainment of retirement age is an eligibility criterion.

## Obligating Events and Present Obligations

30. The existence of a present obligation, as a result of a past event, is the ~~threshold condition for recognition~~ essential feature of a liability. For an event to be an obligating event, it is necessary that the entity has no realistic alternative other than to settle the obligation created by the event. An obligating event may give rise to a legal or constructive obligation.

31. An obligation always involves another party to whom the obligation is owed. In many commercial contracts both parties will know to whom the obligation is owed. However, specific identification of the other party is not necessary for the establishment of an obligation. The obligation arising from a governmental social policy may be to a large number of citizens.

## Legal Obligations and Constructive Obligations

32. A legal obligation exists when a party has a legal or otherwise enforceable right to obtain judgment through a court of competent jurisdiction to enforce payment, performance or compensation. A determination of whether a particular transaction or event would give rise to a legal obligation must ultimately be made by a court or ~~other~~ quasi-judicial mechanism. A legal obligation exists when it is clear from legislation or previous examples of legal action that, if the issue were taken to court, the issue would be decided in the applicant's favor. This may be the case for a number of cash transfers where the particular circumstances of an applicant's eligibility may not have been tested in court, but the experience of similar previous cases may suggest that a ~~legally~~ obligating event has occurred.

33. Legal obligations often ~~arise as a result of~~ are contractual obligations. A contract is an agreement with specific terms between two or more persons or entities in which one agrees to provide goods or services or to take certain actions in return for valuable consideration, including where the consideration provided by one party is not of approximately equal value to the value of the benefits conferred by the other party to the contract. In some cases, the consideration may be nominal in relation to the benefits conferred (for example, a small monetary consideration may be provided merely to give the transaction the form of a contract).

34. In some jurisdictions, a government's perceived commitment to deliver social benefits to constituents may be referred to as a "social contract". The use of the term "social contract" does not establish a legally enforceable agreement with specific terms as in paragraph 330.

35. Future obligations can be distinguished from present obligations. A government's implicit or explicit agreement to provide social benefits in future periods does not constitute a legal contract and does not give rise to a present obligation.

36. Present obligations may also arise when legal obligations do not exist. Such obligations are constructive obligations. Constructive obligations are broader than legal obligations. Constructive obligations encompass obligations that a government has a duty to honor because it has led individuals or entities to believe that it will settle such obligations and has no realistic alternative but to do so. In the context of this Standard, a constructive obligation arises where an individual has satisfied all eligibility criteria for a cash transfer, even though the date at which the transfer must be made under the legislation or regulations governing the program has not yet occurred (see paragraphs 38-40).

37. An obligation always involves a commitment to another party. Therefore it follows that a decision by a government or public sector entity's management, governing body or controlling entity does not give rise to a constructive obligation at the reporting date, unless the decision has been communicated before the reporting date to those affected by it in a manner sufficiently specific to raise a valid expectation in them that the entity will discharge its responsibilities and the entity has no realistic alternative but to do so. General political commitments or statements of policy intention do not give rise to present obligations, because these statements are not sufficiently specific to give rise to constructive obligations.

## **Disclosure and Presentation of Liabilities Related to Social Benefits**

### **Present Obligations**

#### **Cash Transfer Programs**

38. A present obligation for ~~social benefits which are~~ cash transfers arises when all threshold eligibility criteria have been satisfied.

39. Under the requirements of this Standard, a present obligation for a cash transfer arises when all threshold eligibility criteria have been satisfied. Threshold eligibility criteria are the criteria that an individual must satisfy when applying for a social benefit for the first time or when reapplying for a social benefit after a period of ineligibility, for example the attainment of retirement age and any other eligibility criteria for social security pensions. Some programs may require the satisfaction of a large number of criteria and those criteria may not all have to be satisfied at the same time. An example is a child benefit program, where the child must have reached a specified age but further eligibility criteria related to the child's parents' income and/or asset holdings must be satisfied before ~~an payment of entitlement to benefit is triggered~~exists. In such cases threshold eligibility criteria are all eligibility criteria.

40. For contributory programs, a present obligation does not arise in respect of individuals who are making contributions, or for whom contributions are made on their behalf, until all threshold eligibility criteria have been satisfied.

41. Some programs may include termination benefits. These are one-off payments ~~for which a present obligation arises~~arising when an individual who has previously satisfied eligibility criteria ~~for periodic payments~~ ceases to satisfy those eligibility criteria. For example, a child benefit program providing economic benefits for children under the age of 16 years may have a provision whereby a child receives a final lump sum on his/her sixteenth birthday. ~~Under such circumstances the present obligation arises when the eligibility criteria cease to be satisfied and the individual becomes eligible for the lump sum~~If programs include provisions for such termination benefits the present obligation arises when the individual satisfies threshold eligibility criteria. The measurement of the liability arising from that present obligation takes into account the likelihood of an individual qualifying for a termination benefit in the future.

42. This Standard reflects the view that an entity has no realistic alternative but to settle its obligations arising from the satisfaction of eligibility criteria in relation to cash transfers. Whilst governments and other public sector entities can modify eligibility criteria, it is ~~highly unusual~~unlikely that for such changes ~~will to~~ be retrospective. The assessment of when a present obligation arises is made in the context of the current legal framework governing a program or activity. Paragraphs 48-49 of this Standard provide requirements and commentary on the measurement of the liability to be disclosed arising from this present obligation.

### **Collective and Individual Goods and Services**

43. Under the requirements of this Standard a present obligation for collective and individual goods and services does not arise to beneficiaries of those goods and services. An entity may have contracts with third parties for the supply of goods and services needed to provide collective and individual goods and services on an ongoing basis, including into future reporting periods. Collective and individual goods and services may also be provided directly by public sector entities using their own employees. The fact that the reporting entity has entered into contracts with third parties for the supply of goods and services or employment contracts with employees involved in the provision of collective and individual goods and services for future periods does not create a present obligation in relation to beneficiaries of those goods and services.

44. Where an individual purchases goods and services and seeks reimbursement from a public sector entity a present obligation may arise ~~at the point at which~~when the goods and services are provided to the individual. This is the case if it can be demonstrated that:

- The individual had a prior authorization to purchase the goods and services;
- The individual had met all eligibility criteria; and
- The entity providing the reimbursement has sufficient information to measure the amount outstanding reliably.

In such circumstances the individual is, in substance, acting as an agent of the public sector entity and is incurring expenditures on behalf of that entity.

### ~~Disclosure of~~ Liabilities for Major Cash Transfer Programs

45. ~~Where a present obligation has arisen for social benefits which are cash transfers a liability shall be disclosed for major cash transfer programs~~An entity shall disclose a liability related to major cash transfer programs when:

- ~~It~~ it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- ~~a~~ A reliable estimate can be made of the amount of the obligation

46. A present obligation for major cash transfer programs gives rise to a disclosure of a liability when it meets the criteria for disclosure. IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” provides further guidance on these criteria in the context of recognition.

47. This Standard ~~only~~ requires the disclosure of liabilities only for major cash transfer programs. Professional judgment is applied in determining which programs are major programs by reference to the qualitative characteristics of financial reporting in IPSAS 1. Such a judgment is based primarily on factors such as the current annual expenditure on a program and the number of eligible beneficiaries at the reporting date. Paragraph 60 (c) requires entities to disclose the criteria they are applying to determine which cash transfer programs are classified as “major”.

### Measurement of ~~Amount Liabilities Disclosed~~ – Major Cash Transfer Programs

48. ~~The amount disclosed as a liability for major cash transfer programs shall be the amount that the entity has no alternative but to settle as at the reporting date following satisfaction of threshold eligibility criteria by beneficiaries.~~

49. ~~Under the requirements of this Standard liabilities arise for cash transfer programs when all threshold eligibility criteria have been satisfied by beneficiaries.~~ Where present obligations arising from present obligations for major cash transfer programs meet the criteria in paragraph 45, they are disclosed as liabilities. The amount of the liability will normally be an estimate of the present value of future cash transfers for all those who have satisfied threshold recognition criteria at the reporting date based on a principle of continuous eligibility (see paragraph 50).

50. The estimate of the liability is based on a principle of continuous entitlement. This means that the estimate is based on an individual continuing to satisfy eligibility criteria for a benefit over a future period without a break in entitlement. For example, in making an assessment of the liability for a program delivering benefits to unemployed

individuals the assessment includes estimates of the number of those currently eligible who will revalidate their entitlement so that they are continuously eligible for benefits from the reporting date. The assessment does not make estimates of ~~the number of amounts that will be paid to individuals who will cease to validate eligibility criteria on, for example, returning to paid employment, but will subsequently following re-establishment of their eligibility to entitlements after a period of future ineligibility (for example due to a period of paid employment), at a further point in the future.~~

51. Actuarial assumptions shall be used in determining the liability under paragraph 48 and those assumptions shall be unbiased and mutually compatible.

52. In determining the amount of such liabilities, the reporting entity makes estimates of the variables that will determine the ultimate cost of providing those benefits. These variables may vary dependent upon the nature of the major cash transfer program. Such estimates are actuarially based. These estimates include both demographic and financial assumptions. Actuarial assumptions include demographic factors. Dependent upon the nature of the program, ~~these demographic factors~~ may include variables such as life expectancy, emigration and the extent of periods of unemployment. Financial factors include ~~ing~~ future benefit levels. Where a major cash transfer program requires the revalidation of eligibility criteria those assumptions will also include estimates of the proportion of those eligible at the reporting date who will revalidate their entitlement on a continuous basis and the period of timescale over which revalidation will continue to take place.

53. Actuarial assumptions are unbiased if they are neither imprudent nor ~~excessively~~ conservative. Actuarial assumptions are mutually compatible if they reflect the economic relationships between variables, for example the relationship between inflation and unemployment rates.

54. Actuarial assumptions shall be consistent between major cash transfer programs

55. In determining the amount of liabilities under paragraph 48, the actuarial assumptions are consistent between major cash transfer programs. For example it ~~would be~~ inappropriate to use different inflation assumptions covering the same period for two major cash transfer programs, if transfers under those programs are based on the general rate of inflation.

56. The rate used to discount obligations under major cash transfer programs shall be determined by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds, the market yields (at the reporting date) on high quality corporate bonds should be used. The currency and term of the government bonds or high quality corporate bonds shall be consistent with the currency and estimated term of the obligation related to the major cash transfer program.

57. In making an assessment of the present value of future cash transfers, the entity ~~will~~ discounts the projected amount of those future cash transfers to their present value. The discount rate selected can have a material effect on the amount of the liability disclosed. The discount rate reflects the time value of money, but not actuarial or investment risk or entity-specific credit-risk.

58. The discount rate used reflects the estimated timing of benefit payments and will be related to the yield on government bonds at the reporting date. In practice, an entity may apply a single weighted average discount rate that reflects the estimated timing and amount of all benefit payments.

59. For some programs, such as social security pensions, there may be no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates at the appropriate term to discount shorter term payments and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

**Disclosures: Major Cash Transfer Programs**

60. An entity shall disclose the following information for each major cash transfer program for which a liability is measured under paragraph 48:

- (a) The amount of the liability measured in accordance with paragraphs 48- 54;
- (b) A general description of the major cash transfer programs, including the principal legislation and regulations governing the programs, ~~for which liabilities are disclosed in accordance with paragraph 60(a);~~
- (c) The criteria used to determine whether a cash transfer program is a major cash transfer program and an explanation of reasons why any cash transfer program classified as a major cash transfer program in the previous reporting period is no longer classified as a major cash transfer program;
- (d) The number of eligible beneficiaries for each major cash transfer program at the reporting date;
- (e) The rate used to discount obligations under major cash transfer programs to their present value;
- (f) The basis on which benefits will be increased in the future ~~Estimated future increases of benefits;~~
- (g) The principal actuarial assumptions used at the reporting date; –
- (h) Changes to the principal actuarial assumptions since the last reporting date;
- (i) Comparative information for the current reporting period and the previous four reporting periods for the disclosures required in paragraphs 60 (a), (d) and (e); and
- (j) The entity's accounting policy for recognizing ~~liabilities-expenses~~ and ~~expenses-liabilities~~ relating to social benefits and the amount of any expenses recognized in the statement of financial performance and liabilities recognized in the statement of financial position relating to social benefits.

61. ~~This Standard requires an entity to disclose information about the liabilities for its major cash transfer programs measured under the requirements of paragraphs 48-50. These disclosures in paragraph 60 excluded do not include~~ projections of cash transfers for future participants, who have not satisfied threshold eligibility criteria at the reporting date, for example individuals who are likely to satisfy eligibility criteria in the next reporting period. It does not include projections of future cash transfers for individuals who have made contributions, or for whom contributions have been by third parties, sufficient to entitle them to the receipt of benefits at a future date, but who have not satisfied all threshold eligibility criteria at the reporting date.

62. This Standard requires the disclosure of the principal assumptions used to measure liabilities and any changes to those assumptions since liabilities disclosed at the previous reporting date. This information is useful in facilitating the assessment of the ~~viability-reliability~~ of the measurement methodology. The Standard also requires comparative information covering the current reporting period and the previous four reporting periods. This provides an indication of extent to which liabilities of major cash transfer programs are increasing or decreasing together with trend information on numbers of beneficiaries and discount rates. Entities are encouraged but not required to provide information on the sensitivity of projections to particular variables, for example the effect of a percentage point change in the average period of eligibility for unemployment benefit.

63. In accordance with paragraphs 2 and 3, this ED does not deal with the recognition of liabilities and expenses related to social benefits. ~~However, paragraph 60(j) requires e~~Entities ~~are required~~ to disclose the accounting policies adopted for the recognition of ~~liabilities and expenses- and liabilities~~ related to social benefits. Paragraph 60(j) also requires entities to disclose the amount of any expenses recognized in the statement of financial performance and liabilities recognized in the statement of financial position relating to social benefits.

**Disclosure of fiscal sustainability of major cash transfer programs.**

64. This Standard encourages, but does not require, governments and public sector entities to make disclosures of the fiscal sustainability of major cash transfer programs and other programs delivering social benefits over pre-determined timescales. Such disclosures reflect estimates of inflows and outflows under the existing legal framework. for individuals who have not satisfied threshold eligibility criteria at the reporting date, but are projected to do so in the future, as well as for individuals who have satisfied those threshold eligibility criteria at the reporting date.

65. The information needed for the disclosures required by this Standard will provide useful inputs to assessments of the sustainability of major cash programs. However, such assessments need to take into account a wide range of factors not addressed in this Standard, such as the extent to which individuals who have not currently satisfied all threshold eligibility criteria will do so during the timeframe of the sustainability disclosure and the amount of inflows in the form of contributions, earmarked taxes and transfers from other levels of government. Entities making such disclosures are encouraged to disclose the major assumptions and the approach to the determination of inflows, particularly those arising from general taxation rather than contributions and earmarked taxes.

## Initial Adoption of this Standard

66. ~~An entity may elect to provide comparative information only in respect of reporting periods to which this Standard is applied. In the first year of adoption of this Standard an entity is not required to provide comparative information.~~

67. Paragraph 66 provides relief from disclosing comparative information in respect of reporting periods prior to the first year of adoption of this Standard. This includes relief to all entities from disclosing the inclusion of comparative information to all entities in the first year of adoption of this Standard. An entity is permitted and encouraged to include comparative information for prior reporting periods where this is available.

~~68. In the first year of adoption of this Standard an entity may provide the information required by paragraph 60 (i) prospectively.~~

68.9. Paragraph 60(i) requires the disclosures specified in paragraphs 60(a), (d) and (e) to be made in respect of of information for the current reporting period and the previous four reporting periods. Under paragraph 66, in the first year of adoption of this Standard, those disclosures are only required for the current reporting period. Similarly, under paragraph 66, an entity can build up its disclosures of that comparative information for Disclosure for the information required in paragraphs 60(a) 60(d) and 60 (e) is only required for the current reporting period in the first year of adoption of this Standard. Information on prior reporting periods can be provided prospectively in reporting periods subsequent to the first year of adoption of this Standard. Information on prior reporting periods can be provided prospectively in reporting periods subsequent to the first year of adoption of this Standard. Thus, during the first three reporting periods after the first year of adoption of this Standard, the comparative information required by paragraph 60(i) need not be presented for all four prior reporting periods. However, the comparative information required by paragraph 60(i) needs to be disclosed in respect of each reporting period to which this Standard has been applied. During the first three reporting periods after the first year of adoption of this Standard, an An entity is permitted and encouraged to provide the comparative information required by paragraph 60(i) on prior for reporting periods where prior to this available in the first year of adoption of this Standard, where this is available.

## Effective Date

~~7069.~~ This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after MM DD 20IX (three years after issuance). Earlier application is encouraged.

~~704.~~ When an entity adopts the accrual basis of accounting as defined by International Public Sector Accounting Standards for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

## Implementation Guidance

### Accounting for Social Benefits — Examples

*This guidance deals with the identification of present obligations and the measurement of liabilities for disclosure purposes arising from any such obligations for a variety of social benefits. The guidance assumes that, for all the examples involving cash transfer programs, reporting entities have designated those cash transfer programs as “major”. This should not be taken to imply that the IPSASB has determined that programs similar to these are “major cash transfer programs” This guidance accompanies, but is not part of, proposed IPSAS XX. In all the examples there is a reporting date of 31 December.*

### Example 1: Collective Goods and Services: Police Services

IG1. A government operates a national police service. In a series of policy pronouncements, the government has publicly stated its intention to maintain uniformed police officers at current levels in the next year and then to increase the number of uniformed police officers by 10% for two further years.

#### Analysis

IG2. **Present obligation as a result of a past obligating event** —There is no present obligation to provide policing services to the community in future periods, regardless of whether statements have been made of intentions to increase police numbers, maintain them at current levels or reduce them.

IG3. Notwithstanding the fact that, under the requirements of this Standard, present obligations to the beneficiaries of collective goods and services do not arise, general policy statements of intent still leave the government with a realistic alternative to settling any obligation created by the announcement. Therefore, such general statements of intent cannot be obligating events, regardless of the nature of the social benefits program.

IG4. **Disclosure of Liability**—There is no ~~disclosure of a~~ liability to the beneficiaries of collective goods and services under the requirements of this Standard and therefore no requirement for a disclosure.

### Example 2: Individual Goods and Services: Free Health Care-Universal to Residents

IG5. Under legislation, a government is required to provide free health care services to all citizens who satisfy residential eligibility criteria. Health care is provided by a combination of government operated hospitals and clinics and healthcare institutions operated by both for-profit and not-for-profit entities. The Government has made a public commitment to continue this program in the future.

#### Analysis

IG6. **Present obligation as a result of a past obligating event** —There is no present obligation to provide healthcare services in future periods to beneficiaries. Employment contracts with government employees and executory contracts with third party medical providers do not give rise to present obligations to beneficiaries.

IG7. **Disclosure of Liability**— There is no liability to the beneficiaries of individual goods and services under the requirements of this Standard and therefore no requirement for a disclosure.  
~~There is no disclosure of a liability to the beneficiaries of individual goods and services under the requirements of this Standard.~~

### Example 3: Cash Transfer: Child Benefits

- IG8. Government A has legislation that specifies the eligibility criteria for child benefits. The parents of each eligible child receive 200 currency units every two months from Government A. The eligibility criteria are:
- The child is a resident of the country; and
  - The child is aged 16 years or under.
- IG9. At the reporting date 5,000,000 children have satisfied threshold eligibility criteria. It is estimated that a further 200,000 children will be born in the next reporting period and will satisfy those criteria.

#### Analysis

- IG10. **Present obligation as a result of a past obligating event** —A present obligation arises when children have satisfied all threshold eligibility criteria. There is no present obligation in respect of the children born after the reporting date as they have not satisfied threshold eligibility criteria as at the reporting date.
- IG11. **Disclosure of Liability**—A liability is disclosed in respect of the present obligations for the 5,000,000 children who have satisfied threshold eligibility criteria at the reporting date.
- IG12. **Measurement**—The amount disclosed will be an actuarially based assessment of the present value of the future cash flows in respect of the 5,000,000 children who have satisfied threshold eligibility criteria at the reporting date. The actuarial assessment will include variables such as the proportion of those currently eligible who will cease to satisfy the residential-residency requirement prior to their 16<sup>th</sup> birthday, mortality rates and the expected rate of benefit increase. The amount disclosed~~disclosure~~ will not include projected outflows relating to the 200,000 children who have not satisfied threshold eligibility criteria at the reporting date.

### Example 4: Cash Transfer: Child Benefits (Termination Benefit when Beneficiary Ceases to Satisfy Eligibility Criteria)

- IG13. ~~Government A has recently modified the legislative framework for the program in Example 3. Government C operates under legislation that specifies the eligibility criteria for child benefits. Entitlement ceases when a child has reached 17 years of age.~~ On reaching 167 years of age there is an entitlement to a termination benefit of 500 CUs. At the reporting date, 5,000,000 children had satisfied threshold eligibility criteria. 100,000 children had reached the age of 167 years but had not yet received the termination benefit~~payment~~. A further 20,000 children currently entitled to child benefit will reach the age of 167 years in the first quarter of the next reporting period.
- IG14. **Present obligation as a result of a past obligating event** — A present obligation arises when children have satisfied the threshold eligibility criteria~~on for the main program rather when they have ceased to satisfy eligibility criteria and become entitled to the for the~~ termination benefit. Therefore, at the reporting date, there is a present obligation for the 45,000,000 children who have ~~have reached the age of 17 years and for whom payment is outstanding~~satisfied the threshold eligibility criteria. There is no present obligation in respect of the 20,000 children currently entitled to child benefit who will reach the age of 17 years in the first quarter of the next reporting period, because they have ~~not met~~ not met the eligibility criterion.
- IG15. **Disclosure**— A liability for the termination benefit is disclosed in respect of the 45,000,000 children who have satisfied threshold eligibility criteria ~~for the termination benefit~~ at the reporting date.

IG16. **Measurement**— ~~Because the amount of the liability is limited to one payment, which is payable within 12 months of the reporting date the amount of the disclosure relating to this component of the child benefit program can be easily quantified as 50,000,000 currency units (100,000 x 500). It is payable within 12 months of the reporting date, so discounting is not required.~~ The amount disclosed will be an actuarially based assessment of the present value of the future cash flows for the termination benefit for the 5,000,000 children who have satisfied threshold eligibility criteria for the main program. This assessment will include an estimate of the proportion of those currently eligible who will cease entitlement prior to their 16<sup>th</sup> birthdays, due to factors such as emigration and death, and will therefore not be eligible for the termination benefit.

### Example 5: Cash Transfer: Unemployment Benefits

IG17. A government agency provides support through unemployment benefits to individuals who are unable to find paid employment. To receive a benefit under the program, a claimant has to meet the entitlement criteria specified in governing legislation.

IG18. Unemployment benefits will be paid if the claimant is:

- Aged over 18, but under retirement age for a basic/welfare social security pension;
- Has been unemployed for a period of 7 days
- Is available for work; and
- Is actively seeking work — the government agency has the discretion to terminate the benefit if an individual rejects more than 3 offers of work. This discretion has been rarely exercised in the past.

IG19. At the reporting date 1,500,000 individuals have satisfied eligibility criteria. A further 20,000 individuals have made applications but eligibility criteria have not been validated. The average time that an individual eligible at the reporting date is expected to remain eligible for benefits under the program is nine months. It is expected that 25% of those currently eligible will subsequently revalidate their eligibility in future reporting periods after a period in employment.

### Analysis

IG20. **Present obligation as a result of a past obligating event** — A present obligation exists only to those individuals who have satisfied all eligibility criteria required to qualify for a cash transfer under the program; in this case the obligation is owed to the 1,500,000 individuals who have satisfied threshold eligibility criteria at the reporting date. A present obligation does not exist at the reporting date to those who have made applications but whose eligibility has not been validated.

IG21. **Disclosure** — A liability is disclosed in respect of the present obligations for the 1,500,000 individuals who have satisfied threshold eligibility criteria at the reporting date.

IG22. **Measurement** — The amount disclosed will be an actuarially based assessment of the present value of the future cash flows in respect of the 1,500,000 individuals who have satisfied threshold eligibility criteria at the reporting date. This is likely to be on a weighted average basis of nine months continuous entitlement. The disclosure will not include projected outflows relating to the 20,000 who have applied, but whose satisfaction of threshold eligibility criteria has not been confirmed at the reporting date. The amount disclosed will not include an estimate of further projected cash outflows for the 25% of current beneficiaries who are expected to resatisfy threshold eligibility criteria following a break in entitlement.

### Example 6: Cash Transfer Social Security Pensions

IG23. Government F provides benefits under a basic/welfare type social security program to individuals who have reached retirement age of 65 years and also meet eligibility criteria that:

- They have been residents for a continuous period of three years before reaching retirement age; and
- They have annual incomes no greater than 10,000 currency units per annum.

IG24. Eligibility criteria have to be satisfied every three months and the last date for satisfaction of eligibility criteria is on 31 December. At 31 December, of the reporting period 9,000,000 individuals have satisfied the eligibility criteria. The average age of death for individuals eligible for benefits under the program is 75 years for men and 78 years for women. It is estimated that 2% of those eligible will cease to satisfy eligibility before they die, because they fail to meet either the residency requirement or because their annual incomes will exceed 10,000 CUs. It is also estimated that a further 300,000 individuals will satisfy eligibility criteria in the subsequent next reporting period.

#### Analysis

IG25. **Present obligation as a result of a past obligating event** — A present obligation exists in respect of the 9,000,000 individuals who had satisfied threshold eligibility criteria on 31 December. There is no present obligation at the reporting date to the 300,000 individuals who are estimated to become eligible in the next reporting period.

IG26. **Disclosure** — A liability is disclosed in respect of the present obligations for the 9,000,000 individuals who have satisfied threshold eligibility criteria at the reporting date.

IG27. **Measurement** — The amount disclosed will be an actuarially based assessment of the present value of the future cash flows in respect of the 9,000,000 individuals who have satisfied threshold eligibility criteria at the reporting date. The disclosure will not include projected outflows relating to the 300,000 individuals who are estimated to become eligible in the next reporting period.

### Example 7: Disaster Relief – Provision of Collective and Individual Goods and Services

IG28. On December 10 20X4, a massive earthquake struck Country A. On December 14, 20X~~4~~ the national government of Country X made a public commitment to participate in a multi-national relief initiative and pledged to provide policing services, by sending 100 officers for a 2 month period, and to also provide specified medical supplies. This commitment was communicated to a major supra-national organization and a number of national governments, which have also agreed to assist in the relief effort. Government X made a similar commitment following a disaster in Country B, a neighbour of Country A, two years earlier and honored that commitment. A separate contingency fund exists for such purposes and no further budgetary authorisation is required to allow the government to access these funds. The total cost of the policing component of the commitment, including transportation, is estimated to be 10 million currency units and the cost of the medical supplies is estimated to be 5 million currency units. At the reporting date of 31 December 20X4 only 3 million currency units had been spent.

#### Analysis

IG29. **Present obligation as a result of a past obligating event** — Regardless of the public commitment, and its communication to very significant multi-national partner organizations and the previous honouring of similar commitments there is no obligating event giving rise to a present obligation to either the international partners or to the citizens of Country A. The government is likely to have a present obligation to external suppliers if it has taken delivery of medical supplies but not yet transferred them to Country A. This Standard does not deal with such transactions.

**Example 8: Disaster Relief – Provision of Cash Transfers**

IG30. As part of the disaster relief initiative in Example 7 on December 28 20X4 Government X has agreed to make 4 million currency units available for cash assistance to households, whose homes have been damaged in the earthquake. This commitment has been publicly announced and communicated to partner organizations. Households have to meet specified criteria related to residency in Country A and provide proof that their homes are currently uninhabitable but can be returned to a satisfactory condition. No beneficiaries had satisfied the eligibility criteria as at the reporting date, although 30,000 households are expected to become eligible in the first quarter of the subsequent reporting period.

**Analysis**

IG31. Present obligation as a result of a past obligating event-Regardless of the public commitment and its communication to partner organizations there is no obligating event giving rise to a present obligation until the applicants have met the eligibility criteria.

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**ILLUSTRATIVE DISCLOSURES**

*This guidance accompanies, but is not part of, proposed IPSAS XX. In all the examples there is a reporting date of 31 December.*

**Unemployment Benefit Obligations**

<i>Present Value of Actuarial Projections for Those Satisfying Threshold Eligibility Criteria at Reporting Date</i>	31 December 20x1	31 December 20x2	31 December 20x3	31 December 20x4	31 December 20x5
	(millions of currency units)				
	855	850	870	900	950

**Notes**

1. Unemployment benefit is administered under the provisions of the Employment Act 1976 as amended by the Employment Acts of 1992 and 2003. Regulations laid under these Acts provide a number of detailed requirements. The main eligibility criteria are that individuals are:
  - Aged over 18, but under retirement age for a basic/welfare social security pension (currently 65 years);
  - Have not been ~~on~~ in paid employment for a period of 7 days
  - Available for work; and
  - Actively seeking work —benefit may be terminated if an individual rejects more than 3 offers of work.
2. Unemployment benefit has been designated as a major cash transfer program, because the volume of annual expenditure is higher than any other cash transfer program except the social security pension program.
3. The number of individuals eligible at the reporting date (millions) for the current reporting period and the previous four reporting periods were:.

31 December 20x1	31 December 20x2	31 December 20x3	31 December 20x4	31 December 20x5
2.63	2.73	2.78	2.81	2.84

4. In making the projections key assumptions in relation to those who ~~are in receipt of~~ receive benefits are that (figures in brackets indicate where these assumptions have changed since 31 December 20x4)
  - 40% of those in receipt of benefit as at 31.12 20x5 will return to work or otherwise cease to be eligible for benefit within one year of the reporting date (42% as at 31.12 20x4);
  - A further 35% will return to work or otherwise cease to be eligible for benefit within three years of the reporting date (31% as at 31.12 20x4);
  - A further 10% will return to work or otherwise cease to be eligible for benefit within five years of the reporting date (12% as at 31.12 20x4);
  - The remaining 15% of current participants will still be claiming benefit after 5 years from the reporting date.
5. It is estimated that 20.3% of those who will cease to be eligible within five years of the reporting date will subsequently resatisfy eligibility criteria following a break in entitlement. The liability disclosed ~~in~~ paragraph 1 above does not take account of these projected further entitlement periods
6. It is assumed that benefits payable under the program will increase in line with Central Bank targets for inflation. Currently this target is 2% a year.
7. Because of the time value of money cash outflows in years immediately following the reporting date are more onerous than those arising in later years. For this reason projections are discounted to their present value. For this purpose a discount rate determined by reference to the market yield on government bonds at the reporting date is used. The rates used in this reporting period and the previous four reporting periods were:

31 December 20x1	31 December 20x2	31 December 20x3	31 December 20x4	31 December 20x5
2.1%	2.4%	2.7%	2.8%	2.9%

8. Currently liabilities and expenses related to unemployment benefit are recognized on a “due and payable” basis. This means that the next payment following the satisfaction of the eligibility criteria listed in paragraph 1 above is expensed when eligibility criteria are satisfied. Any payments ~~that, which~~ have not been made at the reporting date, are recognized as liabilities.

**General/Contributory Pension**

<i>Present Value of Actuarial Projections for All Those Satisfying Threshold Eligibility Criteria at Reporting Date</i>	31 December 20x1	31 December 20x2	31 December 20x3	31 December 20x4	31 December 20x5
	(millions of currency units)	(millions of currency units)	(millions of currency units)	(millions of currency units)	(millions of currency units)

	850	870	910	950	1,000
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**Notes**

**General/Contributory Pension**

1. The general/contributory pension is a contributory program administered under the provisions of the Social Assistance Act 1962 as amended by the Social Assistance Acts of 1990 and 2002. Regulations laid under these Acts provide a number of detailed requirements.
2. The general/contributory pension program has been designated as a major cash transfer program, because the volume of annual expenditure is higher than any other cash transfer program operated by Government X.
3. The general/contributory pension is payable to all individuals over the age of 62 years who satisfy the following eligibility criteria:
  - Have a record of a minimum of 48 monthly contributions;
  - Have been residents within the jurisdiction for a minimum of three years;
  - Continue to be residents within the jurisdiction; and
  - Have annual incomes not higher than 20,000 currency units per annum and assets no greater than 50,000 currency units per annum.
4. The number of individuals eligible at the reporting date (millions) for the current reporting period and the previous four reporting periods were:-

31 December 20x1	31 December 20x2	31 December 20x3	31 December 20x4	31 December 20x5
4.1	4.2	4.3	4.3`	4.4

5. In making the projections key assumptions in relation to those who ~~are in receipt of~~ receive the general/contributory pension are that (figures in brackets indicate where these assumptions have changed since 31 December 20x4):
  - The average life expectancy for individuals eligible and in receipt of the general/contributory pension is 83 years 2 months for women and 78 years 5months for men (83years 1 months for women and 78 years 3 months for men);
  - 2.4% of those eligible and ~~in receipt of~~ receiving the general/contributory pension will cease to satisfy eligibility requirements related to annual income and asset holdings over the 4 years following the reporting date; and

- 1.1% of those eligible and ~~in receipt of~~receiving the general/contributory pension will cease to maintain resident status within ten years of the reporting date.
- 6. It is assumed that the general/contributory pension will increase in line with government targets for inflation plus one percentage point. Currently the inflation target is 2% a year.
- 7. Because of the time value of money cash outflows in years immediately following the reporting date are more onerous than those arising in later years. For this reason projected ~~cash flows~~ are discounted to their present value. For this purpose a discount rate determined by reference to the yield on government bonds is used The rates used in this reporting period and the previous four reporting periods were:

31	31	31	31	31
December	December	December	December	December
20x1	20x2	20x3	20x4	20x5
2.1%	2.4%	2.7%	2.8%	2.9%

- 8. Currently liabilities and expenses related to the general/contributory pension are recognized when all eligibility criteria have been satisfied. At the year end an expense is recognized for benefits up to the reporting date and, if a payment is outstanding at the reporting date, the proportion of that payment which relates to the reporting date is recognized as a liability in the statement of financial position

1.

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the proposed IPSAS XX.”*

### Introduction

BC1. This Basis for Conclusions summarizes the International Public Sector Accounting Standards Board’s (IPSASB) considerations in reaching the conclusions in ED XX, “Social Benefits: Disclosure and Presentation”. Individual members of the IPSASB gave greater weight to some factors than to others. In forming their views the IPSASB members considered in depth the views expressed by the Steering Committee on Social Policy Obligations in the Invitation to Comment (ITC), “Accounting for the Social Policies of Governments”, issued in January 2004 and ~~to~~ the views of constituents who responded to the consultation on that ITC.

BC2. The social benefits addressed in this proposed Standard, which include social security pensions, can have a major influence on the financial position and financial performance of governments and public sector entities. For entities in jurisdictions currently reporting on the full accrual basis the most common practice in respect of accounting for the social benefits provided by government is for resources used in the provision of those benefits to be expensed as goods and services are delivered. Most jurisdictions currently recognize as liabilities only those social benefits that are provided by cash transfer and that are legally due for payment. A minority of jurisdictions may also recognize the portion of periodic cash transfers that has accrued since the previous payment. The IPSASB therefore considers that it is essential to develop well understood, generally agreed methods of accounting for social policy obligations, supported by sound conceptual arguments. The issuance of this Standard is a first step in improving accounting for social benefits by public sector entities.

BC3. The IASB’s Liabilities project and other IASB projects may deal with matters that are relevant ~~to~~ this proposed Standard. However, the IPSASB does not consider it appropriate to pre-empt the outcome of the IASB’s due process; and, given the significance of accounting for the social benefits of public sector entities, does not consider that it would be appropriate to defer issuance of this proposed Standard.

### Conceptual Underpinnings

BC4. Social benefits were scoped out of IPSAS 19 to allow further consideration to be given to the topic. Subsequently the PSC established a Steering Committee comprising both PSC members and individuals from outside the Committee. The IPSASB accepted the Steering Committee recommendation that the conceptual approach and definitions in IPSAS 19 could be applied in determining when obligations arise from social policies in a non-exchange context. The IPSASB also noted that this approach had received strong support from respondents to the ITC.

### Scope

BC5. The Steering Committee and the majority of respondents to the ITC were of the view that a proposed Standard should be developed to deal with all social benefits including social security pensions and other benefits to citizens who have reached a specified retirement age. The IPSASB considered this issue at length. It recognized the views of those who argue that social security pensions are so significant to the financial position of many governments and public sector entities that they should be addressed in a separate Standard.

BC6. The ~~IPSASB~~ concluded that, in the light of its views that present obligations for social security pensions arise at the same point as for other programs providing cash transfers to beneficiaries, social security pensions should be dealt with in the same ~~S~~standard as ~~other~~ cash transfer programs where attainment of retirement age is not an eligibility criterion. The IPSASB saw little merit in developing a separate Standard, which would largely mirror the requirements and guidance for social benefits where attainment of retirement age is not an eligibility criterion.

BC7. The IPSASB also debated whether the scope of the proposed Standard should include all goods and services provided in non-exchange transactions. It is unlikely that the accounting for goods and services or cash transfers in a non-exchange transaction will be different dependent on whether they are provided as social benefits or not. However, it was decided to limit the scope of this Standard to social benefits in order to ensure compatibility

with IPSAS 19. In paragraph 1(a) of IPSAS 19 the scope exclusion for non-exchange transactions is limited to those arising from social benefits.

BC8. The IPSASB's intention when initiating this project and throughout much of the development of this proposed Standard was to produce requirements for the recognition and measurement of liabilities and expenses related to social benefits. The IPSASB's deliberations on present obligations and measurements led to a modification of the scope to the disclosure of liabilities related to major cash transfer programs and presentation. This is because the recognition of liabilities based on this Standard's analysis of present obligations and measurement of liabilities would be a very major change for many jurisdictions and in the view of the IPSASB would be too great a step to achieve through one Standard. The IPSASB also wishes to promote debate on the topics covered by this Standard and considers that a Standard that deals with disclosure and presentation provides an appropriate mechanism. In the view of the IPSASB accounting for social benefits is an evolving area and this Standard is a preliminary step in what will be a lengthy process.

### **Definitions**

BC9. The IPSASB considered whether the term "social benefits" should be defined. It noted the view of the Steering Committee that what constitutes social benefits varies from jurisdiction to jurisdiction and that this makes the adoption of an exhaustive definition problematic. The IPSASB also acknowledged the view of the Steering Committee that if items were not considered as a "social benefit" they would be dealt with under another International Public Sector Accounting Standard and that this reduces the consequences and risks of not defining the term. At consultation on the ITC, responses were almost evenly split as to whether a definition is necessary.

BC10. There is an attraction of relying on a general broad notion of social benefits. However, on balance, it was decided that the term should be defined. In reaching this conclusion the IPSASB considered felt that a convincing analysis of whether and when a present obligation to beneficiaries in relation to different types of social benefit arises would be difficult unless the term is defined and sub-categorized. As a starting point, the IPSASB took the definition used in the scope-out in IPSAS 19. The IPSASB agreed that any definition should be generic rather than a detailed list of which benefits fall in which category.

BC11. The IPSASB also noted the definition used in the scope-out to IPSAS 19 and the current definition of social benefits in statistical reporting bases including the Government Finance Statistics Manual 2001 (GFSM 2001), which itself is consistent with the System of National Accounts (SNA 1993). The IPSASB agreed with the view of the Steering Committee that, whilst this proposed Standard should use terminology consistent with statistical reporting bases wherever possible, the definition of social benefits should be broader than that used in GFSM 2001. In this context, the IPSASB noted that GFSM 2001 explains that "there is no universally accepted definition of the scope of social benefits and the social risks covered are liable to vary from scheme to scheme and from government to government."

BC12. The IPSASB adopted a three-part definition of social benefits as:

- Goods and services provided for collective consumption
- Goods and services provided for individual consumption
- Cash transfers

BC13. In the proposed Standard the short hand terms "collective goods and services" and "individual goods and services" are used. Although the accounting requirements for treatment of -collective and individual goods and services are the same, the distinction between collective goods and services and individual goods and services is so entrenched in statistical accounting literature that the IPSASB concluded that it should be retained. It is also useful for analytical purposes as many programs and arrangements for individual goods and services have eligibility criteria, unlike collective goods and services. This characteristic is shared with cash transfers.

BC14. Whilst the distinction between collective and individual goods and services is valid, there may be limited circumstances where activities can operate as both collective and individual goods and services. This may occur, for example, in the area of criminal justice. Whilst the protection ~~that which~~ the criminal justice system is intended to provide is available to all citizens in a jurisdiction there may be cases ~~in which where~~ eligibility criteria operate. This is acknowledged in paragraph 17 of the proposed Standard, which uses the example of eligibility for a witness protection scheme.

BC15. The IPSASB examined the nature of individual goods and services and cash transfers and considered whether the differences between them are sufficient to merit consideration of separate accounting requirements. The IPSASB concluded that there is one important distinction. Whereas for individual goods and services the transferor can stipulate the purposes to which the resources sacrificed must be applied, for cash transfers the recipient has full discretion how to use those transferred resources. The IPSASB acknowledged that in cases ~~in which where~~ the transfer of economic benefits is in the form of goods it may be possible for the recipient to sell those goods rather than use them for the purposes specified by the transferor. However, this requires a positive further action on the part of the recipient.

BC16. There may be cases ~~in which where~~ beneficiaries are provided with cash for the purchase of specific goods and services. The IPSASB is of the view that such transfers are reimbursements and meet the definition of individual goods and services. In common with other methods of providing individual goods and services the recipient does not have full discretion as to how the resources are to be used. The expenditure relating to such reimbursements will often require prior authorization and normally reimbursements will only be made after documented proof that the expenditure for which reimbursement is sought has been for purposes specified by the transferor. Such transactions are therefore different in substance ~~different~~ from cash transfers.

BC17. In some cases cash transfers will be made to beneficiaries as reductions in the amount of income tax for which they are liable. If such transactions are available to individuals regardless of whether they pay taxes they are expenses paid through the tax system and are within the definition of a cash transfer in this Standard. Such expenses are recognized as if the payment had been made directly in cash to the recipient. In such cases the tax system is used for administrative purposes. However, if allowances are only available to individuals who incur tax liabilities they are tax expenditures ~~(that is -preferential provisions of the tax law that provide taxpayers with concessions that are not available to others)-~~ and are not social benefits. Consistent with the approach adopted in IPSAS 3223, “~~Non-exchange Revenue~~ Revenue from Non-exchange Transactions (Taxes and Transfers)” tax expenditures are foregone revenue; consequently they are not expenses incurred by the entity. They are therefore outside the scope of this Standard. This treatment is also consistent with the requirements on offsetting in paragraphs 48 and 49 of IPSAS 1, “Presentation of Financial Statements (revised 2006)”.

### **Present Obligations for Social Benefits**

#### *General considerations*

BC18. The definition of an obligating event requires that a government or other public sector entity has no realistic alternative but to settle the obligation. For social benefits, governments, because of their sovereign powers, have a number of realistic alternatives to providing goods and services in future periods and have considerable discretion to reduce the level of services, introduce alternative programs with a resultant impact on demand or even to cease to provide the service altogether. However, financial reporting reflects the position at the reporting date based on known conditions; analysis of when a present obligation arises is made within this context. For this reason it is inappropriate to rely on the sovereign powers of government to justify a widespread non-recognition of liabilities for legal obligations. The establishment of such a principle would have far-reaching consequences and bring into question the recognition of liabilities relating to exchange transactions arising from commercial contracts. The IPSASB also considers that there are general and inappropriate risks if ~~accounts-preparers~~ of financial statements adopt a widespread practice of pre-empting legislative changes.

#### *Collective and individual goods and services*

BC19. The IPSASB therefore debated at length when a present obligation for financial reporting purposes arises in respect of each of the three types of social benefits. For collective and individual goods and services the Board considered whether a present obligation to beneficiaries might arise. The Board acknowledged that many citizens

have a very strong expectation that their government will continue to provide collective and individual goods and services into the future. Indeed, a failure to maintain a basic defense capability, a minimum law enforcement capability and a core administrative apparatus might imperil the continued existence of government and state. However, whilst these are important considerations, they do not of themselves give rise to a present obligation for a number of reasons.

BC20. First, the provision of collective and individual goods and services is an ongoing activity of government. It is important to note that the Standard addresses obligations of governments from a financial reporting perspective and not the more general obligations of governments from a broader perspective. Consistent with IPSAS 19, an entity would not recognize estimates of future outflows of economic benefits and service potential projected to be necessary for it to remain as a going concern in the future. A present obligation arises as a consequence of a past event; the need to incur costs in the future does not qualify as a past event. For a government to do so would be akin to a manufacturing entity recognizing estimates of employee costs and the costs of raw materials for future accounting periods. Such outflows represent the cost of future obligations rather than present obligations.

BC21. Second, there is not a present obligation for financial reporting purposes, whether legal or constructive, to provide such services in the future. Notwithstanding the view of the IPSASB in paragraph BC-17 that an assessment of the existence of a present obligation is made in the context of the current legal framework, a current legal obligation should not be taken to convey a future legal obligation. Similarly while constructive obligations may occur less frequently in the context of social benefits, a current constructive obligation should not be taken to convey a future constructive obligation. Whilst there will be assumptions that a government will continue to provide collective and individual goods and services, and citizens may have a valid expectation that such provision will occur, there is not a past event ~~that, which~~ creates an obligation that ~~the government or public sector an~~ entity has no realistic alternative but to settle.

BC22. Third, particularly in relation to individual goods and services, whilst certain points in an individual's life such as birth, entry to primary education, entry to the workforce and marriage are valuable for forecasting future demand levels for certain social benefits they do not constitute obligating events. Consequently, they do not give rise to present obligations.

BC23. The IPSASB also considered whether the existence of contractual arrangements with employees and other third parties such as suppliers creates~~d~~ an indirect and implicit commitment to citizens sufficient to give rise to a present obligation to citizens at a point when the contractual arrangements are entered into with third parties. The IPSASB concluded that entry into such contractual arrangements was too remote to be deemed an obligating event in the context of the government's commitments to its citizens.

BC24. Many programs that provide individual goods and services have eligibility criteria, a characteristic they share with cash transfer programs. The IPSASB considered whether a present obligation to beneficiaries arises for individual goods and services where beneficiaries have satisfied eligibility criteria. The IPSASB concluded that for individual goods and services there is no present obligation to beneficiaries. This is because recognition of an expense and liability for goods or services prior to their delivery in substance involves recognition of an expense for:

- a. Services to be rendered by employees in future periods where the service is delivered by the entity's own employees; or
- b. Good and services under executory contracts with third parties, which have not yet been delivered.

Were both a liability to the beneficiary and an expense to be recognized for the estimated cost of, for example, medical care at the time at which eligibility is satisfied that liability could only be extinguished by recognition of an equal liability to employees-in this case medical and ancillary staff- or third parties.

#### *Cash Transfers*

BC25. The IPSASB discussed at what point a present obligation arises for cash transfers. The IPSASB considered whether a present obligation might not arise until the transfer becomes legally payable, although the individual has satisfied all threshold eligibility criteria. The IPSASB concluded that a present obligation arises when all threshold

eligibility criteria have been satisfied, because at that point the transferor has no realistic alternative but to settle, even though the date at which the payment becomes legally enforceable ~~has still~~ ~~might have yet~~ to occur.

BC26. The IPSASB debated at length whether “staying alive” might operate as an implicit eligibility criterion for cash transfers and for individual goods and services. The IPSASB concluded that such a mechanism would be an artificial construct and that it would be inappropriate to adopt it as a universal feature of all cash transfer programs. The IPSASB acknowledged that there may be rare cases where “staying alive” or demonstrating “continuing existence” would be an explicit eligibility criterion laid down in governing legislation or regulations. There may even be cases where an individual’s eligibility might not be validated until after that individual’s death, such as when an individual’s military service over a specified period gives rise to a cash payment and that program is retrospective. There may also be cases where an individual’s death may itself be the obligating event, such as when the widows or widowers of combatants killed on active military service receive a cash payment.

#### **Impact of contributions and earmarked taxes on present obligations for cash transfer programs**

BC27. The IPSASB considered whether the contributory nature of a program providing cash transfers or whether such a program is financed or partially financed by earmarked taxes might have an impact on when a present obligation arises. The IPSASB acknowledged the robustness of the view that the payment of contributions by, or on behalf of, an individual may give rise to a present obligation at a point prior to the satisfaction of all eligibility criteria. This is because the payment of a specified number or amount of contributions is an initial obligating event that creates a valid expectation or reinforces an existing expectation that an individual will receive benefits on the basis of a formula under the existing legal provisions governing the program, and that it is unrealistic for the government or public sector entity to avoid settlement of that obligation.

BC28. The IPSASB concluded that ~~development of it is not feasible to develop~~ a globally applicable Standard on the basis that for contributory programs or those financed by earmarked taxes the ~~obligating~~ event giving rise to a present obligation occurs ~~at a point~~ before all eligibility criteria have been satisfied was not feasible because:

- Whilst a number of different points are possible, dependent upon the nature of the program and the jurisdiction, it is often difficult to ascertain with sufficient precision the point at which an ~~initial~~ obligating event occurs;
- It is far from clear that the payment of contributions or earmarked taxes will always be obligating events giving rise to constructive obligations that leaves government or other public sector entities no realistic alternative but to settle. This may depend upon circumstances in particular jurisdictions. This is particularly the case where outflows of benefits will not occur for a number of years after contributions have been paid; and
- Even where a scheme is non-contributory individuals may have as strong an expectation of receiving benefits on the grounds that they are contributing “indirectly” through general taxation as if the program or activity is contributory. It is therefore not always clear that the contributory nature of a program will put it on a different footing to a non-contributory program

#### **Revalidation as a Recognition Criterion or a Measurement Attribute for Cash Transfer Programs**

BC29. A number of cash transfer programs require participants (those who have currently satisfied eligibility criteria) to revalidate their eligibility at a future date. Requirements for revalidation are normally laid down in the legislation or regulations governing the program. Initially the IPSASB took the view, put forward in the ITC, that revalidation is a recognition criterion and that the extent of a present obligation cannot exceed the maximum amount that an individual is entitled to from one validation point to the next.

BC30. The IPSASB therefore modified its initial view that revalidation is a recognition criterion. There are two related reasons for this. First, treating validation points as key parameters in the determination of obligations and liabilities is not conducive to financial reporting that enhances comparisons between governments and public sector entities. It leads to the recognition of different liabilities, dependent completely upon the ~~frequency~~ ~~timing~~ of the eligibility revalidation requirements in place. Thus different liabilities will be reflected for two programs with

identical benefits and eligibility requirements, dependent upon the date-frequency of revalidation. The consequences of this can be illustrated most starkly by considering two social security pension programs. One program has no revalidation requirement after eligibility criteria have been met; the other has an annual requirement that those receiving benefits complete and return a pro-forma confirming the beneficiary's address and that he/she is still alive. The obligation for the first program will extend only to the date of revalidation, which may be a matter of a few days or weeks after the reporting date, whilst the obligation for the second program will extend to the end of a beneficiary's life. The IPSASB did not think that the differences in the amount of the obligation for these two programs reflected ~~the~~ different economic realities of the two programs.

BC31. Second, restricting the extent of the present obligation to the maximum amount between validation points gives rise to the possibility of gaming, whereby expenses and liabilities can be artificially limited by instituting validation points close to the reporting date. For these reasons, the IPSASB has concluded that revalidation should be a measurement attribute rather than a recognition criterion.

#### Measurement of liabilities for cash transfers

BC32. The development of the IPSASB's views on measurement has reflected the evolution of views on present obligations and the revalidation of eligibility criteria highlighted in paragraphs BC17-BC30. The IPSASB initially took the view that measurement should be on a "due and payable" basis. The IPSASB rejected this approach because, although the term "due and payable" is very widely used in accounting policies for non-exchange cash transfers in jurisdictions thatwhich have already migrated to the accrual basis, there appeared to be no consensus on its precise meaning. The IPSASB also considered whetherthat, in accordance with the notion that a beneficiary needed to "stay alive" in order to benefit from a transfer of resources, any liability should not extend beyond the portion of the next payment relating to the reporting date. This approach was rejected for the reasons outlined in paragraph BC26.

BC33. The IPSASB concluded that measurement requirements should flow from the conclusions on the extent of present obligations and should be principles based. Therefore paragraph 48 requires that "the amount disclosed as a liability for major cash transfer programs shall be the amount that the entity has no alternative but to settle as at the reporting date following satisfaction of threshold eligibility criteria by beneficiaries." Commentary explains that this will normally be an actuarially based assessment of the present value of the cash flows to provide benefits to all those who have met threshold eligibility criteria at the reporting date.

#### Disclosures relating to Collective and Individual Goods and Services

BC 34. Under the proposals in this proposed Standard present obligations do not arise to beneficiaries in respect of collective and individual goods and services. There is a possibility that some entities are already recognizing or disclosing liabilities to beneficiaries for collective and individual goods and services. The IPSASB considered whether it should prohibit entities from recognizing or disclosing such liabilities. The IPSASB decided that in view of the interim nature of the proposed Standard it would be inappropriate to include such a prohibition.

#### Fiscal sustainability

BC35<sup>4,5</sup>. The IPSASB acknowledges that accrual-based financial statements, which are historical documents, can only convey a partial picture of the viability of programs delivering social benefits. This is the case whether a restrictive view of present obligations for social benefits is taken, as in the majority of jurisdictions thatwhich have migrated to the accrual basis, or the more expansive approach adopted in this ED. For this reason the IPSASB emphasizes the importance of fiscal sustainability reports providing estimates of outflows and inflows for the most significant programs delivering social benefits over a specified future period. At this point the IPSASB has not considered it appropriate to include requirements for disclosures or separate statements related to fiscal sustainability in this proposed Standard. This is because:

- The IPSASB wishes to facilitate adoption of the Standard that will result from this ED by the largest feasible number of entities and considers that introducing requirements for fiscal sustainability disclosures may make it difficult for some entities to adopt the Standard; and
- The IPSASB may initiate a project on fiscal sustainability reporting in the future. This project would consider fiscal sustainability in depth and would include a comparative analysis of current approaches. As

a first step the IPSASB's project on the public sector conceptual framework will consider whether the long-term fiscal sustainability of government programs ~~fiscal sustainability~~ should be within the scope of general purpose financial reporting.

BC365. The proposed Standard contains an encouragement for entities to provide information ~~about~~ the fiscal sustainability of major cash transfer programs.

#### Consistency of approach in this ED with IPSAS 19

BC376. The IPSASB considered whether Example 9 in this proposed Standard~~ED~~, which deals with disaster relief is consistent with "Example 2B: *Contamination and Constructive Obligation*" in IPSAS 19, which concerns environmental damage caused by a government naval vessel. The background to ~~that~~ Example 2B in IPSAS 19 is that the government has a widely published environmental policy in which it undertakes to clean up all contamination that it causes and a record of honoring the published policy, although there is no environmental legislation in place. The conclusion is that a government commitment to meet the costs of both the immediate clean-up and the ongoing costs of monitoring environmental damage to fauna ~~does give~~gives rise to a present obligation. In Example 9 in this proposed Standard~~ED~~, the conclusion is that a government's public and written commitment to provide policing services and medical supplies to a multi-national disaster relief initiative does not give rise to a present obligation. This is despite the fact that the government has a record of honoring similar previous commitments. The IPSASB concluded that there is no inconsistency in the analysis and conclusions in the two examples. Example 2B in IPSAS 19 relates to an exchange transaction whereas Example 9 in this proposed Standard deals with a non-exchange transaction.

#### Arrangements for Implementation

BC37. The IPSASB considered how the requirements in this ED should be implemented. The IPSASB acknowledged that the measurement requirements in this Standard may prove difficult for ~~some~~ entities ~~that~~which do not have the systems in place to provide the necessary information. However, the Standard is an initial measure and a very extensive implementation period is likely to slow down further developments in this area. Therefore, ~~The IPSASB therefore~~ decided that the Standard should take effect for reporting periods beginning on a date three years after its issuance. Because of the relatively short implementation period ~~it was decided~~the IPSASB proposes to provide relief from providing comparative information in the first year of adoption. Paragraph 60(i) requires the disclosure of information for the current reporting period and the previous four reporting periods for the amount of the liability, the number of beneficiaries and the discount rates. Consistent with the relief from providing comparative information in the first year of adoption, entities are permitted to provide this information prospectively, starting in the first year of adoption, as they report under the requirements of this Standard.