

Meeting: International Public Sector Accounting Standards Board
Meeting Location: Toronto, Canada
Meeting Date: June 21–24, 2016
From: Paul Mason

Agenda Item 6

For:
 Approval
 Discussion
 Information

SOCIAL BENEFITS

Project summary	To identify the circumstances and manner in which expenses and liabilities of certain social benefits of governments arise. The project will also consider how they should be recognized and measured in the financial statements.	
Meeting objectives	<i>Topic</i>	<i>Agenda Item</i>
Decisions required at this meeting	Approaches to be included in Exposure Draft	6.1.1
	Accounting for the social contract approach	6.1.2
	Social benefits transactions not discussed in the CP	6.1.3
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	Discount rate to be used under the insurance approach	6.1.13
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Meeting objectives	Topic	Agenda Item
Other supporting items	Directions up to March 2016 meeting	6.2
	Decisions up to March 2016 meeting	6.3
	Social Benefits Project Roadmap	6.4
	Staff summary of responses to Consultation Paper, <i>Recognition And Measurement Of Social Benefits</i>	6.5

Agenda Item 6.1.1

Approaches to be included in Exposure Draft

Questions

1. The IPSASB is asked to decide which approach or approaches set out in the [Consultation Paper \(CP\)](#) should be further developed for an Exposure Draft (ED), and whether any additional approaches are required.

Detail

1. Respondents were asked to comment on the three approaches discussed in the CP:

Specific Matter for Comment 2

(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?

- (i) The obligating event approach;
- (ii) The social contract approach; and
- (iii) The insurance approach.

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.

2. Staff's summary of the responses to SMC 2 is included in Agenda Item 6.5 [below](#).

Preferred approaches

Approach	Number of respondents	Staff comments
Obligating event approach	8	Respondents consider a single approach provides greater consistency, or do not support the insurance approach.
Social contract approach	1	Most respondents explicitly disagreed with this approach. Some respondents (for example, Respondent 04) noted that this approach was more appropriate for sustainability reporting. This IPSASB has addressed sustainability reporting in Recommended Practice Guideline (RPG) 1, Reporting on the Long-Term Sustainability of an Entity's Finances .

Approach	Number of respondents	Staff comments
Combination of obligating event and insurance approaches	21	Consistent with the IPSASB's preliminary view as set out in the CP.
Propose alternatives	4	See below

3. The alternative approaches suggested are as follows:

Alternative approach	Staff comments
Disclosure of contingent liabilities only (Respondent 05)	Inconsistent with the Conceptual Framework.
Use of the IPSAS 25, <i>Employee Benefits</i> model for funded pension and other retirement benefits, in addition to the obligating event and insurance approaches (Respondent 06)	Only applicable where the liability arises when a key obligating event (such as birth or entering the workforce) occurs. IPSAS 25 assumes exchange transactions, which may not be appropriate for social benefits.
Open group approach (which would include future taxation receipts and future participants) (Respondent 24).	May be inconsistent with the Conceptual Framework.
Use of either the obligation event approach or the social contract approach (Respondent 34).	See comments above regarding the social contract approach.

Additional approaches

4. Most respondents did not identify any additional approaches. Seven respondents identified the following additional approaches, which staff does not consider are necessary for a future ED:

Alternative approach	Staff comments
Extend the obligating event approach to include contingent liabilities (Respondent 01).	The CP did not consider presentation issues. However, the disclosure of contingent liabilities is a natural consequence of the obligating event approach, not an additional approach.
Require the provision of prospective information (Respondent 03).	This is a presentation issue rather than an additional approach.
Disclosure of contingent liabilities only.	As above.
Use of the IPSAS 25 model for funded pension and other retirement benefits.	As above.

Alternative approach	Staff comments
Open group approach	As above.
Recognition of assets representing the future socio-economic benefits arising from a social benefit (Respondent 30).	These socio-economic benefits do not meet the Conceptual Framework definition of an asset.

5. Staff does not consider that the use of an IPSAS 25 model for funded pensions only would be appropriate. However, the IPSASB may wish to consider the use of an IPSAS 25 model as a method of measuring a liability if the IPSASB accepts that a liability can arise when key participatory events occur (see Agenda Item [6.1.4](#)).

Preliminary View 2

6. The IPSASB's Preliminary View (PV) 2 supported the use of the obligating event approach and considered that the use of the insurance approach may also be useful in reflecting the different economic circumstances arising in respect of social benefits. The IPSASB did not support the use of the social contract approach:

Preliminary View 2

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

7. Staff's summary of the responses to PV 2 is included in Agenda Item 6.5 [below](#).
8. Some respondents interpreted PV 2 as relating to the inconsistency of the social contract approach with the Conceptual Framework alone, whilst others interpreted PV 2 as relating to all three options. Staff's analysis is based on the first interpretation, as responses to PV 2 permit this analysis, whereas some responses to PV 2 do not provide a view regarding the second interpretation. The responses to SMC 2 (discussed above) address the second interpretation.
9. A number of respondents did not comment directly on PV 2. Staff has reviewed the comments these respondents made to SMC 2. Where the respondent referred to PV 2, or expressed a firm view on the suitability or otherwise of the social contract approach, these comments have been included in the analysis of PV 2. Where respondents did not comment directly on PV 2, or discussed the advantages and disadvantages of the social contract approach without coming to a firm view, the response has been classified as "did not comment".
10. One respondent ([Respondent 17](#)) generally agreed with the analysis in the CP regarding the social contract approach, but did not wish to rule out any approach at this stage. Staff does not consider this approach is consistent with the development of a future ED, the next stage of this project.
11. Two respondents ([Respondent 25](#) and [Respondent 34](#)) did not agree with the IPSASB's preliminary view. These respondents supported the use of the social contract approach.

12. Staff has reviewed the comments on PV 2, and has not identified any reasons to include the social contract approach in a future ED.

Decisions required

13. Does the IPSASB support the staff and Task Based Group (TBG) view that further work should be undertaken to develop both the obligating event and insurance approaches for this project, but not the social contract approach?
14. Does the IPSASB support the staff and TBG view that no additional approaches need to be considered?

Accounting for the social contract approach**Question**

1. The IPSASB is asked to agree that there is no need to determine the detailed accounting requirements for social benefits under the social contract approach.

Details

2. Respondents were asked for their views as to how to account for social benefits under the social contract approach:

Specific Matter for Comment 8

In your view, under the social contract approach, should a public sector entity:

- (a) Recognize an obligation in respect of social benefits at the point at which:
 - (i) A claim becomes enforceable; or
 - (ii) A claim is approved?
- (b) Measure this liability at the cost of fulfillment?

Please explain the reasons for your views.

3. Staff's summary of the responses to SMC 8 is included in Agenda Item 6.5 [below](#).
4. Most respondents do not support the social contract approach and, therefore, did not comment on this SMC.
5. Those respondents who did comment supported measuring liabilities at the cost of fulfillment. There was no consensus as to the point at which an obligation should be recognized.
6. In line with the IPSASB's preliminary view, staff has recommended that the social contract approach is not pursued (see Agenda Item [6.1.1](#)). Assuming the IPSASB agrees with this recommendation, staff considers there is no need to resolve the accounting issues for the social contracts approach.

Decision required

7. Does the IPSASB support the staff view that there is no need to resolve the accounting issues for the social contracts approach?

Agenda Item 6.1.3

Social benefits transactions not discussed in the CP

Questions

1. The IPSASB is asked to decide whether any of the social benefits transactions raised by respondents require additional consideration.

Detail

2. Respondents were asked to comment on any social benefits transaction not discussed in the CP:

Specific Matter for Comment 3

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?

If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

Please explain the reasons for your views.

3. Staff’s summary of the responses to SMC 3 is included in Agenda Item 6.5 [below](#).
4. Only two respondents identified possible social benefits transactions that had not been discussed in the CP, as follows:

Transaction Identified by respondents	Staff comments
Respondent 19 commented that in their jurisdiction, “transfers” and “intervention expenses” are currently used, with similar accounting approaches to social benefits; those issues should have been addressed in the CP.	These transactions would require a wider definition of social benefits than that used in the CP (or proposed in Agenda Item 6.1.15); this is a scope issue. These transactions will be addressed in the non-exchange expenses project.
Respondent 35 raised issues relating to a particular scheme in their jurisdiction.	This is an interpretation issue and does not require any amendments to the accounting approaches discussed in the CP.

Decision required

5. Does the IPSASB support the staff view that no transactions have been identified that would require amendments to the approaches discussed in the CP?

Agenda Item 6.1.4

When an obligating event can occur under the obligating event approach

Question

1. The IPSASB is asked to agree that, under the obligating event approach, an obligating event may occur at different points depending on the nature of the social benefit.

Detail

2. Respondents were asked to comment on the points (identified by the IPSASB) at which an obligating event might arise under the obligating event approach:

Specific Matter for Comment 4

In your view, at what point should a future IPSAS specify that an obligating event arises under the obligating event approach? Is this when:

- (a) Key participatory events have occurred;
- (b) Threshold eligibility criteria have been satisfied;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; or
- (f) At some other point.

In coming to this conclusion, please explain what you consider to be the relative strengths and weaknesses of each view discussed in this chapter.

If, in your view, a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises, please provide details. Please explain the reasons for your views.

3. Staff’s summary of the responses to SMC 4 is included in Agenda Item 6.5 [below](#).

Point at which an obligating event may arise	Number of respondents
Key participatory events have occurred	1
Threshold eligibility criteria have been satisfied	0
The eligibility criteria to receive the next benefit have been satisfied	4
A claim has been approved	1
A claim is enforceable	2
At some other point	1
At different points depending on the nature of the social benefit	25

4. Staff notes that the majority of respondents consider that an obligating event may arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises. However, there is significant variation in the range of points at which respondents consider

an obligating event may arise. Staff also notes that those respondents (the minority) who consider that an obligating event only arises at one point do not agree as to when the obligating event arises.

5. Staff considers that further analysis on this issue is required. This analysis will be presented at the IPSASB's September 2016 meeting, as staff does not consider there will be sufficient time at this meeting to fully consider this issue.

Decisions required

6. Does the IPSASB support the staff and TBG view that, subject to the analysis to be presented at the IPSASB's next meeting, an obligating event may arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises?

Agenda Item 6.1.5

Contributory and non-contributory benefits under the obligating event approach

Question

- The IPSASB is asked to agree that a future ED should not distinguish between contributory benefits and non-contributory benefits when defining the obligating event.

Details

- Respondents were asked for their views regarding contributory and non-contributory benefits:

Specific Matter for Comment 5

In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach?

Please explain the reasons for your views.

- Staff’s summary of the responses to SMC 5 is included in Agenda Item 6.5 [below](#).

Response	Number of respondents
Agree (obligating event occurs earlier for contributory benefits than non-contributory benefits)	7
Partially agree	1
Disagree ((obligating event does not occur earlier for contributory benefits than non-contributory benefits)	22

- Respondents who agree refer to the fact that the evidence required to recognize an obligating event may be available earlier for contributory schemes. Respondents who disagree argue there is no conceptual basis to recognize an obligation earlier for contributory schemes. This distinction is explained clearly in the responses of [Respondent 10](#) and [Respondent 11](#).
- Staff considers that that a future ED should not distinguish between contributory benefits and non-contributory benefits when defining the obligating event. When considering when an obligating event occurs for a scheme, all factors will need to be taken into account. Examples may need to highlight the fact that the evidence available to assess whether an obligating event has occurred could be available earlier for some contributory schemes.

Decision required

- Does the IPSASB support the staff view that a future ED should not distinguish between contributory benefits and non-contributory benefits when defining the obligating event?

Agenda Item 6.1.6

Exchange transactions under the obligating event approach

Question

1. The IPSASB is asked to decide whether a future IPSAS on social benefits should include exchange transactions in the obligating event approach.

Details

2. Respondents were asked for their views on whether a future IPSAS on social benefits should include exchange transactions.

Specific Matter for Comment 6

In your view, should a social benefit provided through an exchange transaction be accounted for:

- (a) In accordance with a future IPSAS on social benefits; or
- (b) In accordance with other IPSASs?

Please provide any examples you may have of social benefits arising from exchange transactions.

Please explain the reasons for your views.

3. Staff's summary of the responses to SMC 6 is included in Agenda Item 6.5 [below](#).

Response	Number of respondents
IPSAS on social benefits	12
Other IPSASs	10
Social benefits are always non-exchange transactions	2

Other IPSASs

4. Most respondents who consider that social benefits that are exchange transactions should be accounted for under other IPSASs are of the view that existing standards will cover these transactions. Examples of these transactions include employee benefits (covered in IPSAS 25, *Employee Benefits*) and concessionary loans (covered in IPSAS 29, *Financial Instruments: Recognition and Measurement*).
5. The CP proposed excluding transactions covered by existing IPSASs from the scope of a future IPSAS on social benefits, and this was supported by respondents. Staff therefore considers that respondents who consider an IPSAS on social benefits should include exchange transactions would also support the exclusion of transactions covered by other IPSASs.
6. Staff considers that any decision regarding any further exchange transactions forms part of the decision to be made regarding the scope of the project. The scope of the project is discussed in Agenda Item [6.1.15](#).

7. Some respondents consider that social insurance schemes that are fully funded from contributions may be exchange transactions. This view is considered in Agenda Item [6.1.9](#) (application of the insurance approach).

Decisions required

8. Does the IPSASB support the staff view that social benefits already covered by existing IPSASs should be excluded from the scope of this project?
9. Does the IPSASB support the staff view that any decision regarding any further exchange transactions forms part of the decision to be made regarding the scope of the project?

Measurement basis under the obligating event approach**Question**

1. The IPSASB is asked to agree that, under the obligating event approach, social benefits should be measured at the cost of fulfillment.

Details

2. Respondents were asked to comment on the IPSASB's preliminary view that the cost of fulfillment should be used to measure social benefits under the obligating event approach:

Preliminary View 3

Under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits.

3. Staff's summary of the responses to PV 3 is included in Agenda Item 6.5 [below](#).
4. Only one respondent ([Respondent 32](#)) expressed reservations to this PV, suggesting that the cost of fulfillment should be used except where the social benefit is an exchange transaction or where there is a definite plan in place to settle the liability by transferring it to another party.
5. Staff considers that it is likely that exchange transactions will be covered by other IPSASs or the insurance approach (see the discussions in Agenda Items [6.1.6](#) (exchange transactions); [6.1.9](#) (application of the insurance approach); and [6.1.15](#) (scope of the project)). Cases where an entity can transfer the liability to another entity are expected to be rare. For these reasons, staff does not consider it necessary to address these proposed exceptions in a future ED.

Decision required

6. Does the IPSASB support the staff view that a future ED should require social benefits to be measured at the cost of fulfillment under the obligating event approach?

Agenda Item 6.1.8

Presentation of assets under the obligating event approach

Question

1. The IPSASB is asked to agree that all assets directly related to a social benefits scheme should be presented as part of that scheme.

Details

2. Respondents were asked for their views as to when scheme assets should be included in the presentation of a social benefit scheme under the obligating event approach:

Specific Matter for Comment 7

In your view, under the obligating event approach, when should scheme assets be included in the presentation of a social benefit scheme:

- (a) In all cases;
- (b) For contributory schemes;
- (c) Never; or
- (d) Another approach (please specify)?

Please explain the reasons for your views.

3. Staff's summary of the responses to SMC 7 is included in Agenda Item 6.5 [below](#).
4. Twenty-five respondents considers that scheme assets should be included in the presentation of a social benefit scheme in all cases.
5. Three respondents considers that this presentation should be limited to contributory schemes. Staff considers it unlikely that scheme assets will arise for non-contributory schemes, unless a separate entity manages the social benefit.
6. One respondent considered that scheme assets should never be included in the presentation of a social benefit under the obligating event approach, as they would limit the use of this approach to non-contributory schemes.
7. Staff considers that scheme assets should be included in the presentation of a social benefit scheme in all cases, as this would be consistent with other standards, for example IPSAS 25, *Employee Benefits*.

Decision required

8. Does the IPSASB support the staff view that scheme assets should be included in the presentation of a social benefit scheme in all cases?

Agenda Item 6.1.9

Application of the insurance approach, including the link between contributions and benefits

Question

1. The IPSASB is asked to agree the application of the insurance approach, including the link between contributions and benefits.

Detail

2. The CP discussed the transactions to which the insurance approach might be applicable. Respondents were asked for their views on this matter in two SMCs. SMC 9 sought views on the general principles regarding the applicability of the insurance approach. These had been discussed in the CP, and are summarized below:

The insurance approach may provide useful information in respect of:	The insurance approach will not provide useful information in respect of:
Schemes where imputed contributions involve a cash transfer	Schemes involving contributions in kind
Schemes where there is a low level of imputed contributions not involving a cash transfer	Schemes where there is a high level of imputed contributions not involving a cash transfer
Schemes involving contributions treated as general taxation where there is a reliable basis for allocating the contributions to individual schemes	Schemes involving contributions (including those treated as general taxation) where there is no reliable basis for allocating the contributions to individual schemes

Specific Matter for Comment 9

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?
Please explain the reasons for your views.

3. Staff's summary of the responses to SMC 9 is included in Agenda Item 6.5 [below](#).
4. Twenty respondents agreed with the IPSASB's conclusions summarized above. Four respondents partially agreed with the IPSASB's conclusions, and nine respondents disagreed with those conclusions. The key concerns raised by respondents are summarized below:
 - No cause and effect relationship between the contribution level of each contributor and its level of risk (see [Respondent 01](#)).
 - The combination of the revenue and expense streams into a single model is only relevant to insurance undertaken on a commercial (exchange) basis (see [Respondent 09](#)).
 - The legal basis of social benefits does not give rise to the same rights as an insurance contract (see [Respondent 04](#)).

- The applicability of the insurance approach may need to be based on the underlying nature of the liability (see [Respondent 07](#)).
 - Use of the insurance approach may result in inconsistent measurement of liabilities depending on whether or not a scheme is directly funded (see [Respondent 07](#)).
 - Use of the insurance approach may give rise to the recognition of future tax revenues (see [Respondent 10](#)).
 - Recognizing a deficit on a partially funded scheme without recognizing the right to the future tax revenues that would fund the deficit would not faithfully represent the financial position of an entity (see [Respondent 31](#)).
5. These concerns are discussed alongside those raised in respect of SMC 13 regarding the link between contributions and benefits:

Specific Matter for Comment 13

Do you agree that, in those cases where the link between contributions and benefits is not straightforward, the criteria for determining whether the insurance approach is appropriate are:

- The substance of the scheme is that of a social insurance scheme; and
- There is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.

If you disagree, please specify the criteria that you consider should be used.

Please explain the reasons for your views.

6. Staff's summary of the responses to SMC 13 is included in Agenda Item 6.5 [below](#).
7. Sixteen respondents agreed with the IPSASB's proposals. Three respondents partially agreed with these proposals, while four respondents disagreed with the proposals. The key concerns raised by respondents are summarized below:
- The insurance approach should only be used with a dedicated source of revenue (see [Respondent 07](#)).
 - In these instances the accounting approach does not support the economic substance of the arrangement (see [Respondent 23](#)).
8. Staff's conclusion is that respondents generally support the insurance approach in limited circumstances only. Staff considers that limiting the use of the insurance approach to schemes intended to be fully funded from dedicated sources of revenue (i.e., funded from specific contributions covering a single scheme, rather than general taxation) would mitigate or eliminate most of the respondents' concerns.
9. Proceeding on this basis would also avoid the complexities of accounting for partially funded schemes (see Agenda Item [6.1.11](#)).
10. As noted in Agenda Item [6.1.6](#), some respondents consider that social insurance schemes that are fully funded from contributions may be exchange transactions. These respondents consider that such schemes could be accounted for using insurance accounting, either by applying an insurance standard or by including the insurance approach in an IPSAS on social benefits.

11. Those respondents who propose using an insurance standard consider it would be helpful to preparers for there to be an IPSAS on insurance accounting, as this would have wider application than social benefits.
12. As reported in Agenda Item [6.1.1](#), most respondents support the use of the insurance approach to accounting for social benefits. Staff has identified three options for introducing the insurance approach.

Option	Advantages	Disadvantages
Insurance approach in IPSAS on social benefits	<ul style="list-style-type: none"> • Consistent with proposals in CP • Tailored to social benefits 	<ul style="list-style-type: none"> • Increases duration of project • No wider application
Separate IPSAS on insurance	<ul style="list-style-type: none"> • Fills gap in IPSASB literature • Could address both social benefits and wider application 	<ul style="list-style-type: none"> • Not included in work plan • Developing an additional standard may delay the social benefits project
Direct preparers to IFRS on insurance	<ul style="list-style-type: none"> • Less IPSASB resources required • Ensures consistency with IFRS 	<ul style="list-style-type: none"> • IFRS not yet issued (expected by the end of 2016) • May require guidance on social benefit specific issues such as measurement and discount rate (see Agenda Items 6.1.10–6.1.14).

13. Staff does not recommend a separate IPSAS on insurance at this stage, as the fact that this is not in the current work plan will introduce an unacceptable delay.
14. The number of preparers to whom the insurance approach will be relevant is likely to be small, especially if it is limited to fully funded schemes as proposed in paragraph 8 above. For this reason, staff considers that a reference to the relevant IFRS, accompanied by appropriate guidance and examples, may be the appropriate option as it will require fewer resources and enable an IPSAS to be issued more quickly. If the IPSASB supports this view, staff recommends that the decision is reviewed once the IASB has issued its new insurance standard.

Decisions required

15. Does the IPSASB support the staff and TBG view that the use of the insurance approach should be limited to schemes intended to be fully funded from dedicated sources of revenue?
16. Does the IPSASB support the staff and TBG view that, subject to a review once the IASB has issued its new insurance standard, a future ED should refer preparers to the IFRS on insurance, and possibly provide appropriate guidance and examples on social benefit specific issues such as measurement and discount rates?

Accounting for fully funded schemes under the insurance approach**Question**

1. The IPSASB is asked to agree the accounting for fully funded social benefits under the insurance approach.

Details

2. Respondents were asked to comment on the IPSASB's proposal for accounting for fully funded social benefits under the insurance approach:

Specific Matter for Comment 10

Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:

- (a) Any expected surplus should be recognized over the coverage period of the benefit; and
- (b) Any expected deficit should be recognized as an expense on initial recognition?

Please explain the reasons for your views.

3. Staff's summary of the responses to SMC 10 is included in Agenda Item 6.5 [below](#).
4. Fifteen respondents support the IPSASB's proposal. A further three respondents support the proposal in principle, but consider that there may be some valid exceptions, for example where a scheme includes specific provisions for increasing contributions or reducing benefits to cover any deficit.
5. Five respondents disagree with the IPSASB's proposal, suggesting that any expected deficit should also be recognized over the coverage period of the benefit. Respondents suggest the approach in IPSAS 25, *Employee Benefits* as a possible basis for measuring any surplus or deficit.
6. One respondent comments that the IPSASB's approach appears prudent, but that this may not be consistent with the IPSASB's Conceptual Framework. Staff notes that the Framework does not link elements with specific financial statements; these are standards level decisions. This respondent suggests that proposed approaches should be internally consistent with other IPSASs, and refers specifically to IPSAS 25. Staff notes that IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, contains provisions for onerous contracts that would be consistent with the IPSASB's proposal in SMC 10.
7. The IPSASB may also wish to take into account responses to SMC 11 (accounting for partially funded schemes under the insurance approach), discussed in Agenda Item [6.1.11](#).

Decision required

8. Does the IPSASB support the staff view that accounting for fully funded social benefits under the insurance approach should be as proposed in SMC 10? If the IPSASB has agreed to refer preparers to the IFRS on insurance (Agenda Item [6.1.9](#)), staff considers it would be appropriate to defer this decision pending a review of the IASB's new insurance standard when issued.

Agenda Item 6.1.11

Accounting for partially funded schemes under the insurance approach

Question

1. The IPSASB is asked to agree the accounting for partially funded social benefits under the insurance approach.

Details

2. Respondents were asked to comment on the appropriate accounting treatment of partially funded social benefits under the insurance approach.

Specific Matter for Comment 11

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions:

- (a) Recognize an expense on initial recognition;
- (b) Recognize the deficit as an expense over the coverage period of the benefit;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and the liability irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation; or
- (e) Another approach?

Please explain the reasons for your views.

3. Staff's summary of the responses to SMC 11 is included in Agenda Item 6.5 [below](#).

Approach	Number of respondents	Reasons/staff comments
Recognize an expense on initial recognition	11	<ul style="list-style-type: none"> • Accounting should be the same for all deficits • Consistency with IASB proposals
Recognize as an expense over the coverage period	4	<ul style="list-style-type: none"> • Reflects the economic substance of the scheme • Including liabilities without matching future revenue does not provide useful information
Offset in all cases	3	<ul style="list-style-type: none"> • Reflects the economic substance of the scheme • Other respondents consider this involves the recognition of future tax receipts
Another approach	5	<ul style="list-style-type: none"> • Treatment may vary with nature of benefit

4. Some respondents to earlier SMCs (see Agenda Item [6.1.9](#)) suggest that the insurance approach should only be used for fully funded schemes. If the IPSASB supports this view, it will not be

necessary to take a view on the accounting for partially funded schemes under the insurance approach.

5. If the IPSASB decides to apply the insurance approach to partially funded schemes, staff considers that a deficit should be recognized as an expense on initial recognition, providing consistency with fully funded schemes and with the IASB's proposals.

Decision required

6. If the IPSASB has agreed to apply insurance accounting to partially funded schemes, does the IPSASB support the staff view that a deficit should be recognized as an expense on initial recognition? If the IPSASB has agreed to refer preparers to the IFRS on insurance ([Agenda Item 6.1.9](#)), staff considers it would be appropriate to defer this decision pending a review of the IASB's new insurance standard when issued.

Agenda Item 6.1.12

Measurement basis under the insurance approach

Question

1. The IPSASB is asked to agree the measurement basis to be applied under the insurance approach.

Details

2. Respondents were asked to comment on the appropriate measurement basis under the insurance approach.

Specific Matter for Comment 12

In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities?

Please explain the reasons for your views.

3. Staff's summary of the responses to SMC 12 is included in Agenda Item 6.5 [below](#).
4. Twenty-one respondents support the cost of fulfillment measurement basis. This is consistent with the measurement basis proposed for the obligating event approach.
5. Only three respondents ([Respondent 06](#), [Respondent 18](#) and [Respondent 34](#)) suggested the assumption price measurement basis. Staff has not identified any compelling reasons in these responses to adopt this basis.

Decision required

6. Does the IPSASB support the staff view that the cost of fulfillment measurement basis should be used under the insurance approach? If the IPSASB has agreed to refer preparers to the IFRS on insurance (Agenda Item [6.1.9](#)), staff considers it would be appropriate to defer this decision pending a review of the IASB's new insurance standard when issued.

Agenda Item 6.1.13

Discount rate to be used under the insurance approach

Question

- The IPSASB is asked to agree the discount rate to be applied under the insurance approach.

Details

- Respondents were asked to comment on the discount rate under the insurance approach.

Specific Matter for Comment 14

Do you support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25?

Please explain the reasons for your views.

- Staff's summary of the responses to SMC 14 is included in Agenda Item 6.5 [below](#).
- Twenty-one respondents agree that the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25, *Employee Benefits*. Alternative views given are discussed below:

Alternative proposed	Number of respondents	Staff comments
It would prudent to take into account a range of factors in determining discount rates used to reflect time value of money.	1 (Respondent 32 partially supports the IPSASB's proposals).	The approach in IPSAS 25 is likely to address these concerns.
The economic basis for discounting would point to using discount rates based on the expected real growth of GDP or the real growth of the wage mass (or the contributions base for a contributory scheme) or growth in the real tax base.	1 (Respondent 08 disagrees with the IPSASB's proposals).	Staff has concerns that discount rates calculated in this manner would not satisfy the qualitative characteristics, particularly reliability and verifiability.

Decision required

- Does the IPSASB support the staff view that the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25? If the IPSASB has agreed to refer preparers to the IFRS on insurance (Agenda Item [6.1.9](#)), staff considers it would be appropriate to defer this decision pending a review of the IASB's new insurance standard when issued.

Subsequent measurement arrangements under the insurance approach**Question**

1. The IPSASB is asked to agree the subsequent measurement arrangements under the insurance approach.

Details

2. Respondents were asked to comment on the proposals in the CP for the subsequent measurement arrangements under the insurance approach. These proposals were based on the IASB's proposals.

Specific Matter for Comment 15

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?

Please explain the reasons for your views.

3. Staff's summary of the responses to SMC 15 is included in Agenda Item 6.5 [below](#).
4. Eighteen respondents supported the proposals.
5. Two respondents ([Respondent 02](#) and [Respondent 07](#)) suggest recognizing some changes directly in equity, in a similar manner to IPSAS 25, *Employee Benefits*.

Decision required

6. Does the IPSASB support the staff view that the subsequent measurement arrangements under the insurance approach should follow the proposals in the CP? If the IPSASB has agreed to refer preparers to the IFRS on insurance (Agenda Item [6.1.9](#)), staff considers it would be appropriate to defer this decision pending a review of the IASB's new insurance standard when issued.

Scope of the social benefits project

Question

1. The IPSASB is asked to agree the scope of the social benefits project.

Details

2. The IPSASB considered the review of responses to SMC 1 and PV 1, dealing with the scope of the social benefits project and the related definitions at its last meeting. IPSASB members may wish to refer to the [March 2016 meeting papers](#) for further details.
3. While a majority of respondents supported the scope of the project as set out in the CP, a significant minority raised concerns. The main areas of concern raised by respondents are summarized below:

Issue	Detail
Definition of social risk.	A number of respondents considered that the definition of social risk was difficult to apply in practice, and that it was therefore difficult to differentiate between social benefits and other expenses of government.
The proposed boundary might lead to different accounting treatments for transactions that have the same economic substance.	Some respondents considered that social benefits in kind and other transfers in kind give rise to the same issues. These respondents considered that the scope of the CP creates an artificial boundary between social benefits and non-exchange expenses.

4. The IPSASB agreed that the scope of the project should focus on benefits provided to individuals and households, but did not come to any further conclusions. The IPSASB directed staff to explore alternatives for the project scope that might address the IPSASB's concerns, taking the transfer of goods and/or services to individuals and households as a starting point.
5. The scope of the project, as set out in the Consultation Paper (CP), was based on the definitions in the [Government Finance Statistics Manual 2014 \(GFSM\)](#). The [2008 System of National Accounts \(SNA\)](#) and the [European System of Accounts 2010 \(ESA\)](#) are based on similar principles to GFSM.
6. Following the March 2016 meeting, staff has identified the following issues that could influence the definition of social benefits, and hence the scope of the project:
 - (a) GFSM, SNA and ESA consider that all social benefits arise from arrangements that are organized for the benefit of the population as a whole, or for a large section of the population. These are sometimes referred to as “collective arrangements”, and are contrasted with individual arrangements which are taken out on the private initiative of individuals or households solely in their own interest.

Because arrangements are made on a collective basis, there may be little or no correlation between the risks to which an individual or household is exposed and any contributions that individual or household is required to make. Consequently, social benefits (with the exception of certain employment-related benefits) are likely to satisfy the IPSASB's current definition of non-exchange transactions.

- (b) GFSM considers social benefits arise from a systematic interventions, not ad-hoc transfers (such as in response to natural disasters such as floods and earthquakes).

This is because, under statistical reporting, social risks only relate to the characteristics or circumstances of individuals or households. Examples of social risk include age, unemployment, health, and poverty. As such, social risks do not include risks that are unrelated to an individual's or household's characteristics. Risks associated with, for example, natural disasters are therefore not social risks.

For example, governments provide retirement pensions to mitigate the social risk that an individual or household will have insufficient income to meet their needs after retirement. This is a social risk, as the risk being addressed relates to the circumstances of the individual or household. Individuals' and households' needs will arise at different times as they reach retirement age, and governments can address these needs on a systematic basis.

By contrast, risks associated with natural disasters do not relate to the circumstances of the individual or household, but rather to the characteristics of a particular area and due to geographical risks. When a natural disaster strikes, all individuals and households in a particular area will be affected simultaneously.

7. Extracts from SNA, GFSM and ESA are included in [Appendix A](#) to this Agenda Item for information.
8. Staff considers that a definition of social benefits – and hence the scope of the project – should include the following factors:

Factor	Rationale
Benefits provided to individuals and households.	<ul style="list-style-type: none"> • IPSASB decision at March 2016 meeting. • Reflects the nature of a social benefit.
In cash or in kind.	<ul style="list-style-type: none"> • The means by which the benefit is provided does not change the nature of the obligation. • Although GFSM does not present goods and services provided directly by governments as social benefits, this is a presentation issue. Benefits provided in kind directly by governments still satisfy the definition of social benefits.
Intended to relieve them from the financial burden of social risks.	<ul style="list-style-type: none"> • Reflects the nature of a social benefit. • Distinguishes social benefits from other ongoing activities of government; for example, risks associated with natural disasters etc. are not social risks. Transfers made in response to these types of event address risks, but not social risks.

Factor	Rationale
Are organized for the benefit of the population as a whole, or for a large section of the population (sometimes referred to in GFSM as “collective arrangements”).	<ul style="list-style-type: none"> • Reflects the “social” nature of social benefits – the sharing of risks. Social benefit schemes are generally funded from taxation or contributions that do not directly reflect the risks associated with an individual or household. • Staff notes that the wording of the definition will need to avoid confusion with collective goods and services.
As part of systematic intervention.	<ul style="list-style-type: none"> • Reflects the nature of “social risks”. Social risks relate to the characteristics or circumstances of individuals or households – for example, age, health, poverty. As such, social risks do not include risks that are unrelated to an individual’s or household’s characteristics.

9. Staff proposes that, as in the CP, transactions meeting the definition of social benefits that are addressed in other IPSASs (such as relevant employee benefits and concessionary loans) would be excluded from the scope of a future IPSAS on social benefits.
10. The effect of this proposed scope would be as follows:

Within the scope of the project	Outside the scope of the project
<ul style="list-style-type: none"> • Social security (included in the scope of the CP) • Social assistance (included in the scope of the CP) • Social transfers in kind that address social risks (for example, health care and education) 	<ul style="list-style-type: none"> • Benefits provided to entities rather than individuals or households (for example, grants to charities or grants to companies to promote economic regeneration) • Provision of collective goods and services • Individual arrangements (i.e., individual transactions between a public sector entity and one individual or household) • Ad-hoc transfers (for example, in response to disaster relief) • Social transfers in kind that do not address social risks (for example, recreation, cultural or sporting services such as parks, museums and sports facilities)

11. The scope of the project would, in effect, be limited to schemes that:
 - (a) Are directly related to individuals and households; and
 - (b) Are more predictable, because they are related to social risks and are capable of being modelled on an actuarial basis.

Decision required

12. Does the IPSASB support the scope proposed by staff and the TBG?

Appendix A to Agenda Item 6.1.15

Extracts from the statistical reporting manuals

Issue	2008 System of National Accounts (SNA)	Government Finance Statistics Manual 2014 (GFSM)	European System of Accounts 2010 (ESA)
Definition of “Social Protection”	Social benefits are current transfers received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances. (8.17)	Social protection is the systematic intervention intended to relieve households and individuals of the burden of a defined set of social risks. (A2.1)	Definition: social benefits are transfers to households, in cash or in kind, intended to relieve them from the financial burden of a number of risks or needs, made through collectively organized schemes, or outside such schemes by government units and NPISH ¹ s; they include payments from general government to producers which individually benefit households and which are made in the context of social risks or needs. (4.83)
Definition of “Social Risks”	Not defined or described (list based?)	Social risks are defined as events or circumstances that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their income (A2.1)	Not defined or described (list based?)
Examples of social risk	Pension benefits [from 8.67] <ul style="list-style-type: none"> • Retirement • Survivors • Permanent disability 	Social benefits are current transfers receivable by households intended to provide for the needs that arise from social risks—for example, sickness,	The risks or needs of social protection refer to the functions: disability, sickness/health care, old age, survivors, family/children, unemployment, housing

¹ Non-profit institutions serving households

Issue	2008 System of National Accounts (SNA)	Government Finance Statistics Manual 2014 (GFSM)	European System of Accounts 2010 (ESA)
	Non-pension benefits [from 8.68] <ul style="list-style-type: none"> • Medical • Dependents (children, elderly relatives) • Income support (unemployment) • Income support (survivors) • Housing • Education 	unemployment, retirement, housing, education, or family circumstances. (6.96) Needs may occur due to sickness, unemployment, retirement, housing, education, or family circumstances. (A2.1) [A2.6.and A2.7 also include the examples in 2008 SNA]	and social exclusion not elsewhere classified. In principle, education is not included as a risk or need unless it is a support to indigent families with children. (22.111) The list of risks or needs which may give rise to social benefits is as follows: <ul style="list-style-type: none"> (a) sickness; (b) invalidity, disability; (c) occupational accident or disease; (d) old age; (e) survivors; (f) maternity; (g) family; (h) promotion of employment; (i) unemployment; (j) housing; (k) education; (l) general neediness. In the case of housing, payments made by public authorities to tenants in order to reduce their rents are social benefits, with the exception of special benefits paid by public authorities in their capacity as employers. (4.84)
Collective or individual	Social insurance schemes must be organized collectively for groups of	Social benefits are always provided in collective arrangements. Consequently,	All schemes that are solely based on individual arrangements or where

Issue	2008 System of National Accounts (SNA)	Government Finance Statistics Manual 2014 (GFSM)	European System of Accounts 2010 (ESA)
arrangements	workers or be available by law to all workers or designated categories of workers, possibly including non-employed persons as well as employees. (8.72)	individual insurance policies taken out on the private initiative of individuals or households solely in their own interest are excluded from social protection arrangements. (A2.11)	simultaneous reciprocal agreements exist are not regarded as social protection. (22.112)
Exchange transactions	Social benefits are current transfers received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances. (8.17) [As with GFSM 2014, a transfer implies a non-exchange transaction.]	In GFS, a social benefit expense is always a transfer payment because the benefits are provided without the recipients being required to provide something of equivalent value in return. Allowances provided as compensation of employees or loans provided by employers to employees are not social benefits. (A2.9)	Definition: social benefits are transfers to households, in cash or in kind, intended to relieve them from the financial burden of a number of risks or needs... (4.83) [As with GFSM 2014, a transfer implies a non-exchange transaction.]
Exclusions: events or circumstances not normally covered	Social assistance benefits do not include current transfers paid in response to events or circumstances that are not normally covered by social insurance schemes. Thus, social assistance benefits do not cover transfers in cash or in kind made in response to natural disasters such as drought, floods or earthquakes. Such transfers are recorded separately under other current transfers. (8.111)	Social benefits do not include transfers payable in response to events or circumstances that are not normally covered by social insurance schemes. Therefore, transfers made in response to unusual events, such as natural disasters or destruction during wars, should be recorded as transfers not elsewhere classified (282) in GFS. (A2.10)	Such benefits do not include current transfers paid in response to events or circumstances that are not normally covered by social insurance schemes (i.e. transfers made in response to natural disasters, recorded under other current transfers or under other capital transfers). (4.105)
Exclusions: goods and services provided	For example, when a payment is made by an employee or other member of a resident household for health or education benefits and these are	When a government unit produces the goods and services provided to households as social assistance benefits, they are not recorded as social	Social benefits expenditure excludes social transfers in kind provided to households by non-market producers of

Issue	2008 System of National Accounts (SNA)	Government Finance Statistics Manual 2014 (GFSM)	European System of Accounts 2010 (ESA)
directly by governments	subsequently reimbursed by government, they are not shown as a social insurance benefit and thus as part of compensation of employees but as part of the expenditure by government on health services provided to individual household members. The expenditure by government on individual services is part of government final consumption expenditure and not part of household final consumption expenditure nor of compensation of employees. (8.104)	benefits but rather by type of expense incurred in producing these goods and services. (A2.28)	government. (20.98)
Exclusions: health and education services	The definition of social benefits includes the possible provision of health and education services. Typically general government makes such services available to all members of the community without requiring participation in a scheme or qualifying requirements. These services are treated as social transfers in kind and not as part of social security or social assistance. (17.84)	Social spending: Approximated by functional classification of expenditure on housing, health, education, and social protection. (Table 4A.1) [Implies health and education may be classified separately from social protection.]	The definition of social benefits includes the provision of health and education services. Typically general government makes such services available to all members of the community without requiring participation in a scheme or qualifying requirements. The services are treated as social transfers in kind and not as part of social security or social assistance. (17.11)
Exclusions: cultural, recreation and sport	[Not included – cultural, recreation and sport are not considered as social risks.]	[Not included – cultural, recreation and sport are not considered as social risks.]	Outside the scope of social risks or needs, when government provides individual households with goods and services such as recreational, cultural or sport services for free or at prices

Issue	2008 System of National Accounts (SNA)	Government Finance Statistics Manual 2014 (GFSM)	European System of Accounts 2010 (ESA)
			which are not economically significant, these are treated as social transfers in kind — government and NPISHs non-market production (D.631). (4.110)
Employment-related social insurance	The second type consists of other employment-related schemes. These schemes derive from an employer-employee relationship in the provision of pension and possibly other entitlements that are part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions. (8.76b)	Other employment-related social insurance schemes derive from an employer-employee relationship in the provision of pension entitlement and other social benefit to employees as part of the conditions of employment. By definition, these schemes are contributory and, for government or public sector units, protect only their own employees and dependents. The provision of social insurance benefits by government to its own employees is considered to be part of an actual or implicit contract between the government, as employer, and the employees, to compensate them for the provision of their labor services. Therefore, employment-related social insurance schemes give rise to required expense transactions for government when the social contributions became payable. (A2.40)	The second type consists of other employment related schemes. Such schemes derive from an employer-employee relationship in the provision of pension, and possibly other, entitlements that are part of the conditions of employment and where responsibility for the provision of benefits does not devolve to general government under social security provisions. (17.02b)

Agenda Item 6.2

DIRECTIONS UP TO MARCH 2016 MEETING

Meeting	Direction	Actions since March meeting / other actions outstanding
March 2016	Reconsider the definitions once a decision on the scope of the project has been made	This will be brought to a later meeting.
March 2016	Explore alternatives for the project scope that might address the IPSASB's concerns, taking the transfer of goods and/or services to individuals and households as a starting point.	Agenda Item 6.1.15 .
March 2016	Consider the analysis of responses to other SMCs in evaluating options for the project scope.	Agenda Item 6.1.15 , which follows the analysis of other responses.
June 2015	All directions given in the June 2015 meeting or earlier were reflected in the Consultation Paper, <i>Recognition and measurement of Social Benefits</i> .	

DECISIONS UP TO MARCH 2016 MEETING

Date of decision	Decision
March 2016	The scope of the project should focus on individuals and households.
June 2015	All decisions made in the June 2015 meeting or earlier were reflected in the Consultation Paper, <i>Recognition and measurement of Social Benefits</i> .

SOCIAL BENEFITS PROJECT ROADMAP

Meeting	Objective: IPSASB to consider:	
June 2016	<ol style="list-style-type: none"> 1. Review of Responses 2. Decision on approach or approaches to be adopted 3. Decision on scope of project 	
September 2016	<ol style="list-style-type: none"> 1. Decision on when an obligating event may occur 2. Discussion on definitions required in light of decisions on scope and approach or approaches to be adopted 3. Initial discussion on disclosures 	
	One approach adopted	Two approaches adopted
December 2016	<ol style="list-style-type: none"> 1. Draft ED: Scope 2. Draft ED: Definitions 3. Draft ED: Recognition 4. Draft ED: Measurement 	<ol style="list-style-type: none"> 1. Draft ED: Scope 2. Draft ED: Definitions 3. Draft ED: Approach 1 Recognition 4. Draft ED: Approach 1 Measurement
March 2017	<ol style="list-style-type: none"> 1. Review previous sections of ED 2. Draft ED: Disclosure 3. Draft ED: Application Guidance 4. Draft ED: Illustrative Examples 	<ol style="list-style-type: none"> 1. Review previous sections of ED 2. Draft ED: Approach 2 Recognition 3. Draft ED: Approach 2 Measurement
June 2017	<ol style="list-style-type: none"> 1. Review of full draft ED 2. Approval of ED 	<ol style="list-style-type: none"> 1. Review previous sections of ED 2. Draft ED: Disclosure 3. Draft ED: Approach 1 Application Guidance
September 2017	Consultation Period	<ol style="list-style-type: none"> 1. Review previous sections of ED 2. Draft ED: Approach 2 Application Guidance 3. Draft ED: Illustrative Examples
December 2017		<ol style="list-style-type: none"> 1. Review full draft ED 2. Approve ED
March 2018	<ol style="list-style-type: none"> 1. Review of Responses 2. Initial discussion on issues raised 	Consultation Period

Social Benefits (Project roadmap)
 IPSASB Meeting (June 2016)

Meeting	Objective: IPSASB to consider:	
June 2018	1. Discussion of issues raised 2. Review first draft of proposed IPSAS	Consultation Period
September 2018	1. Review of draft IPSAS 2. Approval of IPSAS	1. Review of Responses 2. Initial discussion on issues raised
December 2018		1. Discussion of issues raised 2. Review first draft of proposed IPSAS
March 2019		1. Review of draft IPSAS 2. Approval of IPSAS

STAFF SUMMARY OF RESPONSES TO CONSULTATION PAPER RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

Note: This paper includes extracts from each response received to the CP, which have been grouped to identify respondents' views on the CP as well as the key issues identified by staff. In some cases, an extract may not do justice to the full response. This analysis should therefore be read in conjunction with the submissions themselves.

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List of Respondents

Response #	Respondent name	Country	Function
01	Direction Générale des Finances Publiques (DGFIP)	France	Preparer
02	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Switzerland	Standard Setter/Standards Advisory Body
03	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
04	Treasury Board of Canada	Canada	Preparer
05	Jean-Bernard Mattret	France	Other
06	International Consortium on Governmental Financial Management (ICGFM)	USA	Other
07	Organisation for Economic Co-operation and Development (OECD)	International	Preparer
08	International Actuarial Association (IAA)	International	Other
09	Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
10	Staff of the Public Sector Accounting Board	Canada	Standard Setter/Standards Advisory Body
11	PricewaterhouseCoopers (PwC)	International	Accountancy Firm
12	The Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
13	Swedish National Financial Management Authority (ESV)	Sweden	Standard Setter/Standards Advisory Body
14	Institut der Wirtschaftsprüfer (IDW)	Germany	Member or Regional Body
15	Belgian Institute of Accredited Auditors (IBR-IRE)	Belgium	Member or Regional Body
16	South African Institute of Chartered Accountants	South Africa	Member or Regional Body
17	Federal Social Insurance Office (BSV)	Switzerland	Preparer
18	Institute of Chartered Accountants (Ghana)	Ghana	Member or Regional Body
19	Cour des Comptes	France	Audit Office
20	The Institute of Chartered Accountants of Scotland (ICAS)	UK	Member or Regional Body
21	The Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body

Staff summary of responses to Consultation Paper, *Recognition and Measurement of Social Benefits*
IPSASB Meeting (June 2016)

Response #	Respondent name	Country	Function
22	The Institute of Chartered Accountants of Nigeria (ICAN)	Nigeria	Member or Regional Body
23	KPMG	International	Accountancy Firm
24	International Labour Office	International	Other
25	Ministry of Finance	Israel	Preparer
26	New Zealand Treasury	New Zealand	Preparer
27	Swedish National Audit Office	Sweden	Audit Office
28	Federation of European Accountants (FEE)	International	Member or Regional Body
29	New Zealand Accounting Standards Board	New Zealand	Standard Setter/Standards Advisory Body
30	Institute of Chartered Accountants of India (ICAI)	India	Member or Regional Body
31	US Government Accountability Office (GAO)	USA	Preparer
32	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
33	The Institute of Chartered Accountants in England and Wales (ICAEW)	UK	Member or Regional Body
34	Denise Silva Ferreira Juvenal	Brazil	Other
35	Agency for the Modernisation of Public Administration	Denmark	Preparer
36	Ernst & Young Global Limited (EY)	International	Accountancy Firm

General Comments on the CP

General comments were reported to the IPSASB at its March 2016 meeting, and included in the papers for Agenda Item 10 at that meeting. Comments are not reproduced here; should any member wish to see these comments, please refer to the [March 2016 meeting papers](#). Where a general comment directly relates to a Specific Matter for Comment (SMC), staff has included those comments in the summary of responses to that SMC.

Specific Matter for Comment 2

- (a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?
- (i) The obligating event approach;
 - (ii) The social contract approach; and
 - (iii) The insurance approach.

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

....

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – OBLIGATING EVENT APPROACH	01, 03, 04, 07, 19, 23, 30, 31	8
B – SOCIAL CONTRACT APPROACH	25	1
C – INSURANCE APPROACH		0
D – COMBINATION OF OBLIGATING EVENT AND INSURANCE APPROACHES	02, 08, 09, 10, 11, 12, 13, 14, 15, 16, 18, 20, 21, 22, 26, 27, 28, 29, 32, 35, 36	21
E – PROPOSE ALTERNATIVES	05, 06, 24, 34	4
SUB-TOTAL OF THOSE PROVIDING COMMENTS		34
F – DID NOT COMMENT	17, 33	2
TOTAL RESPONDENTS		36

...

- (b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AWARE OF ADDITIONAL APPROACHES	01, 03, 05, 06, 08, 24, 30	7
B – NOT AWARE OF ADDITIONAL APPROACHES	02, 04, 07, 09, 10, 11, 12, 13, 14, 15, 16, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 29, 31, 32, 33, 34, 35, 36	28
SUB-TOTAL OF THOSE PROVIDING COMMENTS		35
C – DID NOT COMMENT	17	1
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 2	STAFF COMMENTS
01	(a) A (b) A	<p>(a) Preferred approach</p> <p>The approach based on "the obligating event" is the most suitable one and the most compliant with the IPSASB conceptual framework in terms of definition of liabilities.</p> <p>Nevertheless, this approach seems to us unfulfilled because it should include contingent liabilities, that lead to disclosures in the notes in accordance with IPSAS 19. Indeed, the notes are integral part of the financial statements and provide essential information to users of financial statements.</p> <p>This global approach will satisfy the faithful representation objective for financial statements in accordance with the conceptual framework.</p> <p>(b) Additional approaches</p> <p>As indicated in our reply above (a), this global approach including contingent liabilities, is the most relevant because it provides a faithful representation of financial reporting in accordance with the conceptual framework and IPSAS 19.</p>	<p>Staff notes the comment regarding contingent liabilities. Although not discussed in the CP, staff considers that it would be appropriate to consider contingent liabilities under the obligating event approach.</p>
02	(a) D (b) B	<p>(a) Preferred Approach</p> <p>[Respondent 02] would not like to commit itself to one single approach. Indeed, the choice of approach over another very much depends on the nature of the considered social benefit. On the whole [Respondent 02], like the IPSAS Board, believes that Approaches 1 and 3 should be used. To name the advantages and disadvantages of the individual approaches is a difficult task. To a great extent they depend on the system which actually provides social assistance and social security. Consequently, the comments below are to be considered with care, when it is a question of determining which option should be applied for which system. It is common to all approaches that their use is relatively complicated; but this is a result of the complexity of the issue. As mentioned [Respondent 02], like the IPSAS Board, is of the opinion that the second approach (social contract approach) should not be used. Therefore, the question arises how future social benefits under the pay-as-you-go system can be recognised. This issue arises above all at the level of the central government [...], where the old age and survivors' pension scheme [...] together with the disability insurance scheme [...] are substantial financial issues.</p>	<p>Staff notes the comments and the support for the IPSASB's Preliminary View 2.</p>

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		<p>(i) <i>The obligation event approach</i> This approach has the advantage that the resulting liability can be recognized at various times. However, this gives rise to a very wide range in the estimate of the amount of the liability, which in turn is a disadvantage. In addition, no particular attention is given to the financing aspects, because only liabilities are recognized.</p> <p>(ii) <i>The social contract approach</i> This approach sounds really appealing, but is difficult to implement. In addition, it is really justified only for social benefits, for which the pay-as-you-go system applies.</p> <p>(iii) <i>The insurance approach</i> This approach could be used for various social insurances in [our jurisdiction], because they are only financed by contributions (schemes primarily financed by contributions).</p> <p>(b) Additional Approaches [Respondent 02] does not wish any further approaches to accounting for social benefits.</p>	
03	(a) A (b) A	<p>(a) Approach supported</p> <p>We agree on the obligating event approach as it directly derives from the conceptual framework; in that sense, we believe it is not an approach as such, rather, it should be considered the overall framework of the analysis. In addition, though we commend the efforts made to identify the different approaches, we observe that a thorough analysis of what an obligation is and whether it exists in the context of social benefits is missing.</p> <p>We could also see merits to the social contract approach as it reflects the substance of public spending operations in various jurisdictions. However, we believe that such an approach should be assessed against the need for the existence of a contractual relationship, which seldom occurs in the public sector where public spending is considered.</p> <p>Additionally, in some jurisdictions, the social contract may not be based on an agreed level of contributions and benefits to be collected and distributed in the future. For instance with respect to old age benefits, the policymaker is solely accountable for sustaining the intergenerational solidarity principle, which is insufficient in itself to generate a liability or a contingent liability for future benefits beyond the reporting period.</p> <p>In our opinion, sustaining the intergenerational solidarity principle does not meet the definition of a liability of the reporting entities that provide the social benefits.</p>	<p>Staff notes that this respondent supports the obligating event approach.</p> <p>Staff notes the comments regarding the existence of an obligation. Staff considers that the CP sought to address this issue, and that it is acknowledged in the sub-options,</p>

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		<p>For that matter, identifying the reporting entities that bear rights and obligations attached to the provision of social benefits is a significant step in the whole analysis, from an accrual accounting perspective. We find that the proposed approaches fail to address that critical issue.</p> <p>[From response to SMC 9]: ... we do not believe that the accounting for insurance contracts should be applied to the accounting for social benefits ...</p> <p>(b) Additional approach to accounting for social benefits that the IPSASB should consider in developing an IPSAS</p> <p>Irrespective of the existence of a liability or a contingent liability, we would like to point out that we would support providing prospective information at an appropriate level, consistent with the decision making level for the mechanism, involving relevant aggregation of reporting entities.</p> <p>Consequently, we believe that it is critical that the reporting entity should be clearly identified to determine whose rights should or should not be recognised and in the financial statements of what reporting entity, provided rights exist at the very level of the reporting entities.</p> <p>Therefore we would encourage the IPSAS Board to set up a step approach to account for social benefits that should first address the identification of the reporting entity that bears the rights and obligations related to the provision of social benefits.</p>	<p>where the latest recognition point identified is the legal obligation.</p> <p>Staff notes the proposals for providing prospective information and for identifying the reporting entity that bears the obligations for social benefits.</p>
04	(a) A (b) B	<p>(a) Preferred Approach</p> <p>In our view, the obligating event approach is the only one of the three approaches that is consistent with the substance of the underlying transactions and which is aligned with the definitions of elements and the recognition criteria in the conceptual framework. Under this approach, establishing when the obligating event has occurred such that the government entity has little or no discretion to avoid an outflow of resources is critical in ensuring that the financial statements present information that is fair and balanced with respect to the financial position of the entity. Governments have full discretionary power over changes to their social benefit programs, particularly if there will be insufficient future revenues to fund them. Consequently, we believe that the obligating event for recognition of a liability for social benefits arises only when a claim is approved. Please see our detailed response to Specific Matter for Comment 4.</p> <p>We agree with the statement in Preliminary View 2, that the social contract approach is not consistent with the conceptual framework; however, the rationale for this statement should have been provided in the CP. In our</p>	<p>Staff notes that this respondent supports the obligating event approach, and the reasons given for this preference.</p>

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		<p>view, given that public sector entities do not recognize the power to tax as an asset, the executory contract model is not supportable, as it requires “net” recognition of the right to receive taxes against the obligation to pay social benefits. As a result we feel that the social contract approach may be more relevant to sustainability reporting, where future tax revenue considerations can be taken into account, rather than financial statement reporting.</p> <p>Furthermore, in our opinion, the insurance accounting approach is not appropriate for social benefits. The substance of social benefit schemes is very different to that of private sector insurance contracts to be accounted for under proposed IFRS 4, which are undertaken on an exchange basis and establish the same rights and obligations for the insured and the insurer as financial instruments. The funding mechanism for contributory social benefit schemes is a form of taxation, albeit for a specific purpose, and does not result in an enforceable right to an individual participant to the assets of the scheme in the future. As well, the public sector entity does not have an obligation at the inception of the scheme to pay benefits in the future, as this is a non-exchange transaction based on the entity’s own legislation. Consequently, the insurance approach is not consistent with the conceptual framework and we do not support its application to social benefit schemes, whether contributory or not. Please see response to Specific Matter for Comment 9.</p> <p>(b) Additional Approaches</p> <p>We are not aware of additional approaches that the IPSASB should consider developing.</p>	
05	(a) E (b) A	<p>[...]</p> <p>In my opinion, about [our jurisdiction’s] contributory pension schemes, two obstacles appear to prevent the constitution of a liability under the influence of the definition resulting from §22 of the IPSAS 19. Indeed, the simulations concerning retirements:</p> <ul style="list-style-type: none"> • Either do not establish (constitute) present obligations but possible obligations such as defines them §18 of the IPSAS 19 by defining contingent liabilities, or an obligation which arises from past events and the existence of which must be only confirmed by the arrival or not of one or several uncertain events which escape completely the control of the entity, • Or establish (constitute) present obligations which cannot be recognized because he (it) improbable that they will pull (entail) a decrease of the resources of the entity expressed in the form of economic benefits or of potential services or because the amount of this obligation cannot be measured in a reliable enough 	<p>Staff notes that this respondent proposes an alternative approach which would involve the disclosures of contingent liabilities. Staff notes most of the references in the response are to</p>

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		<p>way. It is rather this last impossibility which should forbid the constitution of a liability and to allow on the other hand a financial piece of information about the contingent liabilities, [our] equivalent of the commitment except balance sheet (assessment).</p> <p>[...]</p> <p>In these conditions, it will be necessary to carry a financial piece of information about a contingent liabilities, a piece of information which will be annexed to the financial statements of the State or the Social Security.</p>	<p>the IPSASB's first consultation on social benefits rather than the current consultation, making interpretation of the response difficult.</p>
06	(a) E (b) A	<p>(a) Preferred approach</p> <p>In indicating the approach supported we see four possible combinations of social assistance, social insurance, pension and non-pension benefits as illustrated in Figure 2 below [see Response 06 for diagram]. We further consider that the approach should vary between these options.</p> <p>We consider each of the above combinations in relation to the suggested approaches to recognition of social benefits. The numbers follow the numbers in the diagram.</p> <p>1A. Funded pension and other retirement benefits (social insurance)</p> <p>Provided the concept of a funded scheme is defined as above, then the treatment should be based on that described in IPSAS 25 for funded employee pension schemes. We can see no reason for a different treatment.</p> <p>1B. Social insurance non-pension benefits</p> <p>Provided, as above, the funding is clearly defined as above, we concur with insurance approach as recommended in the Consultation Paper</p> <p>2A. Social assistance (unfunded) pensions and other retirement benefits</p> <p>We consider the obligating event the most appropriate approach</p> <p>2B. Social assistance – non-retirement benefits</p> <p>Similarly to 2A, we consider the obligating event approach the most appropriate.</p>	<p>Staff notes that this respondent supports a combination of the obligating event approach, the insurance approach and an approach based on IPSAS 25 for pension and other retirement benefits that are fully funded from contributions.</p> <p>Staff notes that this is linked to the respondent's proposal for a</p>

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			narrower definition of social insurance (fully funded, separate administering agency, etc.) (see March 2016 meeting papers).
07	(a) A (b) B	<p>(a) Preferred approach</p> <p>(b) B Option (i) in our view has the following merits:</p> <p>In this approach, all obligations that have accrued-to-date are included, as of the point that the ‘valid expectation’ arises by meeting the necessary and sufficient eligibility criteria. This will lead to comparable results across social benefit schemes (and between these schemes and similar insurance schemes) that will provide users with a clear picture of the financial situation of an entity at a given point in time.</p> <p>The weakness is that it is not yet clearly defined at what stage a valid expectation will arise. As explained under comment 1b), in our view, this will depend on the eligibility criteria and the coverage, and therefore will differ across social benefit schemes. More guidance is needed to clearly define at what point the ‘past event’ takes place that triggers the obligation and what exact obligation it triggers. What is actually being accrued in a specific period? If this is clearly defined, we think that this option would probably work perfectly.</p> <p>Another weakness of this approach may be that it does not provide insights in financial consequences of expected future accruals, as it only looks at what has been accrued-to-date. However, as will be explained under option (iii), we have some doubts whether it will be possible to provide comparable, comprehensive calculations on expected future accruals for all types of social benefit categories and in that way, we think it may be better to stick to accrued-to-date entitlements.</p> <p>Option (ii) in our view has the following merits:</p> <p>We think this approach clearly explains the situation for most of the social benefit categories and also clearly explains why these should not give rise to any entitlements with regard to what has been accrued-to-date. Most categories will indeed be based on the principle that current taxes and other sources of finances are used to</p>	Staff notes the respondent’s preference for the obligating event approach, and the reasons for supporting this approach.

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		<p>finance the current benefits and that they will not give rise to any entitlements (outside the coverage period) as the coverage is limited to the current period. Taxes, premiums and other means of finance are used to cover the current benefits and in case the government would decide to quit one of these social benefit programs (together with the cancellation of the collection of corresponding premiums or taxes), the government would usually not be confronted with any outstanding expected claims on the basis of past contributions. For these schemes, obligations and entitlements accrue in the same pattern and are offset before the end of the coverage period. Therefore, they do not lead to any entitlements remaining at the end of the coverage period. It will depend on the characteristics (with regard to coverage period and eligibility criteria) of the specific schemes whether these schemes indeed qualify as ‘social contract approach’ types of schemes. In case there is a valid expectation that contributing in period t entitles you to a benefit in t+1 regardless of whether the scheme will still exist, this means that an entitlement has accrued and the relevant unit should record an obligation. In that way, in our view, it is a specific case within option (i). By clearly defining ‘coverage period’ and ‘eligibility criteria’, these types of schemes will be clearly recognized and treated accordingly.</p> <p>Option (iii) in our view has the following merits:</p> <p>As this approach includes both past accruals (accrued-to-date entitlements (i.e. benefits for the current and past contributors)) and future accruals (future entitlements (i.e. benefits that will be accrued by current and future contributors), and future receipts by current and future contributors), this approach gives a comprehensive overview of the financial situation of a social benefit scheme. However, as is explained in the CP this will only be the case for contributory schemes. For the other schemes it will turn out to be too difficult to make estimates of future receipts. In that way, this approach will lead to incomparable results between schemes. That is considered as a major downside. We think that this can only be solved a) by making a forecast of future receipts for the other schemes, or b) by excluding future entitlements and future receipts from the estimates. In the latter case, this approach would only describe the accrued-to-date entitlements and would be equal to option (i). Looking at the issue from a National Accounts perspective, which is based on the accrual principle, this would also be perfectly fine. According to the SNA, only this accrued-to-date part should be regarded as the actual obligation.</p> <p>Furthermore, another problem with the insurance approach in our view is with its use of the net position from expected future cash flows; this implies that future taxes/contributions may need to be recognized before the taxable/contributable event has occurred, which would not be consistent with standard accounting practice nor with other established accounting standards.</p>	

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		<p>Looking at the three options, we support option (i) as it applies (in our view after further tuning some of the definitions) accrual accounting principles to the ‘valid expectations’. This will lead to comparable results across social benefit schemes and between these schemes and similar insurance schemes. In our view, it would also be best to go with only one approach and not have a combination of multiple ones, as the latter may easily give rise to discussions on when to apply which and to differences in interpretation. When looking at the approaches, we also have the impression that the obligating event approach generally covers the other two approaches , as long as the relevant ‘past events’ are defined properly in accordance with the characteristics (coverage and eligibility criteria) of the schemes. For ‘social contract approach’ schemes, the ‘past event’ would be the start of the new coverage period in which new taxes and other sources of finances will be received to pay for the expected benefits for that period. It can then be either the moment that the claim becomes enforceable or that the claim is approved to recognize the liability. When looking at the ‘insurance approach’, the obligating event approach would also work for the accrued-to-date part, as looking at the coverage and eligibility characteristics of a scheme it can be determined how and when entitlements accrue. On the other hand, it does not foresee in estimates for the expected future entitlements and obligations, but as we explained before we think it is questionable whether these would lead to comparable results anyhow. In our view, any estimates of expected future obligations and of future receipts with regard to contributory schemes, in case they are included, should only be presented as memorandum items.</p> <p>(b) Additional approaches No</p>	
08	(a) D (b) A	<p>(a) Preferred approach</p> <p>(i) The obligating event approach. This type of approach would be most appropriate for non-contributory social security programs, including not only means-tested and citizenship-based basic pensions, but also flat-rate pension programs [...], where there are no specific social security contributions and financing is through general revenue.</p> <p>A disadvantage of this approach is that does not take into account the ability of the State to raise taxes (including different forms of social security financing contributions) and, as a result, it may provide an incomplete picture with respect to the financial burden of such programs on the taxpayer. Therefore, we suggest that the standard should include a requirement that disclosures based on the “obligating event approach” be accompanied by the discussion of the program’s long-term sustainability as per RPG1. We note that the CP</p>	<p>Staff considers that this respondent would support a combination of the obligating event approach and the insurance approach.</p> <p>Staff notes the comments about</p>

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		<p>touches on this option in Appendix B of the CP (page 83), where it proposes, in relation to Option 1: Obligating Event Approach, that “sustainability information could be made available in the notes or in a separate GPFR, for example a report on long-term sustainability of an entity’s finances prepared in accordance with RPG1”.</p> <p>We suggest that the above should become a disclosure requirement for financial reporting for these systems. In many instances the information on long-term sustainability is available from actuarial valuation reports, but these may not be updated on an annual basis. Reference could be made to the most recent long-term sustainability report available, or, if information on long-term sustainability is required to be presented on an annual basis, an estimated update should be allowed during the inter-valuation period.</p> <p>(a)(ii) The social contract approach. We do not believe that the social contract approach is an appropriate or financially realistic way of accounting for social benefits.</p> <p>(a)(iii) The insurance approach. We see some benefits in this approach for social insurance schemes where the system is financed by designated contributions, including situations where contributions are made by employers and employees. These schemes are akin to private insurance in that benefits are paid for by contributions over a period, part of which is before the accounting date and part afterwards. However, (1) there is likely to be intergenerational and intragenerational solidarity and (2) financing will usually be on an open group approach, taking into account contributions and benefits for many generations.</p> <p>We notice that Appendix B of the CP states explicitly on page 83 with regard to sustainability that: “This information relates to current participants in a scheme, and so does not include participants who will join a scheme in future periods.” Full sustainability information should include the expected benefit payments and contribution income in respect also of future participants. We understand from Appendix B that it is intended that the sustainability information should be made available in the notes or in a separate GPFR, for example a report on long-term sustainability of an entity’s finances prepared in accordance with RPG1.</p> <p>We strongly encourage IPSASB to make the provision of long-term sustainability information a disclosure requirement for financial reporting. In many instances the information on long-term sustainability is available from the actuarial valuation reporting and is not updated on an annual basis. Thus we suggest that if information on long-term sustainability is required to be presented on an annual basis, an estimated update should be allowed during the inter-valuation period.</p> <p>(b) Additional approaches</p>	<p>aligning the accounting approach with the funding approach, which might require contributions of both existing and future contributors to be considered as an asset. Staff does not consider that this would be consistent with the Conceptual Framework, but might be a useful disclosure.</p>

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		<p>It would be more informative for decision-makers if the accounting treatment were aligned with the funding approach. For many contributory programs this involves presenting financial statements and long-term sustainability information on an open group basis. To ignore this will lead to information that is unhelpful and quite possibly misleading for decision-making. An open group approach to financing requires contributions of both existing and future contributors to be considered as an asset, with liabilities recognizing future benefits in respect of current pensioners, existing contributors and future contributors.</p>	
09	(a) D (b) B	<p>(a) Preferred approach</p> <p>Our support or disagreement with the proposals is outlined below:</p> <p>(i) We support the obligating event approach as we believe this provides a sound conceptual basis for the recognition and measurement of liabilities related to social benefits. As approach 1 is based on the Conceptual Framework, we believe it will provide relevant information to users of the financial statements in a way, or on a basis, which is well understood.</p> <p>(ii) We do not support the social contract approach as we do not support the notion that government's obligations are equal and/or related to the receipt of taxes. In South Africa, several court cases have indicated that government obligations need to be fulfilled irrespective of whether funding is available to meet those obligations. We also believe that recognising liabilities only when a claim is approved, as explained in the Consultation Paper, will not result in a fair representation of government's obligations. In many instances, we believe that government has no realistic alternative but to provide a particular benefit much earlier than when the claim is approved.</p> <p>(iii) We support, on a limited basis, the insurance approach as we believe it may only be appropriate to specific types of schemes. While we believe that there is merit in considering this approach, we have reservations about whether it is the most appropriate method to use in the public sector. A number of our respondents have highlighted the complexity of applying the insurance approach outlined in the Consultation Paper. These comments are outlined in SMC 9.</p> <p>[See also comments under PV 2]</p> <p>(b) Additional approaches</p> <p>While no additional approaches were identified, we have noted that the IASB's Exposure Draft on Insurance Contracts considered a "simplified" approach to recognising and measuring insurance contracts. This approach</p>	<p>Staff notes these comments, and the reference to the premium allocation model in the IASB's Exposure Draft on Insurance.</p>

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		<p>is called the “premium allocation” approach. There is merit in exploring this option as it may result in less complexity than the approach discussed in Chapter 6. See our response to SMC 9.</p>	
10	(a) D (b) B	<p>(a) Preferred approach</p> <p>The obligating event approach (i) describes the recognition issues sufficiently and encompasses the most critical question with respect to social benefits: at what point should we accrue the obligation? We believe that there is a strong argument to record social benefits no later than the point where “(c) eligibility criteria to receive the next benefit have been satisfied,” and perhaps earlier, such as “(b) where threshold criteria have been satisfied.” More detailed comments are provided below. We support this overall approach and would welcome its inclusion in an Exposure Draft.</p> <p>Along with the obligating event approach, we also support the insurance approach. The framework for dealing with certain types of social benefits using the insurance approach is clear. It seems appropriate to recognize and measure insurance-type obligations using provisions.</p> <p>The social contract approach, while a useful analogy, appears to support no measurement until such time that the contract is deemed onerous. In concept, this makes sense and could provide an elegant solution to a difficult problem. However, we worry that in practice it may be too easy for preparers to defer and deny the recognition of an onerous social contract until it is too late for the information to be decision-useful.</p> <p>(b) Additional approaches</p> <p>Some of the approaches discussed in <i>“Accounting for Social Security and Its Reform”</i> (Howell E Jackson, Harvard) may be of use in defining options for the insurance approach.</p>	<p>Staff notes the comments regarding the three options.</p> <p>Staff considers that the respondent does not identify new approaches, but rather possible amendments to the insurance approach.</p>
11	(a) D (b) B	<p>(a) Preferred approach</p> <p>We support the view that a combination of the obligating event approach (option 1) and insurance approach (option 3) would best reflect the accounting substance of the transactions that will fall into the scope of the social benefits standard.</p> <p>The obligation event approach appears to be the most appropriate due to its consistency with the definition of a liability in the IPSASB Conceptual Framework and its applicability to all kinds of social benefits. However, the insurance approach may also be appropriate for social insurance schemes that are contributory in nature (i.e. similar to a typical insurance contract in the private sector).</p>	<p>Staff notes these comments</p>

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		<p>We do not believe that the social contract approach is appropriate and strongly reject it. It would be inconsistent with the IPSASB Conceptual Framework and its application would leave many liabilities unrecognised in the financial statements, which would not result in providing information that can achieve the accountability and decision-making objectives of financial reporting. There is typically no direct link between the tax collection and the social security provided by a government. When the government has an obligation to provide social benefits, it has to settle the obligation regardless of the quantum of its tax collections.</p> <p>(b) Additional approaches We are not aware of any additional approaches.</p>	
12	(a) D (b) B	<p>(a) Preferred approach</p> <p>(b) B We support the obligating event approach and insurance approach.</p> <p>For a social benefit system like social assistance, where contributions are not precedent to the benefit, we believe that the recognition of liabilities and expenses based on the satisfaction of eligibility criteria under the obligating event approach would reflect the substance more appropriately than other approaches. For any social benefit scheme in the social security system conditional on contributions, the insurance approach would be an appropriate starting point for discussion.</p> <p>Our current accounting practices for the public pension system in Japan have been designed on a “pay-as-you-go” basis. The Government [in our jurisdiction] has recognized assets (cash and deposits for investments) that it has been decided to appropriate as a funding source for future pension benefits, including reserves funded by some of insurance premiums paid by the participants in the past. The bulk of the amounts corresponding to the assets have been recognized as a liability as “public pension deposits”. The portion of deposits that have become due is reclassified as “payables” in the liability. The Government has adopted the notion that it should distribute the amounts deposited by participants to those eligible to receive the benefits, and accordingly expenses corresponding to liabilities are not be recognized.</p> <p>Notwithstanding our practices, we believe payables would be recognized at the time “(ii) A claim is approved”, as discussed for the Specific Matter for Comment 8. It would therefore be possible to consider this to be the point of recognition of liabilities.</p> <p>These accounting practices also appear to be based on the notion that “social benefits can be accounted for by applying the analogy of an executory contract” in paragraph 5.32 under the Social Contract Approach, as well as</p>	<p>Staff notes these comments.</p> <p>Staff notes that the respondent suggests that the IPSASB develop its reasons for not supporting the social contract approach further. Staff considers such reasons could be included in the Basis for Conclusions.</p>

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		<p>the concept of a “point of recognition” described in paragraphs 5.36 and 5.37. Several jurisdictions seem to have adopted the “pay-as-you-go” principle. We believe that it would be important to clarify the issues and reasons why the social contract approach has not been adopted, in order to obtain the consensus of stakeholders in developing the exposure draft. For example, we encourage the IPSASB to discuss relevant matters in detail, including inconsistencies with the conceptual framework or the difficulties faced by individual public sector entities in recognizing liabilities.</p> <p>(b) Additional approaches</p> <p>We believe that no approaches other than the above could currently exist.</p>	
13	(a) D (b) B	<p>(a) Preferred approach</p> <p>We support, as the IPSASB considers in Preliminary View 2, the obligating event approach as the primary approach. In a few cases the insurance approach could be appropriate.</p> <p>The obligating event approach shows the most natural solutions from a general accounting practice point of view. The social contract approach includes some good thoughts, but also several problems which the CP describes. The insurance approach is applicable only in few cases where the systems or schemes are very similar to that of an insurance company.</p> <p>(b) Additional approaches</p> <p><i>None identified</i></p>	Staff notes these comments.
14	(a) D (b) B	<p>(a) Support for Specific Approaches</p> <p>In our view, the range of different social benefits scheme constructs will generally mean that no single approach will be appropriate for the recognition and measurement of all social benefits scheme liabilities. Consequently, the characteristics of a particular social benefit scheme need to be considered in determining which approach best fulfils the objectives of GPFs (general purpose financial statements) and potentially GPFr (general purpose financial reports) for that particular scheme or, in some cases, component of the scheme, since many social benefit schemes exhibit different component characteristics and by their design may constitute a mix of social insurance and social assistance.</p> <p>In our view, the recognition and measurement of liabilities for social benefits that constitute social assistance would generally lend themselves to an obligating event approach. Indeed, under the obligating event approach</p>	Staff notes these comments, in particular the concerns raised regarding the insurance approach.

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		<p>some cases may be clear cut – e.g., a legal obligation exists at the balance sheet date. In other cases the determination of when the entity has little or no realistic alternative to avoid an outflow of resources will be less clear, and so the characteristics of a particular benefit scheme should guide the determination as to the existence of a realistic alternative to avoid an outflow of resources. We discuss this below in more detail in our consideration below of each of the alternatives put forth in the CP and in responding to SMC 4.</p> <p>In contrast, only those social benefit schemes (or components thereof) that effectively operate in a way akin to commercial insurance contracts (social insurance) would lend themselves to an approach similar to the insurance approach under IASB ED/2013/7 “Insurance Contracts”. Such “true” social insurance schemes are self-funding exchange transactions, as any short-term deficits represent borrowing by the scheme, repaid once the scheme comes into surplus. Careful distinction will be needed to differentiate between such social insurance schemes and similar schemes that, in contrast, consistently run at a deficit to be covered by general government income or borrowing (social assistance). The latter represents, in substance, a subsidy as opposed to a tide-over loan as would be the case for a “true” social insurance scheme. We suspect that some schemes may exhibit both an insurance component and a subsidized component, which would need to be identified for accounting purposes.</p> <p>We comment on three approaches discussed in the CP as follows:</p> <p><i>(i) The obligating event approach</i></p> <p>We agree that this approach is in line with the IPSASB’s CF. We also believe that this approach is able to deliver faithful representation for non-contributory schemes as well as contributory schemes that do not constitute insurance schemes because they are – in substance – subsidized in full or in part. For schemes designed to be funded on an intergenerational basis this approach can provide important information as to the extent of commitments at the period end, including the magnitude of the liability passed to future generations.</p> <p><i>(ii) The social contract approach</i></p> <p>We appreciate the fact that the CP discusses the social contract approach in detail. As noted in our covering letter, we agree with the IPSASB that it would not provide useful information to users, particularly where there is an inter-generational financing intent inherent in a social benefit scheme. We therefore do not support this approach to accounting for social benefit schemes.</p> <p><i>(iii) The insurance approach</i></p>	

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		<p>We agree that the insurance approach may be appropriate when a scheme is, to all extent and purpose, an insurance scheme. In determining whether this is the case in respect of an individual scheme, substance over form should prevail, and, as discussed in our response to SMC 1, the scheme would need to fulfil specific criteria in order to differentiate between insurance schemes (or insurance components) and subsidized schemes (or social assistance components).</p> <p>Since, in comparison to the obligating event approach, the insurance approach ultimately results in less liability being presented in the statement of financial position than might be the case under the obligating event approach, we are concerned as to the potential for misapplication of the insurance approach, particularly when – in substance – such schemes are (wholly or in part) subsidized.</p> <p>Whilst we appreciate that there may be social benefit schemes that share some characteristics of the insurance found in the private sector, we are not convinced as to the applicability of this in all but “clear cut” insurance arrangements for the following reasons:</p> <ul style="list-style-type: none"> • Schemes which only allow benefits to be drawn by contributors may exhibit some characteristics of commercial insurance, but are not generally one to one with the private sector insurance in terms of individualization of the underlying calculations, there may be a hidden social assistance component (i.e., there may be a propensity for less well-off individuals and households to receive more than they would contribute etc.) • Where in substance shortfalls and excesses are covered by e.g., general taxation rather than their representing short-term borrowings, the scheme will not yield profits that can be released over a coverage period or losses that would be recognized immediately. Shortfalls or excesses may constitute short-term borrowing on the part of the scheme or subsidization. Differentiation between the two may be complex. • Whereas private sector insurers have a contractual right to receive contributions, the government will generally not have a similar basis for offsetting future contributions • Since many contributory schemes are designed to be financed on an inter-generational basis, adopting an insurance approach to account for such schemes would likely not lead to appropriate information • Calculations are extremely complex and, necessarily, often based on assumptions; both of which lead to high costs for the preparer and reduced reliability that in turn impacts their informative value to the users of financial statements. 	

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		<p>(b) Additional Approaches We are not aware of additional approaches that the IPSASB ought to consider.</p>	
15	(a) D (b) B	<p>On the options for the recognition and measurement of social benefits, we agree with IPSASB's preliminary view that a combination of the obligating event approach and insurance approach may be required to reflect social benefits' differing economic circumstances. We however do not support the social contract approach which would in our view not provide information that is useful for accountability and decision-making objectives of financial reporting.</p>	<p>Staff notes these comments.</p>
16	(a) D (b) B	<p>For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09]. Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.</p>	<p>See staff comments under Respondent 09.</p>
17	(a) F (b) C	<p>We think it is too early to take a final position on this. We would need to examine the individual approaches more closely with respect to their effects.</p> <p>In general, in [our jurisdiction] there are legal entitlements vis-a-vis the social insurance providers (which are generally legally, economically and organizationally separate from the state) to which entitled persons can lay claim independently of parliamentary financial planning. The calculation and payment of the [central government's] contributions to [old age and survivor insurance and disability insurance] moreover take place on the basis of a clear legal foundation (defined as a percentage of the two insurances' expenses) and not on the basis of a planning decision.</p> <p>Even if the present status of the insights and discussions suggests that option 2 (social contract approach) is less likely because benefits within the [social insurance office's] jurisdiction are delivered independently of budget decisions, in principle we do not yet want to exclude any option.</p> <p>As the largest part of the expenses of [old age and survivor insurance and disability insurance] is "funded by contributions", we share the view that assets must be considered as well as liabilities.</p>	<p>Staff notes that this respondent has not yet determined which options they support.</p>
18	(a) D (b) B	<p>(a) Preferred approach We support both the obligating event approach (Approach 1) and the Insurance approach (Approach 3) for the following reasons:</p>	<p>Staff notes these comments.</p>

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		<p>(a) Approach 1 gives specific timelines and suffices for general social benefits. Social benefits can be seen as obligations/liabilities. Thus once an obligating event arises, the entity is liable to pay social benefits. The Consultative Paper expounds on “present obligation” which is key in the definition of liabilities to include non-legally binding obligations. To avoid contention, events which may give rise under non-legally binding obligations have been characterized. With both, there should be little or no realistic alternative to avoid an outflow of resources. Recognizing an obligation in the financial statements is further characterized by five distinct points the IPSASB put forth, thus social benefit obligation is recognized if any of the five points are met.</p> <p>(b) Approach 3 comes handy for other complex situations and takes into consideration future occurrences and liabilities. The insurance approach would be best suited for contributory schemes where the provision of social benefits are received conditional on participation in a scheme, that is, whereby the recipients contribute or contributions are made on their behalf. Accounting for this will be similar to insurance accounting where individuals/households make contributions and receive benefits when risk occurs. The social benefit approach will fall short where as is the case, some recipients of social benefits do not pay taxes.</p> <p>(c) Approach 1 supports the timely recognition of social benefits whiles approach 3 focuses on the accuracy of measurement of these social benefits.</p> <p>(b) Additional approaches We are unaware of any additional approaches for accounting for social benefits</p>	
19	(a) A (b) B	<p>(a) Preferred approach</p> <p>The social contract approach is of theoretical interest but seems to be difficult to implement, given the fact that social benefits are generally paid after the verification of eligibility criteria. The insurance approach might be relevant for some specific social benefits, in particular those financed by dedicated contributions, but it is not the general case.</p> <p>As a consequence, the obligating event approach is the one that seems to be suitable.</p> <p>(b) Additional approaches No.</p>	Staff notes these comments.

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20	(a) D (b) B	<p>(a) Preferred approach</p> <p>We are supportive of the preliminary view which supports a combination of approaches i and iii.</p> <p>(b) Additional approaches</p> <p>We are not aware of any additional approaches.</p>	Staff notes these comments
21	(a) D (b) B	<p>(a) Preferred approach</p> <p>[Respondent 21] supports further development of approaches (i) and (iii).</p> <p>While the social contract approach highlights aspects of the delivery and financing of social benefits in some jurisdictions, we do not consider that it would provide a useful view of the economic substance while remaining consistent with the approach to recognition and measurement of liabilities in the context of the IPSASB conceptual framework.</p> <p>For non-contributory schemes, the obligating event approach looks to be a good fit with the IPSAS's Conceptual Framework definition of a present obligation. For schemes with a contributory element which safeguards the contributor against social risks which may or may not be realised, the insurance approach may provide appropriate information.</p> <p>(b) Additional approaches</p> <p>[Respondent 21] is not aware of any additional approaches that the IPSASB should consider.</p>	Staff notes the references to the Conceptual Framework
22	(a) D (b) B	<p>We recommend a combination of the Obligating event and Social insurance approach. Considering the nature of social benefits, obligating event approach and social insurance approach may work under different circumstance. Under some schemes, such as contributory schemes, social insurance approach may be more suitable than obligating event approach. Hence, it is appropriate that different approaches may apply to different categories of social benefits.</p> <p>The social contract approach, however, may not be suitable due to its weaknesses. One of such weaknesses to the implementation of the social contract is that it does not cover cases where the beneficiaries do not need to contribute or meet an eligibility criterion. The social contract approach raises issues when non-legally binding obligations are involved.</p>	Staff notes these comments and that the respondent does not identify any other options.
23	(a) A	We favor the obligating event approach because it supports the view that a present obligation needs to exist	Staff notes the

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	(b) B	<p>before a social benefit is recognized. This approach is also consistent to that of the Exposure Draft ED/2015/3: <i>Conceptual Framework for Financial Reporting</i> published by the International Accounting Standards Board (IASB). The ED/2015/3 defines a liability as a present obligation of the entity to transfer an economic resource as a result of past events. [...]</p> <p>This obligating event approach is also consistent to that of the ED/2015/3 which states that an entity has a present obligation to transfer an economic resource if it has no practical ability to avoid the transfer and the obligation has arisen from past events.</p> <p>In our view, the social contract approach is not ideal because it states that a present obligation only arises once claims for social benefits become enforceable or are approved. It ignores instances whereby obligations are not legally enforceable as a consequence of a contract or legislation. This is not consistent to the ED/2015/3 which states that obligations can also arise as a result of customary practices, published policies or specific statements that require the transfer of an economic resource.</p> <p>We also do not favour the insurance approach which recognises and measures social benefits based on insurance accounting as it could be complex to grasp. It is also our understanding that the IASB is in the process of replacing the standard on insurance accounting. Therefore, it might not be a feasible exercise for the IPSASB to adopt the insurance approach as the principles therefore could differ according to the guidance that will be provided by the IASB.</p>	<p>references to the IASB's Exposure Draft on its Conceptual Framework. While this is not directly relevant to the IPSASB, the IASB Conceptual Framework is expected to be consistent with the IPSASB's Conceptual Framework in this area.</p> <p>Staff also notes the comments regarding the insurance approach.</p>
24	(a) E (b) A	<p><i>Measurement of contributory social benefits in public accounts</i></p> <p>[Respondent 24] feels it is important to raise to your attention that the accounting treatment of contributory social benefits should be based on an open group approach taking into account cumulated assets and future income.</p> <p>More specifically, it is worth pointing how "accrued rights" in respect of people (usually workers) under contributory social security provide expectations towards future benefit entitlements that are clear. It is difficult to envisage such accrued rights to benefit entitlements and the provisions and rules governing them could be modified without breaking the rule of law. Therefore the assessment of their discounted value requires actuarial estimates that can be reasonably expected to materialize if assumptions match the observed developments in</p>	<p>Staff notes that this respondent would adopt the "open group" actuarial approach to measuring social benefits. Staff notes that the</p>

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		<p>future. These accrued rights in many countries have been defined to be financed over time through contributions with objectives for more or less “advance funding” (i.e. accumulation of assets) which reflect the socio-economic objectives of each country. It is important to reflect this income source as it is implied to be required towards meeting at least the accrued rights.</p> <p>However, for future benefit entitlements that will stem from rights to be gained in the future only, it is clear that the legal provisions of social security governing their eligibility and calculation method for individual benefits as well as their level and framework for collecting contributions could be amended in the future. Such amendments normally are the result of thorough actuarial assessments based on projection frameworks which define the long-term “financial sustainability” of the social security scheme. These future amendments normally revolve around increasing the income (e.g. level of contribution rates collected from insured members/workers and their employers) and/or adjusting future benefits (e.g. their level and eligibility). This means that future rights to benefit accruals could reasonably be expected to be modified in line with the financial sustainability framework regularly reviewed with the advice of social security actuaries. The above points made indicate an open group methodology would be more adequately reflecting the financial position of the social security/social insurance scheme.</p> <p>It is noted that some of the proposed methods for social benefits in the Consultation Paper follow the methods generally applied to private pension arrangements which are not consistent with social security pensions. [Respondent 24] discourages the option for the Obligating Event.</p> <p>Social insurance schemes are usually compulsory and deemed as permanent entities. They allow future contributions, including not only those of current contributors but also those of future contributors, to finance accrued liabilities through inter-generational transfers, based on the nature of compulsoriness and solidarity principle. The method of accumulating or not accumulating assets is a policy decision taken by politicians and can change over time. There are social insurance schemes that are designed to have benefit outlays match contribution income on a pay-as-you-go basis, with small contingency reserves, or other schemes operated on a partially-funded system with reserves smaller than those required for full-funding system ([Respondent 24] understands “full-funding” to mean that cumulated assets are always equal to cumulated rights at any point in time, a reality usually valid for defined-contribution schemes but not so valid for other forms of social security benefit design and funding strategies). This is a political choice reflecting the social and economic objectives of a country. For example, full funding objectives are considered economically undesirable by some countries and</p>	<p>respondent therefore supports a modified version of the insurance approach, but does not support the obligating event approach.</p> <p>Staff does not consider that the open group approach, which considers all future payments and revenues for current and future participants in a scheme, would be consistent with the Conceptual Framework. Staff acknowledges that this approach might provide useful disclosures.</p>

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		<p>affecting domestic consumption while it is not for others. It is therefore inappropriate to measure liabilities of social insurance schemes on a termination basis (closed-group).</p> <p>In order to assess the financial position as a reflection of financial sustainability of a social security schemes, an open-group approach is deemed appropriate, i.e. in line with the “insurance approach” of the Consultation Paper modified for the Open group approach such that all expected future income, mainly represented by future contributions and their income from investments, as well as future expenditure, mainly represented by future benefits, should be taken into account, by properly discounting expected future financial cash flows.</p> <p>An open-group insurance approach would allow reflecting the financial position of all future adopted reforms affecting social insurance schemes, for example retirement age increases, benefit amendments as well as contribution rate increases.</p> <p><i>In summary</i></p> <p>There are other methodological dimensions, namely with respect to projection methods, assumptions. [Respondent 24] has been informed of the comments prepared by [Respondent 08] and we express our agreement with the comments separately submitted by [Respondent 08]. [...]</p> <p>[Respondent 24] recommends further reflections and additional in-depth technical research and exchanges with the actuarial and social security pension financing professions based on concrete evidence-based and national examples. This additional work is necessary to ensure the best information is made available for the public and policy-makers.</p>	
25	(a) B (b) B	<p>Our comments on the approaches discussed in the CP are provide below:</p> <p><u>1. The obligating event approach</u></p> <p>Under the obligating event approach, a liability is recognized in the financial statements as the obligating event occurs, without recognition of any asset representing the future tax revenues.</p> <p>In our view, the overall effect of recognizing the future deficit without the recognition of the future tax revenues, might contradict the objectives of financial reporting by public sector entities and might result in a misleading presentation. Particularly, we cast doubts on whether this approach satisfies the faithful representation criteria as a qualitative characteristic of information set out in the Conceptual Framework, which forms the basis of the obligating event approach.</p> <p>In addition, we believe that recognizing a liability for all future benefits, as required under the first and the second</p>	<p>Staff notes that this respondent supports the social contract approach. Staff also notes the comments regarding faithful representation in the obligating event approach.</p>

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		<p>sub-options (i.e. key participatory events and threshold eligibility criteria sub-options) might create practical difficulties in measuring the liability and will be subject to a significant uncertainty. This raises the question whether the recognition criteria set out in the Conceptual Framework is satisfied for those liabilities.</p> <p>Moreover, as the government has the ability to avoid paying the benefits by modifying the relevant legislation, it appears that only the fourth and the fifth sub-options (i.e. the approved claim and the enforceable claim sub-options) will satisfy the recognition criteria.</p> <p><u>2. Social Contract Approach</u></p> <p>In our view, the underlying model of the social contract approach, under which there is kind of an executory contract between the government and its citizens (i.e. the government provides social benefits to the citizens and the citizens provide the government taxes and other resources of finance, effectively offsets the government's obligations), is an appropriate model, reflecting the current economic reality. Under the social contract approach, by applying analogy to the executory contract accounting model, the government will recognize no liability for social benefits (unless the contract has become onerous), until an enforceable (or approved) claim in respect of the benefits exists.</p> <p>We believe that the accounting treatment for social benefits under the social contract approach faithfully represents the economic circumstances arising in respect of social benefits, as that approach reflects the fact that the benefits are effectively financed/subsidized by tax receivables, and that the payment of benefits by the government is highly dependent on taxes paid by the citizens. In other words, we believe that the government's obligation to provide benefits and the sources effectively finance this obligation (taxes) should not be regarded as separate elements, and therefore our view is that measuring the liability at zero (unless the contract is onerous) is the most appropriate approach. This accounting treatment is appropriate also because the government has the ability to avoid paying the benefits (for example, by modifying legislation).</p> <p>[...]</p> <p><u>3. Insurance Approach</u></p> <p>Under the insurance approach, it appears that for fully funded schemes, the government should recognize an expected surplus or deficit only for the period in which the legislation cannot be revised. Any expected deficit should be recognized immediately as an expense. Any expected surplus should be recognized over the coverage period of the scheme.</p>	

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		<p>Complexity might arise for schemes not designed to be fully funded from contributions (i.e. subsidized through taxation) – the CP identifies three approaches regarding the recognition of the unsubsidized portion as an expense.</p> <p>Considering the fact that the insurance approach provides a partial solution only (i.e. that approach does not provide an extensive solution for all social benefits) and the significant complexity that might arise under this approach, we don't support the insurance approach. Particularly, as [our] government has the ability to revise the relevant legislation at any time, it appears that the insurance contract is not relevant under these specific circumstances. Considering that the board's objective is to develop an extensive accounting model for social benefits, covering a wide variety of benefits and schemes, it is possible that the insurance approach is not/less relevant for other countries also, where the circumstances are similar to the circumstances in [our jurisdiction], as mentioned above.</p> <p>In light of the above, our view is that the social contract approach is the most appropriate approach to recognizing and measuring social benefits. In any case, we believe that adoption of any one of the approaches might be a long process, since the variety of social benefits and the expected social and accounting complexities associated with such adoption.</p>	
26	(a) D (b) B	<p>[Respondent 26] supports the inclusion in the statement of financial position of enforceable legal claims.</p> <p>[Respondent 26] also supports the inclusion in the statement of financial position of non-legally binding obligations where the nature of the promise, and the existence and effectiveness of commitment devices sufficiently reduce the reporting entity's discretion to avoid future outflows of resources, so that the reporting entity is effectively asserting that benefit recipients currently have a valid present expectation of receiving the benefit and the entity has a current obligation to them.</p> <p>[Respondent 26's] view this is that long term fiscal reports provide information on current policies, and the balance sheet provides information on current resources, and current claims to those resources. In essence, it is [Respondent 26's] position that the long term fiscal report provides information on the state of the "social contract" whereas the statement of financial position should limit itself to reporting the current financial position.</p> <p>[Respondent 26] considers there are grave dangers to the credibility of the information on the statement of financial position if its scope is expanded to provide information on future obligations (or outflows) based on current policies. Simple recognition of a social obligation in accordance with a broadly defined set of criteria in</p>	<p>Staff considers that the references to including enforceable legal claims and non-legally binding obligations in the statement of financial position means that the respondent supports the obligating event approach.</p>

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		<p>an international accounting standard is likely to provide a misleading view the impact of social benefits on the entity's financial performance and financial position.</p> <p>Such a misleading view of the financial position arises because of scope issues which mean there would likely be inclusion of long term liabilities for some but not all social benefits, because of the complexity of different structural arrangements internationally and because of the exclusion of future taxation revenues expected to fund the future social benefit payments.</p> <p>[Respondent 26] considers that insurance accounting should be used where there are significant cash contributions in respect of a scheme, and these can be reliably measured, where the substance of the scheme is that the public sector entity accepts an obligation to provide compensation if risks crystallizes from those contributions, and where there is a clear link (although not necessarily a one-for-one relationship) between the benefits paid by a social security scheme and the revenue that finances the scheme.</p> <p>Therefore, [Respondent 26] considers elements of each option, should be applied as appropriate in the financial statements and in long term fiscal reports.</p> <p>We address the conceptual merits and weaknesses of the options; the extent to which they address the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit, in our responses to the specific matters for comment below.</p>	<p>Staff notes the respondent also supports the insurance approach in certain circumstances.</p> <p>Staff considers that the respondent does not consider the social contract approach appropriate for the financial statements, but useful for sustainability reporting.</p>
27	(a) D (b) B	<p>[...]</p> <p>[Respondent 27] agrees with the IPSASB's preliminary position that the Obligating Event Approach and the Insurance Approach seem to be the most relevant. However, we wish to emphasise that explanations and background to the Social contract were vaguely described, which has in part entailed some difficulties in discerning the major differences between the Social Contract Approach and the Obligating Event Approach. The main reason for our assuming that the Social Contract Approach is probably not relevant is that it is strictly based on both parties, that is the State and citizens, having obligations that are on an equal footing, such as the State providing support in the form of social benefits as long as citizens meet their obligations in the form of paying tax. Our assessment is that this is a weak link and the question of whether the State can renounce its obligations if citizens do not pay their taxes is not sufficiently investigated. The State probably has a greater responsibility in purely legal terms. The Obligating Event is based on the existence of legislation as grounds for the commitment, which in purely legal and judicial terms are more fixed. However, essentially it is difficult to see</p>	<p>Staff notes these comments. Staff agrees that the practical outcome of the social contract approach is similar to some of the sub-options under the obligating event approach, albeit for different</p>

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		<p>the actual difference between these two models.</p>	<p>conceptual reasons.</p>
28	(a) D (b) B	<p>(a) Preferred approach</p> <p>We support the IPSASB’s preliminary view that a mixture of the obligating event approach (option i) and the insurance approach (option iii) will provide the best solution.</p> <p>For non-contributory schemes, the obligating event approach seems best to fit with the IPSAS’s Conceptual Framework definition of a “present obligation”: i.e. “a legally binding obligation or non-legally binding obligation, which an entity has little or no realistic alternative to avoid”. It also fits better with IPSAS 19’s definition of an “obligating event” as an “event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settle that obligation” and with private sector accounting standards, particularly IAS 37 Provisions, Contingent Liabilities and Contingent Assets.</p> <p>When considering the recognition of a liability, the IPSASB takes the approach that it is not dependent upon considerations as to whether the government in question will have adequate funding to settle the liability in the future. In this respect, the obligating event approach appears to be more in keeping with this approach than the social contract approach.</p> <p>Regarding schemes with a contributory element, it seems eminently sensible to use well established insurance accounting principles for schemes where the funding is either totally or partially from direct contributions from the recipient households.</p> <p>(b) Additional approaches</p> <p>We are not aware of any additional approaches.</p>	<p>Staff notes these comments.</p>
29	(a) D (b) B	<p>(a) Preferred approach</p> <p><i>General comments</i></p> <p>We support the IPSASB’s preliminary view that a combination of the obligating event approach and the insurance approach may be required to reflect the different economic circumstances arising in respect of social benefits when there is a present obligation and not for future obligations. We consider that the nature of the government’s promise in relation to a social benefit can help determine the suitability of an approach and the recognition point within that approach. For example, in relation to the larger social benefits in [our jurisdiction]:</p>	<p>Staff notes these comments, in particular those relating to the usefulness of recognizing large liabilities in the statement of</p>

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		<p>(a) Accident compensation [...], the promise is for the full life of the claim;</p> <p>(b) Unemployment benefit, the promise is either for a year (the next revalidation point) or in the longer term until the individual finds a job; and</p> <p>(c) [...] Superannuation, the promise is for the whole of the person’s retirement from age 65 onwards.</p> <p><i>Obligating event approach</i></p> <p>We support the obligating event approach for the recognition and measurement of social benefits. In terms of [our jurisdiction’s] social benefits, we can identify benefits where we consider that there is an obligating event that creates a present obligation for the future payments of social benefits. For example, in the case of [...] Superannuation [...], [our] government has indicated that it will accept the responsibility of paying [...] Super from the time that the individual is 65 years old, for the rest of their life. Legislation establishing an entitlement to [...] Super and the eligibility criteria is in place. In addition, based on the current political environment and current policy in [our jurisdiction], individuals are likely to have a valid expectation that, when they reach the age of 65, they will receive [...] Super for the rest of their life.</p> <p>In this example it is possible to conclude that the government has a present obligation (at least once the individual reaches 65) for all [...] Super benefits to be provided to the individual in future periods. We note that there are differing rationales for arriving at this point, which we discuss further below.</p> <p>We accept that applying the definitions of elements and the recognition criteria in the Conceptual Framework could lead to the recognition of a liability for all future [...] Super payments to individuals from the age of 65. This would result in the recognition of a substantial liability (based on actuarial calculations and assumptions) in the financial statements. Some would argue that this information is useful to users of financial statements as it shows clearly the obligations of the government. The counter argument to this is that reporting large liabilities without the corresponding information on how these large liabilities are to be funded is of limited use to the users of financial statements and does not meet the objective of financial reporting.</p> <p>The proposals in the Consultation Paper focus on one part of the puzzle, the outflows. The picture is incomplete without the inflows as well. Comprehensive information about future inflows and outflows is provided in long term fiscal reports, as described in RPG 1 <i>Reporting on the Long-Term Sustainability of an Entity’s Finances</i>. Long term fiscal sustainability reporting is a very important tool and the most appropriate way of providing comprehensive information on the impact of current policies on future fiscal position and developing policy</p>	<p>financial position, without recognizing the equivalent revenue streams.</p>

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		<p>responses to fiscal issues. A number of jurisdictions [...] provide these reports, some because they have a statutory requirement to do so and others on a voluntary basis. Given the importance of this information, and the need for balanced information about inflows and outflows, we would encourage the IPSASB to think about both sides of the picture before finalising any standards-level requirements. We would also encourage the IPSASB to continue to promote the importance of long-term fiscal reporting and, in the longer term, to reconsider whether the requirements in RPG 1 should be incorporated in a standard.</p> <p>In preparing our response to this Consultation Paper we have reflected on the ways in which various types of information about social benefit obligations is used in [our jurisdiction], and whether such information should be included in general purpose financial reports. As a starting point we acknowledge the importance and usefulness of information about social benefit obligations. Certain government departments in [our jurisdiction] (for example, the Ministry of Social Development) use actuarial based information of estimated future liabilities as a management tool to ascertain if policy decisions and reforms are working. The information used by the Ministry of Social Development is based on those assumptions that provide the most useful information to the Ministry – these differ from the assumptions that are used in the governments long-term fiscal reporting. Although we acknowledge the importance of such information for policy making and planning, we note that it is tailored to meet the needs of particular users, and we would caution against assuming that it is also relevant to users of GPFR. If the IPSASB were to require more widespread recognition of lifetime payments of social benefits, this could result in the recognition of substantial liabilities in the financial statements. As we are aware from our current reporting of [accident compensation] liabilities, such liabilities are sensitive to assumptions and small changes in assumptions can lead to large changes in the amounts reported. The IPSASB would need to carefully consider the usefulness of reporting such large liabilities and the impact of changes in assumptions on reported performance for users of GPFR.</p> <p><i>Social contracts approach</i></p> <p>We do not support the IPSASB further developing the social contracts approach and agree this approach is not supported by the Conceptual Framework. However, we note that some of the ideas in this approach can be helpful when considering when obligations arise or when obligations should be recognised. For example, the concept of an executory contract can be useful in explaining the relationship between a government that provides social benefits and the expectation that individuals or households will contribute taxes and other sources of finance to support that system of social benefits.</p>	

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		<p>We agree that there would be practical difficulties in applying the social benefits approach (and, in particular, in applying the pure executory contracts model). Some of these difficulties are:</p> <ul style="list-style-type: none"> • Identifying the counterparty to the executory contract. Whilst individuals may receive social benefits, corporate entities may never receive any social benefits in return for their contributions; and • Whether a “contract” is onerous at the time that the benefit is approved or payable, as the individual could still be regarded as performing their part of the agreement by contributing taxes. <p><i>Insurance approach</i></p> <p>We support the insurance approach for insurance type social benefits (contributory and coverage period type schemes). In [our jurisdiction], [one entity] applies an insurance accounting approach to its social security scheme. We are happy to provide further details of how the scheme works and the accounting for the scheme if this would assist the IPSASB.</p> <p>We agree with the IPSASB’s view that the insurance approach may be appropriate where there are significant cash contributions in respect of a scheme, and these can be reliably measured.</p> <p>(b) Additional approaches</p> <p>We are not aware of any other approaches to accounting for social benefits.</p>	
30	(a) A (b) A	<p>(a) Preferred approach</p> <p>Conceptual Merits and Weaknesses</p> <p>The obligating event approach is best suited across various categories of social benefits. Treating the obligation to pay social benefits in principle as any other obligation is conceptually sound. When such an obligation arises, especially in the case of social benefits, indeed is a crucial question given that the obligation to pay social benefits is unique. That however is a separate question. The obligating event approach is also simple, making it easier for users of GFRs to understand basis of recognition of social benefits.</p> <p>The social contract approach in our view is deeply problematic at several levels. Firstly, it is simplistic to argue that there is a one on one relationship between an individual or household on one hand and governments on the other, as far as the obligation to pay taxes and entitlement to receive benefits are concerned. The “social contract” in fact in many cases may not exist as individuals and households liable to taxes may not be eligible for most or many social benefits, and individuals and households eligible for social benefits may at many times not</p>	<p>Staff notes these comments, particularly regarding the understandability of the obligating event approach.</p> <p>Staff notes the comments regarding recognizing assets for social benefits. Staff does not</p>

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		<p>be liable to taxes. Taxation is a tool for governments to raise public finances in general and not specifically towards social benefits alone.</p> <p>Secondly, the constitutional or legal validity of such a quid pro quo like interpretation of social benefits and taxes may not stand scrutiny in many countries. The laws governing taxation are distinct from laws or executive policies of governments governing social benefits. It would be excessive to read across legislations and match obligation of an individual arising out of one set of laws drawn up with one set of objectives, with benefits to which a citizen is eligible under a different set of laws or policies possibly drawn up with wholly different objectives.</p> <p>The possible simplicity of the social contract approach alone is not in our view reason enough to override the above arguments.</p> <p>The insurance approach may be appropriate for social benefits that are akin to insurance contracts, though in terms of measurement (and in understanding of such measurement by readers of financial statements) they may be complex. Further they result in differing accounting treatments for different social benefits.</p> <p><i>Extent to which each option addresses objectives of financial reporting</i></p> <p>GPFRs of public sector entities have a particularly diverse group of end-users comprising elected representatives, other policymakers such as bureaucrats, citizens, and intermediaries such as citizen interest groups, domain experts, economists and statisticians etc. Providing such a diverse group of end-users with information that is useful for accountability and decision-making purposes is likely to be best accomplished through an approach that is conceptually sound yet simple to understand. The obligating event approach best meets this criterion.</p> <p>(b) Additional approaches</p> <p>The potential for a fair value approach to social benefits, especially on the assets side, needs to be researched further. All approaches in this CP recognise a social benefit as a tangible benefit that is paid out to an individual or household and measure them based on what they cost to the public sector entity/government. However many times the purpose of a social benefit is the social or economic development of individuals and households and not just aiding them to mitigate any immediate social risk. For example, giving a bicycle to a girl child may be measured at the cost of a bicycle, but the socio-economic substance of this social benefit includes better attendance at school, better health and nutrition (arising out of another social benefit, the mid-day meal</p>	<p>consider that the future socio-economic benefits arising from a social benefit meet the Conceptual Framework definition of an asset. Such socio-economic benefits would be prospective, and it is unlikely that these benefits would be controlled by the public sector entity.</p>

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		<p>scheme), better employability and therefore better economic prospects. This value of a social benefit is not covered under this CP and is crucial information for users of GPFRs of a public sector entity. A method or a set of principles to measure the net present value of the future socio-economic benefit that accrues to the individual or household from a social benefit therefore will greatly enhance the quality of GPFRs and its utility (even if only as disclosures).</p>	
31	(a) A (b) B	<p>(a) Preferred approach</p> <p>Overall, we support the obligating event approach and believe that it is an appropriate accounting treatment for the recognition and measurement of the wide range of non-exchange social benefits. Specifically, as discussed more fully in our response to Specific Matter for Comment 4 below, we support recognition of a liability for non-exchange social benefits when all of the eligibility criteria to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative. We believe that this obligating event approach, supported by appropriate disclosures in the financial statements and/or the general purpose financial reports (GPFR), best achieves the objectives of financial reporting and provides information about the public sector entity that is most useful to users of financial statements and GPFRs for accountability and decision-making purposes.</p> <p>With respect to the social contract approach, we have concerns that it is difficult to analogize this approach to the executory contract model and it may not fully meet the objectives of financial reporting. Further, the “approved claim” sub-option (d) under the obligating event approach would yield results similar to the alternative sub-option of the social contract approach discussed in the CP, whereby liabilities are recognized when all eligibility criteria are met and claims are approved.</p> <p>With respect to the insurance approach, the present obligation and therefore a liability for social benefits is calculated based, in part, on estimates of future benefits for which all eligibility criteria to receive the next benefit would not have been satisfied. Consequently, we do not support the insurance approach. In addition, as noted in the CP, the insurance approach is most suited to contributory benefits and cannot be used for all types of social benefits schemes, such as those for noncontributory benefits. Therefore, we have concerns that the application of both the insurance approach and obligating event approach could result in different outcomes for conceptually similar programs. Further, in our view, recognition and measurement of dedicated non-exchange revenues specifically associated with the funding of social benefit schemes should be consistent (1) across all social benefit schemes and (2) with the IPSASB’s current project on non-exchange revenues.</p>	<p>Staff notes these comments, in particular the view that the recognition and measurement of social benefit schemes should be consistent across all schemes and with the IPSASB’s current Revenue project.</p>

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		(b) Additional approaches We are not aware of any additional approaches to accounting for social benefits.	
32	(a) D (b) B	<p>(a) Preferred approach</p> <p>[Respondent 32] is of the view that the application of the approaches would depend on the type of social benefit scheme. There is no one single type of social benefit scheme that would imply that one of the approaches adopted is universally better than another. (The obligating event approach sub option “Eligibility Criteria Met to Receive Next Benefit” is most appropriate for most social benefit schemes provided in [our jurisdiction]).</p> <p>[Respondent 32] broadly agrees with the high-level conceptual analysis of the three methods in the discussion paper. ([Respondent 32] disagrees with some of the detail, particularly on the obligating event approach). [Respondent 32] agrees that while the social contract approach is a suitable analogy in many cases, application of it is difficult to reconcile with accounting concepts.</p> <p>In the general comments to its response, [Respondent 32] noted that recognition of liabilities under any approach does not achieve the two specific objectives set in the paper. The high-level objectives of financial reporting set in the conceptual framework (information for decision making and accountability) are too general to determine precise recognition and measurement rules.</p> <p>The last question [Respondent 32] finds too imprecise. Any of the methods would be expected to provide some degree of “useful information about the different types of social benefit”, as long as disclosure is sufficiently disaggregated. However, whether they do this in a way that enables “assessment of financial performance or financial position” is unlikely (and [Respondent 32’s] view is that in most cases it does not).</p> <p>[Respondent 32] is also concerned about whether the benefits provided from this project are outweighed by the costs.</p> <p>Background information</p> <p><i>Obligating Event</i></p> <p>In [our jurisdiction’s] context there very limited circumstances that allow for social benefits recipients to be assessed only once with benefit payments guaranteed for all future periods i.e. “set and forget”. In other words, revalidation of eligibility is periodically done with onus placed on benefit recipients to advise social-benefit-paying-departments of any changes to their circumstances. The age pension, which has historically been paid to those who reach pension age, is subject to periodic income and assets tests even after the initial assessment</p>	Staff notes these comments, and that they should be read in the context of the respondent’s view that “long term fiscal sustainability reporting is a more appropriate mechanism for assessing the implications of long term obligations to provide social benefits” than the approaches set out in the CP.

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		<p>for payment eligibility.</p> <p>Under these conditions liabilities should only be recognised up to the next assessment period i.e. eligibility criteria is met to receive next approved payment. Perhaps the only exemptions would be in limited cases of manifest disabilities where the condition is irreversible and where once eligible the social welfare payment may not be reassessed however, reassessments of the social welfare recipient's circumstances for any changes in care arrangements and care providers would continue to be done.</p> <p>The obligating event "Eligibility Criteria Met to Receive Next Benefit" would achieve reliable measurement of liabilities for a reporting period. Given the requirement for reassessments of eligibility for payment or of the circumstances of social assistance recipients in [our] social welfare payment system, it is logical that liabilities should only be recognised up to the next assessment period i.e. eligibility criteria is met to receive next approved payment.</p> <p>Furthermore, governments can change policies at any time with the changes requiring reassessment of future liabilities at potentially high costs including for audit and assurance of the estimated future liabilities and the underlying assumptions.</p> <p>This approach is analogous with booking mining royalty payments by a mining company for what is due and payable in relation to the reporting period. Arguably mining corporations are not required to show all possible future royalty obligations that may be payable in future years.</p> <p><i>Social Contract</i></p> <p>In [our jurisdiction's] context, a social contract principle is not applied but instead a safety net support is provided for all citizens. [Our] government funds from taxation revenues a broad range of welfare payments for children, families, working age citizens, people with disabilities and the aged. These welfare payments are universally provided to all qualifying citizens including those who may not or are unable to contribute to government revenues through payment of taxes or levies [...]. [Respondent 32] considers this option to be unsuitable for [our] context.</p> <p><i>Insurance Approach</i></p> <p>The principles underpinning the insurance approach are (a) social security is contributory based and (b) the legal obligation arises when some participates in the scheme by making contributions and has a valid expectation of payments in the future if an event or a risk arises that causes their circumstance to change. Insurance</p>	

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		<p>accounting is justified for such arrangements as is done [...] where levies are paid by businesses, motor vehicle owners and employees for injury cover that is funded by the [...] Scheme.</p> <p>The application of insurance accounting will require complex accounting calculations including Net Present Value of future (NPV) cash flows for benefits payments as well as for contributions received, determination of discount rates for calculation of NPV and accounting treatment of potential deficits over coverage periods. The CP outlines some of the complexities associated with subsidised and unsubsidised schemes.</p> <p>The CP in paragraph 6.10 notes that it is not appropriate to apply insurance accounting to unfunded social assistance schemes where there are no contributions. In such schemes, the only cash flows would be for benefit payments as there would be no receipts. As such, some variant of the obligating event approach could be applied instead. [Respondent 32] is of the view that the insurance approach would be best suited to social benefits that are provided on unsubsidised and purely contributory-based arrangements.</p> <p>In [our jurisdiction's] context, most social benefits are not contributory based but are fully funded by government through taxation revenue. Universal tax funded schemes that are non-contributory based and are on non-exchange arrangements cannot be accounted for using insurance approach.</p> <p>(b) Additional approaches</p> <p>[Respondent 32] is not aware of any other approaches to accounting for social benefits. IPSASB has identified approaches to accounting for benefits that are out of scope of the CP (e.g. employee benefits, financial instruments).</p> <p>Some countries are looking into investment approaches for managing social welfare obligations [...]. The investment approach seeks to target support services and appropriate interventions as a means to reduce the relative costs of social welfare programs. However, this approach is not consistent with accounting concepts for application in financial statements.</p>	
33	(a) F (b) B	<p>(a) Preferred approach</p> <p>We note that the IPSASB's preliminary view is that a combination of Option 1 (the obligating event approach) and Option 3 (the insurance approach) would provide the most useful financial reporting.</p> <p>At this stage in the standard's development we do not believe that there is sufficient information to favour one approach over another, at least not definitively. As noted above, it would be highly desirable for the board to carry out more empirical research on the different social benefits available and their funding mechanisms, to</p>	<p>This respondent does not consider there is sufficient information to favor one approach over another, and</p>

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		<p>enable stakeholders in different jurisdictions to assess the impacts the various options may have on a jurisdiction's financial statements.</p> <p>We therefore encourage IPSASB to carry out a detailed case study for a fairly small sample of countries to assess the impact of the three options outlined in the CP. The information provided on the social benefit landscape in various countries in Appendix A of the CP is very helpful, but we would like to see more detailed analysis in order to facilitate the debate.</p> <p>We have set out below a number of observations for each of the options. While we are not yet able to draw firm conclusions at this stage of the debate about the relative merits of any single option or multiple options, we hope that these observations will be useful to the further development of this project.</p> <p><i>Obligating Event Approach</i></p> <p>The obligating event approach is consistent with the definition in the CF of a 'present obligation', which is 'a legally binding obligation or non-legally binding obligation which an entity has little or no realistic alternative to avoid'. The approach would be more easily understood by users and easier for preparers to apply than the insurance approach, whilst meeting the qualitative characteristics of the CF. However, the difficulty of articulating when an obligating event arises in the case of government bodies that have wide-ranging rights to amend social benefit promises at will, or at least through a statutory mechanism controlled by them, should not be underestimated.</p> <p>We agree with paragraphs 4.89 and 4.90 of the CP that separately identifying scheme assets would potentially increase the usefulness of social benefits disclosure by allowing users to assess the financial health of certain benefits. It would be interesting to know how many benefits in practice are underpinned by earmarked assets or are supported by a separate fund; we are not aware of any in [our jurisdiction], but other examples may be found which might be illuminating. We note that future contributions receivable do not meet the definition of an asset and cannot therefore be recognised as an asset.</p> <p>It is perhaps worth noting that state pensions in the [our jurisdiction] appear to be hypothecated, but in reality are not underpinned by a fund. [...] contributions which fund the state pension are paid into the same pool alongside other taxation such as income tax. As such, some benefits may appear to be funded or supported by assets when in fact they are not.</p> <p>If early recognition criteria are adopted, government accounts would contain very large liabilities which might be</p>	<p>recommends further research. Staff does not consider that this is viable given the resources available, and may not be desirable. Governments provide an extremely wide range of benefits, and staff consider that this is best addressed from a conceptual basis. Staff notes the comments regarding disclosure.</p>

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		<p>difficult to measure due to the inherent uncertainty surrounding the recognition of an obligating event and all of the assumptions required to underpin the calculations, although for some obligations, such as state pensions, the portfolio effect and actuarial input may give some reasonable basis for estimation. Some numbers, however, may be rendered somewhat meaningless, with large year on year movements which will be difficult to explain or understand. Governments will of course be placed under political pressure to justify such large obligations even if such obligations will be funded from future revenues, so disclosures and explanations will be key.</p> <p>Finally, we recognise that the obligating event approach will involve the exercise of a high degree of judgement (for early obligating events such as key participatory events have occurred and threshold eligibility criteria have been satisfied), making international comparisons potentially problematic.</p> <p><i>Social Contract Approach</i></p> <p>The social contract approach appears logical in that many citizens pay taxes and in return are entitled to receive social benefits, although the social contract means some citizens may benefit while never paying in to the system. It is important however, that recognising social benefit liabilities (and unfunded pension liabilities) is potentially one-sided and hence misleading without recognising the government’s right to levy taxes on future income to meet these obligations. The social contract approach takes that consideration into account.</p> <p>Under the social contract model, liabilities will not arise until claims for social benefits become enforceable or are approved. This concept would be more easily understood by users of the accounts and will reduce uncertainty with regards to recognition and measurement. Furthermore, this option could probably be applied to most benefits and be fairly quickly implemented, although it will tend to understate liabilities that are expected to be paid on the basis of historical data and reasonable estimations of the future.</p> <p>The social contract approach is based on the concept that governments and individuals are engaged in an executory contract under which the state recognises present obligations when entitlements are established and individuals discharge their performance obligations to contribute taxes and other sources of finance which allow governments to meet these obligations. The question is whether the extent of connection or disjunction between social benefits and funding them makes any difference: many social benefits are merely funded from the proceeds of general taxation, which may bring into question the rationale for the executory contract approach. Many citizens claim benefits without having paid taxes to pay for them. However, the extent of hypothecation may not be particularly relevant to the outcome.</p>	

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		<p><i>The Insurance Approach</i></p> <p>We agree with the view expressed in paragraph 6.21 that social benefits may be accounted for under the insurance approach if they possess the characteristics of an insurance contract and, very importantly, where the contributions form a substantial part of the benefit and can be reliably measured.</p> <p>The insurance approach requires a well-defined contractual boundary, meaning that guidance would be needed to determine the start and end dates for the contract, how this approach could be applied to aggregate groups of people and on what benefits would meet the eligibility criteria. It would be most helpful to find some examples to assess the types of benefits that would be suitable for this approach.</p> <p>The insurance method could lead to meaningful disclosures, where users can assess the funding levels of different benefits, including any shortfalls, making financial reporting more transparent. The insurance concept would work for those countries that have designated welfare funds earmarked for specific benefits, or a small pool of benefits, to which the funding could be allocated in a meaningful way. The concept would also work for those countries that provide insurance products that are mandatory, such as accident or medical insurance.</p> <p>We note that, where successive governments change the allocation of funds depending on their policies, some benefits may oscillate between being sufficiently funded to allow the insurance approach to be applied to being insufficiently funded not to allow that approach.</p> <p>We also have some concerns that this approach could end up being too complicated to apply in practice, once all the nuances of specific benefits are analysed. It will be interesting to see whether the outcome of the IASB's IFRS 4 Phase II project has a bearing on this question.</p> <p><i>Other issues</i></p> <p>Finally in this context, we have two more general observations. Firstly, whatever approach is adopted, given the very wide range of circumstances to which it will need to apply, any future standard on social benefits must be principles-based and firmly rooted in the CF. Secondly, it should be noted that obligations which do not meet the recognition criteria are captured in the Statement of Long-Term Fiscal Sustainability. The effect that differing recognition points have on this statement should also be taken into consideration.</p> <p>(b) Additional approaches</p> <p>We are not aware of any additional approaches to accounting for social benefits. However, we think that an important element of any of the approaches will be a disclosure framework to accompany the primary</p>	

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		<p>information. Disclosures should be seen as part of the overall package to aid users' understanding of the financial statements.</p>	
34	(a) E (b) B	<p>(a) Preferred approach</p> <p>I support points (i) The obligating event approach and (ii) The social contract approach because I agree with arguments of Discussion Paper elaborated by IPSASB, so I understand that evaluate social risk is complex considering the clarification in the Financial Statements of Public Sector.</p> <p>I believe that these points are prominent for Economies, for example the Organization for Economic Co-operation and Development - OECD in 2001, elaborated the "Human and Social Capital are Keys to Well-Being and Economic Growth", as in October 2015 the OECD published "Country Risk Classification", is unclear for me if includes social risks, so, can be an option for mitigate risks for application the IPSAS for social benefits. I do not know in relation option (iii) The insurance approach considering intricacy of application in country, because this point can be useful in some countries.</p> <p>I agree with points discussed by IPSASB-IFAC, as follows:</p> <p>3.2 The CP considers the options in this order because options 1 and 2 could be applicable to all social benefits, whereas option 3 is limited to contributory social benefits.</p> <p>3.3 The IPSASB has not identified any other approaches to accounting for social benefits.</p> <p>(b) Additional approaches</p> <p>No. I do not have other additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS.</p>	<p>Staff notes that this respondent supports both the obligating event approach and the social contract approach, but is uncertain about the insurance approach.</p>
35	(a) D (b) B	<p><u>The obligation event approach</u></p> <p>Generally, the obligation event approach is supported as being useful for recognition of social benefits.</p> <p>However, not all sub-options within the approach are found equally applicable. The uncertainty of the obligation event to arise is often unpredictable in sub-option A and B. No [...] benefits [in our jurisdiction] have been identified to be possibly recognized in accordance to sub-option A, at the same time very few benefits are able to be recognized with the use of sub-option B.</p> <p>Sub-option C, D and E are more applicable for recognition, but in most cases, sub-option E appears expedient for implementation, due to concerns related to measurement. If the obligating event approach is implemented</p>	<p>Staff notes these comments.</p>

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		<p>sub-option E is to prefer. For further explanations see comment 4-7.</p> <p><u>The social contract approach</u> The social contract approach cannot be supported. Due to the argumentation in the CP we support that the social contract approach cannot be used for recognition of social benefits in a reliable way.</p> <p><u>The insurance approach</u> Generally, the insurance approach is supported as being useful for recognition of social benefits with contribution. However, very few [...] schemes [in our jurisdiction] involve contribution therefore the usability of the approach will be rather limited in [our jurisdiction]. For measurement of the insurance approach, rather complicated actuarial calculations are required. It is uncertain how these calculations can have the sufficient reliable precision, and thus measure up to the correlated administration costs. For further explanations see comment 9-15.</p>	
36	(a) D (b) B	<p>(a) Preferred approach</p> <p>As mentioned in our cover letter, we agree with the IPSASB that a combination of the obligating event approach and insurance approach would be required to reflect the different economic circumstances arising in respect of social benefits. We also think that there may be different points of recognition for different social benefit schemes, and that a future principles-based IPSAS must consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises.</p> <p>(i) In determining the timing of recognition under the obligating event approach, we considered a few different examples and provide our thoughts on when recognition should occur in order for relevant information to be reported in a government's financial statements. The first is the accounting for expenditure arising from an influx of refugees. The point of recognition for a provision would probably be at the earliest when key participatory events have occurred, which in this example is upon the refugees' arrival. A second example is the provision of free tertiary education for citizens. The point of recognition could be the satisfaction of threshold eligibility criteria. Another example we considered is means-tested childcare benefits - an</p>	Staff notes these comments.

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		<p>appropriate point of recognition could be upon satisfaction of specified threshold eligibility criteria.</p> <p>(ii) As noted on the cover letter, we do not think that the social contract approach is consistent with the Conceptual Framework and it is unlikely to meet the objectives of financial reporting. Under this approach, social benefits are generally recognised only when a claim is enforceable or approved which in our view is not on a sufficiently timely basis in most cases to provide users with useful information. Therefore we do not think that the Board should devote any more time exploring this option.</p> <p>Insurance approach – We support an approach based on the IASB’s proposed insurance model for the treatment of funded social assistance schemes which would be able to capture an entity’s exposure to long term and uncertain obligations. However, some preparers and users may see the insurance approach as unnecessarily complex, therefore it may be worth field-testing the obligating event and insurance approaches on funded social assistance schemes for comparison before the IPSASB decides on the direction for accounting for such schemes.</p> <p>(b) Additional approaches.</p> <p>We are not aware of any additional approaches.</p>	

Specific Matter for Comment 3

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?

If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – IDENTIFIED TRANSACTIONS NOT DISCUSSED IN CP	19, 35	2
B – DID NOT IDENTIFY TRANSACTIONS NOT DISCUSSED IN CP	01, 02, 03, 04, 06, 07, 08, 09, 10, 11, 13, 14, 16, 18, 20, 21, 22, 23, 26, 28, 29, 30, 31, 32, 33, 34, 36	27
SUB-TOTAL OF THOSE PROVIDING COMMENTS		29
C – DID NOT COMMENT	05, 12, 15, 17, 24, 25, 27	7
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
01	B	In accordance with our reply on the question 2, the global approach based on "the obligating event" and including contingent liabilities, which lead to disclosures in the notes, enables to address all social benefits transactions, with exclusion of collective goods and services as indicated in our reply above in question 1.	
02	B	[Respondent 02] is not aware of any additional social benefits, which should be discussed in the CP.	
03	B	Because the obligating event approach is a mere application of the conceptual framework, we believe that it should be self-sufficient to analyse the various existing systems that generate social benefits in [our jurisdiction]. Therefore we are not aware of any social benefits transactions that could not be addressed by the obligating event approach.	
04	B	We are not aware of any such transactions.	
05	C	<i>No comments identified</i>	
06	B	We are not aware of any social benefit transactions not discussed in the CP.	
07	B	No. However, it would be useful to clarify how other related government transactions would be classified within the framework of the definitions discussed in Chapter 2. For example, would government services such as mail postal service, public libraries and public utilities be classified as an "other social service" described in paragraph 2.4a or would it be a "community amenity" referenced in 2.5 in cases where they are partially subsidized using funds from taxation? Or would these be considered collective goods and services (even though, in these examples, the delivery of the good/service can be attributed to a single person or household)?	Staff notes the comments. These were addressed in part in the March meeting (discussion of scope).
08	B	The accounting treatment should be aligned with the agreed funding approach, especially when programs are financed using pay-as-you-go or partial funding. For many contributory programs this would involve accounting on an open group basis. It is potentially misleading to produce financial statements which ignore or misrepresent the reality of the financing approach for the scheme. Treating future benefit payments as liabilities without taking future contributions as assets would be particularly erroneous. Even to take into account only certain generations of contributors could be quite misleading. Such approaches fail to recognize that under pay-as-you-go and partially funded systems, in any given year current contributors allow the use of their contributions to pay benefits to current beneficiaries. Thus, there is a claim of current and past contributors on contributions of	Staff notes these comments. Staff considers that no additional transactions are identified, but that the comment expands on

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
		future contributors. For programs financed solely by contributions (without any government subsidy) these claims do not represent a government debt. For programs which are financed by both contributions and government subsidies, government debt is created only to the extent to which current assets and future contributions of existing and future contributors do not cover the current and future benefits.	measurement issues raised under SMC 2.
09	B	No additional social benefit transactions were identified during our consultation process.	
10	B	We are not aware of additional transactions.	
11	B	We are not aware of any social benefit transactions which could not be addressed by the options set out in the Consultation Paper.	
12	C	<i>No comments identified</i>	
13	B	We have not found any social benefits transactions which could not be addressed by the options set out in the CP.	
14	B	[Respondent 14] is not aware of further social benefit transactions requiring different solutions.	
15	C	<i>No comments identified</i>	
16	B	For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09]. Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.	See staff comments under Respondent 09.
17	C	It is not possible for us to make a final judgement at this time. Pension entitlements, for instance in the [disability insurance], are reviewed periodically and can be reduced or increased in conjunction with other measures. An examination of how these would be assessed and presented still needs to take place.	
18	B	We are unaware of any social benefits transactions that have not been discussed.	
19	A	[Taken from general comments] [In our jurisdiction], notions like “transfers” and “intervention expenses” are currently used, with similar	Staff notes that this respondent would

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
		accounting approaches to social benefits; those issues should been addressed in the CP. [Response to SMC 3] Cf. our above mentioned remarks on the necessity of covering broader notions (“transfers” and “intervention expenditures”).	define social benefits more widely than CP.
20	B	No, we are not aware of any social benefits transactions that have not been discussed in the consultation paper.	
21	B	[Respondent 21] is not aware of any types of transactions which should have been discussed in the CP that have been omitted.	
22	B	No. In our opinion, the approaches suggested by IPSASB in the CP are broad enough to address all forms of social benefit transactions.	
23	B	No we are not aware of any social benefits transactions that have not been addressed by this CP	
24	C	<i>No comments identified</i>	
25	C	<i>No comments identified</i>	
26	B	No	
27	C	<i>No comments identified</i>	
28	B	[Respondent 28] is not aware of any other types of social benefits transactions not discussed in the CP and that would not be addressed by one or more of the options set out in the paper.	
29	B	We have not identified any other social benefits transactions that have not been discussed in the Consultation Paper. Although, as noted in our response to Specific Matter for Comment 1, we think the definition of social benefits proposed by the IPSASB runs the risk of creating artificial distinctions between what are essentially similar benefits (for example, social benefits in kind and other transfers in kind are effectively the same).	Staff notes these comments.
30	B	None, primarily because the obligating event approach is comprehensive and capable of addressing ANY social benefit.	
31	B	We are unaware of any social benefits transactions that have not been discussed in the CP and that could not be addressed by one or more of the options set out in the CP.	

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
32	B	[Respondent 32] is not aware of any other social benefits not discussed in this CP noting that that some benefits not considered were identified as being out of scope for this project.	
33	B	We are not aware of any further transactions that have not been discussed in the CP. As set out [above], we think it would be helpful to use a small number of jurisdictions to carry out case study examples to see how each of the proposed approaches would operate in practice. This will help to inform the debate as the standard is developed and may help to give constituents insight into how the proposals would affect their own social benefit arrangements.	See comments under SMC 2.
34	B	I believe do not have one or more options for social benefits transactions that have not been discussed in the CP.	
35	A	<p>[The] Supplementary Pension has given rise to some considerations, due to the nature of the contribution payment. In general the contributions are issued by the employee (1/3) and by the employer (2/3). The two contributions are dependent of each other and will not be paid separately. The employee part of the contribution is considered as within scope in accordance to this CP, but the employer part is considered as out of scope. This generates the question; how the [...] scheme is to be treated in accordance of being both in and out of scope? [Our jurisdiction's] GFS does not categorize [the scheme] as a social benefit, as the [administering entity] is categorized outside the public sector.</p> <p>Under certain conditions [our] government will provide the employer part of the contribution in accordance to the [...] scheme, when the individual is unemployed. In this scenario, the contribution will be issued by the unemployed (1/3) and by the government (2/3). Thus, the question arises, whether the contribution made by [our] government is to be recognized as a contribution or as a subsidized transfer? It also has to be clarified if the 2/3 contribution is within scope, when the government ensures the payment?</p>	Staff notes these comments. Staff considers that further research may be required to determine whether the scheme is a social benefit, employee benefit or insurance scheme; or possibly a hybrid scheme.
36	B	We are not aware of any social benefit transactions that could not be addressed by one of the options set out in the CP. We observe that the types of social benefit transactions identified in Appendix A largely relate to benefits that are accessible by residents of the country. As discussed in 2(a)(i) above, another social assistance scheme would be funds set aside for the provision of social welfare to asylum seekers or refugees. This type of social benefits is not discussed in the CP but we believe it could be addressed using the obligating event approach.	Staff notes these comments.

Preliminary View 2

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

Summary of Responses to Preliminary View

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	02, 04, 06, 08, 09, 10, 11, 12, 13, 14, 15, 16, 20, 21, 22, 23, 27, 29, 30, 31, 32, 35, 36	23
B – PARTIALLY AGREE	17	1
C – DISAGREE	25, 34	2
SUB-TOTAL OF THOSE PROVIDING COMMENTS		26
D – DID NOT COMMENT	01, 03, 05, 07, 18, 19, 24, 26, 28, 33	10
TOTAL RESPONDENTS		36

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Preliminary View 2</p>	<p style="text-align: center;">STAFF COMMENTS</p>
01	D	<i>No comments identified</i>	
02	A	[From response to SMC 2] As mentioned [Respondent 02], like the IPSAS Board, is of the opinion that the second approach (social contract approach) should not be used.	Staff notes the support for PV 2.
03	D	<i>No comments identified</i>	
04	A	We agree with the statement in Preliminary View 2 [see response to SMC 2 for further details]	Staff notes the support for PV 2.
05	D	<i>No comments identified</i>	
06	A	We concur that Option 2 Social Contract is not appropriate for identifying the liabilities under an IPSAS on Social Benefits. However, as under that heading discussed, we consider the social contract approach is a useful model to provide supplementary information on intergenerational assets and liabilities.	Staff notes these comments.
07	D	<i>No comments identified</i>	
08	A	[From response to SMC 2] We do not believe that the social contract approach is an appropriate or financially realistic way of accounting for social benefits.	Staff notes these comments.
09	A	We support the IPSASB's preliminary view that: Option 2 – social contract approach - should not be considered as we do not believe that it is conceptually sound, and will result in governments possibly understating their liabilities as they will only be recognised when the claim is approved. See our response to SMC 2(a)(ii). We agree that option 1 – obligating event approach - is appropriate and believe that this will provide relevant information to users about government's obligations, as it reflects those circumstances when entities' have no realistic alternative but to fulfill an obligation. See our response to SMC 2 (a)(i). We believe that option 1 is also appropriate for insurance-type schemes. We believe that option 3 - insurance approach - may be appropriate in certain circumstances. We do however believe that additional work may need to be undertaken to make this approach workable in the public sector. We	Staff notes these comments and the approaches supported.

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Preliminary View 2</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>also note that the IASB has not completed its work on the Insurance project yet, and question how adopting an approach that is not yet final impacts on the work of the IPSASB.</p> <p>We are however of the view that in progressing the project, it would be appropriate to consider both option 1 and option 3. See our response to SMC 2(a)(iii) and (b).</p>	
10	A	We agree.	
11	A	<p>[General comments]</p> <p>We agree with IPSASB's preliminary view that a combination of the obligating event approach and insurance approach would best reflect the accounting substance of the transactions that will fall into the scope of the social benefits standard. We do however reject the social contract approach which would not result in providing information that can achieve the accountability and decision-making objectives of financial reporting. We also raise some recommendations in order to enhance consistency in application of the proposed approaches.</p>	Staff notes these comments.
12	A	We agree with Preliminary View 2. As discussed in our comment on the Specific Matter for Comment 2, we encourage the IPSASB to continue certain discussions on the social contract approach.	See staff comments under SMC 2.
13	A	<p>[From response to SMC 2]</p> <p>We support, as the IPSASB considers in Preliminary View 2, the obligating event approach as the primary approach. In a few cases the insurance approach could be appropriate.</p>	Staff notes these comments.
14	A	We share the IPSASB's view that the social contract approach is unlikely to meet the objectives of financial reporting, and refer to our response to SMC 8.	Staff notes these comments
15	A	On the options for the recognition and measurement of social benefits, we agree with IPSASB's preliminary view that a combination of the obligating event approach and insurance approach may be required to reflect social benefits' differing economic circumstances. We however do not support the social contract approach which would in our view not provide information that is useful for accountability and decision-making objectives of financial reporting.	
16	A	For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09].	See staff comments under

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Preliminary View 2</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.	Respondent 09.
17	B	Even if the present status of the insights and discussions suggests that option 2 (social contract approach) is less likely because benefits within the [social insurance office's] jurisdiction are delivered independently of budget decisions, in principle we do not yet want to exclude any option.	Staff notes the respondent tends to support PV 2 but has yet to come to a firm decision.
18	D	<i>No comments identified</i>	
19	D	<i>No comments identified</i>	
20	A	We agree with this assessment.	
21	A	[Respondent 21] agrees with the preliminary views set out in the Consultation Paper [...]	
22	A	[From response to SMC 2] The social contract approach, however, may not be suitable due to its weaknesses.	Staff notes these comments.
23	A	[From response to SMC 2] In our view, the social contract approach is not ideal because it states that a present obligation only arises once claims for social benefits become enforceable or are approved. It ignores instances whereby obligations are not legally enforceable as a consequence of a contract or legislation.	Staff notes these comments.
24	D	<i>No comments identified</i>	
25	C	In our view, the underlying model of the social contract approach, under which there is kind of an executory contract between the government and its citizens (i.e. the government provides social benefits to the citizens and the citizens provide the government taxes and other resources of finance, effectively offsets the government's obligations), is an appropriate model, reflecting the current economic reality.	Staff notes these comments.
26	D	<i>No comments identified</i>	
27	A	[From Response to SMC 2]	Staff notes these

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Preliminary View 2</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>The main reason for our assuming that the Social Contract Approach is probably not relevant is that it is strictly based on both parties, that is the State and citizens, having obligations that are on an equal footing, such as the State providing support in the form of social benefits as long as citizens meet their obligations in the form of paying tax. Our assessment is that this is a weak link and the question of whether the State can renounce its obligations if citizens do not pay their taxes is not sufficiently investigated. The State probably has a greater responsibility in purely legal terms.</p>	<p>comments</p>
28	D	<p><i>No comments identified</i></p>	
29	A	<p>[From response to SMC 2]: We support the IPSASB's preliminary view that a combination of the obligating event approach and the insurance approach may be required to reflect the different economic circumstances arising in respect of social benefits when there is a present obligation and not for future obligations.</p>	<p>Staff notes these comments.</p>
30	A	<p>[From response to SMC 2] The social contract approach in our view is deeply problematic at several levels.</p>	<p>Staff notes these comments.</p>
31	A	<p>[From response to SMC 2] With respect to the social contract approach, we have concerns that it is difficult to analogize this approach to the executory contract model and it may not fully meet the objectives of financial reporting.</p>	<p>Staff notes these comments.</p>
32	A	<p>[Respondent 32] does not support the introduction of a combination of the obligating event option and insurance option if this means a hybrid form of accounting. Instead we suggest that IPSASB recommends one or the other option depending on the nature of social benefit scheme being provided in the country. Other than this comment, [Respondent 32] agrees with the IPSASB analysis.</p>	<p>Staff does not consider that the CP was proposing a hybrid form of accounting.</p>
33	D	<p><i>No comments identified</i></p>	
34	C	<p>I agree with arguments of IPSASB for option 1 (obligating event approach) and (for some or all contributory schemes), and option 2 (social contract approach), so, I have doubt in relation option 3 (insurance approach) because, in my opinion, is unclear clarification net present value with this point cited - page 31 - "The insurance approach recognizes a present obligation to pay benefits at the point that coverage begins. The approach</p>	<p>Staff notes that this respondent supports the social obligation</p>

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Preliminary View 2</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>also recognizes a right to future receipts resulting from the provision of that coverage."</p> <p>However, I suggest for the Board's consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector.</p>	<p>approach.</p>
35	A	<p>[From response to SMC 2]:</p> <p>Due to the argumentation in the CP we support that the social contract approach cannot be used for recognition of social benefits in a reliable way.</p>	<p>Staff notes these comments.</p>
36	A	<p>From response to SMC 2]:</p> <p>As noted on the cover letter, we do not think that the social contract approach is consistent with the Conceptual Framework and it is unlikely to meet the objectives of financial reporting.</p>	<p>Staff notes these comments.</p>

Specific Matter for Comment 4

In your view, at what point should a future IPSAS specify that an obligating event arises under the obligating event approach? Is this when:

- (a) Key participatory events have occurred;
- (b) Threshold eligibility criteria have been satisfied;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; or
- (f) At some other point.

In coming to this conclusion, please explain what you consider to be the relative strengths and weaknesses of each view discussed in this chapter.

If, in your view, a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises, please provide details. Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – KEY PARTICIPATORY EVENT	07	1
B – THRESHOLD ELIGIBILITY CRITERIA		0
C – ELIGIBILITY CRITERIA FOR NEXT BENEFIT	01, 21, 23, 31	4
D – CLAIM APPROVED	04	1
E – CLAIM ENFORCEABLE	06, 13	2
F – AT SOME OTHER POINT	05	1
G – AT DIFFERENT POINTS DEPENDING ON NATURE	02, 03, 08, 09, 10, 11, 12, 14, 15, 16, 18, 19, 20, 22, 25, 26, 27, 28, 29, 30, 32, 33, 34, 35, 36	25
SUB-TOTAL OF THOSE PROVIDING COMMENTS		34
H – DID NOT COMMENT	17, 24	2
TOTAL RESPONDENTS		36

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 4</p>	<p style="text-align: center;">STAFF COMMENTS</p>
01	C	<p>In our view, a liability must be recognised in the balance sheet when eligibility criteria have been satisfied, by the beneficiary, on the current financial year. Social benefits, whose rights depend on the satisfaction of criteria by the beneficiary in subsequent periods (for example, criteria relating to income, composition of the household, disability rate...) are not present obligations of the current period.</p> <p>Nevertheless, an in-depth discussion about their classification with respect to the definition of contingent liabilities and related disclosures in the notes if needed, could be engaged.</p> <p>That is why, the obligating events a) and b) can not be retained.</p> <p>Accordingly, under the social benefit arrangements, the obligating event that must be selected is c), but amended as follows:</p> <p><i>(c) The eligibility criteria to receive the next benefit have been satisfied <u>on the current financial year</u></i></p> <p>From our point of view, this obligating event will address most of social benefits.</p> <p>However, in some cases, the filing out of a form could be an eligibility criteria. For this reason, the obligating event to take into account could be c) amended, and also d) amended as follows:</p> <p><i>(d) A claim has been approved <u>submitted</u>;</i></p> <p>Indeed, the present obligation is recognised when the beneficiary meets the eligibility criteria, whether the administration has approved or not the claim.</p> <p>We believe that this approach allows to cover all social benefits.</p>	<p>Staff considers that this respondent supports the eligibility criteria for next benefit sub-option (c), as the proposals in respect of sub-option (d) have the same effect. Staff considers that the additional words “on the current financial year” are not required, as the sub-option refers to criteria having been satisfied (past tense).</p>
02	G	<p>[Respondent 02] is of the opinion that the obligating event determines at which point in time a liability should be recognised in the financial statements. None of the options should be discarded. However the chosen option should provide the best cost-benefit ratio and at the same time fulfil the qualitative characteristics of the Conceptual Framework. Thus none of the options should be selected arbitrarily. [Respondent 02] proposes that a liability should, where possible, be estimated at point (a). If this is not possible (because of an unfavourable cost-benefit ratio or because the qualitative characteristics are not fulfilled), point (b) can be considered and so on until point (e). Following such a procedure, while arbitrariness in the choice of the point of recognition cannot completely be excluded, it is at least reduced. [Respondent 02] does not see further points in time where a liability could be recognized, and therefore option (f) drops out.</p>	<p>Staff notes that this respondent supports a range of recognition points. Staff also notes that this respondent supports early recognition (key</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 4	STAFF COMMENTS
			participatory events) where appropriate.
03	G	<p>Liability recognition involves an analysis of facts and circumstances to assess whether the obligation meets the definition of a liability in the Conceptual Framework. As far as “repartition” mechanisms are concerned, we are of the view that for those identified reporting entities that provide social benefits to the public, obligations that should be reflected in the financial statements exist for the reporting period only.</p> <p>As for the appropriate timing for recognition for “répartition” mechanisms, we believe that (c) “the eligibility criteria to receive the next benefit have been satisfied” and (d) “a claim has been approved” could be relevant recognition points depending on facts and circumstances.</p> <p>In most cases, recognition of a liability for social benefits served in the period would occur at point (c) “the eligibility criteria to receive the next benefit have been satisfied”.</p> <p>We observe that point (b) “threshold eligibility criteria have been satisfied” would trigger the need to reflect on the relevance of providing information on projections for social benefits over future periods in the notes: what information and how such information should articulate with other information, for instance that provided in the long term sustainability report.</p>	Staff notes that this respondent considers a combination of recognition points may be required, although eligibility criteria for the next benefit is considered most likely. Staff also notes the comment regarding prospective information.
04	D	<p>In our view, a liability arises for social benefits only when the claim is approved. As stated in paragraph 4.49, this implicitly includes the satisfaction of eligibility criteria on an ongoing basis in order to receive the next benefit.</p> <p>Although an individual may have an expectation of receiving a benefit in the future, an obligation does not arise until there is an obligating event. The enactment of legislation is not the event that creates a present obligation, as an event or action must occur to trigger the government’s liability to an individual recipient. Until this event or action has occurred, the recipient is not entitled to the benefits.</p> <p>In our view, the obligating event or action that must occur for a liability for social benefits to arise is the approval of the claim (sub-option (d)). Only at this point is a valid expectation created for an individual to receive the benefit that leaves the entity little or no discretion to avoid the outflow of resources.</p> <p>The key participatory events and threshold eligibility criteria sub-options (a) and (b) do not create a liability as the</p>	Staff notes these comments. Staff notes that the respondent considers that for some benefits, subsequent approval essentially consists of revalidating that the individual

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 4	STAFF COMMENTS
		<p>obligating event has not yet occurred. In sub-option (b), although the threshold criteria have been met, this does not obligate an entity for future periods in which the eligibility criteria may no longer be met. We believe that sub-options (a) and (b) produce financial information that may be useful for long-term sustainability reporting but do not meet the liability recognition criteria in financial statements, as these sub-options involve future obligations rather than present obligations. As noted in paragraphs 4.28 – 4.33 of the Consultation Paper, long-term sustainability reporting is not considered an objective of financial statements. Recognizing future obligations as liabilities does not provide relevant or meaningful information to the user of financial statements, and does not fairly present the financial position of the entity when the future revenues that the government expects to receive to fund the social benefits are not recognized in financial statements.</p> <p>When an approved claim is required for payment of the next benefit, sub-option (c) does not represent the obligating event for which a liability should be recognized, as the entity still has discretion to avoid payment. However, certain benefits may not require approval of a claim prior to each payment date after the initial claim is approved. Examples of these benefits are entitlement programs, such as an old age security program, which are approved initially when the citizen reaches a certain age; subsequent approval essentially consists of revalidating that the individual continues to meet the eligibility criteria for the payment of the next benefit (e.g. is still alive and a resident of the jurisdiction). For these benefits, the continued meeting of the eligibility criteria for the next benefit payment constitutes the approval process. Consequently, for some entitlement programs, sub-option (c) and (d) may provide the same result.</p> <p>Sub-option (e), i.e. recognition only at the point the claim becomes enforceable, is not considered the most appropriate recognition point as it does not properly reflect the accrual basis of accounting.</p>	<p>continues to meet the eligibility criteria for the payment of the next benefit.</p>
05	F	<p><i>See comments under SMC 2. Respondent does not consider that a liability arises, and proposes the disclosure of contingent liabilities.</i></p>	<p>Staff notes these comments.</p>
06	E	<p>The fundamental problem is deciding when the obligation meets condition 3 the Conceptual Framework para 24: “The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.”</p> <p>a. It could be argued that this stage is never reached for non-contractual social benefit obligations. A recent example that demonstrates this point is Greece, where social benefit payments (including pensions) have been reduced even after beneficiaries have commenced receiving the benefits. In the UK the criteria for disability benefits has been changed so as to exclude some persons who were previously receiving this</p>	<p>Staff notes that the respondent would apply the obligating event approach to unfunded social benefits, and</p>

R#	C #	<p align="center">RESPONDENT COMMENTS Specific Matter for Comment 4</p>	<p align="center">STAFF COMMENTS</p>
		<p>benefit.</p> <p>b. These examples illustrate the point that as a general principle of constitutional law no government can bind its successor. Hence any social benefit obligation can be changed at the whim of the government in power.</p> <p>c. Thus it is possible to argue that there should be no recognition of social benefits as a liability since there is only a political obligation to provide the benefit.</p> <p>On the other hand, it may be argued that in reality no government is ever likely to complete renege on an obligation by a previous government to provide social benefits. At most such obligations may be amended or reduced, but never eliminated.</p> <p>Therefore, the argument of substance over form is that there should be some recognition of the liability in advance of actual payment. The question posed by the Consultation Paper is how this point is identified and how the liability should be measured.</p> <p>We regard Obligating Event as the conceptually simplest approach. It also provides “de minimas” approach, in that obligating events can be defined so restrictively that the obligation is undoubtedly a liability.</p> <p>We respond to the four sub-questions as follows:</p> <p>a. We consider the obligating event approach appropriate for social assistance (i.e. unfunded) social benefits, both retirement and other.</p> <p>b. In such cases we would use a narrow definition of the threshold obligating event, i.e. claim become enforceable. Also this would be year by year basis, i.e. the liability recognised would only be for the current financial year.</p> <p>c. We would not allow any variation on this requirement</p> <p>d. It is our view that supplementary information should be provided in financial reports using the social contract approach to indicate the inter generational liabilities being created by the commitments. This is further explained below under Option 2: social Contract.</p>	<p>would only recognize a liability where a claim became enforceable.</p>
07	A	<p>We would prefer option A, with the additional comment that it should concern not only ‘key’, but ‘necessary and sufficient’ events to be eligible for a benefit in a certain period. This will depend on the eligibility criteria and the coverage period of the schemes. Looking at post-employment benefits, the obligations should in our view be</p>	<p>Staff notes the comment that key participatory</p>

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 4</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>recognized when the participatory event has occurred. As soon as a worker has been employed for the minimum period of time to be eligible for unemployment benefits in case he gets unemployed within a certain coverage period, an obligation has been created with regard to that coverage period that the government entity has little or no realistic alternative to avoid. As soon as an individual has lived in the country for the minimum period of residence to be eligible to receive various social benefits (and when those benefits are not dependent on future contributions by the person or society), an obligation has been created that the government entity has little or no realistic alternative to avoid. The measurement of such obligations may need to factor the coverage, probability and timing of when such benefits will be claimed (with the assistance of actuaries), but a material obligation exists as soon as the necessary and sufficient participatory criteria have been met by each individual.</p> <p>Sub-options B, C, D and E are not feasible, as any later recognition could be interpreted as a material understatement of the obligations that an entity has accrued with respect to social benefits. These sub-options are also not consistent with IPSAS 23 for taxes or IPSAS 25 for post-employment benefits.</p>	<p>events also need to be necessary and sufficient.</p>
08	G	<p>Several interpretations might be provided for each of these obligating events, which also might differ by benefits being provided and the rules of the program.</p> <p>Point (a) could be interpreted in the social security context to be the first time an individual makes a contribution as he/she joins the labour market (or in a more extreme way as when an individual is born), whereas point (b) would be when the qualification criteria are first satisfied (e.g. when sufficient contributions have been paid, a sufficiently long period of contributions has elapsed, the qualifying age attained or other eligibility criteria). Point (c) allows for the possibility that eligibility criteria might be met when a participant initially becomes entitled to a benefit, as under point (b), but without entitling the individual to continue receiving these benefits for his/her lifetime and the lifetime of dependants/survivors, if applicable. Therefore points (a) and (b) might be the same, at least regarding disability and retirement benefits. (b) could also be interpreted as being many years prior to the initial benefit being due, so could be of significant size, determined on a present value basis.</p> <p>Revalidation (e.g. of whether disability or unemployment criteria are still met or, for pension, whether the individual is still alive and/or satisfies means-tested criteria) may be required. Challenges relating to family-based benefits might arise because benefits might be a function of future births into the family or divorce or death of a worker or dependant. Point (d) takes it to the next stage where a payment has been approved and point (e) is the strictest position where a payment is legally enforceable, but it could also be subject to interpretation.</p>	

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		<p>An approach such as (a) based on the date of joining the labour market would only be meaningful as a liability if future contributions were also valued – so this would require an insurance approach (Option 3). Where social benefits are provided other than through a contributory social insurance scheme, entitlement will usually be based on meeting specific eligibility criteria. This would apply for means-tested benefits, where it is possible for eligibility to be withdrawn; in such cases we consider that approach (c) or (d) would be appropriate and only benefits payable up to the next validation check would be valued (such an approach might also apply for disability pensions). This would reflect the underlying reality, although in strict legal terms it might be more appropriate only to recognise claims that are enforceable (option (e)).</p> <p>For other types of non-contributory benefits, we consider that approach (b) would be appropriate and a value would be placed on the liability using actuarial valuation methodology</p> <p>For social insurance, if claims are recognised for everyone in the labour market who might be eligible to make a claim at some point in their lifetime, actuarial evaluation of the value of future claims would be needed. For retirement pensions, (b) would include as a liability only pensions for which all eligibility conditions have been met and the measurement would include the full annuity value (together with associated survivorship benefits).</p> <p>We note that in all cases where an estimate is needed of the future value of payments that have been triggered by an obligating event, actuarial methodologies would be needed and the standard should provide for the involvement of actuaries in making the assessments.</p>	
09	G	<p><u>Overall view</u></p> <p>General support for approach that acknowledges different recognition points</p> <p>We are of the view that any future IPSAS on social benefits should acknowledge that an obligating event may arise at different points. We believe that entities should have the ability to decide:</p> <p>(a) what the obligating event is that gives rise to the entity having no realistic alternative but to settle an obligation; and</p> <p>(b) that this decision should be based on the relevant legislation or other arrangement governing the scheme.</p> <p>While this may give rise to potential differences in the way that schemes are recognised by jurisdictions, we believe it is conceptually appropriate to allow entities to apply judgement.</p> <p>A key question to answer in developing a future IPSAS on social benefits is how these points will be used going forward in developing an approach to recognising and measuring social benefits. Subject to our comments</p>	<p>Staff notes the comment on the need for guidance on when each recognition point would be appropriate. Staff concurs that such guidance will be required in a future IPSAS.</p>

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		<p>below about the acceptability of all the points outlined in (a) to (e), the points should be used to provide guidance to entities about circumstances that may give rise to an obligating event, and in particular when an entity has no realistic alternative but to settle an obligation.</p> <p>The guidance could include circumstances, or the types of schemes, for which the various points could be used, e.g. key participatory events may be useful for insurance-type schemes, threshold eligibility may be useful for recurring cash transfers, etc. along with appropriate measurement principles.</p> <p><i>Concerns about allowing recognition only when claim approved or claim is enforceable</i></p> <p>Although we support allowing flexibility, we do have reservations about allowing entities to recognise social benefits only when the claim has been approved, or when the claim is enforceable. In our opinion, this might be too late in the process, and will potentially allow entities to continue to understate liabilities on their statements of financial position.</p> <p>While we do not support (e) at all, we believe that (d) may need to be used as a “last resort” if there is a significant degree of uncertainty about whether an outflow of resources will occur.</p> <p>We are unsure whether there is, in all instances, a difference between the “meeting eligibility criteria” and “approved claim” options and believe that it may be ambiguous in certain instances. Our concerns on this issue are outlined below.</p> <p><u>Observations on the application of the recognition points</u></p> <p>In responding to (a) and (f) above and the appropriateness of the recognition points to social benefits, we consulted a number of affected entities about their social benefits programmes.</p> <p><i>(a) Key participatory events</i></p> <p>In general, we do not believe that a key participatory event gives rise to an obligating event. In many instances, it may be extremely difficult to even identify what the key participatory event could be, as for many benefits it could be birth within a particular jurisdiction.</p> <p>We do however believe that for certain insurance-type schemes, using key participatory events is appropriate. We see that there may be a correlation between “key participatory events” and the “beginning of the coverage period” outlined in the insurance approach. As an example, in our unemployment insurance scheme, the key event that gives rise to an expectation that benefits will be provided is the commencement of employment. This coincides with the start of the coverage period under the insurance approach. Using “key participatory events” as</p>	

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		<p>the obligating event may result in liabilities being recognised that are analogous to those “Incurred But Not Reported” (IBNR) in terms of ED/2013/7 on Insurance Contracts issued by the IASB.</p> <p>As a result, we believe that the obligating event approach could accommodate insurance type schemes. A substantial amount of guidance would need to be provided on the recognition and measurement of such liabilities in any future IPSAS developed on social benefits.</p> <p><i>(b) Threshold eligibility criteria have been satisfied</i></p> <p>We believe that meeting threshold eligibility criteria may give rise to an obligation for certain benefits. Recognising obligations based on meeting threshold eligibility criteria may be particularly appropriate for cash benefits paid, whether over a long or short period.</p> <p>As an example, in [our jurisdiction] old age grants are paid to eligible pensioners. We believe that once the pensioner becomes eligible to receive the benefit, this gives rise to an obligating event for the government as it creates a valid expectation that the benefits will continue to be paid until death. Even though pensioners are required to revalidate their eligibility from time-to-time, this is an administrative issue rather than a matter that changes government’s obligations.</p> <p><i>(c) Eligibility criteria to receive the next benefit have been satisfied</i></p> <p>The satisfaction of eligibility criteria may give rise to an obligating event, particularly in the case of in kind benefits that are provided. This point is more relevant for in kind benefits because the benefits are often not recurring (or do not recur as frequently as benefits in cash).</p> <p>We have reservations about the interpretation of the eligibility criteria that need to be met at this point versus point (d) which requires the claim to have been approved. We believe that in some instances the approval of the claim may be part of determining if an individual is in fact eligible to receive a benefit. As an example, to qualify for benefits under our Road Accident benefit scheme, the entity needs to determine that the claimant was not at fault. Once this has been determined, the individual is eligible and the claim is seen as approved.</p> <p>As a result, we are not sure that there is always such a clear cut distinction between the claim being approved and the satisfaction of eligibility criteria.</p> <p>If point (d) is retained, we believe that additional guidance may need to be provided on the difference between the two points.</p> <p>It is also unclear whether (c) is applicable to all types of benefits. As this approach is dependent on revalidation,</p>	

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		<p>it would only be applicable to recurring benefits. It might be important to acknowledge this in this approach if it is used in developing a future IPSAS.</p> <p><i>(d) A claim has been approved</i></p> <p>Our response on (d) should be read in the context of our response to (c) above and the potential overlap with the idea of satisfying all the eligibility criteria.</p> <p>As noted above, we believe that only recognising claims when they are approved may result in an understatement of liabilities on the statements of financial position of governments. An example where we believe it may be inappropriate to apply point (d) is as follows:</p> <p>In our unemployment insurance scheme, an individual qualifies for cover from the date of employment. If unemployed, application is made to the entity and benefits are received. To receive the benefits every month, the individual must verify every month that he/she is still unemployed. The entity will go through a process every month, administratively, of approving the claim as outlined in legislation. This type of approval should not be used as a basis for recognising obligations of government.</p> <p><i>(e) A claim is enforceable</i></p> <p>We do not support recognising obligations only when they are legally enforceable. This practice is currently applied for our social grant scheme and does not provide meaningful information to users of the financial statements about government's obligations to pay benefits to recipients. Recognition only when claims are enforceable is also not aligned with the concept of accrual accounting which recognises events when they occur.</p> <p><i>(f) Any other point</i></p> <p>No other points were identified during our consultations. We do however note that, if the points outlined in the Consultation Paper are going to be used to provide guidance to entities (as noted in overall comments on this specific matter for comment), it is arguable that other points may arise and could be used by entities.</p> <p><u>Alternative views expressed by constituents</u></p> <p>Some of our stakeholders indicated that all 5 points outlined in the Consultation Paper should be permitted in any IPSAS developed on social benefits. They were of the view that entities should be left to apply judgement in deciding how to identify the events that give rise to social benefit obligations.</p> <p>While we understand that this follows a purely conceptual approach, we believe that without more rigorous guidance, governments may not recognise liabilities on their financial statements as they may well choose to</p>	

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		<p>recognise only those obligations that are legally enforceable. This could impair the comparability of financial statements of governments operating similar social security schemes.</p> <p>Some constituents, albeit a minority, also questioned whether a separate IPSAS is needed, and suggested that IPSAS 19 should be amended to include social benefit obligations. We do however support the development of a separate IPSAS as we believe specific recognition and measurement guidance is needed.</p>	
10	G	<p>[Respondent 10] currently has a standard on government transfers [...] that, broadly speaking, falls somewhere between (b) and (c) above. As it is written, the standard requires judgment as to whether future eligibility are firm criteria that need to be met for an expense/liability recognition, or whether they are merely formalities required as part of the process for claiming entitlements. It may not be possible to eliminate this element of judgment from preparers and auditors as the nature of social benefits across jurisdictions can be quite unique.</p> <p>We believe that there is a strong conceptual argument to record social benefits no later than the point where (c) eligibility criteria to receive the next benefit have been satisfied. Recording obligations any later than this point (claim is approved or claim is legally enforceable) is simply too late for this information to be relevant to users. While recording obligations where eligibility criteria to receive the next benefit (c) provides a starting point, it may still fall short of providing decision-useful information or holding governments to account.</p> <p>In our experience, governments do not record social benefits unless eligibility criteria to receive the next benefit have been satisfied. It is argued that there is too much uncertainty to estimate anything beyond the current year's eligible accrued benefits. However, if social benefit liabilities do not include amounts because their timing and measurement is uncertain, we may not be producing useful financial statements. We must recognize that when we define liabilities for governments, Agency Theory does not apply to government financial statements. Bonuses are not paid out to government employees based on the calculation of annual surplus/deficit. Banks do not make collateral calls based on a government violating its debt-to-equity loan covenant. In other words, private contracts are not settled based on a government's GAAP-based financial results. This is not how general purpose financial statements are used. Considering this, what decisions can be made about the costs or sustainability of social benefits if our goal is to simply accrue that portion of the obligation that is payable in the period?</p> <p>IPSAS 19 has defined provisions, creating room for the measurement of obligations earlier than point (c) because provisions anticipate uncertain timing and amounts with long term obligations. Provisions acknowledge that when the public needs to know what the costs of a new pension plan might be, they are not inquiring about</p>	<p>Staff notes these comments. Staff has interpreted the reference to "<i>no later than</i> the point where (c) eligibility criteria to receive the next benefit have been satisfied" (emphasis added) as supporting a range of recognition points depending on the nature of the scheme.</p>

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		the current year's accrued obligation. Useful information would be the estimated cost of fulfilling the long-term obligation. The users are interested in knowing the long term obligation relating to the social benefits program, not the short term amount payable to current beneficiaries. This treatment holds governments to account as costs are not deferred into the future.	
11	G	<p>We do not believe that it is possible to define a rule that would be appropriate for the recognition of a social benefit liability for all types of social benefits at the same point in time. Instead we believe that the variety of the types of social benefits and the specific circumstances of the legal environments and jurisdictions in which they are granted should inevitably lead to different conclusions as to the most appropriate timing for recognition.</p> <p>In particular, there may be situations linked to certain types of social benefits in specific jurisdictions where the obligation is created over time and which should trigger recognition of the social benefit liability and of the related expense over time as well, while the obligation event in other circumstances (other types of benefits and/or other jurisdictions) may be the occurrence of one specific event which then should lead to the recognition of the social benefit liability and the related expense at one point in time.</p> <p>We strongly recommend that the IPSASB develop clear principles that go beyond the basic characteristics of a liability and non-country specific illustrative examples that will provide useful guidance as to how the recognition principles should be applied to various types of social benefits, by distinguishing between those benefits for which recognition of a liability / an expense over time is appropriate on the one hand, and those benefits for which recognition of a liability / an expense at one point in time is appropriate on the other hand. Where recognition at one point in time is appropriate, we believe that recognising a social benefit liability when the claim is approved or is enforceable is in any case too late and would lead to an understatement of government liabilities as defined in the Conceptual Framework.</p>	Staff notes the comment that the IPSASB will need to develop guidance on distinguishing between liabilities that arise over time and those that arise at a point in time.
12	G	<p>We assume that if we adopt the obligating event approach for every type of social benefit, the obligating event would not occur at the same point. Specifically, obligating events for social benefits and their timing requiring participation in a scheme differ from obligating events for social benefits not requiring participation.</p> <p>Social benefits requiring participation in a scheme include social security, such as a pension scheme. The pension scheme in [our jurisdiction] requires all nationals to participate when they reach the age of 20. The eligibility to receive benefits requires at least 25 years of contributions and a participant age of 65 or over. Those who participate in the scheme certainly expect that they will receive the benefits in the future. We thus believe</p>	Staff notes the comments and the advantages and disadvantages of each recognition point. Staff also notes the

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		<p>that an obligating event appropriately occurs at either of “(a) key participatory events occurs” or “(b) the threshold eligibility criteria are satisfied”. The point at which participants reach the age of 20 would be considered to fall under (a), while the elapse of at least 25 years from the participation would fall under (b). Those who satisfy the 25-year condition would be able to receive the benefits upon reaching the age of 65. We assume that the “present obligations” have been incurred.</p> <p>Paragraph 4.36 of this CP includes “[Reaching] a pensionable age” as an example of a “threshold eligibility criterion” being met. We do not agree that age should be treated as a threshold eligibility criterion similar to other eligibility criteria. Everybody ages at the same rate, nothing can be done discretionarily to stop the process of aging, and aging can never be reversed. For example, for those who satisfy the criteria for the contributions for at least 25 years, obligations for social benefits could be recognized, and the obligations could thus be measured based on statistical mortality. “Age,” therefore should be an eligibility criterion separate from (b) proposed in this CP.</p> <p>[...]</p> <p>Social benefits not requiring participation in a scheme in [our jurisdiction] include social assistance such as ‘livelihood assistance’ (through which the government guarantees a minimal standard of living). For these social benefits, the government must determine whether an applicant meets the eligibility criteria for the receipt of benefits by obtaining necessary information when the individual claims the benefit. Hence, it may be impracticable to recognize any obligation at either of the points, (a) or (b). The obligations would not be completely recognized. We therefore believe that an obligating event occurs when “(c) The eligibility criteria to receive the next benefit have been satisfied” and “(d) A claim has been approved.” Furthermore, the benefit payment policy of a social benefit not requiring participation in a scheme is more likely to suddenly change than a policy requiring participation in a scheme, during a change of government. In light of this, (d) would be preferable.</p> <p>We discussed the strengths and weaknesses of each sub-option in the process of reaching the above conclusion. We enumerate them below.</p> <p>Strengths and weakness of the sub-options when social benefits require participation in a scheme</p>	<p>recommendation that entities disclose the timing of recognition for social benefit schemes.</p>

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13	E	In our view, the obligating event should in most cases arise when a claim is enforceable. That is in practice the point where [Respondent 13] has recognized the liability so far.		Staff notes the support for the																		

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		<p>However, in [our jurisdiction] the difference between the points c), d) and e) is in most cases very small, since most social benefits are paid out every month or even twice per month. This means that the eligibility criteria for e.g. old age pensions or child allowances are measured automatically by the turn of the month, and no claim has to be made. Hence the effect of applying point c) would be that the benefits for a period from the first day of the month up to the day of payment would be recognized as a liability, but the cost for each coming month would not change more than marginally. In some cases point c) or d) might be the most appropriate, but we are not able today to describe these cases and it would not lead to a major difference.</p> <p>Generally the problem is of course the possibility for the government, sometimes through the parliament, to change the law or ordinance regulating a certain social benefit. When this is possible the “liability” would not meet the definition of a liability, since it can be settled in another way than with a cash transfer. For this reason we believe that sustainability reporting, disclosures and supplementary information and in some cases maybe contingent liabilities should be applied. This is an important difference for the obligations of this type in the public sector, compared to a business or other private law agreement between two parties. Of course when a public entity is a party in a business agreement, the liabilities should be recorded in the same way as those of any other unit.</p>	<p>claim is enforceable recognition point. Staff also notes that in this jurisdiction, there is little difference between any of the recognition points requiring revalidation. Staff notes the recommendations regarding sustainability reporting, and contingent liabilities.</p>
14	G	<p>In our view, the time line for determining an obligating event will need careful assessment on a case by case basis, as it would ultimately need to be based on factors including an evaluation of the terms governing the specific social benefit scheme. Given the public sector mandate for expenditure, legal aspects should generally be key factors in determining when an obligating event arises. However, such determination may also need to be made under the premise of substance over form, particularly where a consideration of legal form alone might give rise to misleading information.</p> <p>We therefore believe that a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises. We discuss a few illustrative examples as follows:</p> <p>Obligating Event</p> <p>Some social benefit schemes, especially participatory schemes, will have terms that denote the point in time at</p>	<p>Staff notes these comments, particularly the comment that an argument that the state might abolish such a scheme should not impact the accounting at period end, as it does not change</p>

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		<p>which recipients have specific legal or quasi-legal rights to benefits – in our opinion, the establishment of these rights will constitute an obligating event. E.g. for a state pension scheme, making a first contribution on joining the workforce may entitle the individual to a (initially very small) pension on reaching retirement age – in order to be faithfully representative in such cases, the recognition and measurement of any liability at period end can only reflect the specific policy in place at that explicit point in time (see first three sentences of para. 4.20 of the CP); for a child support scheme, the birth of a child may obligate the state to pay support throughout a minimum specific period etc. an argument that the state might abolish such a scheme should not impact the accounting at period end, as it does not change the policy that existed at that date.</p> <p>Under the insurance approach, social benefit schemes with insurance components inherently place an obligation on the entity to compensate contributory participants in the event that pre-specified circumstances arise. In such cases, the establishment of the scheme would be the obligating event, not the occurrence of each individual event giving rise to a compensation settlement.</p> <p>When benefits mitigate an unanticipated event that has affected members of the general population, e.g., a major earthquake or flood, an obligating event may first occur when claims become enforceable, although it may be appropriate to consider additional factors such as valid expectations stemming from the entity’s track record in determining whether – in substance – an entity has little or no realistic alternative to avoid settling the obligation at an earlier point in time, as discussed below.</p> <p>Potential Revision of Social Benefits Policy</p> <p>Entire social benefit schemes can change over time. However, an assumption that a government can change a past policy to avoid or change obligation will generally not affect the policy in place during a past period or at a particular point in time. On this basis, we do not believe that anticipation of possible policy revisions impacts whether at period end the entity has a liability. Indeed, a change in policy would be reflected as a non-adjusting post balance sheet event reflected in the financial statements for the period in which change occurred. Overall, only policy changes that have been approved by the appropriate body (in some cases, a legislative body) that are not subject to undue legal risks (e.g. serious constitutional challenges) and implemented on a permanent basis such that they are not likely to be reversed should be given recognition in the financial statements.</p> <p>Taking [our jurisdiction] as an example:</p> <ul style="list-style-type: none"> • We suggest that it would be extremely unrealistic to anticipate that any [...] government in power in the near future would be able to obtain the necessary voting majority for an outright abolishment of the state- 	<p>the policy that existed at that date.</p> <p>Staff also notes the comments regarding the possible existence of an obligating event and a valid expectation.</p>

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		<p>paid pension scheme; whereas it has recently proven somewhat easier (even if not without difficulty) to change the eligibility criteria (raising retirement age) and the amounts payable (decreasing or increasing entitlements relative to inflation).</p> <ul style="list-style-type: none"> • In other cases entire social benefit schemes have been phased out relatively recently (state paid disability pension) and new benefits phased in (elderly care insurance, childcare premium for new parents). • There are real constitutional limits on the ability of governments to reduce certain kinds of benefits that are enforced by constitutional courts, and obtaining the political majorities to change constitutions has proven to be largely illusory. <p>Valid Expectations</p> <p>Various cultural or jurisdictional aspects may also influence public expectations in regard to individual social benefit schemes to different degrees. The issue is whether expectations existing at period end constitute valid expectations or not.</p> <p>For example, the occurrence of a major disaster prior to the period end (past event), may give rise to valid public expectations (obligating event) because the entity has established a track record in similar situations in the past and there has been no indication that the entity will not provide assistance, thus the entity has little or no realistic alternative to avoid the outflow of resources.</p> <p>Where an entity has no such track record, it might be appropriate to consider whether the Board could draw on the IASB term “substantially enacted” (IAS 37.50) as the obligating event, where the stage reached in the approval process for the expenditure is virtually certain to gain a legal backing. However, in some cases, political situations have proven to be fluid, and matters enacted at one stage are reversed again after elections of new governments or through successful constitutional challenges, so some degree of caution should be exercised in assessing whether there is objective evidence in such situations.</p> <p>A further factor in many such cases will be whether a lack of available information precludes measurement in line with the QCs identified in the IPSASB’s CF. To some extent this issue mirrors considerations in the private sector as to the expected vs. incurred loss model. The relative importance attached to individual QCs has to be weighed up (faithful representation, verifiability). It is possible that the incurred loss model would be viewed as more appropriate in the public sector, especially as other GPFRs can deliver supplementary information e.g., on the long-term sustainability of a public sector entity’s finances.</p>	

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15	G	<p>On the obligating event approach, we encourage the IPSASB to develop illustrative examples for various types of social benefits that are commonly granted by governments as well as clear guidance on recognition principles (recognition of social benefit expenses over time versus at a specific point in time).</p> <p>Similarly, in the case of contributory schemes, we recommend that the IPSASB develop clear guidance on those benefits to which the obligating event approach should be applied and those to which the insurance approach should be applied.</p>	<p>Staff considers that the reference to benefits being recognized over time versus a specific point in time might suggest this respondent considers that recognition may take place at different points.</p>
16	G	<p>For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09].</p> <p>Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.</p>	<p>See staff comments under Respondent 09.</p>
17	H	<p>We cannot comment adequately on this point at this time.</p> <p>As explained above (see Comment 2), it is generally the case in [jurisdiction] that legal entitlements exist, but that they must be claimed by the person who holds the entitlement.</p> <p>In the case of disability insurance, we must also assume a more complex starting point: the individual systems provide more than just cash benefits, they also provide other types of benefits, both individual (e.g. medical or occupational measures or aids) and collective (subsidies for benefits from organizations) in addition to pension benefits. Assessments of the resulting obligations would likewise need to be examined further and in greater detail. Even the [...] old-age and survivors' insurance [...] provides other benefits (such as aids) in addition to its main benefit of pensions.</p>	<p>Staff notes these comments.</p>
18	G	<p>An obligating event under the obligating event approach can arise at any point because when any one of these points are met expectation is created that a benefit will be paid. Also, as there are different kinds of benefits with varying eligibility basis, this presupposes varying eligibility points. However, when the key participatory events</p>	<p>Staff notes these comments.</p>

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		<p>have occurred, a future IPSAS should specify that an obligating event has arisen under the obligating event approach.</p> <p>Depending on the facts and circumstances it can also be either option (a) or (b). (a) is sufficient for recognition not measurement. However the other options occur much later down the line for recognition.</p>	
19	G	<p>The « eligibility criteria met to receive next benefit » event (“c”) is the most appropriate obligating event; in some rare cases, when the evaluation of received claims cannot be conducted with sufficient reliability, the “approved claim” (“d”) can be chosen as the obligating event.</p> <p>Nevertheless, the Consultation Paper does not mention the major issue of contingent liabilities linked to social benefits. To this respect, the “obligating event” approach should be complemented by an analysis of the relevant elements that should be mentioned in the notes to the financial statements, in order to be consistent with IPSAS 19 requirements.</p>	<p>Staff notes these comments.</p> <p>Staff considers that a future IPSAS will need to address contingent liabilities as part of the presentation and disclosure requirements.</p>
20	G	<p>Given the variety of different forms of social benefits and legislative frameworks that are in existence, some degree of flexibility is essential. This remains a matter of professional judgement related to which event best represents the trigger point for meeting the definition of a liability. Our initial impressions are that a difference in timing exists between planned and unplanned benefits, with the latter being a later recognition trigger due to the inherent level of uncertainty. A one size fits all option is not a feasible solution and decisions need to be made on a case by case basis, or at best, category by category basis. In general terms options b and c would be the earliest point (given the high level uncertainty in option a) and options d and e are likely to be too late to recognise a liability.</p>	<p>Staff notes these comments.</p>
21	C	<p>Within [our] context, satisfaction of eligibility criteria per (c) is a strong indicator that there is an obligation. Especially for non-contributory benefits.</p> <p>We are wary of taking criterion (a) as the determinant of obligation. In considering criterion (b), care needs to be taken to recognise the correct obligation, and whether this relates only to the next benefit, or to a broader liability. (The question of how that liability should be measured is, of course, a separate matter).</p> <p>In the light of the above, we consider that criterion (c) should be the starting point, but at this stage we are wary</p>	<p>Staff considers that this respondent supports recognition at point (c), eligibility criteria for the next</p>

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		<p>of narrowing down the discussion to a single criterion. We can see that there is a distinction between recognition criteria relating to risks which are relate to unplanned events, such as unemployment, sickness and accidents, and those which relate to events which are planned and eventual receipt is highly likely. Full consideration of this issue may also depend on which transactions are considered to fall under the obligating event approach and which under the insurance approach.</p>	<p>benefit have been met, but that they consider further work is required to confirm this.</p>
22	G	<p>Under the obligating event approach, an attempt to set or choose one of the sub- options as the standard point for the recognition of obligation would not be flexible enough to accommodate numerous circumstances of social benefit in various jurisdictions.</p> <p>Examples of diversity of condition or circumstances include:</p> <ul style="list-style-type: none"> (i) unavoidability of factors e.g. that a child born will grow in age and will ultimately receive certain social benefits at some point in time for people of certain age; (ii) contingency of factors that certain social benefits may or may not be recognized or paid under certain conditions occurring or not; (iii) discretionary power of government, as may be for some social benefits that need to be approved by government to be valid as obligation; and (iv) enforceability, among others, for legal obligations. <p>Unavoidability of factors may correspond to Point (a) Key participatory events have occurred; contingency of factors corresponds to Point (b) Threshold eligibility criteria have been satisfied and Point (c) The eligibility criteria to receive the next benefit have been satisfied; Point (d), A claim has been approved, is ideal for <i>discretionary power of government</i>, and enforceability is covered by Point (e), A claim is enforceable. These are some of the broader considerations that could be made. The CP could stipulate initial and subsequent recognition and measurement criteria to be met as obligating events on social benefits.</p> <p>Consequently, we are of the opinion that differing circumstances will necessitate a choice of the recognition criteria for determining when an obligating event arises.</p> <p>This will imply adoption of any of the various criteria or a combination of them.</p>	<p>Staff notes these comments.</p>
23	C	<p>Refer to our responses to comment 2 where we explain the appropriate point to recognise an Obligating event. [From response to SMC 2]</p>	<p>Staff notes these comments.</p>

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		To add on, in our view, the recognition point of a social benefit should occur when the eligibility criteria is met . The recognition points whereby the key participatory events are identified and when not all of the eligibility criteria are met or the threshold eligibility criteria are not ideal as this could lead to premature recognition of social benefits. On the other hand, the points whereby the claim to receive next benefit is approved and payment date has arrived could also result in the late recognition of social benefits.	
24	H	<i>No comments identified</i>	
25	G	Moreover, as the government has the ability to avoid paying the benefits by modifying the relevant legislation, it appears that only the fourth and the fifth sub-options (i.e. the approved claim and the enforceable claim sub-options) will satisfy the recognition criteria.	Respondent 25 does not support this option, but considers that, if the approach were to be adopted, an obligating event could occur under two sub-options.
26	G	<p>[Respondent 26] considers that the IPSASB’s approach in determining the event that creates a present obligation should be guided by its recently published Conceptual Framework.</p> <p>That framework states that “A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.”</p> <p>If the benefit is payable under law (i.e. a legal obligation), then it should be recognised as a present obligation at the point it becomes legally enforceable. In the case of income support being paid to beneficiaries, this would be at point (e) in the Consultation Paper. We note that depending on the legal or statutory documentation, this may in fact happen at point (b), (c) or some other point.</p> <p>If the benefit simply arises from government policy (i.e. a non-legally binding obligation), under the Conceptual Framework it becomes important to determine the point at which the reporting entity has little or no realistic alternative to avoid the obligation.</p> <p>The challenging issue in the public sector is that current policies establish future obligations; policies simply set</p>	Staff notes that Respondent 26 considers that “a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit

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		<p>criteria that, if met, will result in an outflow of resources.</p> <p>The financial position of an entity whose policy provides for a \$10,000 pension is not substantively different where the eligibility criteria are met either one day before or one day after the reporting date. This was the problem encountered in ED 34, which sought to differentiate between the costs of those who had already met the threshold eligibility criteria, and those that had not. Any proper consideration of the financial effect of the policy requires all the costs that are expected to arise from the policy to be taken into account. The interest of users, whether they were resource providers or service recipients was the cost of the policy, not the cost of a contrived obligation. The proposals in ED 34 were therefore correctly rejected.</p> <p>The further challenging issue in the public sector is that current policies are subject to change.</p> <p>As a consequence of the very power of government, it is not possible for a current government to bind a future government. In most situations therefore the government has leeway to avoid at least part of the obligation. To address what the institutional economic literature describes as the “commitment problem” of governments, there have developed a number of commitment devices aimed at reducing the government’s flexibility. The Conceptual Framework refers to two of these in paragraph 5.25</p> <ul style="list-style-type: none"> • The nature of the promise can be made in such a way that makes a policy change less likely (e.g. permanent legislative authority, requiring a super majority to change, is much less able to be changed than an annual budget determination) • The establishment of funding arrangements can make it more difficult for a government to make changes, or at least to divert money contributed or set aside for the benefit, to other purposes. <p>Other constraints on policy change include:</p> <ul style="list-style-type: none"> • The premium placed on the reputation for credible and consistent policy making, and for not exercising the power to change in an arbitrary manner • The use of contracts between government and individual households where some performance or consideration can be ascribed, enforced by the courts. <p>A critical point to note about these commitment devices is that they reduce rather than eliminate the government’s discretion to avoid future outflow of resources. Their effectiveness in part depends on the operation of political, legal, economic and social institutions within the country.</p> <p>The way the question is framed suggests there is one ‘standard’ recognition point where the discretion is so</p>	<p>arises”.</p> <p>Staff also notes the comments that “for material social benefit categories, the financial statements should disclose the nature of the promise and the existence of commitment devices to increase the likelihood that future outflows will occur. On the basis of those disclosures, the reporting entity should report whether it takes the view that service recipients currently have a valid expectation that they have a present right to resources and the government has a present obligation to them.”</p>

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		<p>reduced that the government has in fact “little or no discretion” and a liability should be recognised. However, given the varying power of the commitment devices available, and the fact that the efficacy of countries’ political, legal, economic and social institutions may vary considerably, [Respondent 26] is doubtful that it will be possible to get to a generally accepted international position on such a recognition point. The difficult history of this project, as outlined in section 1 of the Consultation Paper supports such a view.</p> <p>[Respondent 26] therefore takes the view that “a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises”.</p> <p>The recognition point will depend on the nature of the promise, and the existence and effectiveness of commitment devices that reduce the government’s discretion to avoid future outflow of resources. This suggests that, for material social benefit categories, the financial statements should disclose the nature of the promise and the existence of commitment devices to increase the likelihood that future outflows will occur. On the basis of those disclosures, the reporting entity should report whether it takes the view that service recipients currently have a valid expectation that they have a present right to resources and the government has a present obligation to them. When, but only when, the reporting entity asserts that point has been reached should a social benefit liability be reported.</p> <p>If the IPSASB does not accept these arguments, [Respondent 26] would still caution the IPSASB against using (d) as a recognition point. That would open the way to the entity influencing its expense recognition by speeding up or slowing down its approval processing. This would not be countenanced for any other activity, and should not be countenanced for social benefits.</p> <p>Recognising this, [Respondent 26] has prepared some internal guidance on this issue which is repeated below for consideration by the IPSASB. It is predicated from the view that recipients have met eligibility criteria when they have no further substantial acts to complete before receiving the assistance.</p> <p>“Determining whether there are “substantial acts to complete” may require judgement. Some types of assistance may involve a series of substantial events. For example, funding may increase as other financial support for a project is obtained. If a grant recipient has raised \$75,000 externally at the reporting date and has a deed of agreement from the Government for one-for-one funding up to \$100,000, then the Government should only recognize an obligation for its \$75,000 at the reporting date, even if it is likely that \$100,000 will be raised, and an additional \$25,000 will become owing. Conversely, if the only act required prior to receipt of the</p>	<p>Staff considers that such disclosures may be helpful to users of the financial statements in assessing the information provided by those statements.</p>

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		assistance, is the completion of necessary paperwork, this should not be regarded as a “substantial act to complete”.	
27	G	<p>From our perspective [...] we would mainly like to highlight the importance of clarifying when an obligation can be considered to arise (the point in time) and the criteria that must be met when it is to be reported as a memorandum item in the balance sheet.</p> <p>[Respondent 27’s] point of departure is that the obligations reported in the balance sheet must meet the requirements of generally accepted accounting principles and that an audit must be possible to conduct in accordance with generally accepted auditing standards. Under the Obligating Event Approach the IPSASB presents five different points in time (a-e below) for when an obligation may arise. Under the Social Contract Approach two alternatives are presented. These two coincide with (d) and (e) below.</p> <p><u>a) Key participatory events occur</u></p> <p>Assumes that a regulatory framework exists stipulating that citizens can expect payment in various situations such as when they fall ill or become unemployed. The obligation (liability or provision) is then to be recorded on the basis of what the Government can “expect” in the form of payments in coming years. We consider that this option is not clearly described and it is difficult to derive the exact point in time for when an obligation arises. It appears as though this option means that agencies must estimate outgoing payments based on historical data and future forecasts of probable outcome.</p> <p><u>b) Eligibility criteria initially met</u></p> <p>Assumes that a liability/provision arises when a person becomes unemployed (the event as such), retires, reports sick etc. without having applied for payment of any benefit. This requires the Government to make an assessment of a recipient’s expected longevity. The liability/provision is based on the number of citizens (in the current situation) who with some degree of certainty can expect payment based on historical payment trends and provisions established in laws/ordinances.</p> <p><u>c) Eligibility criteria met to receive next benefit</u></p> <p>Assumes that a liability/provision arises when criteria for receiving the next benefit payment are met (seen over time). This means that the liability is only recognised until it is time for the next payment. This requires regular revaluation of the liability.</p>	Staff notes these comments, in particular the factors to be considered in determining when an obligating event has occurred.

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		<p><u>d) Claim approved</u> Assumes that the liability/provision is established when the application for benefit has been received and approved.</p> <p><u>e) Payment date arrived</u> Assumes that the liability/provision is established when there is a payment decision and the date of the payment has arrived.</p> <p>The information in a balance sheet must be considered to be timely, relevant, faithfully presented, understandable and verifiable and at the same time must be weighed against the information needs that exist for accountability. Relevant and material information of a financial nature that may influence decision-making may not be withheld from citizens and other stakeholders. However, it is of very great importance that this information is reliable, verifiable and can be audited by an independent external auditor.</p> <p>Whether an obligation exists or not is mainly dependent on the certainty/probability existing in the underlying event/requirement. The strength/certainty determines the time and also whether the obligation should be classified as a liability or a provision. This means that the options listed above a)-e) may all be relevant, depending on the circumstances in the respective countries, but also the circumstances relating to the structure of a particular benefit.</p> <p>We would like to highlight three parameters that may be relevant to take into consideration in future development of criteria for when an obligation should be identified and reported as a memorandum item:</p> <p><u>1. Political stability</u></p> <p>For an obligation to be classified as a liability/provision there must be some degree of certainty in the obligation. Whether the party bearing the potential liability/provision (in this case the Government/State) can withdraw from the obligation is thus one of the decisive factors. The argument used by the IPSASB in the CP assumes that there is certain stability in the public administration and that there is an implied commitment/obligation on the part of the State to offer social support (in certain given situations) as well as an expectation on the part of the citizens of receiving support. This is generally true. The premise is that the clearer it is established in laws and ordinances the lower the probability of the Government being able to withdraw from such a commitment, which we also consider reasonable. However, it is the case that there is currently a major element of turbulence in the economy, which means that changes in the social insurance systems may be made on an annual basis. One</p>	

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		<p>example is the refugee flows [...] that may entail rapid measures and changes in the systems [...]. Any future standard should allow for the possibility of political turbulence and that the Government's ability to withdraw from obligations may increase. Major changes in the systems mean that governments/states will find it "more difficult" to proceed from historical data as a basis for relevant estimates of obligations as well as that promised obligations will not be paid. In more turbulent economies the point of time options e) or d) be more relevant.</p> <p><u>2. Financing form</u></p> <p>In the situations in which a social benefit is fully or partly financed through fees that can clearly be traced to individual level, there is probably a higher degree of certainty in the obligation. This means that it is possible to recognise the obligation at an earlier stage than for d) and e).</p> <p><u>3. Design and terms</u></p> <p>In the cases where social benefits are designed on the basis of an insurance-like model (or accumulated funds) that is self-financed, it would appear more probable to be able to establish liability for future payments at an earlier stage and estimate future payment flows for payments in coming years.</p> <p>A liability should be confirmed when the degree of certainty is sufficiently high. The standard should allow a number of alternative proposals of appropriate times and where the reporting entity makes an estimate of the most appropriate time, taking into account certainty/probability and verifiability. From an auditing perspective it is decisive that the data and accounts presented are transparent, verifiable and reliable, which in principle means that a person other than the person who prepared the accounts should with a relatively high degree of probability, be able to arrive at the same conclusions. The greater the uncertainty factor in the accounting the more extensive and clearer requirements should be made of the party preparing the accounts to clearly report assumptions and underlying material.</p> <p>Specific comments on the IPSASB's option regarding the time at which an obligating event should be considered to arise and be recognised:</p> <p>Option a) appears to be the most unclear and there is greater uncertainty as to the reliability of underlying data for the accounts. In our opinion the option is not compatible with requirements of the Conceptual Framework concerning qualitative characteristics (relevance, verifiability etc.).</p> <p>Option b) it is not clear to us where the great difference is between options a) and b).</p> <p>Options c), d) and e) all three may be relevant depending on what type of benefit and degree of basic certainty</p>	

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		of the benefit structure (i.e. if it is based on laws, ordinances, contracts, eligibility for payments and for receiving the benefit).	
28	G	<p>[Respondent 28's] opinion is that it will be extremely difficult to establish the same recognition criteria for all forms of social benefits and still produce meaningful information. In our opinion, different forms of social benefits will produce different legitimate expectations for the potential beneficiaries, often influenced by the legal form underlying the social benefit in a particular country.</p> <p>For example, for a non-contributory basic state pension funded out of tax receipts and subject to no eligibility criteria apart from reaching the age of retirement, it could be argued that the key participatory event is birth. However, where the criteria include a requirement to have worked a certain number of years or the amount received varies by the number of years worked, it may be more appropriate that the key participatory event is the individual's entry into the job market. This is why we believe that the Standard should be flexible enough to allow the preparers to use the most suitable option for each social benefit scheme.</p> <p>[Respondent 28] believes that the recognition criteria for those events that could be regarded as "unplanned", such as unemployment, sickness, and accidents, are different than for those where benefits can be seen to accumulate over time and where eventual receipt is more probable. Pensions are the best example of these. For "unplanned" events, we gravitate towards recognising a liability at a later stage, such as "when threshold criteria have been satisfied" or "the eligibility criteria to receive the next benefit have been satisfied", depending on the unique scheme requirements for the benefit in question.</p> <p>For benefits such as accident benefits, it would be possible to recognise a liability when "key participatory events have occurred" – i.e. when the individual is born, attains a certain age or has satisfied some other key eligibility requirement for the scheme in question. However, there is a good argument that, there is no past event from which a present obligation arises as the triggering event (the accident) has not yet occurred. Additionally, the calculation of the liability using this eligibility criterion would require the exercise of so many assumptions and estimates that the resulting liability could provide little in the way of meaningful information for the various users of the financial statements. These are the reasons why [Respondent 28] prefers the application of the "when threshold criteria have been satisfied" or "the eligibility criteria to receive the next benefit have been satisfied" eligibility criteria for such schemes.</p> <p>We will now proceed to discuss each of the options presented in the CP to highlight strengths and weaknesses</p>	Staff notes these comments and the rationale provided for when a recognition point might be appropriate.

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		<p>of each approach.</p> <p>Key participatory events have occurred (option a)</p> <p>In some respects, it could be argued that realising a liability at this point is the best theoretical approach and best conforms to the CF's definition of a liability. However, there are issues with choosing this threshold.</p> <p>One issue with this approach is defining the key participatory event. For unemployment benefits, for example, one could argue that being warned of impending redundancy is the key participatory event. On the other hand, there is also a theoretical argument for saying that entering into the jobs market is the key participatory event because it opens up the possibility of claiming such benefits at some point in the future.</p> <p>Another issue regards the large degree of uncertainty present, which would be greater the earlier the key participatory event occurs. Just because the individual has an expectation of receiving a benefit, it does not necessarily mean that all of the necessary criteria will eventually be fulfilled. This would lead to a liability being recognised when no actual obligation exists. Also, recognition at this stage introduces significant issues in measurement – it would probably require many actuarial assumptions and it is debateable in such circumstances whether the information produced would be useful to the users of public sector financial statements.</p> <p>Threshold eligibility criteria have been satisfied (option b)</p> <p>In many circumstances, [Respondent 28] believes this would be the earliest practical point at which a liability can be recognised reliably. Firstly, this would probably be the first point where the government body in question becomes aware that a claim is probable.</p> <p>Secondly, as mentioned above, we have some doubts as to how meaningful provisions primarily based on actuarial assumptions would be. We agree with the comments in para 4.37 that when the eligibility criteria have been met the government no longer has a realistic alternative to avoid the payment. Because there is more certainty, the measurement issues are greatly reduced over option (a), albeit there are still measurement issues that would require actuarial assumptions in respect of benefits that have requirements for periodic reassessment of eligibility, as highlighted in para 4.38.</p> <p>The eligibility criteria to receive the next benefit have been satisfied (option c)</p> <p>This option has the advantage of making the measurement of the liability easier, but runs the risk of understating the potential liability as at least some proportion of the population claiming such benefits will continue to satisfy</p>	

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		<p>the next periodic assessment of eligibility. This option may be more applicable to schemes where considerable uncertainty exists as to the proportion of claimants likely to satisfy the periodic review criteria, especially if such criteria become more onerous with the effluxion of time.</p> <p>A claim has been approved (option d)</p> <p>[Respondent 28] believes that, in most circumstances, using this option will result in a liability being recognised too late. In many cases, the difference in timing between this and (b) above is merely due to administrative processes. Depending on the efficiency of the administration involved, the time delay between submission of a claim that meets the eligibility criteria and the approval of the claim can be quite significant and it is quite possible that at least some element of the benefit would be paid in arrears. [Respondent 28] considers that once it becomes possible that an accounting treatment would result in a liability being recognised (even partly) in arrears then the recognition of the liability is too late.</p> <p>A claim is enforceable (option e)</p> <p>Whilst we appreciate the legal certainty that this sub-criteria would bring, the negative points made in (d) above apply even more keenly under this option so this would not be our preferred option.</p> <p>[Respondent 28] has not identified any other options for recognition in addition to than those presented by the IPSASB.</p>	
29	G	<p>The point at which an obligating event arises depends on the particular benefit and whether it meets the objectives of financial reporting and QCs (mainly relevance, faithful representation and understandability). The nature of the government’s promise differs between benefits. In our view, for some benefits, the obligating event is likely to occur at the “threshold eligibility criteria have been satisfied point”. We have given examples of differing types of social benefit “promises” in our response to Specific Matter for Comment 2(a). Our comments on the possible points at which an obligating event might occur are noted below.</p> <p><i>(a) Key participatory events have occurred</i></p> <p>We consider that the argument that a present obligation arises as key participatory events occur has some conceptual merit but we also consider that this approach would be difficult to apply. We consider that there are stronger arguments for using point (b) as the obligating event for certain social benefits. Nevertheless, we have considered how sub-option (a) could be applied to [...] Super.</p> <p>Depending on the nature of the benefit, a present obligation may arise from point (a). For example, with [...]</p>	<p>Staff notes the detailed discussion of the key participatory events and threshold eligibility criteria sub-options, and the concern regarding the usefulness of recognizing liabilities on this</p>

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		<p>Super, possible key participatory events include when the individual starts working or before the individual reaches the age of 65 and certainly no later than the age of 65. In considering whether a present obligation arises at these points in time, some note that the government’s power to amend or repeal legislation before or after the individual becomes entitled to receive [...] Super is not a relevant factor. This is based on the discussion of legal obligations in paragraphs 5.20-5.22 of the Conceptual Framework, whereby sovereign power to make, amend and repeal legal provisions is not a rationale for concluding that an obligation does not meet the definition of a liability.</p> <p>In addition, even if it is not accepted that the existence of current legislation creates a legally binding obligation, an alternative argument that arrives at a similar conclusion is that a present obligation arises as a consequence of government policy in [our jurisdiction] indicating that it has accepted certain responsibilities and the past history of governments in [our jurisdiction], where there has been a reluctance to change the benefit to individuals who are close to or over the age of 65. Some argue that, as a consequence, individuals have a valid expectation of receiving [...] Super, giving the government little or no realistic alternative to avoid an outflow of resources. The individual can have an expectation that they will receive the benefit prior to the age of 65, and, as the individual gets closer to the eligible age of 65 this expectation becomes stronger (subject to the individual continuing to meet the other key criteria). The assessment of the strength of this expectation is highly judgemental and will depend on the circumstances of each individual. For example, if the individual is not wealthy, their reliance on the future benefit is likely to be greater than for an individual that is wealthy. Once the individual reaches the age of 65 (and assuming that the individual continues to meet the other criteria and based on the legal position at the reporting date), there is no further revalidation required. The individual will continue to receive [...] Super as long as they live. Therefore, for these types of benefits, the obligating event could arise when the key participatory events have occurred.</p> <p>In forming the above views, particularly in cases where a liability is considered to arise before the age of 65, some arguments are based, in part, on comparisons of [...] Super with employee pensions. For example, under IPSAS 25 <i>Employee Benefits</i>, a liability for future pension payments is accrued as and when employees provide services, thereby fulfilling their side of the arrangement. Liability recognition is not delayed until the employee reaches retirement age.</p> <p>Whilst we understand the conceptual arguments made in the Consultation Paper in support of option (a) we believe this option would be difficult to apply in practice. As discussed above, there may be a series of points at</p>	<p>basis without also recognizing the related revenue.</p>

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		<p>which individuals have a valid expectation that they would receive future benefits. Identifying which key participatory events may contribute to the valid expectation may be difficult.</p> <p>The unit of account is also an important consideration in the recognition of a liability. If the unit of account is an individual, then it would be easier to identify when the key participatory events have occurred. In the case of [...] Super, it is possible to identify individuals who have started work or who are approaching the age of 65. If the unit of account is a collective group, then it is harder to identify when key participatory events have occurred as there will be many individuals in different stages of their life that make up the group. The unit of account also impacts on whether the key participatory events impact on when a present obligation arises or are more relevant for measurement of the liability rather than recognition.</p> <p><i>(b) Threshold eligibility criteria have been satisfied</i></p> <p>We consider that, for a number of benefits, it may be appropriate to acknowledge the existence of a present obligation from this point. The satisfaction of the threshold eligibility criteria could be regarded as the main past event. If the liability is subject to ongoing eligibility criteria, [we] had mixed views on whether this should be regarded as a measurement issue or a recognition issue. A small majority of [Respondent 29's members] viewed this as a measurement issue. This view is driven by the analogy of employee pensions, liabilities for insurance claims (including insurance claims incurred but not reported) and other factors relating to liability recognition, as discussed in (a) above. For these [...] members, if the IPSASB concluded that the requirement for the individual to demonstrate that they are eligible (or continue to be eligible) to receive the benefit did impact on recognition (rather than measurement) in the case of social benefits, a rationale would need to be developed that distinguished social benefit obligations from obligations for employee pensions, insurance claims and other liabilities in which similar factors are considered to impact on measurement rather than recognition</p> <p>However, a substantial minority of [Respondent 29's] members consider that, in the case of social benefits, a requirement for the individual to demonstrate that they are eligible (or continue to be eligible) to receive a benefit impacts on recognition rather than measurement. In their view, the satisfaction of eligibility criteria (both initially and on-going) is an important and necessary step to creating a legally binding obligation on the entity to pay the benefit.</p> <p>For some benefits, however, there are no revalidation requirements. For example, for particular benefits such as [...] Super, there is a single substantive criterion – reaching the age of 65. In this case we consider that there is a present obligation from this point onwards. As noted above, when the individual reaches the age of 65 and</p>	

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		<p>meets the other criteria, there is no further revalidation required other than staying alive. Despite acknowledging that the recognition of a present obligation (for all future benefit payments) from this point may be consistent with the definitions of a liability in the Conceptual Framework, we do have concerns about the implications of this approach for the usefulness of the financial statements as a whole (see our comments in the cover letter and our response to Specific Matter for Comment 2).</p> <p><i>(c) The eligibility criteria to receive the next benefit have been satisfied</i></p> <p>As discussed in our response to parts (a) and (b) of this Specific Matter for Comment, we consider that, for some benefits, a present obligation could arise at an earlier point than this. In the case of benefits that are subject to revalidation criteria, [we have] mixed views, as discussed above.</p> <p><i>(d) A claim has been approved</i></p> <p>See our response to part (c) of this Specific Matter for Comment. In general, we consider that a present obligation would arise at an earlier point than this.</p> <p><i>(e) A claim is enforceable</i></p> <p>See our response to part (c) of this Specific Matter for Comment. In general, we consider that a present obligation would arise at an earlier point than this.</p>	
30	G	<p>In our view, a conceptually sound recognition principle would be c above, the eligibility criteria to receive the next benefit have been satisfied. However, we believe this description can be made simpler, more meaningful and less misleading. In our view, the core distinction between b and c is the aspect of periodic validation that is part of c but not part of b. This aspect needs to be brought out appropriately in the nomenclature for the obligating event purported to in c.</p> <p>Given the diverse nature of social benefits, a higher bar as in d above should be permitted, provided there is adequate justification in a particular case on why recognition is more appropriate when a claim is approved rather than when eligibility criteria is met. E.g. in certain cases where the validated eligibility criteria under c does not provide a good basis for quantifying the liability, d may need to be invoked, with appropriate notes justifying the same. At the earliest instance where quantification under c becomes possible, a change in recognition criteria needs to be effected. This may be required in large universal schemes in jurisdictions where identification of individuals or households based on eligibility may not be reasonably accurate.</p>	Staff notes these comments.

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31	C	<p>It is our view that an obligating event arises and therefore a liability would be recognized for non-exchange social benefits under the obligating event approach when all eligibility criteria to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative. We believe that an entity has an obligation to provide non-exchange benefits at this obligating event, for both noncontributory and contributory social benefit schemes. If the beneficiary fails to meet any of the eligibility criteria, the beneficiary would not be entitled to receive a benefit. In [our jurisdiction], for example, one of the eligibility criteria for receiving monthly Social Security payments is that the beneficiary is alive. Consequently, we do not believe that there is a present obligation and a liability until all eligibility criteria to receive the next benefit are met, including approval of the benefit claim where such approval is more than merely administrative.</p> <p>If claim approval is merely administrative, it would be insignificant to the recognition treatment of an obligation. If claim approval is more than administrative and the public sector entity exercises judgment in approving the claim by determining whether the beneficiary meets all of the eligibility criteria to receive the next benefit, then there is no obligation until such approval is finalized. An example of a social benefit scheme where approval typically is more than administrative is a disability scheme where the public sector entity determines whether the beneficiary meets the disability eligibility criteria. In addition, it is our view that revalidation is an eligibility criterion that needs to be met before a present obligation is incurred.</p> <p>Non-exchange social benefits and other non-exchange transactions are unique to public sector entities and are fundamentally different from exchange transactions. Although beneficiaries may have expectations that benefits will be provided in the future, it is our view that a valid expectation does not occur until a beneficiary has met all eligibility criteria to receive the next benefit, including approval of the benefit claim where such approval is more than merely administrative. Although past practice may indicate that the government has accepted a responsibility to provide social benefits, a public sector entity has a realistic alternative to avoid an outflow of resources, for example, by modifying legislation, until all eligibility criteria to receive the next benefit have been satisfied. Beneficiaries should be on notice of social benefit eligibility criteria and the public sector entity's ability to subsequently change the criteria and benefits.</p> <p>Non-exchange social benefits differ from employer-provided social benefit plans, which are considered exchange transactions. Under a typical non-exchange social benefit program, the individual does not exchange his or her taxes and/or contributions for a benefit from the public sector entity. Rather, collectively the citizenry pays taxes to fund social benefits for those that meet eligibility criteria. Accordingly, the compulsory payment of</p>	<p>Staff notes these comments.</p> <p>Staff notes that the respondent considers that revalidation requirements are eligibility criteria that affect the recognition as well as the measurement of a social benefit.</p> <p>Staff notes the comments regarding the potential inconsistency between costs and delivery of services to the public.</p> <p>Staff notes the respondent's view regarding the need for disclosure of prospective information.</p>

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		<p>taxes by an individual and the subsequent receipt of social benefits by that same individual in a typical social benefits scheme constitute separate non-exchange transactions. For example, in [our jurisdiction], the compulsory payment of Social Security taxes does not entitle an individual to a benefit in a legal, contractual sense, and benefits paid to an individual are not directly based on taxes paid by that individual. Therefore, in those programs, [our] government has an obligation for the benefits only when all eligibility criteria to receive the next benefit have been satisfied.</p> <p>Further, recognizing a liability for social benefits only when all eligibility criteria to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative, provides information that is most consistent with the objectives of financial reporting and qualitative characteristics. This approach is straightforward, is easy to understand, is simple to calculate, can result in information being reported in a timely manner, and can be verified.</p> <p>It is our view that the creation and recognition of a present obligation or liability for social benefits before all eligibility criteria have been met (referred to herein as future benefits) do not represent present obligations. Further, the recognition of future benefits does not reflect the true nature of social benefit programs, the extent of the government's responsibilities for these and other programs, or the government's ability to revise these responsibilities. Just as future government spending on programs, such as defense, that is relatively certain to continue is not a present obligation of the government, future social benefits spending is also not a present obligation. Consequently, we do not support the accounting treatment for recognition of liabilities for social benefits when key participatory events have occurred (sub option (a)) or when threshold eligibility criteria have been satisfied (sub option (b)).</p> <p>In addition, it is our view that the recognition of future social benefits would result in an inconsistency between the costs of services recognized during the year and the services provided during the year. The statements of financial position and of financial performance provide information for assessing the costs of providing goods and services during the period. Generally, a public sector entity has little exchange revenue and no profit motive, but instead has the goal of providing services collectively chosen to improve the well-being of its citizens. Accordingly, the accounting treatment for recognizing costs should be consistent with the delivery of related services year by year. Thus, costs can be associated with program delivery and analyzed in relation to outputs, outcomes, and relevant performance measures. These measures could assist in improving (1) resource allocation and program management, (2) the effectiveness and efficiency of service delivery, (3) the</p>	

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		<p>accountability to citizens for service delivery during the year, and (4) the adequacy of revenues to cover services provided during the year.</p> <p>Recognition of future social benefits without recognition of the future tax revenues related to the public sector entity's power to tax would not provide relevant information, would diminish significantly the relative size and importance of other liabilities and expenses shown on the financial statements, and would include long-term estimates that may be highly uncertain. Also, such estimated liabilities may be subject to significant volatility based on changes in underlying assumptions and would not provide information that is useful for accountability purposes. In addition, to the extent that a social benefit scheme is not sustainable based on dedicated tax revenues or other contributions, the amounts of social benefits that would be provided are also highly uncertain and may not be reliably estimable. Further, the time horizon for recognizing a liability for social benefits may be difficult to determine.</p> <p>Social benefit programs, as currently structured, may be clearly unsustainable (as are Social Security and [medical insurance in our jurisdiction]), and reforms in these programs are a near certainty. For example, under current law, the trust funds for Social Security and [medical insurance] are projected to be exhausted in the future, after which only a portion of current benefits could be paid. However, it is not possible to predict what specific actions the government will undertake to modify or change future benefits or taxes. Consequently, the inherent uncertainty surrounding agreement and settlement for amounts of future social benefits does not lend itself to recognizing a liability and expense for future benefits.</p> <p>We have concerns about whether there is sufficient utility to financial statement users in recognizing social benefit obligations based on key participatory events or threshold eligibility. A public sector entity typically has significant discretion in determining whether to continue or to modify social benefits. Therefore, recognizing liabilities for social benefits based on the threshold eligibility and continuous entitlement sub approaches might not represent a likely or even reasonable policy option for policymakers or users to consider. Further, recognizing a liability for future social benefits does not faithfully represent an entity's financial position or performance and presents a misleading view of the entity's financial position. For these reasons, we do not believe that it is prudent to recognize, in the financial statements, future social benefits that have yet to be delivered and consequently do not support the key participatory events or threshold eligibility sub approaches.</p> <p>We also believe that it is important that there are appropriate disclosures in the financial statements or GPFs to provide the users with information for assessing the sustainability of the social benefit schemes, which could</p>	

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		<p>include the following:</p> <ul style="list-style-type: none"> • the funding status of the social benefits; • potential actions that may be taken if benefits are projected to exceed dedicated revenue sources; and • expected cash flows of the social insurance schemes or fiscal sustainability reporting under Recommended Practice Guideline 1, <i>Reporting on the Long-Term Sustainability of an Entity's Finances</i>. <p>We believe that it is also important to disclose the nature and amount of any assets held to pay social benefits (reported under other IPSASB standards).</p> <p>We agree that financial statements cannot satisfy all users' needs on social benefits, as noted in the CP. General purpose financial reports prepared in accordance with RPG 1 would provide information about expected obligations to be settled in the future, including obligations to individuals who have not met the eligibility criteria for a scheme, or who were not currently contributing to a scheme that would entitle them to future benefits. Such obligations do not meet the definition of a present obligation, and so are not recognized in the financial statements. In accordance with RPG 1, reporting would also include information about expected resources to be realized in the future that will be used to finance social benefits, or the right to tax. Because the entity does not currently control these resources, they are not recognized in the financial statements.</p> <p>Therefore, in addition to disclosures providing information about the sustainability of social benefit schemes in the financial statements, a report or statement of fiscal sustainability with estimates of future costs, including social benefits, and future revenues, including dedicated revenues, would help provide a comprehensive perspective of the government's financial condition and its ability to continue to provide and finance social benefits.</p> <p>It is our view that "financial condition" is a forward-looking indicator that should provide predictive information about a government's long-term capacity to sustain and finance its current programs, including social benefits—information that is not conveyed in the financial statements. For example, financial statements do not reflect an asset for the government's right to tax. Consideration of future taxes and other receipts are critical to assessing financial condition. In addition, the financial statements do not provide sufficient information for users to assess the extent that financial burdens have or will be passed on by current year taxpayers to future taxpayers without related benefits. Many countries face long-term challenges, including demographic and socioeconomic change with rapid increases in the old-age dependency ratio, that will affect future fiscal health, level of spending for</p>	

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		<p>goods and services, and level of future receipts. Consequently, it is critical that the future impact of these challenges be considered when making a comprehensive assessment of a government's financial condition.</p> <p>In conclusion, governments establish eligibility criteria for determining whether and when an individual is entitled to receive a benefit. Accordingly, a liability should not be established and recognized until the beneficiary meets all of the eligibility criteria to receive the next benefit, including approval of the benefit claim where such approval is more than merely administrative. We do not consider estimates for future benefits to be present obligations because these future benefits have not been established by the government as present obligations and can be modified or eliminated by the government if it so chooses. Moreover, recognition of future social benefits as a liability may result in a substantial inconsistency between costs and delivery of services to the public.</p> <p>We do not support a view that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises. Further, we believe that recognizing a present obligation or liability for social benefits when all of the eligibility criteria to receive the next benefit have been satisfied, including approval of the claim where such approval is more than merely administrative, provides an appropriate basis across the wide range of different types of social benefit schemes. While we are not aware of any examples, if a legal obligation would arise before all of the eligibility criteria to receive the next benefit have been satisfied, it would be appropriate to recognize a liability for the amount that was legally obligated.</p>	
32	G	<p>[Respondent 32] is of the view that an obligating event giving rise to a liability can arise at different points depending on the nature of the social benefit and the legal and societal frameworks under which the benefit arises. However, [Respondent 32] notes that the definition of a liability needs to be met, and that definition does not include all possible future obligations.</p> <p>[Respondent 32] would prefer if IPSASB could provide illustrative examples in the new standard to demonstrate situations when an obligating event can occur at each of the proposed points. Judgement should be executed by the reporting entity to determine such point that gives rise to an obligating event with the help of such examples. [Respondent 32] has provided some examples in the [...] context [of our jurisdiction] where the obligating event arises at point (c).</p> <p>Background information</p> <p>In [our jurisdiction], despite the existence of a broad safety net policy, social welfare benefits are only provided when individuals meet specific eligibility criteria. The obligating event most appropriate to the [our] context is</p>	Staff notes these comments.

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		<p>“Eligibility Criteria Met to Receive Next Benefit”. This sub option provides greater certainty about recipients and the amounts that are due to be paid.</p> <p>In [this] context, the unemployment benefit [...] is paid to those who are unemployed and are searching for work. This benefit is paid from general taxation revenues and is not an unemployment insurance type of scheme. Income support payments are periodically reassessed and eligibility for income support payment is revalidated and approved based on the individual’s financial circumstances and participation in mandatory job search activities. Under these circumstances it would be inappropriate to recognise liabilities:</p> <ul style="list-style-type: none"> • For the current period of unemployment, beyond the period of current entitlement (normally the next payment period); or • For any subsequent future period of unemployment. <p>The Age Pension in [our jurisdiction] has income and assets tests applied. The asset test limits are updated in January, March, July and September each year and could result in changing the pension amount that a person could be entitled to. Essentially these ongoing tests imply that even the Age Pension is not a “set and forget” payment and revalidation of eligibility is inherently structured in the administration of the pension payment.</p> <p>In [our jurisdiction], in very limited circumstances where someone is a blind pensioner or if there are manifest disabilities the eligibility conditions may not be required to be revalidated. However, the individual’s respective care provider arrangements would be periodically reviewed and potentially result in changes to social assistance payments. With financial information requiring audit assurance, the “Eligibility Criteria Met to Receive Next Benefit” would be traceable and verifiable.</p>	
33	G	<p>Social benefits are not contractual, and so a great deal of the conceptual debate on this issue would seem closely connected with the view one takes of constructive obligations, as defined by IFRS, in a public sector context and as an overlay to the effect of legal obligations. As we have seen, the interpretation of IAS 37 in the private sector has led to some difficulties and counter-intuitive outcomes, for example around levies, and for this reason the development of an accounting approach for non-exchange expenses is necessary, including social benefit transactions. This is less significant in relation to the private sector, which does not generally have many transactions which have the characteristics of non-exchange transactions.</p> <p><i>a) Key participatory events have occurred</i></p> <p>This option ostensibly fits with the CF guidance on the definition of a liability, although there is a debate to be</p>	<p>Staff notes these comments, particularly the references to long-term fiscal sustainability reporting.</p>

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		<p>had as to whether in all circumstances it genuinely reflects the point at which an obligation arises, unless a very wide view is taken of constructive obligations. It does not, in any case, appear to be sufficiently practical or desirable for the following reasons:</p> <ul style="list-style-type: none"> • Recognising a liability at early participatory events such as birth or entry to the job market does not necessarily mean that a liability will materialise, possibly resulting in the recording of a liability where there is none. This may be a unit of account measurement issue rather than a recognition issue, as it may be possible to take a broader portfolio approach, recognising (based probably on historical data) that only a certain proportion of potential recipients will actually be in a position to claim their entitlement. • Recognition of liabilities for such early participatory events increases the uncertainty around measurement: actuarial assumptions become central in the determination, increasing the cost of the exercise and making it difficult to explain to users of the accounts. • The extent of estimation will also potentially affect the comparability between jurisdictions if historical data does not exist or there is insufficient expertise to produce actuarial assumptions and apply them correctly. <p>For these reasons, it seems more likely that key participatory events are more appropriately reflected in the Statement of Long-Term Fiscal Sustainability, which includes projected inflows and outflows related to the provision of goods and services and programmes providing social benefits using current policy assumptions over a specified time horizon.</p> <p>It is also worth bearing in mind that IPSASs operate in a highly political environment, and choosing this option would mean the earliest possible recognition of a liability. Liabilities would potentially be very large and countries would be likely to find it very unpalatable to have to recognise such obligations, particularly under conditions of austerity. If it is pursued, therefore, it will need to be very clearly demonstrated that it is the best approach. We are not convinced at this stage that is evident.</p> <p><i>b) Threshold eligibility criteria have been satisfied</i></p> <p>This option will have a recognition point that is most consistent with the CF. The CP states that once eligibility criteria have been met, a government no longer has a realistic alternative to avoid an outflow of resources (see paragraph 4.37). Political inertia will support the concept of constructive obligations, yet these remain difficult to define and as recent events in Greece have demonstrated, do not always stand the test of time.</p> <p>Measurement will be easier than in option (a) above, but a number of assumptions will be required to assess the</p>	

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		<p>recipient's ongoing eligibility. This point is made in paragraph 4.38. Our main concern with this option relates to recognition, since a highly detailed level of information is required. People that are technically eligible to receive benefits do not always choose to do so, or there could be a large time lag. We feel that in practice this approach may be difficult to implement with any degree of accuracy unless highly-developed real-time information systems are available.</p> <p><i>c) The eligibility criteria to receive the next benefit have been satisfied</i></p> <p>This option is similar to (b), in the sense that threshold eligibility criteria have to be met but the provision is restricted until the next assessment for eligibility. This has the advantage of being easier to measure, and reduced liabilities may make adoption of IPSASs more appealing to governments. However, many claimants would continue to be eligible for benefits and thus there is a distinct risk that liabilities under this option would be understated.</p> <p>The option may be applicable for some benefits under circumstances where there is large uncertainty as to future eligibility, such as phasing out of a benefit or significantly changing the terms of conditions of existing benefits. More meaningful information may be presented under this option than under other options where estimation of future eligibility is too onerous.</p> <p><i>d) A claim has been approved</i></p> <p>Although this option has the benefit of certainty and verifiability, the liabilities recorded would be an underestimate of total obligations.</p> <p>The gap between this option and option (b) above is in effect the administrative process of handling the claim. It infers, however, that entitlement is not a given unless and until approved by the payer (i.e. the government), but this is not in line with the CF and would not meet the qualitative characteristics therein.</p> <p><i>e) A claim is enforceable</i></p> <p>The same issues apply as in (d) above, but are amplified</p> <p><i>If, in your view, a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises, please provide details.</i></p> <p>Yes, we think the obligating event could arise at different times because the legal specifications will differ in each jurisdiction, but so will expectations and circumstances leading to constructive obligations. The relationship between current legal obligations and future potential obligations that could be argued to be constructive</p>	

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		<p>obligations is a complex one, as noted above. Given the need to account for a vast array of jurisdiction-dependent scenarios, it is as discussed above imperative that any future standard is principles-based.</p> <p>On the legal side for example, one country may have a non-contributory state pension scheme that is available to all who reach pensionable age. In this case, one could argue that birth is the obligating event. But if a government has the right to terminate or vary the prospective benefit, does the obligating event depend more on whether a constructive obligation exists? Most countries will have some eligibility criteria, such as a minimum amount of years worked, in which case entering the work force may be a suitable recognition point. But if there is a history of changing the point at which entitlement begins, is there really an obligation? This example perhaps shows that IPSASB may not be able to find a ‘one size fits all’ solution and that the focus should be on developing high level, principle-based standards, underpinned by a wide range of real life examples.</p> <p>The determination of the obligating event is critical, but other factors may come into play in working out what would be most viable for public sector reporting. We feel that there are some key criteria that can be used in evaluating each approach to assess the relative merits against accuracy, practicality and usability:</p> <ul style="list-style-type: none"> • Accuracy: identification of the obligating event and subsequent measurement are crucially important; while in general we support a principles-based approach and the exercise of professional judgement, the more assumptions and professional judgement are needed in this area, the greater the risk that faithful representation will not be achieved. It should also be noted that due to different local laws and administrative arrangements, outcomes will be different and may affect comparability on an international basis, and the extent of variability of outcome dependent on local factors may have a substantial impact on users’ views of the benefits of the information. • Practicality: the development of the benefits standard must take practical issues in consideration, especially with regards to costs of producing the financial statements, system requirements and political impacts. • Usability: how useful and understandable will the benefits figures and disclosures be under each option? We feel that calculating an amount for the future provision of social benefits should just be the starting point for disclosure purposes, with more emphasis on the disclosure of assumptions and sustainability management, where governments indicate their expectations on how they will fund commitments made. Therefore, much more emphasis should be given to the Statement of Long-Term Fiscal Sustainability and how it relates to the amounts recognised in the financial statements. 	

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34	G	In my opinion, I described my observations, as follows:				Staff considers that the respondent's comments suggest that they tend to support the view that an obligating event could occur at different points for different schemes.
		Description	Strengths and Weaknesses	Important Points of Exposure Draft	Comments about future IPSAS specify that an obligating event	
		(a) Key participatory events have occurred	Strengths	4.33 - ... "However, it is difficult to identify the point at which the government has little or no realistic alternative to providing those benefits. In some cases, there may have been a series of points at which expectations arose, leading to an increasing expectation over time (which may mean that there are intergenerational differences in expectations)."	I think that is important because which options the government will choose for this expectation. I think that all procedures has been elaborated by government can impact his point, considering uncertainty.	
		(b) Threshold eligibility criteria have been satisfied ;	Strengths	4.38 - ..." Under the eligibility criteria to receive the next benefit sub-option, continuing eligibility requirements (including revalidation) affect the recognition of a liability. Under the threshold eligibility criteria sub-option, these only affect the measurement of the liability"	I think that is important because which options the government will choose for this expectation. I think that all procedures has been elaborated by government can impact his point, considering uncertainty.	

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		(c) The eligibility criteria to receive the next benefit have been satisfied;	Weaknesses	4.43 -... "Under this suboption, the present obligation is for future benefits to be provided until the next point in time at which eligibility criteria are required to be met. Typically, this will be at the time that the next social benefit will be provided and the beneficiary must meet the eligibility criteria in order to receive the benefit."	I understand that this point depends of fact can be occur, a probability. In positive results be determined by law to explain more implementation for this point.	
		(d) A claim has been approved;	Weaknesses	4.50 – "A liability would be recognized if a claim in respect of the benefits relating to the period has been approved, even if the recipient could not enforce the provision of the benefits at the reporting date because the due date has not arrived."	I understand that this point depends of fact can be occur, a probability. In positive results be determined by law to explain more implementation for this point.	
		(e) A claim is enforceable; or	Strengths	4.53 - ... "A government always has the ability to avoid settling such an obligation, for example by modifying eligibility criteria or amending legislation."	I think that is important because which options the government will choose for this expectation. I think that all procedures has been elaborated by government can impact his point, considering uncertainty	
		(f) At some other point.	Weaknesses	4.56 - ... ". Where a recipient of a social benefit has satisfied all eligibility criteria and the claim has been approved, but the transferring entity is not yet legally obliged to provide the benefits the term "approved claim" is used."	I understand that this point depends of fact can be occur, a probability. In positive results be determined by law to explain more implementation for this point.	

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35	G	<p>As a general consideration, the sub-options are rather open for interpretation, which has to be further clarified, if the obligating event approach is implemented. Hence, the different member states could expectedly have differing views on the meaning and effect of these. The following considerations thus relate to [our jurisdiction's] immediate interpretation of the sub-options.</p> <p>In order to separate and comment on each sub-option, a suggested [...] model [for our jurisdiction] was constructed to clarify the identification and criteria leading to one sub-option or another. This decision-model is to be found in appendix 1. [The model can be found in Response 35]</p> <p>A viable method could be to implement more than one sub-option, in order to strengthen the usability of the obligating event approach, due to the diversity of the social benefits. In addition, the insurance approach would be fitting for the contributory benefits; hence our model generally focuses on non-contributory social benefits. If contributory benefits were to be governed by the obligating event approach, earlier occurrence of recognition for the unsubsidized part might be suggested.</p> <p>For the obligating event approach, sub-option D and E has consequently been seen as the most commonly fitting to find use in [our jurisdiction]. [Our] analysis suggests that, for approximately 80% percentage of the social benefit schemes, it would be optimal to use sub-option D or E. As an additional note, in respect to the specific benefit, the belief is both times of recognition might be appropriate. However, the measurement would in many cases share identical characteristics; several schemes in [our jurisdiction] grant the individuals with a single payment, executed at the time of application approval.</p> <p>The beliefs presented in the reports paragraph 4.66 – 4.68 is generally shared, hence in almost all cases, sub-option A and B are found inferior to sub-option C, D and E. The early recognition of a liability, pre all the applicable eligibility criteria's' have been satisfied, are considered at high risk of providing misleading information.</p> <p><u>a) Key participatory events have occurred</u></p> <p>The usability of sub-option A is disagreed upon.</p> <p>The early recognition is considered valuable, in order to specify the entity's financial state and provide useful information to the users of the financial statements. However, too early recognition of a social benefit might have a larger negative impact as such an approach easily could be misleading due to the, in most cases, dynamic nature of the benefits. Hence, the usage of approach A is opposed, as this would be at a high risk of initiating</p>	<p>Staff notes these comments, in particular the decision model provided.</p>

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		<p>unreliable financial information.</p> <p>In general the recognition criteria of an obligation are not seen to be met in sub-option A, while the obligating event most likely has not occurred due to the argumentation above. It is not found justified for the individual to have a legitimate expectation to receive social benefits without any expected social risk.</p> <p><u>b) Threshold eligibility criteria have been satisfied</u></p> <p>The sub-option B is can be used under rare circumstances but is not supported.</p> <p>As above stated, early recognition can be valuable, but only if is governs a reliable financial statement. In order to implement sub-option B, it is found as a requirement, that the social benefit scheme has simple static criteria's and is almost un-changeable. Furthermore there should be rarely or no expected law changes related to the scheme (see appendix 1). It is considered that, very few [of our] social benefits would be fitting to present accurate and reliable financial information at this early point of recognition.</p> <p>This sub-option is not fully supported, but there are some social benefits, which are able to be recognized under this sub-option. These are retirement benefit [...] and child-youth benefit [...]. Child-youth benefits are awarded to all households with child/children below the age of 18 years. Due to the nature of these schemes, individuals most likely consider an approval for guaranteed, when all eligibility criteria have been met.</p> <p>Generally sub-option B is expected to be inferior to sub-options C, D and E, as it is assumed most social benefits would require all applicable eligibility criteria to be fulfilled. This correlates with the dynamic nature of most of [our] social benefits. Therefore this sub-option cannot be supported.</p> <p><u>c) The eligibility criteria to receive the next benefit have been satisfied</u></p> <p>Sub-option C can be supported under some circumstances.</p> <p>Generally the point of recognition in the sub-options C, D and E is agreed upon as possibly expedient and able to grant the individual with a valid expectation to receive the benefit, in correlation with the individual criteria of the social benefit.</p> <p>Hence, sub-option C can be an expedient approach, when some factors have been considered and fulfilled. For the usability of both sub-option C and D, the valid expectation is found to correlate with the frequency or expectancy of law changes (see appendix 1).</p> <p>The considerations in the reports paragraph 4.46 is generally supported, hence this recognition approach could be used for benefits with complex dynamic criteria, where the approval of an individual's claim is solely an</p>	

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		<p>administrative process. Due to the fact some benefits do not require a true exercise of judgement by an entity, sub-option C's strength is considered to be a faithful representation of these financial statements. However, a limited amount of [our] social benefits, are governed by a solely administrative process.</p> <p>An example of a benefit which can be recognized in accordance to sub-option C is the [...] student grants scheme (however see comment 1 about the [...] student grants scheme).</p> <p><u>d) A claim has been approved</u></p> <p>The sub-option D is supported for recognition.</p> <p>As above stated, sub-option D is considered expedient and suitable for granting the individual with a valid expectation to receive the benefits, in correlation with the individual criteria of the benefit.</p> <p>Hence, where the grant of a social benefit requires true exercise of judgement by the entity, the recognition in sub-option D would represent a more faithfully expression of the financial statements, than sub-option C. In accordance to the analysis, a large portion of [our] schemes would be recognized under sub-option D.</p> <p>The measurement of the obligation arising from this sub-option is difficult. It can be administrative complicated to calculate and valuate all approved claims from databases. In addition, most of these benefits are granted for a short period of time or constitutes a one-time payment.</p> <p><u>e) A claim is enforceable</u></p> <p>The sub-option E is supported for recognition and measurement.</p> <p>Sub-option E is found expedient and capable of granting the individual with a valid expectation to receive the benefits. This sub-option has its strengths, when law changes are expected to occur frequently, for instance when the area is governed by high political attention.</p> <p>The analysis suggests that a large portion of [our] schemes would be recognized under sub-option E.</p> <p>A large portion of [our] social benefits are only given for a shorter period (for instance a month) and to receive the next benefit, the individual has to make a new application or otherwise prove the criteria are still met. Due to this the measurement of an obligation in the balance sheet, will present the problem that the obligation cannot at the same time represent the obligation on the balance day and the expected future payments on the benefit scheme. This problem combined with the GFS-convergence is the main reason why the sub-option is supported.</p> <p><u>General comments for the obligation event approach</u></p>	

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		<p>[Our] analysis suggests that an obligating event can arise at different points in accordance to its format. As earlier stated, we believe sub-option D and E will be the generally most fitting approach for the [our] social benefit schemes. When including the measurement considerations sub-option E would be preferable. However, different sub-options might be useful to implement, for the different kinds of social benefits they seem to fit. This should depend on the characteristics of the scheme, as have been analyzed and can be seen in [our] decision model in appendix 1. This does not support a view, where the different social benefit schemes, should be able to shift between sub-options.</p> <p>As long as the chosen point of recognition, i.e. the sub-option, protects the faithful expression of the financial statement, it is found potentially usable. This is considered to be the scenario for all sub-options, except for sub-option A and B.</p>	
36	G	<p>We believe that a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises. In most cases under the definition of a liability, we believe that recognition would occur at points a or b. In addition, recognition should be considered from the perspective of the obligor, and not dependent on the general expectations of the recipient.</p> <p>Revalidation is a common feature for social benefits schemes such as unemployment benefits. Therefore it is crucial for the Board to carefully consider whether revalidation (or continued eligibility) should be a recognition criterion or a factor affecting measurement. We agree with the Board's observation that there are differing views on the treatment of such schemes, and some have questioned whether factoring the likelihood of continuous eligibility into the measurement on initial recognition would provide users with useful information. Currently, we do not have a preferred approach, however, incorporating the probability of future non-eligibility in the measurement of the liability could give users an indication of the government's expectations of its liabilities.</p>	<p>Staff notes these comments, particularly with regard to revalidation.</p>

Specific Matter for Comment 5

In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach?

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	10, 12, 20, 23, 27, 32, 35	7
B – PARTIALLY AGREE	28	1
C – DISAGREE	01, 02, 03, 04, 05, 07, 08, 09, 11, 13, 14, 16, 18, 19, 21, 22, 26, 29, 30, 31, 33, 36	22
SUB-TOTAL OF THOSE PROVIDING COMMENTS		30
D – DID NOT COMMENT	06, 15, 17, 24, 25, 34	6
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 5	STAFF COMMENTS
01	C	<p>As previously stated, the obligating event for the present obligation is the satisfaction of eligibility criteria on the current financial year by the beneficiary.</p> <p>Some social benefits are served without being counterpart to the prior payment of a contribution. These schemes are called "non-contributory". [...]</p> <p>For "contributory" schemes, the payment of the benefit is conditioned on prior payment of a contribution. Nevertheless, there is no direct link at the level of each beneficiary between the level of contributions paid and the level of benefits received. Indeed, the level of contributions does not depend on the level of risks to cover for each beneficiary unlike insurance schemes.</p> <p>Moreover, in [our jurisdiction], the nature of the [regime] implies only to make an annual allocation of the contributions collected in the current year, among the benefits beneficiaries over the same period. As result, no present obligation exists on the current financial year for the future benefits.</p> <p>In addition, social benefits paid by the Central Government are mainly financed by taxes (see the allowance for disabled persons, scholarships, State Medical Assistance,...), and according to the principle of universality of public funds, there is no link between the taxpayer and the beneficiary of social benefits.</p> <p>As a consequence, the contributory or non-contributory nature of a social benefit scheme can not be retained for the accounting treatment of social benefits in the financial statements of public entities.</p>	<p>Staff notes the annual approach to social benefits in this jurisdiction.</p>
02	C	<p>[Respondent 02] is of the opinion that the obligating event does not depend on the way social benefits are financed. Consequently it is irrelevant to identify the obligating event whether the social benefit concerned is financed with or without contributions.</p>	<p>Staff notes these comments.</p>
03	C	<p>We strongly advocate the view that the contributory nature of a "répartition" mechanism does not give rise to a constructive obligation. Social benefits derive from public money to which no direct exchange is attached: contributions made in a reporting period are unrelated to the social benefits provided in fine to those beneficiaries that contributed in earlier reporting periods. It should also be noted that contributions are not set up/computed to cover individual risk.</p> <p>In addition, an unfunded "répartition" mechanism is bound to be controlled on an annual basis only in order to properly monitor its balance and remain accountable for the appropriate use of contributions. As such, contributions cannot give rise to future expectations, and no present constructive obligation for future payments</p>	<p>Staff notes the annual approach to social benefits in this jurisdiction.</p>

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		should be recognised on the date the financial statements are established.	
04	C	In our opinion, the obligating event does not arise at a different point for contributory schemes. Contributions paid by an individual to gain access to future social benefits do not entitle the individual to receive those benefits until all eligibility criteria have been satisfied for the next benefit and the claim approved. Contributions are part of the satisfaction of the eligibility criteria. Although the payment of contributions may create an expectation by the contributors to receive the future benefits, the contributor does not have an entitlement to those benefits until the past event i.e. the approved claim and meeting of the eligibility criteria, that creates the obligation has occurred.	Staff notes these comments
05	C	<i>See comments under SMC 2. Respondent does not consider that a liability arises, and proposes the disclosure of contingent liabilities.</i>	Staff notes these comments.
06	D	We have indicated in our response to question 2(a) above that we support a different treatment for funded schemes. This would only apply where the contributions are used to acquire fund assets as defined above.	No comment on SMC 5 identified as the respondent would account for funded schemes using a different approach.
07	C	No. Ceteris paribus [translation: all other things being equal], it should not make a difference whether a scheme is contributory or not. The recognition of the obligation should only depend upon the legal basis or the strength of the constructive obligation. The point in time for recognition may be dependent on which sub-option is selected, but not on being contributory or not.	Staff notes these comments.
08	C	An obligating event could be said to occur on an accrual basis when contributions are paid but, in practice, unlike employer-sponsored plans, accrual of benefits is not always very closely linked to payment of contributions, since not all years necessarily count for additional accrual and some accrual may be deemed rather than actual, in order to allow, for example, for periods of sickness, maternity or caring. However, we do not think it would be appropriate to use the obligating event approach for contributory benefits, since these would be better accounted for on the insurance approach or some modification thereof.	Staff notes the comments that contributory schemes are better accounted for using the insurance

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			approach.
09	C	<p>We do not believe that an obligating event occurs earlier for contributory benefits than non-contributory benefits as we do not believe that making contributions is the event at which an entity has no realistic alternative but to settle an obligation.</p> <p>In some instances, an obligation may arise before contributions are made because another event triggers an obligation. We believe that the level of contributions provided is important in measuring obligations, but does not provide information about when the obligating events occur. This view is based on the types of schemes operated in our jurisdiction. A brief overview is provided below.</p> <p>In [our jurisdiction], the only contributory schemes that are operated relate to unemployment insurance scheme, compensation for injuries on duty, and compensation for injury, disability or death as a result of an accident on the country's roads. In most of these schemes, the receipt of contributions is merely a funding mechanism rather than giving rise to a specific obligating event.</p> <p>There is however a closer link between the contributions received and the benefits incurred for the unemployment insurance scheme. For the unemployment benefits, individuals and their employers contribute 2% of the individual's salary to qualify for the benefits. The period of time worked, as well as the salary earned, determines the amount of the benefits to which the individual is entitled.</p> <p>Although there is a direct and causal link between the benefits received and the contributions made, the event that gives rise to the obligation is entering employment and the expectation that employment will result in future coverage for unemployment. The value of the liability may depend on the amount of the contributions made, but it does not provide evidence of the point at which government has no realistic alternative but to settle the obligation.</p> <p>While we currently do not have any schemes where contributions themselves give rise to an obligating event for the entity, we acknowledge that this may need to be assessed for the specific scheme in question. A clear assessment would need to be made of whether making a contribution gives rise to an expectation of benefits for the individual or household making the contribution, such that the entity has no realistic alternative but to settle the obligation.</p>	
10	A	<p>As stated in 4.73, "the existence of an obligation is not affected by the funding of that obligation." This is true. However, funding already set aside for an obligation is concrete evidence that an obligation exists. Funding for a</p>	Staff notes that the respondent

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		contributory scheme hinders a government's ability to deny that a long term obligation exists. Where general taxation is used to fund a social benefit (i.e., social assistance), evidence that a government has lost its discretion to avoid payment is not as compelling. Thus, it is possible for a contributory scheme to recognize an obligation at an earlier point than a non-contributory scheme. This is not a conceptual difference. It is a distinction based on the evidence available to make judgments about a government's obligations to society.	considers that contributions may provide earlier evidence of a liability.
11	C	In principle no. For an event to be an obligating event in the absence of a legally binding obligation, it is necessary that the entity has no realistic alternative but to settle the obligation created by the event, and it should in theory not be affected by the way the funding of that obligation is designed. However, the existence of a contributory element may increase the legitimate expectation that the public sector entity will pay the social benefits and is therefore an element to be considered in the assessment of whether or not a non-legal binding obligation has been created.	Staff notes these comments, and the caveat given by the respondent to the general principle.
12	A	For the obligating event approach, we separately discussed the schemes requiring and not requiring participation. As a result, obligating events for the scheme requiring the participation may occur at either (a) or (b), as commented on in the "Specific Matter for Comment 4." On the other hand, obligating events not requiring the participation may occur at (d). While participation in a scheme does not necessarily require contributions, contributory schemes generally require participation in the schemes. So obligating events may occur earlier for contributory schemes than for non-contributory schemes.	Staff notes these comments.
13	C	We believe that the obligating event should not occur earlier for contributory schemes than non- contributory schemes. If it did, this would implicate that you apply the point b) threshold eligibility criteria, where the liability is recognized when an individual has joined the system (by paying contributions).	Staff notes these comments.
14	C	We do not believe that whether a social benefit scheme is a contributory scheme or not can, when viewed in isolation, be considered a suitable criterion for determining the point in time at which an obligating event occurs. We refer to our response to SMC 1 where we explain in further detail what we believe to be relevant criteria. In our view, the level of funding of a social benefit scheme from so called earmarked contributions likely increases the public's expectations as to the government's obligation to provide benefits. However, this is not clear cut, since expectations regarding a non-contributory social benefit scheme may be similar based on the past performance of the government or possibly an overall perception of its track record as a welfare state.	Staff notes these comments, and the reference to SMC 1, where the respondent comments that social insurance should require self-

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			financing.
15	D	<i>No comments identified</i>	
16	C	<p>For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09].</p> <p>Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.</p>	See staff comments under Respondent 09.
17	D	<p>In every case, the payment of benefits takes place on the basis of investigations and decisions made by the responsible authority. We assume that valuation and accounting will not take place for a general and abstract entitlement; rather, only events that are ultimately obligating (on the basis of a decision by an authority or court) will be valued.</p> <p>It is not (yet) possible for us to make further statements on this matter.</p>	No direct response to SMC 5 identified.
18	C	<p>We do not believe that one can conclusively say so one way or another. There is no clear answer as the obligating event depends on the terms of contributory or non-contributory scheme. While it is easy to have the opinion that obligating events occur earlier for contributory benefits than non-contributory benefits, in our opinion terms of the social policy will further set the tone on whether or not there is an obligation.</p>	Staff notes these comments
19	C	<p>In [our jurisdiction], the general principle is the non-assignment of receipts to expenditures for social benefits paid by the central Government. Social security funds are financed by social contributions and taxes which are allocated to them by the central Government, but do not either assign receipts to expenditures within themselves.</p> <p>The existence of contributory benefits has no consequence on the accounting approach, because the payment of the contribution by the individual or household is then taken into account within the "eligibility criteria" analysis for granting the social benefit.</p>	Staff notes the comment that the existence of contributory benefits has no consequence on the accounting approach.
20	A	<p>Generally, yes, as it creates a reasonable expectation, however the exact terms and nature of the scheme would need to be considered to confirm this is appropriate.</p>	Staff notes that support for this option is dependent on the

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 5</p>	<p style="text-align: center;">STAFF COMMENTS</p>
			nature of the scheme.
21	C	<p>We note that contribution is not explicitly listed in the events in SMC4. We presume that contribution events might be considered to be within (a) key participatory events.</p> <p>In the context of the social benefit arrangements in the [our jurisdiction], [Respondent 21] is not convinced that an obligating event could ever occur earlier for contributory benefits; contribution itself would need to be taken together with another event in order to trigger recognition.</p> <p>However, we would note that social benefit arrangements in other countries might be constructed very differently and operate within very different legal and regulatory frameworks. It might also be appropriate to consider whether obligations might be recognised for aggregates of potential beneficiaries in advance of events which trigger individual entitlement.</p>	Staff notes the comments regarding aggregating potential beneficiaries.
22	C	<p>In our view, an obligating event occurs earlier in non-contributory scheme than in contributory under the Obligating Event Approach.</p> <p>Reason(s)</p> <p>Paragraph 4.28 (a) recognizes “key participatory events have occurred” as the first point for recognizing obligation in the financial statements. This criterion does not need or involve any contributory action by the participants of the scheme. The occurrence of key participatory events necessitates the recognition of obligation.</p> <p>In view of the Five distinct Points (in paragraph 4.28) at which a case can be made for recognizing an obligation in the financial statements, subsection (b), that is, ‘Threshold eligibility criteria have been satisfied’ corresponds to the earliest condition under which obligations can be recognized in the financial statements for contributory schemes.</p> <p>Consequently, we conclude that obligating event is most likely to occur earlier in non-contributory than in contributory schemes.</p>	Staff notes that this respondent considers that an obligation may arise earlier in some non-contributory schemes.
23	A	<p>We do agree that an obligating event occurs earlier for contributory events than non-contributory benefits under the obligating approach because we accept the view that the payment of a specified number, or amount, of contributions creates a valid expectation that an individual or household will receive benefits based on those contributions. Such expectations are stronger than for non-contributory schemes that are primarily funded from</p>	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 5	STAFF COMMENTS
		general taxation.	
24	D	<i>No comments identified</i>	
25	D	<i>No comments identified</i>	
26	C	<p>[Respondent 26] does not consider that the means by which a liability is funded necessarily changes the nature and timing of the liability. It would be a strange policy that recognised liabilities earlier if there is an income stream set aside to pay for them. That would lead to all manner of perverse outcomes.</p> <p>However we consider that contributory arrangements may act as a commitment device, reducing the discretion to avoid outflows. Where contributory arrangements exist, we believe it would be worthwhile to identify their existence, and their impact on the government's discretion to avoid outflows, as a required disclosure in explaining the accounting policy adopted as to when the obligating event occurs.</p>	Staff notes these comments.
27	A	In the situations in which a social benefit is fully or partly financed through fees that can clearly be traced to individual level, there is probably a higher degree of certainty in the obligation.	Staff notes these comments.
28	B	In our opinion, adding a contributory element increases the legitimate expectation of the individuals who contribute that a future benefit could or will be received. Consequently, where there is a material level of contribution (i.e. more substantial than an annual subscription or processing charge), we believe that this could justify the recognition point being brought forwards (i.e. more towards (a) above rather than (b)). However, the legal terms of the scheme would need to be considered as they may contain provisions that defer the obligating event even if the scheme member has enhanced (and possibly mistaken) expectations that a benefit could be received.	Staff notes these comments.
29	C	In our view, the way in which a benefit is funded does not change the point at which an obligating event occurs. However, the way in which a benefit is funded may affect what is recognised. For example, there could be a stronger argument for the recognition of constructive obligations in the case of contributory schemes (that is, if an individual has contributed to a scheme then there is likely to be a higher expectation that the government will honour the promise).	Staff notes these comments.
30	C	In our view, an obligating event does not occur earlier for contributory benefits than non-contributory benefits under the obligating event approach.	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 5	STAFF COMMENTS
		<p>Firstly, whether a benefit is contributory or non-contributory is purely a matter of how a social benefit scheme is funded and does not determine the timing of the obligating event. Secondly, we agree with the IPSASB view that a non-legally binding obligation does not exist solely because an individual has a valid expectation that the entity will accept certain responsibilities and has relied on that expectation. The third criterion is a defining one, that the entity must have little or no realistic alternative to avoid an outflow of resources.</p> <p>Whether a scheme is contributory or otherwise, the public sector entity or government can through legislation or executive order amend various aspects of a social benefit scheme, both nature and amount of benefit. That a scheme is contributory does not in any manner change that prerogative of the public sector entity/government.</p> <p>That said, it needs to be however recognised that in most cases, contribution is likely to commence only after eligibility criteria is established.</p>	
31	C	<p>We make no distinction between the treatment of obligating events for contributory and noncontributory social benefits. For contributory and noncontributory social benefits, we hold the view that an obligating event can only occur when each requirement of the eligibility criteria to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative. At that point, the entity has an obligation to provide social benefits. If the beneficiary fails to meet any of the eligibility criteria to receive the next benefit, the beneficiary would not be entitled to receive a benefit. Funding does not affect the obligation.</p> <p>It is important to use a consistent accounting approach for recognizing non-exchange revenues across the broad range of social benefit schemes to avoid inconsistent recognition treatment among similar programs. Public sector entities have significant flexibility in determining how they will generate non-exchange revenue. For example, a public sector entity determines whether social benefits and other programs will be funded solely through dedicated taxes, fees, and/or contributions; solely through general tax revenues; or some other combination. In addition, although the public sector entity may use different types of non-exchange revenues, such as taxes and contributions, it should account for these non-exchange revenues and recognize them consistently. Also, the public sector entity can decide whether to raise tax revenues, reduce benefits, or borrow/issue debt to finance its programs, including social insurance benefits. This is true whether the social benefit scheme is designed to be fully funded from contributions or not. Further, social benefit schemes may communicate that benefits depend on the availability of funding or other caveats that may limit the payment of benefits. We do not believe that the contributory nature of a social benefit scheme affects a beneficiary's expectation of receiving benefits. Consequently, we do not believe that funding from contributions affects when</p>	Staff notes these comments.

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 5</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>a present obligation occurs for social benefits. We do believe that it is important to recognize dedicated non-exchange revenues consistently across all social benefit schemes and consistent with the IPSASB's current project on non-exchange revenues.</p> <p>As noted above, we also support disclosures to assist users in assessing the sustainability of the social benefit schemes, such as the funding status of the social benefits, potential actions to be taken if benefits are projected to exceed dedicated revenue sources, and expected cash flows of the social insurance. We believe that it is also important to disclose the nature and amount of any assets held to pay social benefits (reported under other IPSASs). In addition, the inclusion of a report or statement of fiscal sustainability with estimates of future costs, including social benefits, and future revenues, including dedicated revenues, would be an appropriate solution to provide a comprehensive perspective of the government's financial condition and its ability to continue to provide and finance social benefits.</p>	
32	A	<p>[Respondent 32] considers that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises. [Respondent 32] agrees that in most circumstances the obligating event will occur earlier where the scheme is contributory, but only because in such circumstances it would be usual for a legal or constructive obligation to arise as a result of the contribution. Therefore, it could be argued that for contributory benefits the obligating event arises earlier, that being, participation in the scheme.</p> <p>Background information</p> <p>For contributory benefits, based on participation information and the benefit policy, it would be easier to determine who benefit recipients are, when payments may be due for particular social risks during the coverage period and potential payment amounts as is done for insurance schemes. The contributions itself give rise to an obligating event because there is genuine eligibility that results from participation and an expectation of payments when events that result in social risks occur. As such under contributory benefits, the obligating event arises earlier, that being, participation in the scheme.</p> <p>In non-contributory schemes, it is far more complex to determine who the recipients would be particularly for social benefits such as unemployment benefits where individuals may have periods of full employment followed by periods of unemployment. Policies can be amended by governments at any time including decisions to cease certain payments even though in practice this may not often happen due to political pressures. Any long-term liability calculations for non-contributory benefits would have to be supported by numerous assumptions</p>	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 5	STAFF COMMENTS
		and raise concerns about quality and reliability of the estimated liabilities. The costs associated with validating assumptions alone may outweigh any perceived benefits. As well as this, the long-term liability information is unlikely to provide users information about efficiency or effectiveness of the social assistance systems.	
33	C	We agree with paragraph 4.73 that states that existence of an obligation is not affected by the funding of that obligation. Individual benefits would need to be reviewed to determine the recognition point. We would be reluctant to generalise and say that contributory benefits have an earlier obligating event than non-contributory benefits. The specific terms and conditions would need to be taken into account when making the decisions of when an obligating event takes place.	Staff notes these comments.
34	D	I do not know, because an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach depends of laws that probability the government elaborate to attend this point 4.76, I suggest for the Board's, if agrees, consults Regional and National Regulators for this, with agreement of Key International Regulators, this subject is complex.	No direct response to SMC 5 identified.
35	A	<p>In correlation to [our] analysis, it is suggested the insurance approach is implemented in addition to the obligating event approach, hence covering contributory social benefits. However, comment 5 is addressed for the sake of completeness, if the insurance approach is not supported. If this is the case, the obligating event would be expected to occur at an earlier point of time, when considering contributory benefits.</p> <p>In [our jurisdiction] contributory benefits could be divided into two different groups; savings related benefits and insurance related benefits, where savings related would be expected to have an earlier point of recognition.</p> <p>The presence of contribution is generally found suitable to cause earlier recognition, as contribution is found to increase the individual's valid expectation to receive a future benefit. Due to the individuals' contribution, it will be less likely for the entity to avoid payment, even for benefits only provided several years into the future. This would be expected, even in areas where the law, historically, has suffered from numerous ongoing changes.</p> <p>For an example of this, [our] contributory scheme pre-retirement benefit [...] was modified in recent years. [Our] government did not just adjust the conditions of all scheme-participants from day one instead participants had the opportunity to utilize the benefit within 5-6 years with unchanged conditions. In addition to this, all participants were given the option to withdraw their entire contribution.</p>	Staff notes these comments.
36	C	We think that the assessment of the timing of recognition should be consistent for both contributory and non-	Staff notes these

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 5	STAFF COMMENTS
		contributory benefits. The obligating event occurs when, from the perspective of the obligor, there is no realistic alternative but to fulfil that obligation. However, for contributory benefits, there may be an increased likelihood that a valid expectation will be created as the recipients start making contributions into the scheme.	comments.

Specific Matter for Comment 6

In your view, should a social benefit provided through an exchange transaction be accounted for:

- (a) In accordance with a future IPSAS on social benefits; or
- (b) In accordance with other IPSASs?

Please provide any examples you may have of social benefits arising from exchange transactions.

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – IPSAS ON SOCIAL BENEFITS	01, 02, 03, 06, 11, 12, 13, 14, 21, 22, 30, 32	12
B – OTHER IPSASs	07, 09, 16, 18, 20, 23, 26, 28, 29, 31	10
C – SOCIAL BENEFITS ARE ALWAYS NON-EXCHANGE	04, 36	2
SUB-TOTAL OF THOSE PROVIDING COMMENTS		24
D – DID NOT COMMENT	05, 08, 10, 15, 17, 19, 24, 25, 27, 33, 34, 35	12
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 6	STAFF COMMENTS
01	A	The global approach, as previously explained (comment 2), is not based on the qualification of a social benefit as an exchange transaction or not. As a consequence, this characteristic doesn't seem, to us, relevant in order to determine the social benefits' accounting treatment.	Staff considers this respondent would include all social benefits in one IPSAS as the exchange nature is not relevant.
02	A	[Respondent 02] prefers Solution (a), i.e. social benefits with a specific exchange transaction should also be dealt with in a future new standard on social benefits. There are some instances for that in [our jurisdiction] : the obligatory accident insurance and (very specific to [our jurisdiction]) the military insurance, in which everyone is insured, who performs military, civil defence or community service or takes part in assignments of the [...] peace keeping missions and good services.	Staff notes these comments.
03	A	We note that the approaches and the accounting treatments proposed for social benefits do not rely on the exchange/non-exchange nature of the transactions. Therefore, we believe that a future standard on social benefits should not elaborate further on the exchange/non-exchange nature of the transactions.	Staff notes these comments
04	C	We are unable to provide examples of social benefits arising from exchange transactions. We believe that social benefits, by their nature, are non-exchange transactions, even when contributory. As exchange transactions are usually contractual in nature, we believe that other standards such as IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i> or IPSAS 25 <i>Employee Benefits</i> , would provide relevant guidance as applicable to the nature of the transaction.	Staff notes that this respondent does not consider social benefits can be exchange transactions.
05	D	<i>No comments identified</i>	
06	A	As indicated in our response to question 2(b) above social benefits provided through an exchange transaction, e.g. social insurance, should be accounted through a future IPSAS on social benefits. It is our view that these fall within the definition provided in our response to question 2(b) above.	Staff notes these comments
07	B	As we assume that these transactions are probably similar to other exchange transactions that have already been covered by other IPSASs, we think these benefits should be accounted for in accordance with other	Staff notes the assumption that

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 6	STAFF COMMENTS
		IPSASs.	exchange transactions are already covered in other IPSASs.
08	D	We do not have any comments as we do not see social benefits as being provided through an exchange transaction. Even if they were, useful accounting disclosures would not result.	
09	B	<p>We are of the view that social benefits provided through exchange transactions, as outlined in the scope of the Consultation Paper, should be accounted for in accordance with existing IPSASs. This would include “exchange” social benefits such as those provided in employer-employee relationships (as outlined in IPSAS 25), concessionary loans and guarantees (as outlined in IPSAS 29) which are already addressed in existing Standards [...].</p> <p>During our discussions on the Consultation Paper, it was questioned whether certain benefits would be classified as exchange or non-exchange. With the introduction of the “insurance approach” in particular, questions were asked about whether, or in what instances, contributory schemes are exchange or non-exchange in nature. We believe that this will need to be considered in the next phase of the project and clear guidance provided.</p>	Staff notes the comment regarding the nature of contributory schemes.
10	D	No comment at this time. We are not aware of any additional examples.	
11	A	<p>Where a social benefit is provided by the government through an exchange transaction in an employer-employee relationship, such benefit is an employee benefit by nature and should be accounted for in accordance with IPSAS 25.</p> <p>For those contributory schemes that have the characteristics of an insurance scheme, the insurance approach as mentioned in the Consultation Paper seems appropriate.</p>	Staff considers that this respondent supports including all transactions in a future social benefits IPSAS, with the exception of employee benefits (which the CP excludes from its scope).

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 6	STAFF COMMENTS
12	A	<p>With regard to social benefits arising from exchange transactions, we believe that they should be accounted for within “(a) In accordance with a future IPSAS on social benefits” so that any issues that are not clearly specified in other standards would be addressed early for accounting purposes. However, in cases where under a scheme the benefits are expected to be paid shortly after the obligations are recognized, they would not need to be considered as relevant issues.</p> <p>We cited the example of our school lunch system for public schools as social benefits arising from exchange transactions in the Specific Matter for Comment 1. The other examples are earthquake insurance (a fund established by the contributions paid by building owners and the subsidies granted by the government) and the government’s assistance system for subsidizing charges for nursery schools, nursing and caring services, and the users of private taxis in regions with undeveloped public transportation.</p>	
13	A	<p>Social benefits provided through an exchange transaction should be covered in some way in the future IPSAS on social benefits. This could be obtained by referring to another IPSAS.</p>	<p>Staff notes these comments.</p>
14	A	<p>In our view, where a social benefit scheme not already covered elsewhere in the suite of IPSASs has earmarked assets or is otherwise designed and operating as a fully-funded discrete scheme such exchange transaction could be addressed in a future IPSAS on social benefits.</p> <p>As noted in our covering letter, we suggest IPSASB clarify that pension schemes for civil servants who are government employees already fall under IPSAS 25, “Employee Benefits”, as we are aware that there is some confusion on this issue.</p>	<p>Staff notes these comments.</p>
15	D	<p><i>No comments identified</i></p>	
16	B	<p>For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09].</p> <p>Our comments are reflected in [Respondent 09’s] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.</p>	<p>See staff comments under Respondent 09.</p>
17	D	<p>We can only respond to this question and provide any examples when we better understand the various aspects of “exchange transaction”.</p>	<p>No direct response to SMC 6 identified.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 6	STAFF COMMENTS
18	B	A social benefit provided through an exchange transaction be accounted for in accordance with other IPSASs. A social benefit can be accounted for under social benefits for as long as there is no other IPSAS that specifically covers its accounting treatment. So for example, concessionary loans given to University students, in exchange, they would have to work once a week at the university offices. These loans would be accounted for under financial instruments, IPSAS 29.	Staff notes that these comments assume that any exchange social benefits will be within the scope of existing IPSASs.
19	D	The relevant issue is the consistency between the future IPSAS on social benefits and IPSAS 23.	Staff notes this comment. No direct response to SMC 6 identified.
20	B	We are supportive of option b where the characteristics of exchange transactions are addressed by another standard.	Staff notes that support for this option is dependent on the transaction being addressed by another IPSAS.
21	A	Per our response to SMC 1(a), [Respondent 21] agrees with the IPSASB's proposal to focus on social benefits, but not to require that these arise purely from non-exchange transactions. Our preliminary view is that it will probably be best to provide guidance on these social benefits in the same IPSASs as for non-exchange social benefits, because this will be more practical than providing guidance on when schemes with a contributory element do or do not have the substance of exchange transactions.	Staff notes these comments.
22	A	In our view, social benefits provided through an exchange transaction may be accounted for in accordance with future IPSAS to the extent that it is not related to employee-employer benefits as covered under IPSAS 25. Presently, existing IPSAS do not cover social benefits that arise to mitigate social risk. Examples are social security and social assistance.	Staff notes the comments regarding IPSAS 25.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 6	STAFF COMMENTS
23	B	We are of the opinion that a social benefit provided through an exchange transaction should be accounted for with other IPSASs as the scope of the IPSAS on social benefits will only cater for social benefits provided through a non-exchange transaction.	Staff notes the comment that the social benefits IPSAS will only address non-exchange transactions.
24	D	<i>No comments identified</i>	
25	D	<i>No comments identified</i>	
26	B	<p>[Respondent 26] observes that</p> <p>(a) Social benefits are currently proposed to be defined as benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks (IPSAS Consultation Paper), and</p> <p>(b) Insurance is a contract under which one party accepts significant risk from another party by agreeing to compensate the second party if a specified uncertain future event adversely affects that party. (from IASB ED ED/2010/8 Insurance Contracts).</p> <p>It follows therefore that if a contract is an exchange transaction, then social benefit provided through an exchange transaction is insurance. That would lead to the conclusion that social benefits provided through an exchange contract should be reported under an insurance standard. [Respondent 26] considers this to be appropriate.</p> <p>If the IPSASB wants to establish the accounting for benefit provided through an exchange transaction with a future IPSAS on social benefits, it must provide a reason for breaking out of that logic. It would either need to develop a different definition for insurance in the public sector to the private sector, or to provide a reason why the exchange should not be treated as an exchange. [Respondent 26] submits that there is little benefit in pursuing either of those paths. Rather [Respondent 26] would welcome a separate Social Benefits (or Transfer Expenses) standard and an Insurance Standard out of this project.</p>	<p>Staff notes these comments.</p> <p>Staff considers that Respondent 26 views social insurance schemes as in substance insurance contracts rather than as social benefits for with an insurance approach might provide useful accounting.</p>
27	D	<i>No comments identified</i>	

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 6</p>	<p style="text-align: center;">STAFF COMMENTS</p>
28	B	<p>As mentioned under Comment 1(a), [Respondent 28] agrees with the IPSASB's pragmatic solution of splitting social benefits arising from non-exchange transactions from those arising from exchange transactions, not least to expedite development of the social benefits standard. We also believe that there are good reasons to keep the two types of transactions separate in future IPSASs.</p> <p>We believe that social benefits provided through exchange transactions are likely to have an earlier recognition point than with non-exchange transactions as individuals paying contributions will have a greater legitimate expectation of receiving benefits in future. It is also more likely that contributory schemes will be discretely funded or have earmarked assets, thereby changing the focus of the main accounting issues.</p> <p>The examples of social benefit schemes provided through exchange transactions that [Respondent 28] has identified have the characteristics of either a pension scheme or an insurance scheme. For those that have the characteristics of a pension scheme, it would seem appropriate that <i>IPSAS 25 Employee Benefits</i> could either be amended to include such schemes or be used as a basis for a separate standard.</p> <p>For those schemes with the characteristics of insurance schemes, it would be logical to use the accounting approach detailed in this CP (in chapter 6) as the basis for a separate standard.</p>	<p>Staff notes these comments, and the suggestion that a separate standard would be useful for the insurance approach.</p>
29	B	<p>In our view, if a social benefit is provided through an exchange transaction, then it should be accounted for under the applicable IPSASs. For example, if an employer pays an insurance premium for an employee then it should account for that benefit in the same way as other employment related expenses.</p>	<p>Staff notes these comments.</p>
30	A	<p>Prima facie, there is a strong case to recommend a above. If the principal nature of a transaction is the granting or paying of a social benefit, then it ought to be accounted for as such, irrespective of whether the grant/payment happens through an exchange or non-exchange transaction. Equivalence in value (which is the distinguishing factor between exchange and non-exchange transactions) alone does not merit overlooking the "social benefit" nature of a transaction. E.g. if market labour rates are paid by government in an employment guarantee scheme which is run as a social benefit, then it would qualify as an exchange transaction but needs to be accounted as a social benefit.</p>	<p>Staff notes these comments.</p>
31	B	<p>We hold the view that non-exchange transactions relating to social benefits have significantly different accounting considerations related to recognition of the obligating event and measurement of the obligation than social benefits provided through exchange transactions. We believe that social benefits provided through an exchange transaction should be accounted for in accordance with other IPSASs rather than be included in the</p>	<p>Staff notes these comments.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 6	STAFF COMMENTS
		social benefits IPSASs that account for the recognition and measurement of non-exchange transactions. Further, we are not aware of any exchange social benefit schemes.	
32	A	A social benefit provided through an exchange transaction should be accounted for as an exchange transaction. Some schemes that are of an insurance nature might be considered exchange schemes, where the individual makes a contribution and in exchange receives a right of similar value to make a claim on the scheme. Accident insurance might be an example of this. [Respondent 32] notes that IPSAS does not presently have a standard dealing with insurance contracts, and this might suggest it is expeditious to include such requirements in a standard dealing with social benefits.	Staff notes these comments.
33	D	As discussed in paragraphs 4.78 and 4.79, there appear to be two broad types of exchange benefits: pension schemes and social insurance schemes. Social benefits that have the characteristics of employee benefit schemes (even though they do not relate to employees) should be accounted for as per IPSAS 25. In general, we believe that social benefits could be split into two types, those that are contractual in nature and those that are not. Contractual social benefits that display characteristics such as contributions that are linked to specific benefits could then be accounted for using the insurance approach, with all other types of social benefits accounted for using either the obligating event or social contract approach. We would welcome clarification from IPSASB regarding the definition of exchange transactions, especially in the context of social benefits. The 2008 definition of social benefits (2.8, p20) clearly stated that social benefits were non-exchange transactions, yet 4.78 states that the definition of social benefits in this CP does include benefits arising from exchange transactions.	Staff notes the request for clarification regarding exchange transactions. Staff notes that this respondent might use different approaches for exchange and non-exchange transactions, but does not consider that they have expressed a preference for the location of any requirements in respect of social benefits arising

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 6	STAFF COMMENTS
			from exchange transactions.
34	D	I do not know, because I cannot consider if IFAC-IPSASB has information or clarification to attend letters “a” and “b” with aspect from exchange transactions. However, I suggest for the Board’s consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.	No direct response to SMC 6 identified.
35	D	No [...] social benefits [in our jurisdiction] arise from exchange transactions, in accordance to the definition in IPSAS 9, due to the lack of approximately equal value. Only one social benefit is closely related hereby, but the format of the scheme, is like placing money in a bank with a favorable interest. Thus, this social benefit is considered outside the definition of an exchange transaction.	No direct response to SMC 6 identified.
36	C	We question whether 'social benefits' by definition can be classified as an exchange transaction. Some believe that the nature of social benefits would not result in exchange transactions. A social benefit can be funded partially by recipients of the benefits themselves, but the benefits rendered by the government is unlikely to be of equal value, and hence most likely to be non-reciprocal in the majority of the cases. However, if there are benefits/payments that are of an exchange nature, we do not think these should be scoped into this project.	Staff notes these comments.

Preliminary View 3

Under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits.

Summary of Responses to Preliminary View

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	04, 09, 10, 12, 14, 16, 21, 28, 31, 33, 35	11
B – PARTIALLY AGREE	32	1
C – DISAGREE		0
SUB-TOTAL OF THOSE PROVIDING COMMENTS		12
D – DID NOT COMMENT	01, 02, 03, 05, 06, 07, 08, 11, 13, 15, 17, 18, 19, 20, 22, 23, 24, 25, 26, 27, 29, 30, 34, 36	24
TOTAL RESPONDENTS		36

Staff summary of responses to Consultation Paper, *Recognition and Measurement of Social Benefits*
IPSASB Meeting (June 2016)

R#	C #	RESPONDENT COMMENTS Preliminary View 3	STAFF COMMENTS
01	D	<i>No comments identified</i>	
02	D	<i>No comments identified</i>	
03	D	<i>No comments identified</i>	
04	A	We agree that the cost of fulfillment represents the most appropriate measurement basis for liabilities for social benefits under the obligating event approach.	
05	D	<i>No comments identified</i>	
06	D	<i>No comments identified</i>	
07	D	<i>No comments identified</i>	
08	D	<i>No comments identified</i>	
09	A	We agree that the cost of fulfillment is the most appropriate measurement for social benefits as it reflects the cost that government or individual entity will be required to incur to settle the obligation.	
10	A	Agree.	
11	D	<i>No comments identified</i>	
12	A	We agree with Preliminary View 3 of the IPSASB.	
13	D	<i>No comments identified</i>	
14	A	We share the IPSASB's view that under the obligating event approach liabilities in respect of social benefits should be measured using the cost of fulfillment.	
15	D	<i>No comments identified</i>	
16	A	For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09]. Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.	See staff comments under Respondent 09.

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Preliminary View 3</p>	<p style="text-align: center;">STAFF COMMENTS</p>
17	D	<i>No comments identified</i>	
18	D	<i>No comments identified</i>	
19	D	<i>No comments identified</i>	
20	D	<i>No comments identified</i>	
21	A	[Respondent 21] agrees with the preliminary views set out in the Consultation Paper [...]	
22	D	<i>No comments identified</i>	
23	D	<i>No comments identified</i>	
24	D	<i>No comments identified</i>	
25	D	<i>No comments identified</i>	
26	D	<i>No comments identified</i>	
27	D	<i>No comments identified</i>	
28	A	[From response to SMC 8]: [...] [Respondent 28] wishes to state that its preferred method for measuring social benefits (unless specifically stated otherwise) is at the cost of fulfilment at the point in time when the liability has to be settled and discounted as appropriate.	
29	D	<i>No comments identified</i>	
30	D	<i>No comments identified</i>	
31	A	[From response to SMC 12]: Regardless of the approach used, the cost of fulfillment is an appropriate measurement basis.	
32	B	Any liabilities resulting from social benefits should be measured at the cost of fulfilment in all cases except: <ul style="list-style-type: none"> • Those in exchange transactions; or • Those where there is a definite plan in place to settle the liability by transferring it to another party. 	Staff notes these comments and the proposed

R#	C #	RESPONDENT COMMENTS Preliminary View 3	STAFF COMMENTS
		[Respondent 32] agrees with the rationale of this view, as set out in the CP – that a “fair value” exit price for most social benefits would not be representative of the amount the government is obligated to. [...]	exceptions.
33	A	[From response to SMC 8]: Our preferred method for measuring social benefits, unless specifically stated otherwise, is the cost of fulfilment, discounted as appropriate.	Staff notes these comments.
34	D	<i>No comments identified</i>	
35	A	The estimated value of cost of fulfilment appears expedient for usage, when measuring liabilities in respect of social benefits governed by the obligating event approach.	Staff notes these comments.
36	D	<i>No comments identified</i>	

Specific Matter for Comment 7

In your view, under the obligating event approach, when should scheme assets be included in the presentation of a social benefit scheme:

- (a) In all cases;
- (b) For contributory schemes;
- (c) Never; or
- (d) Another approach (please specify)?

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – IN ALL CASES	01, 02, 03, 07, 08, 09, 10, 11, 13, 16, 17, 18, 19, 20, 21, 22, 26, 28, 29, 30, 31, 32, 33, 34, 36	25
B – CONTRIBUTORY SCHEMES	14, 23, 35	3
C – NEVER	06	1
D – ANOTHER APPROACH	04, 12	2
SUB-TOTAL OF THOSE PROVIDING COMMENTS		31
E – DID NOT COMMENT	05, 15, 24, 25, 27	5
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 7	STAFF COMMENTS
01	A	<p>In accordance with our reply on the comment 5, because of the lack of public revenue allocation and the principle of annual Parliamentary authorisation to raise taxes, no hedging asset is recorded in the balance sheet of Central Government.</p> <p>Nevertheless, if other jurisdictions have hedging assets for their social benefits, we support a comprehensive presentation [answer (a)] for social benefits schemes (assets and liabilities of the scheme) in compliance with IPSAS 25.</p>	<p>Staff notes that comment that the existence of assets will vary by jurisdiction.</p>
02	A	<p>[Respondent 02] believes that assets associated with social benefits, whatever the insurance system, must be recognized in the financial statements. It therefore supports Option (a). However, this option is expected to be difficult to implement.</p>	<p>Staff notes the comments regarding implementation</p>
03	A	<p>As far as plan assets are concerned, we would favour an approach that would primarily fully comply with the definition of assets in the conceptual framework.</p> <p>Based on our knowledge of a “répartition” social security system, no scheme assets are accumulated: in that sense, schemes are unfunded. Added to the facts that the balance of the schemes are assessed on an annual basis with actions taken annually through enactment of a law (namely to assert the level of contributions), and that the reporting entity is designed only to manage and implement the policy requirements on an annual basis, there is no present obligation for the provision of social benefits in the future, nor a right to receive future contributions.</p> <p>Therefore, the contributory nature of a scheme does not automatically translate into a scheme asset.</p>	<p>Staff notes the comments regarding assets in this jurisdiction.</p>
04	D	<p>We believe that scheme assets related to liabilities for contributory social benefit schemes should be included in the presentation when they will be solely used to finance that particular scheme. Assets earmarked from general taxation to be used to fund a scheme should not be included in the presentation of that scheme.</p>	<p>Staff notes these comments. Staff considers that it can be argued that earmarked taxation would not amount to a scheme asset, which would then result in a similar</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 7	STAFF COMMENTS
			treatment to option (a).
05	E	<i>No comments identified</i>	
06	C	Since under our recommended approach the obligating event approach is only applied where there are no clearly identifiable scheme assets, the answer is (c) - never.	Staff notes these comments, which are based on the respondent's preferred approach.
07	A	<p>In our view, if assets are earmarked within the scheme to pay out future benefits, these should always be included in the presentation (option a). This provides the most accurate information on the financial obligations associated with the scheme, regardless of whether it is contributory or not. For both types of schemes, option (a) would provide information on the funding that will be used to meet future obligations.</p> <p>Further to this, we would like to add that only assets that have accrued-to-date should be recognized. As is explained in paragraph 1.33 of the Consultation Paper, RPG 1 has already addressed the need for information about the long-term fiscal sustainability of social benefits provided by an entity. As such, it is explained that the recording should be in line with regular reporting requirements for financial statements. In our view, this means that the IPSAS on social benefits should follow the normal practices of accrual accounting and therefore should be consistent with established accounting principles. For example, IPSAS 23 states that "an entity shall recognize an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met." This means that taxes expected to be collected in future years cannot be recognized before the taxable event occurs. The recognition of scheme assets, such as social security contributions, should follow a similar principle.</p>	Staff notes these comments, particularly the comment regarding the recognition of taxation in IPSAS 23.
08	A	<p>We suggest (a). Where a liability is recognized and there are related assets, they should be included in all cases. It would be perverse not to show any assets which exist if a corresponding liability is to be recognized.</p> <p>The value of future contributions is also an important asset in contributory schemes and should be included.</p>	Staff notes the comment regarding future contributions
09	A	We believe that the answer to this question may depend on whether the contributions provided give rise to an	Staff considers that

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 7	STAFF COMMENTS
		obligation of the entity. Where there is an expectation that contributions entitle an individual or household to certain benefits, it is appropriate to present the scheme assets and obligations on a net basis. However, even if the assets and liabilities are presented on a net basis, a reconciliation should be presented in the notes to the financial statements outlining how the net amount is derived. In all other circumstances, we are of the view that the assets and liabilities relating to a scheme should be presented on a gross basis.	this respondent supports including assets in all cases, but that the presentation of assets will depend on the nature of the scheme.
10	A	We agree with approach (a), provided there are specific contributions or restricted assets set aside for the provision in question. This approach would inform users about potential funding gaps. Second, this approach faithfully represents the value of contributory schemes. It is not in the public interest to overstate long term obligations (reporting only the gross liability and ignoring plan assets), just as it is not in the public interest to avoid recording long term obligations to begin with.	Staff notes that the respondent considers that this should only be applied to specific contributions or restricted assets.
11	A	Where social benefit obligations are funded by dedicated scheme assets, we believe that such scheme assets should be included in the presentation of the social benefit scheme.	Staff notes that the respondent considers that this should only be applied to dedicated scheme assets.
12	D	We propose “(d) Another approach.” If scheme assets are tied to liabilities for social benefits and are clearly separated from other assets, they should be included in the presentation of a social benefit scheme. If the separation of scheme assets from other assets is unclear due to the nature of the framework, the classification of assets for accounting purposes are likely to be difficult.	Staff notes these comments.
13	A	In our view scheme assets should be included in the presentation in all cases, as long as there are designated	Staff notes that the

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 7	STAFF COMMENTS
		and funded assets. This would normally occur only for contributory schemes, but technically the government can set aside a part of general taxation for a specific scheme.	respondent considers that this should only be applied to dedicated and funded assets.
14	B	<p>We refer to our covering letter in which we discuss the need to meet financial statement users' needs for information in regard to social benefit schemes. In particular we suggest that specific disclosure is needed where the ability of the government to ensure contributions to specific schemes may not be enforceable such that, analogous to IPSAS 25, an asset is not recognized. For example, contributions as deductions of a percentage of remuneration from employment will not be enforced if an individual ceases employment altogether.</p> <p>As explained in our covering letter, we believe that the features of individual social benefit schemes need to be disclosed to provide sufficient transparency in meeting financial statement users' needs. We support the insurance approach in the case of social security insurance schemes. Where there are scheme assets or contributions earmarked for a specific scheme in the absence of an insurance component these need to be presented separately rather than offset against liabilities. However, in some cases specific assets may not be earmarked for individual schemes as such, as benefits will be fulfilled from general funding. In other cases contributions may be earmarked, although these may not be aligned to the exact amount of benefit potentially available to a particular individual.</p>	Staff considers that the reference to "scheme assets or contributions" means that this respondent generally supports approach B, although staff acknowledges that general taxation receipts could be earmarked as scheme assets.
15	E	<i>No comments identified</i>	
16	A	<p>For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09].</p> <p>Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.</p>	See staff comments under Respondent 09.
17	A	Our understanding is that "assets" and "liabilities" basically have to be recognised at the same time and for the same time period.	Staff considers that the respondent would include

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 7	STAFF COMMENTS
			assets in all cases.
18	A	In all cases whether contributory or non-contributory scheme assets should be set aside. We believe this is the proper presentation which matches the liabilities with the assets set aside to satisfy them. Scheme assets should be included in the presentation of a social benefit for contribution schemes as it informs on the financial standing/viability of the scheme.	Staff notes these comments.
19	A	If some specifically identified and accurately assessed assets are dedicated to the coverage of social benefits liabilities, it seems suitable to include them in the scheme's presentation disclosed in the notes to the financial statements.	Staff notes these comments.
20	A	Where scheme assets are earmarked, we would support option (a) as we believe this gives a more balanced picture of the financial position. This should be presented gross, not netted off.	Staff notes these comments.
21	A	[Respondent 21's] preliminary view is that this information should be provided where the assets are irrevocably associated with the scheme and are material to the understanding of a significant social benefit scheme.	Staff notes these comments.
22	A	In our view, under the obligating event approach, scheme assets should be included in the presentation of a social benefit scheme in all cases (whether contributory or non-contributory). Reason(s): This is to preserve the objectives of financial reporting as encapsulated in the conceptual framework. Presenting the scheme assets will avail users of relevant information on the sustainability or otherwise of the scheme. It will also have impact on both the reporting entity and other decision makers.	Staff notes these comments.
23	B	In our view, the scheme assets should be included in the presentation of a social benefit for contributory schemes because the scheme is financed by contributions.	Staff notes these comments.
24	E	<i>No comments identified</i>	
25	E	<i>No comments identified</i>	
26	A	To the extent a liability is reported for future outflows, both the expected gross outflows (particularly for service recipients) and the expected net outflows (particularly for resource providers) will provide useful information. This suggests that scheme assets should be included to the extent they exist.	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 7	STAFF COMMENTS
		<p>[Respondent 26] observes that the term “scheme assets” may need consideration. The Consultation Paper simply notes that “in some cases a separate fund exists or there are earmarked assets”. We note that [some jurisdictions] have established sovereign wealth funds intended to be used to defray a part of expected future costs due to demographic changes. Such funds are of a different nature than funds of contributors money, held in trust for their use, that are similar to the scheme assets covered by IPSAS 25 Employee Benefits.</p> <p>[Respondent 26] notes that one of the difficult issues discussed in the Consultation Paper is the measurement of the liability, and the related assumptions over the present value of both the outflows and the inflows from scheme assets. We would urge the IPSASB to ensure a consistent approach is followed for pensions, insurance and any other long term liability measurement.</p>	
27	E	<i>No comments identified</i>	
28	A	[Respondent 28] believes that option (a) (“In all cases”) is the most appropriate where there exist separately earmarked assets for a particular scheme – subject to the assets in question fulfilling the recognition criteria. To recognise the liabilities of a scheme without recognising its corresponding assets is not logical and would lead to a misrepresentation of the financial position of the scheme and its potential future costs. In our opinion, such assets and liabilities should be presented separately in the financial statements and not offset.	Staff notes these comments
29	A	In our view good disclosure and linkage of scheme assets to scheme liabilities would provide useful information to users, and should be encouraged. We would not however expect a net presentation of these items in the statement of financial position unless the public sector entity is legally prohibited from accessing the assets (which may be a rare occurrence).	Staff notes these comments
30	A	We are in agreement with paragraphs 4.89 and 4.90 of the CP. In our view, scheme assets need to be included in all cases where the social benefit schemes are funded through a separate fund or through earmarked assets. This will provide useful information to end users of GPFRs.	Staff notes these comments.
31	A	We believe that any scheme assets should be reported according to other IPSASB standards, with any restrictions on the use of such assets disclosed.	Staff notes these comments.
32	A	[From response to PV 3]: Scheme assets should be included in the presentation of a social benefit scheme where they are explicitly available to the scheme administrator to apply to obligations under the scheme. This should apply in all	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 7	STAFF COMMENTS
		circumstances, although further consideration might need to be given where the link between holding the assets and payment of benefits is more tenuous.	
33	A	<p>The wording in paragraph 4.90 leads us to assume that scheme assets are already recognised in the financial statements but, at present, they are not necessarily separately identified. However, assets should only be separately identified as scheme assets where they are clearly earmarked and assigned to individual schemes. Therefore we would support option (a), in all cases.</p> <p>To recognise liabilities without separately identifying assets that are clearly earmarked and assigned to individual schemes could give a misleading picture. Furthermore, from a political perspective, showing the assets in relation to the liability would reflect the funding position of the scheme. The question would nevertheless arise as to whether a gross or net presentation is appropriate.</p> <p>Scheme assets will apply mainly in the context of contributory schemes, where the contribution can be accurately apportioned to a specific benefit or where non-contributory schemes have earmarked assets.</p>	Staff notes these comments.
34	A	I understand that under the obligating event approach, should scheme assets be included in the presentation of a social benefit scheme in all cases, letter “a”, because in relation measured using the cost of fulfillment – value in liabilities requires for all.	Staff notes these comments.
35	B	<p>It is considered as necessity for scheme assets to fulfill some requirements, in order to recognize these in the presentation of a social benefit scheme. The scheme assets must be deduced from contribution and separated from other assets, for instance in a specific fund.</p> <p>[Our] non-contributory schemes have no earmarked assets. The assets cannot be identified as subsidized to a specific benefit, as general taxation is not divided among these schemes.</p> <p>This supports comment 7 (b).</p>	Staff notes these comments.
36	A	We think that scheme assets should be reflected in all instances, if there are any to account for, as discussed in 4.89 if a separate fund or earmarked assets exists to fund the scheme. We believe that would reflect the true net position, and enhance transparency of a government entity’s financial statements.	Staff notes these comments.

Specific Matter for Comment 8

In your view, under the social contract approach, should a public sector entity:

- (a) Recognize an obligation in respect of social benefits at the point at which:
 - (i) A claim becomes enforceable; or
 - (ii) A claim is approved?

...

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – CLAIM BECOMES ENFORCEABLE	18, 22, 23, 30	4
B – CLAIM IS APPROVED	12, 25, 31, 32, 33	5
C – NO PREFERENCE GIVEN	07, 08, 27	3
SUB-TOTAL OF THOSE PROVIDING COMMENTS		12
D – DID NOT COMMENT	01, 02, 03, 04, 05, 06, 09, 10, 11, 13, 14, 15, 16, 17, 19, 20, 21, 24, 26, 28, 29, 34, 35, 36	24
TOTAL RESPONDENTS		36

Specific Matter for Comment 8

In your view, under the social contract approach, should a public sector entity:

...

(b) Measure this liability at the cost of fulfillment?

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	07, 08, 12, 18, 22, 23, 28, 31, 32, 33	10
B – PARTIALLY AGREE		0
C – DISAGREE		0
SUB-TOTAL OF THOSE PROVIDING COMMENTS		10
D – DID NOT COMMENT	01, 02, 03, 04, 05, 06, 09, 10, 11, 13, 14, 15, 16, 17, 19, 20, 21, 24, 25, 26, 27, 29, 30, 34, 35, 36	26
TOTAL RESPONDENTS		36

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 8</p>	<p style="text-align: center;">STAFF COMMENTS</p>
01	(a) D (b) D	<p>As indicated in our response above in comment 2, only the global approach is compliant with the conceptual framework and IPSAS 19.</p> <p>However, the social contract approach can economically justify the choice of the global approach. Indeed, payment of social benefits is conditioned to the capacity, for the public entity, to finance them. This implies the existence of resources from contributions or taxes.</p> <p>These conditions justify that we do not retain as obligating event, for example, an election promise, a political program or the budget vote, as indicated in the conceptual framework in paragraph 5.24</p>	<p>Staff notes the general comments about the social contract approach. No direct response to SMC 8 identified.</p>
02	(a) D (b) D	<p>[Respondent 02] is unable to find a meaningful answer to this question. But as this approach is not approved, the answer is otiose.</p>	<p>No direct response to SMC 8 identified.</p>
03	(a) D (b) D	<p>Though we do not fully support the social contract approach, with respect to the point at which an obligation should be recognised, if it exists, we believe that the obligating event approach is self-sufficient to assess whether recognition should be when a claim becomes enforceable or is approved.</p>	<p>No direct response to SMC 8 identified.</p>
04	(a) D (b) D	<p>We believe that the social contract approach is not supportable for the reasons outlined in our response to Specific Matter for Comment 2.</p>	<p>Staff notes these comments.</p>
05	(a) D (b) D	<p><i>No comments identified</i></p>	
06	(a) D (b) D	<p>As indicated, we do not consider the social contract appropriate for the inclusion of liabilities in the statement of financial position.</p> <p>However, we do consider that the social contract approach provides a model for providing supplementary information on the inter-generational impact of today's social benefit commitments. It is our view that all governments that have significant unfunded social insurance commitments should be required to provide a supplementary report as part of their financial reports identifying the inter-generational liability.</p> <p>[See Response 06 for details of this approach]</p>	<p>Staff notes these comments.</p> <p>Supplementary reporting will be considered when the IPSASB discusses presentation and disclosures.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 8	STAFF COMMENTS
07	(a) C (b) A	We do not have a clear preference on when to recognize the obligation, except that we think it would be best to align the recognition of the obligation for the government entity to the recognition of the entitlements for the household. Under the social contract approach the government complies by providing goods, services and cash transfers and the society complies by contributing taxes or other sources of finance. In our view, it is important that for both obligations the same principle of recognition is applied. The liability should in our view indeed be recorded at cost of fulfilment.	Staff notes these comments
08	(a) C (b) A	In any case, a claim obligation should be recognized when services are provided. This is consistent with the cost of fulfilment of the obligation.	Staff notes these comments
09	(a) D (b) D	As noted in SMC 2, we do not support the social contract approach.	No direct response to SMC 8 identified.
10	(a) D (b) D	The Social Contract Approach (and executory contracts) provides a useful analogy for understanding social benefit obligations. However, recognizing only legally enforceable liabilities (or approved claims) appears to fall short of meeting financial reporting objectives.	No direct response to SMC 8 identified.
11	(a) D (b) D	We do not support the social contract approach. This question is therefore in our view not relevant.	No direct response to SMC 8 identified.
12	(a) B (b) A	For question (a), we favor “(ii) A claim is approved.” With this, the amounts of obligations should be clear, as the liabilities are legally determined. For question (b), we agree with the measurement at the cost of fulfillment, as we refer to issues included in the paragraph 4.82 of the CP for the obligating event approach.	Staff notes these comments
13	(a) D (b) D	We choose not to comment on this matter since the social contract approach will probably not be used.	
14	(a) D (b) D	Given its inability to provide information about the intergenerational impact of social benefit schemes, we do not believe that the social contract approach is appropriate in regard to the types of social benefits falling within the narrow scope of this project. We therefore do not support the social contract approach, as its application will not result in information that can fulfil the accountability and decision-usefulness objectives of GPFS and GPFs.	No direct response to SMC 8 identified.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 8	STAFF COMMENTS
		We therefore do not believe IPSASB should pursue this approach further within this narrow-scope project.	
15	(a) D (b) D	<i>No comments identified</i>	
16	(a) D (b) D	For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09]. Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.	See staff comments under Respondent 09.
17	(a) D (b) D	On a): Fundamentally only obligations that are based on a legally effective decision should be recognised in the financial statements. On b) Different factors can have an influence on the measurement. Examples include an increase in life expectancy, changes in the assessment basis or discretionary decision (as described in Section 4.84). It is important that the "cost of fulfillment" be ascertainable according to simple, constant principles. We would first need to examine in greater detail whether this is possible.	Staff considers the answer to (a) covers both options.
18	(a) A (b) A	Under the social contract approach, a public sector entity should recognize an obligation in respect of social benefits once a claim becomes enforceable. Liability should be measured at the cost of fulfillment which will be the cost of providing the benefit.	Staff notes these comments.
19	(a) D (b) D	Not relevant.	
20	(a) D (b) D	We are not convinced this approach would support transparent reporting, appropriate application of prudence or effective management of resources.	No direct response to SMC 8 identified.
21	(a) D (b) D	[Respondent 21] does not support further consideration of the Social Contract Approach.	No direct response to SMC 8 identified.
22	(a) A	a) A public sector entity should recognize an obligation in respect of social benefits at the point at which a claim	Staff notes these

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 8</p>	<p style="text-align: center;">STAFF COMMENTS</p>
	(b) A	<p>becomes enforceable.</p> <p>Reason(s):</p> <p>In our environment, the factors that make a claim enforceable may not only be legal, but also social and political. It is also important to note that under the social contract approach, liability would not arise until legal entitlement has been established (i.e., legal obligation created).</p> <p>Consequently, it is more appropriate to recognize an obligation when a claim becomes enforceable.</p> <p>b) Yes, liability should be measured at the cost of fulfillment.</p> <p>Reason(s):</p> <p>It is our opinion that a social contract creates a legal obligation and it is prudent for the relevant entity to recognize the liability at a cost of fulfilling the obligation.</p>	<p>comments.</p>
23	(a) A (b) A	<p>In our view, under the social contract approach, a public sector entity should recognise an obligation when the claim becomes enforceable because an obligation can be recognized earlier than when the claim is approved.</p> <p>To add on the liability should be measured at the cost of fulfillment as the historical cost and fair value might not be determined easily.</p>	<p>Staff notes these comments.</p>
24	(a) D (b) D	<p><i>No comments identified</i></p>	
25	(a) B (b) D	<p>Regarding the approaches considered by the board in respect of when the liability should be recognized (i.e. when a claim for social benefits becomes enforceable or when the claim is approved) – it should be noted that we support the second approach (when the claim is approved). This is because, in our view, that approach results in a better matching between cost (social benefits) and revenue (taxes), and is more consistent with the guidance of IPSAS 23 <i>Non-Exchange Transactions (Taxes and Transfers)</i>, under which revenue from taxation should be recognized when the taxable event occurs (and not at the legal date of receipt).</p>	<p>Staff notes these comments.</p>
26	(a) D (b) D	<p>[Respondent 26's] assessment of the IPSASB's discussion of the Social Contract approach is that it has considered the analogy of using an executor contracts approach, has identified some difficulties with this approach, and has therefore rejected it.</p> <p>[Respondent 26] acknowledges the difficulties raised: that the social benefit recipient group is not the same as</p>	<p>No direct response to SMC 8 identified. The comments relate to</p>

R#	C #	<p align="center">RESPONDENT COMMENTS Specific Matter for Comment 8</p>	<p align="center">STAFF COMMENTS</p>
		<p>the resource provider group, the challenge of portraying the government as an agent of taxpayers when the government controls the taxation process, and that the relationship between social benefits and taxes is insufficiently robust to determine whether an onerous contract exists.</p> <p>Nevertheless, in considering the best approach to providing information on the rights and obligations between a government and its citizens, [Respondent 26] suggests that the nature of their relationship (often described as the social contract) warrants serious attention beyond the narrow determination as whether an executor contract notion can be applied. We consider that rather than looking just at previous literature on executor contracts, the IPSASB should also look to best apply its own conceptual framework. Only by doing so, can the IPSASB best determine how the financial statements and long term fiscal reports can best be integrated to inform the government, and its resource providers and service recipients as to the state of its redistributive activity.</p> <p>The IPSASB has released a recommended practice guideline on long term fiscal reports that has the objective of providing “information on the impact of current policies and decisions made at the reporting date on future inflows and outflows ... The aim of such reporting is to provide an indication of the projected long-term sustainability of an entity’s finances over a specified time horizon in accordance with stated assumptions.”</p> <p>On the other hand, the IPSASB’s conceptual framework states that “Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:</p> <ul style="list-style-type: none"> • The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity; • The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and • The amounts and timing of future cash flows necessary to service and repay existing claims to the entity’s resources.” <p>The IPSASB needs to reflect on how such statements should interact together, to best provide users with information on the performance and sustainability of the public sector’s redistributive activity, and the liquidity, solvency and capacity of that redistributive activity to adapt (paraphrasing para:2.11 of the Conceptual</p>	<p>the social contract approach’s role in long term fiscal sustainability reporting, which staff considers is outside the scope of this project.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 8	STAFF COMMENTS
		<p>Framework).</p> <p>In [Respondent 26's] view this is best achieved if the long term fiscal reports provide information on current policies, and the statement of financial position provides information on current resources, and currently enforceable claims to those resources. In essence, it is [Respondent 26's] position that the long term fiscal report provides information on the state of the "social contract" whereas the balance sheet should limit itself to reporting the current financial position.</p> <p>[Respondent 26] considers there are grave dangers to the credibility of the information on the statement of financial position if its scope is expanded to provide information on future obligations (or inflows) based on current policies:</p> <ul style="list-style-type: none"> • Reporting requirements will be regarded as unbalanced if only part of the redistributive impact of current policies is reported (e.g, transfers but not taxes, current recipients but not future recipients) • The ability of the statement of financial position to reflect the extent to which resources are available to support future service delivery activities would be significantly impaired. • Social policies are constantly being amended as changes in the 'social contract' occur, impacting the likely range of outcomes. The statement of financial position would no longer be able to be regarded as being reliable. • The financial performance statement would tell a less understandable and coherent story of financial performance. Financial results would be driven primarily by changes in actuarial assumptions rather than management actions and decisions (e.g. through changes in discount rates and other changes in assumptions). As a result, assessments of the financial performance of the reporting entity would be more difficult. 	
27	(a) C (b) D	<p>Under the Social Contract Approach two alternatives are presented. These two coincide with (d) and (e) below.</p> <p>[...]</p> <p>This means that the options listed above [...] may all be relevant, depending on the circumstances in the respective countries, but also the circumstances relating to the structure of a particular benefit.</p>	<p>Staff notes that Respondent 27 does not comment on this issue directly, but that comments relating to the obligating</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 8	STAFF COMMENTS
			event approach suggest no preference.
28	(a) D (b) A	<p>Although recognising the argument that future social benefit payments will be paid out of future tax receipts, and also the concept of intergenerational solidarity, [Respondent 28 does not believe that the social contract approach would enhance either public sector accounting transparency or the management of public sector resources. It appears that the social contract approach's principle function is to provide a conceptual basis for public sector bodies to defer recognising a liability until the last possible moment.</p> <p>Many developed economies [...] are facing a future of an ageing and shrinking population, heralding a prospect of funding increasing social benefits costs from a shrinking tax base. These are long term problems that need to be addressed as soon as possible, and [Respondent 28] believes that appropriately recognising liabilities for social benefit programmes will provide greater transparency and inform the public debate on whether such programmes are fiscally sustainable in the future and how they will be funded.</p> <p>On a more technical point, the social contract approach requires that future taxation will cover future benefits payable, which appears to be contradictory with the IPSASB's Conceptual Framework – a point specifically made by the IPSASB in point 5.25 of the ED.</p> <p>Therefore, [Respondent 28] does not support the social contract approach and consequently does not intend to comment on the point at which an obligation should be recognised under this approach.</p> <p>Although [Respondent 28] doesn't intend to comment in detail on the social contract approach, we note that the issue of measurement has not been specifically addressed in respect of the obligating event approach. Consequently, [Respondent 28] wishes to state that its preferred method for measuring social benefits (unless specifically stated otherwise) is at the cost of fulfilment at the point in time when the liability has to be settled and discounted as appropriate.</p>	Staff notes these comments, in particular the importance of recognizing social benefit liabilities in providing greater transparency and informing public debate.
29	(a) D (b) D	As noted in our response on Specific Matter for Comment 2, we do not recommend the IPSASB further developing the social contracts approach. We have therefore not responded to this Specific Matter for Comment.	
30	(a) A	Our view on why the social contract approach is flawed in principle is elucidated in an earlier paragraph above.	Staff notes that this respondent does

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	(b) D	<p>Our response below needs to be read against that backdrop.</p> <p>Recognition of an obligation under social contract approach needs to happen when a claim becomes enforceable. The underpinning rationale for the social contract approach is that there is a mutual obligation (as a contract) between an individual/household on one side and a public sector entity/government on the other.</p> <p>The claim approval basis only considers one side of the above mutual obligation i.e. that of the individual/household being eligible to receive a social benefit, and the government being obligated to pay the same once the claim is approved. This does not factor in the other leg of the mutual obligation, that of the individual/household being obligated to pay taxes and other dues. The claim enforceability criterion considers both as a claim could be reckoned to be enforceable only when the other leg of the contract is fulfilled.</p>	<p>not support the use of the social contract approach.</p>
31	(a) B (b) A	<p>If the IPSASB determines that the social contract approach is appropriate, a present obligation should be recognized at the point at which a claim is approved, or when all eligibility criteria to receive the next benefit are met in cases where claim approval is merely administrative.</p> <p>[From response to SMC 12]:</p> <p>Regardless of the approach used, the cost of fulfillment is an appropriate measurement basis.</p>	<p>Staff notes these comments.</p>
32	(a) B (b) A	<p>[Respondent 32] does not support a social contract approach in the form outlined in the CP.</p> <p>However, from a general principles approach, it would seem that liability should only be recognised when a claim is approved. The approval of a claim legitimately gives rise to an obligation to make a payment to an individual or a household and it can be reliably measured.</p> <p>Liability should be measured at cost of fulfillment.</p>	<p>Staff notes these comments.</p>
33	(a) B (b) A	<p>We believe that this approach has some merit. The main advantages are that users of the accounts would be able to more easily understand this concept, and its relative ease of application. This approach could potentially apply to a large number of benefits and be implemented more quickly than the other options.</p> <p>We do however acknowledge the arguments made against this approach. Our concerns are that this approach would not recognise a liability until very late in the process, potentially under-reporting liabilities. Furthermore, this may mask the funding gap between benefits payable and taxation receivable to fund those benefits, which would not assist governments in managing their long term obligations effectively. Nor would it allow meaningful scrutiny by users of the accounts.</p>	<p>Staff notes that this respondent considers that the recognition points under the social contract approach may not be appropriate.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 8	STAFF COMMENTS
		As described [above], we believe that the recognition point – threshold eligibility criteria have been met – most fits with the CF. We believe that the social contract approach, as described in the CP, has recognition criteria that are not in line with the definition of a liability. In answer to this question, we would opt for the earliest recognition point, a claim is approved, but remain sceptical that this would lead to high quality financial reporting. Our preferred method for measuring social benefits, unless specifically stated otherwise, is the cost of fulfilment, discounted as appropriate.	
34	(a) D (b) D	I agree with arguments in relation Social Contract Approach in relation recognize an obligation in respect of social benefits at the point, so, if I consider (i) A claim becomes enforceable, I believe that exist law for regulamentation the obligation, in other fact point (ii) A claim is approved, I understand could exist law or legislation to provide contract enforcement to new rules.	No direct response to SMC 8 identified. The respondent discusses when each point may be appropriate but does not reach a conclusion.
35	(a) D (b) D	The social contract approach is not considered appropriate for recognizing and measuring social benefits. The argumentation in this CP is agreed upon and supported.	No direct response to SMC 8 identified.
36	(a) D (b) D	As mentioned in our cover letter, we do not support the use of the social contract approach. We agree with the Board’s preliminary view that the social contract approach is inconsistent with the Conceptual Framework and unlikely to meet the objectives of financial reporting. Under this approach, social benefits are generally recognised only when a claim is enforceable or approved which in our view is not on a timely basis and hence would not provide users with useful information.	No direct response to SMC 8 identified.

Specific Matter for Comment 9

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	02, 08, 10, 11, 12, 13, 15, 17, 18, 20, 21, 22, 23, 26, 29, 30, 32, 33, 34, 35	20
B – PARTIALLY AGREE	06, 14, 28, 36	4
C – DISAGREE	01, 03, 04, 07, 09, 16, 24, 25, 31	9
SUB-TOTAL OF THOSE PROVIDING COMMENTS		33
D – DID NOT COMMENT	05, 19, 27	3
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 9	STAFF COMMENTS
01	C	<p>Insurance approach is not adapted to social benefits paid by public entities in [our jurisdiction]. Indeed, in our contributory social benefits' schemes, a cause and effect relationship is not established between the contribution level of each contributor and its level of risk.</p> <p>Nevertheless, this insurance approach could be retained by jurisdictions in which it could be appropriate to their social benefits' schemes.</p> <p>As we do not believe that the insurance approach is relevant for the accounting treatment of the social benefits, we do not propose answers to the remaining six specific matters for comment.</p>	<p>As the respondent does not consider the insurance approach to be relevant to social benefits, staff considers they disagree with the IPSASB's conclusions.</p>
02	A	<p>[Respondent 02] is of the opinion that the measurements in the insurance approach are complicated. Social benefits are not contracts. Instead, in many cases, there is personal right grounded on a legal basis, e.g. obligatory non-occupational accident insurance.</p> <p>Therefore [Respondent 02] agrees with the IPSAS Board, which in paragraph 6.24 states that this approach is not appropriate for all social benefits, but can be used only in conjunction with another approach.</p>	<p>Staff notes the support for the IPSASB's conclusions.</p>
03	C	<p>The "répartition" system, as described at the beginning of this appendix, is contributory in nature. However, we do not believe that the system is akin to insurance contracts in that contributions are not fully computed in relation to the social risk for each beneficiary. We believe that this is a striking difference with the computation of premiums in insurance contracts and consequences should be reflected through different accounting treatments.</p> <p>In addition, insurance schemes are bound to support their liabilities with plan assets; under the "répartition" system, there is no such accumulation of assets as the policymaker decided that the balance of the "répartition" system depends only on decisions made on an annual basis.</p> <p>Because we do not believe that the accounting for insurance contracts should be applied to the accounting for social benefits, we do not propose answers to the remaining six specific matters for comment.</p>	<p>Staff notes that this respondent does not believe social benefits are akin to insurance contracts and therefore disagrees with the IPSASB's conclusions.</p>
04	C	<p>We do not agree. In our opinion, the insurance approach should not be applied to social benefit schemes. Our views are based on the following observations:</p> <ul style="list-style-type: none"> • The proposed IFRS 4 guidance on insurance contracts relates to exchange transactions for individual 	<p>Staff notes the rationale provided by this respondent</p>

R#	C #	<p align="center">RESPONDENT COMMENTS Specific Matter for Comment 9</p>	<p align="center">STAFF COMMENTS</p>
		<p>contracts where each party has rights and obligations under the contract. An insurer recognises those rights and obligations created by an insurance contract when it becomes a party to the contract. Social benefit schemes differ from insurance contracts as follows:</p> <ul style="list-style-type: none"> ○ Contributions to a scheme do not give the contributor enforceable rights to future benefits. ○ The government entity does not have rights to the future contributions that result in the recognition of an asset under the IPSAS conceptual framework. ○ The government entity controlling a social benefit scheme is not obligated under the terms and conditions of the plan, given that it is established by its own legislation and which the government entity has the right to modify unilaterally. <ul style="list-style-type: none"> ● The IFRS 4 proposed guidance for recognizing expected profits on a contract applies to individual insurance contracts. It provides a smoothing mechanism for insurers to offset premium revenue with expected payments over the term of the insurance contract, as a private sector insurance contract is usually established by the insurer with the intent of obtaining a profit. It is likely to be rare that an insurer would establish a contract under which a loss expected; this would be considered an onerous contract, with the loss is recognized at the inception of the contract <ul style="list-style-type: none"> ○ Social benefit schemes are not created with the expectation of being profitable, although they could be profitable or unprofitable when considered for an individual recipient, depending on the individual's risk. However, application of the expected risk associated with a particular benefit scheme would need to be on a collective rather than an individual basis, and would always result in the upfront recognition of losses. ○ Unlike an insurance contract, receipt of benefits under a social security scheme is based on meeting eligibility criteria, and consequently, there is not usually a direct relationship between the amount of the contributions payable by an individual and the benefits to be received. ○ Also, as stated in the CP (paragraph 6.45), contributions may not reflect individual risks and may be influenced by other factors than the risks covered, such as government policy. Again, this does not reflect the intent behind linking premiums for an insurance contract in exchange for the expected payments reflecting the transfer of an individual's risk, which is the premise of insurance accounting. <p>Based on the differences between social benefit schemes and insurance plans discussed above, we believe that</p>	<p>for not supporting the insurance approach.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 9	STAFF COMMENTS
		insurance accounting does not reflect the substance of social benefit schemes. Consequently, it is not appropriate to apply the insurance approach to any social benefit schemes, whether contributory or not.	
05	D	<i>No comments identified</i>	
06	B	The insurance approach is supported as an appropriate approach for funded social insurance other than pensions and other retirement benefits (see above). This provides a conceptually valid approach for both recognising and measuring the liability. Since this is only applicable to funded schemes, the amount of liability to be recognised would be net of fund assets.	Staff considers that the respondent agrees with the IPSASB's conclusions in general, but considers the IPSAS 25 approach more appropriate for pensions.
07	C	We do not agree with these conclusions. In our view the contributory aspect of a social benefit is not decisive in whether or not to regard the social benefit as being provided under a type of insurance. The liabilities can, in our view, regardless of being paid for by contributions or being subsidized, be measured as current estimates of future cash flows (as under option 1). Depending on the way of financing (participatory or not), the premiums (receivable) could also be recorded accordingly. In our view, it would therefore not be necessary to have a separate approach for this. IPSASB should consider the possibility that the applicability of the insurance approach may need to be based on the underlying nature of the liability and how it accrues to date. If the obligation to pay a social benefit must be continually renewed by an obligating event (such as a beneficiary's payment of unemployment insurance contributions), then the liability accrues in a much different manner than an obligation that persists after contributions have ceased (such as the beneficiary's payment of pension contributions). This is akin to term life insurance versus whole life insurance. One liability is expected to expire without payment (for the majority of participants) and is dependent upon the continual receipt of contributions, while another liability persists and can continue to accumulate in value beyond the contributory period (in the case of pension indexing). IPSASB	Staff notes the comments regarding the underlying nature of the obligation.

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		<p>should consider whether the proposed applicability of the insurance approach fundamentally reflects the nature of how a liability has accrued for a government entity.</p> <p>Furthermore, a practical issue with the proposed applicability is that it would treat social benefit schemes with dedicated funding differently from social benefit schemes that do not have dedicated funding. The result may be a government balance sheet with various liabilities that have not been measured consistently; some items may represent accrued-to-date obligations while others may represent expected deficits arising from future cash inflows and outflows. Further consideration should be given to how liabilities arising from social benefits can be treated in a consistent manner.</p>	
08	A	<p>We support the insurance approach, or some modification of it that takes into account that there is no “profit” to be recognized, for contributory social security schemes. We consider it to be a step towards financial statements being aligned with the long-term financial sustainability of the program. The liability to be recognized would include reflection of contingent events which will take place in the future but would also recognize future contributions as an asset.</p> <p>In addition, we strongly encourage the IPSASB to make a compulsory requirement to include in financial statements disclosure information on the long-term sustainability of programs prepared in accordance with RPG1.</p>	<p>Staff notes the comments, and the recommendation regarding disclosures.</p>
09	C	<p>We do not support the IPSASB’s conclusions on when the insurance approach could be applied. The IPSASB concluded that the insurance approach could be applied when there are schemes with:</p> <ul style="list-style-type: none"> • Imputed contributions that involve cash transfers. • A low level of contributions that do not involve cash transfers. • Contributions that are funded as a general tax where there is a reliable basis for allocating the contributions to the individual schemes. <p>We believe that the insurance approach is complex to apply, and is premised on the fact that the entity has information available about the revenue it will receive, the claims it will pay, and the period over which the insurance cover is provided. This information is then used at the outset of the contract to determine the profit or loss.</p> <p>Entities often do not have information about the revenue they are entitled to receive, as the revenue, even if received in the form of specific contributions, is often collected by another agency. As an example, our</p>	<p>Staff notes these comments, and the reference to the premium allocation model in the IASB’s Exposure Draft on Insurance.</p>

R#	C #	<p align="center">RESPONDENT COMMENTS Specific Matter for Comment 9</p>	<p align="center">STAFF COMMENTS</p>
		<p>unemployment insurance scheme receives contributions from individuals and their employers, but this is collected by the Revenue Authority as a tax on payroll. The entity often only has information available on the individuals and contributions at much later periods compared to the period in which the coverage period starts.</p> <p>We also believe that insurance contracts are designed to ensure that there is a direct correlation between the risks assumed (i.e. benefits to be paid) and the fees charged. In many instances, there is simply no correlation between the revenue and expense streams. Any revenue received is often based on a tax on a specific activity, or a general allocation of revenue to subsidise the scheme. This is different to the basic economic substance of an insurance contract.</p> <p>While there is merit in applying the liability aspects of the insurance approach, we believe that the revenue aspect of the approach, and in particular the combination of the revenue and expense streams into a single model, is inappropriate in the public sector. The insurance approach, as outlined in the Consultation Paper, may only be relevant to insurance contracts that are undertaken on a commercial basis, rather than those operated in the public sector, or where contributions charged compensate the entity assuming the risks.</p> <p>As noted in our response in SMC 4 on “key participatory events”, we are of the view that approach 1 could accommodate insurance related schemes, without developing a separate approach which may be complex for entities to apply.</p> <p>As noted in our response in SMC 2, the Consultation Paper currently only explores one approach outlined in the IASB’s exposure draft on Insurance Contracts. The other approach explored, called the “premium allocation” approach, is a simplified method that is particularly useful for short term insurance contracts. Under this approach, revenue and expenses are not recognised and measured on a net basis. Revenue is recognised when it is earned, while liabilities and expenses are recognised independently of the revenue generated based on the present value of the future risk plus a risk adjustment. As a result, no contract profit or loss is determined and recognised over the period.</p> <p>We are of the view that there may be merit in exploring this alternative approach if the insurance approach is pursued as it focuses less on the revenue received as part of the scheme. Although this approach is only applicable to short term insurers in the IASB’s ED, it may be relevant for other types of schemes in the public sector.</p> <p>We also note that, if either of the insurance approaches are followed, the IPSASB would need to consider the</p>	

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		revenue recognition implications of adopting such an approach.	
10	A	<p>Agree. Where social benefit schemes resemble insurance in substance, we agree that the recognition and measurement of such schemes should follow the Insurance Approach.</p> <p>Measurement – a word of caution</p> <p>As stated in 6.8, insurance contracts are measured using a current estimate of future cash flows associated with the contract. When accounting for insurance contracts in the private sector, it is common practice to estimate the present value of all future cash flows related to an insurance contract obligation, which includes payment of claims/benefits along with future premiums to be collected.</p> <p>The observation in 6.19 is key to this approach. Financial accounting lacks symmetry when it comes to recognizing assets versus recognizing liabilities. By design, recognizing assets is harder than recognizing liabilities. In measuring a social insurance liability, the more future cash flow information we incorporate into the estimate, the more faithfully we represent that obligation. But in doing so, have we indirectly allowed a government to recognize its sovereign right to tax as an asset on the financial statements?</p> <p>We [...] are divided on this issue. On the one hand, if a government legislates mandatory contributions that are dedicated to relieving specific social insurance obligations, should this not be considered when measuring the expected cash flows of the obligation? Do we not run the risk of overstating liabilities and misstating a government's financial position by ignoring future contributions? Perhaps more importantly, by excluding future contributions in the measurement of the liability, have we proposed a standard that might never be adopted?</p> <p>On the other hand, if we permit the recognition of future contributions as an offset to measuring the social benefit obligation, have we opened a door for governments to recognize their sovereign right to tax through such obligations? What criteria or limits would stop a government from recognizing such assets as a reduction of liabilities until it no longer has any liabilities?</p> <p>Can standard setters develop criteria to allow recognition of future contributions in the measurement of a liability without this precedent being applied to all future tax revenue? In the quest to faithfully represent a social benefit obligation on the balance sheet, the question of how we set parameters with respect to items that can offset the obligation is of critical importance.</p>	Staff notes the concerns regarding the recognition of future tax revenue.
11	A	Yes. We agree that the insurance approach may provide useful information in circumstances where social benefit schemes have characteristics similar to private sector schemes to which insurance accounting is applied.	Staff notes the respondent's views

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		<p>We also agree that the insurance approach would be appropriate for such contributory schemes only and that the insurance approach would need to be combined with another approach (in our opinion, the obligating event approach) to appropriately cover the accounting treatment applicable to all types of social benefits.</p> <p>It might in practice not be easy to distinguish between contributory schemes that would be assimilated to insurance schemes and other social benefit schemes with a contributory element to which the obligating event approach would apply. We recommend that the IPSASB develop clear principles and illustrative examples to provide guidance on how contributory schemes should be treated.</p>	<p>that guidance will be needed.</p>
12	A	<p>We agree with the IPSASB's conclusions. As described in the paragraph 6.21 of the CP, when large amount of contributions are paid into a scheme, the insurance approach would be appropriate for the measurement of the liabilities and expenses of the scheme, as it would provide reliable measurements of the contributions.</p>	<p>Staff notes these comments.</p>
13	A	<p>We agree on the overall conclusions about the applicability of the insurance approach. However we have not been able to go into details concerning this approach, since it will not be very common.</p>	<p>Staff notes these comments.</p>
14	B	<p>We agree that the insurance approach under IASB ED/2013/7 Insurance Contracts, discussed in the CP, may be appropriate in accounting for certain social benefit schemes or components thereof that are in substance insurance schemes (but not subsidized insurance schemes). However, as noted in our responses to SMCs1, 2 and 4, we believe that careful consideration is needed in determining whether a specific scheme or component of a scheme represents insurance as opposed to a partly subsidized contributory scheme i.e., social assistance. For example, it may be difficult to distinguish between imputed contributions made on behalf of a recipient and general subsidization of a particular scheme. We urge the IPSASB to tighten the definition of social insurance if this approach is to be considered further, as there is considerable potential for misapplication.</p> <p>We see merit in applying an insurance approach provided a scheme is both designed to be – and in practice proves to be – self-funding such that a liability to provide benefits is essentially expected to be dealt with within the scheme, rather than from other sources of funding, such as transfers.</p>	<p>Staff notes that the respondent is supportive of the insurance approach, but for a smaller range of schemes than proposed in the CP.</p>
15	A	<p>Similarly, in the case of contributory schemes, we recommend that the IPSASB develop clear guidance on those benefits to which the obligating event approach should be applied and those to which the insurance approach should be applied.</p> <p>We also do support IPSASB's view that application of the insurance approach is only appropriate where there is</p>	<p>Staff notes these comments.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 9	STAFF COMMENTS
		a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.	
16	C	For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09]. Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.	See staff comments under Respondent 09.
17	A	We agree with [Respondent 02's] position. We cannot yet sufficiently judge the consequences of the statements in the CP.	Respondent 02 agreed with the IPSASB's conclusions.
18	A	Yes we agree with the IPSASB's conclusions about the applicability of the insurance approach. The insurance approach is applicable to contributory schemes, where the individual contributes an amount for coverage in case he/she becomes a social risk, in which case he would be eligible for social benefits.	Staff notes these comments
19	D	The insurance approach induces that the level of each individual contribution is linked with the individual's risks. That system is not relevant for social benefits in [our jurisdiction].	No direct response to SMC 9 identified.
20	A	We agree with the proposal to align with existing insurance approach where appropriate.	Staff notes these comments.
21	A	This is a new approach and it is more difficult to evaluate it given the potential range of implementations of social insurance outlined. However, [Respondent 21] agrees with the approach proposed by the Board as a basis for further work to inform the development of an IPSAS exposure draft. The reasoning set out by the Board is detailed and covers a range of scenarios which may be realised very differently in different jurisdictions. The points made by the Board appear valid and we have not identified any problems based upon the examples provided or other consideration by [Respondent 21].	Staff notes these comments.
22	A	We agree with IPSASB conclusion on the "across board" applicability of the insurance approach for three reasons-	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 9	STAFF COMMENTS
		(i) Liquidity; (ii) Level of imputed contribution; and (iii) Allocability (the quality or state of being allocable or assigned). Where the scheme's contribution are in kind, the scheme has a high level of imputed contribution but not involving cash transfer; or the scheme involves contribution which have no reliable basis for allocation to individual schemes; and another conditions may be required for recognition of social benefit. These conditions are, especially, the case in social assistance where beneficiaries are not expected to make any cash contribution to the scheme.	
23	A	We agree with the IPSASB's conclusions that the insurance approach is not appropriate for all social benefits and would have to be used in conjunction with another approach due to the different characteristics of social benefits. In our view, it would be inappropriate to combine the revenue and expense streams into a single measurement model in the public sector.	Staff notes the comments regarding measurement.
24	C	<i>No comments identified</i>	Staff notes that the respondent would support a modified insurance approach but does not consider it possible to draw conclusions about their views on the approach in the CP.
25	C	<i>No comments identified</i>	Staff notes the reasons the respondent does not support the insurance

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 9	STAFF COMMENTS
			approach.
26	A	<p>[...]</p> <p>[Respondent 26] is in agreement with those views for the purpose of general purpose financial reporting, for the reasons stated in the Consultation Paper.</p> <p>We note that where future expected outflows under current policies can be used as a proxy for social harm that a government wishes to reduce, an insurance accounting approach can provide a useful measure for performance management purposes. [Our] government currently prepares such a measure to assess the outcome of its efforts to reduce working age welfare. In this case however, the measure of the “liability” is determined as a way of quantifying or providing a proxy for the social harm outcome, rather than as a determination of an entitlement or obligation. We would note, for example, that in our measurement an allowance is made for jobseekers who have recently accepted a job, given our experience that a portion is recycled back into welfare. Such individuals would not be currently eligible for any job seeker benefits.</p> <p>Thus some information the IPSASB regards as not useful, can in fact be useful for management performance purposes. [Respondent 26] agrees however, that it would not be useful for reporting current rights and obligations.</p>	
27	D	<i>No comments identified</i>	
28	B	<p>IPSASB is proposing that the insurance approach is appropriate where there are significant cash contributions from individuals. They emphasise that this approach is not suitable for all social benefit schemes and would only be used in conjunction with another method. [Respondent 28] agrees with the use of the insurance approach in these circumstances and believes that the IPSASB is correct to limit the scope of this approach to contributory schemes only. In addition, [Respondent 28] believes that, in some circumstances, it may be appropriate to separately identify an insurance component within a scheme, since the insurance approach should not be misapplied so as to account for non-insurance schemes or components of schemes.</p> <p>These conclusions in this ED are in line with current private sector developments in insurance accounting and it seems logical to treat social benefit schemes that have the characteristics of a funded insurance scheme in the same manner.</p> <p>It may not always be easy in practice to differentiate the characteristics of a funded insurance scheme, subject to</p>	<p>Staff notes that this respondent would apply the insurance approach to components of schemes as well as to whole schemes.</p> <p>Staff agrees that, if the insurance approach is to be</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 9	STAFF COMMENTS
		the insurance approach, from those of a general social benefit scheme, dealt with using the obligating event or social contract approach. The IPSASB already provides examples of schemes, together with the accounting implications, in Appendix A. It would be useful if the IPSASB could provide an indication within Appendix A of which of these schemes (or separate components of a scheme) would be dealt with by the insurance approach, by the obligating event approach or by the social contract approach.	adopted, guidance will need to be included in a future IPSAS.
29	A	<p>We support the IPSASB continuing to explore the insurance approach for contributory and coverage period type schemes. We agree the insurance approach is not appropriate for all social benefits and the IPSASB would also need to consider other approaches. At this stage we have not commented on Specific Matters for Comment 10-15. We note that the IASB is still working on its project to develop a new standard on insurance contracts. We consider that the IASB's work on insurance might assist the IPSASB in further developing an insurance approach for social benefits, and would encourage the IPSASB to wait until the IASB has concluded its work on that project. However, we do acknowledge that not all of the IASB's thinking will necessarily be applicable in a public sector context. When the IPSASB considers the accounting treatment in the IASB's final insurance contracts standard it will need to take into account differences in insurance schemes between the private and the public sectors. For example, there is a view that the inclusion of a risk margin in the calculation of scheme liabilities is not appropriate in the public sector.</p> <p>We understand the IASB is also considering whether insurance accounting could be useful when thinking about the measurement of pensions. This work may also be of interest to the IPSASB.</p>	Staff notes these comments and the links to the IASB's work program.
30	A	<p>Yes, we are in agreement with the IPSASB's conclusions about the applicability of the insurance approach, which are elaborated in paragraphs 6.1 to 6.24 of the CP. We find the reasoning laid out in the CP to be fully consistent with the conceptual framework, specifically on the below grounds</p> <ul style="list-style-type: none"> • The Insurance approach provides useful information that enhances the verifiability and understandability (two of the "quality of information" criteria or attributes) of financial information to users of GPFs. • By giving information on cash flow positions and projections, it provides useful information on liquidity and solvency • Disclosures under the insurance approach also throw light on performance of the reporting entity, especially on how well it has managed the resources it is responsible for and • It aids users in meeting the accountability purpose (out of the "decision-making and accountability 	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 9	STAFF COMMENTS
		purposes”)	
31	C	<p>With respect to the insurance approach, the present obligation and therefore a liability for non-exchange social benefits, whether subsidized or not, is calculated based, in part, on estimates of future benefits for which all eligibility criteria to receive the next benefit would not have been satisfied. For the reasons noted in our response to Specific Matter for Comment 4 above, an obligating event does not arise and therefore a liability would not be recognized until all eligibility criteria to receive the next benefit have been satisfied, including approval of the benefit claim where such approval is more than merely administrative.</p> <p>In addition, recognizing the net liability (subsidy) for a scheme without recognizing as an offsetting asset the right to future tax or other revenue that will finance that liability does not faithfully represent the overall financial position of an entity. The entity generally would reform the programs (e.g., increase taxes or contributions, decrease benefits) to bring revenues and expenses in line. Consequently, while such approach would be appropriate for an exchange program, we do not support the insurance approach for recognizing non-exchange social benefits. Also, as noted in the CP, the insurance approach cannot be used for all types of social benefits, and therefore we are concerned that the application of both the insurance approach and the obligating event approach could result in different outcomes for conceptually similar programs. In addition, non-exchange revenues related to social benefit schemes should be consistently recognized across all social benefit schemes. Further, we think that recognition of liabilities under the obligating event approach appropriately addresses the economic circumstances of the various types of social benefit schemes.</p>	Staff notes these comments.
32	A	<p>[Respondent 32] broadly agrees with IPSASB’s conclusions.</p> <p>The insurance approach may be more appropriate for unsubsidised schemes and may not provide useful information in respect of:</p> <ul style="list-style-type: none"> • Schemes involving contributions in kind; • Schemes where there is high level of imputed contributions not involving a cash transfer; and • Schemes involving contributions (including those treated as general taxation) where there is no reliable basis for allocating the contributions to individual schemes. <p>Given that the insurance approach is based on determination of net present value of cash flows, application of the insurance option to any schemes where there are contributions in kind could be costly and difficult to implement in practice for use in financial statements. If contributions were to be imputed, there may not be any</p>	Staff notes these comments and the respondent’s view that the insurance approach may be more appropriate for unsubsidized schemes.

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 9</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>cash contributions to recognise. Where contributions from taxation relate to a single scheme, application of the insurance approach will inform users as to whether:</p> <ul style="list-style-type: none"> (a) the scheme is subsidised by general taxation, (b) the scheme is fully funded by contributions or, (c) the scheme is generating a surplus that is being used to finance other government expenditure. <p>However if the taxation revenue funds several social assistance schemes, the insurance approach would be useful only if there is an appropriate basis for allocation of contributions to respective schemes.</p>	
33	A	<p>We agree with the points made in paragraphs 6.21, 6.22, 6.23 and 6.24 regarding the applicability of the insurance approach.</p> <p>We believe that there will be some social benefits that will meet the criteria to be accounted for using an insurance approach. In [our jurisdiction] it is less obvious that this methodology could be easily applied since the links between benefits and the taxation to pay for them are tenuous. We would welcome more empirical research in this area to ascertain the usefulness of insurance accounting for social benefits. In particular we have concerns surrounding the boundary of insurance contracts, such as the identification of start and end dates of the contract and its application to aggregate groups of people, as highlighted in 6.31.</p> <p>We agree with the CP that not all benefits would be suitable to be accounted for using the insurance approach and that a combination of approaches will most likely be the best overall solution.</p>	Staff notes these comments.
34	A	<p>Yes, I agree with the IPSASB’s conclusions about the applicability of the insurance approach. I suggest for the Board’s consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.</p>	Staff notes these comments and the concerns regarding complexity.
35	A	<p>IPSASB’s conclusions related to the applicability of the insurance approach are generally supported, corresponding to the definitions in paragraph 6.21-6.24. The considerations about significant and reliable measured cash contribution as an essential requirement are found convenient.</p> <p>[In our jurisdiction], the insurance approach would find usage for a small amount of benefits, due to having few benefits with contribution. In [our jurisdiction], general taxation cannot be identified as allocated for an individual scheme, hence general taxation will never be seen as contribution. This correlates to the definition in this CP</p>	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 9	STAFF COMMENTS
		paragraph 6.23.	
36	B	<p>We think that the Board needs to spend more time determining whether the insurance approach is suitable for social benefits that are of a non-exchange nature. The insurance model developed by the IASB has a similar objective, to account for uncertain liabilities. However, the insurance model is built on the premise of an exchange transaction. We think that the insurance model is a sound starting base for the IPSASB to develop its own model for social benefits, but modifications may need to be made to arrive at an approach suitable for social benefits.</p> <p>Assuming that the insurance approach is used, we think that the proposed approach is reasonable.</p>	Staff notes these comments

Specific Matter for Comment 10

Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:

- (a) Any expected surplus should be recognized over the coverage period of the benefit; and
- (b) Any expected deficit should be recognized as an expense on initial recognition?

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	02, 09, 11, 14, 16, 18, 20, 21, 22, 23, 26, 28, 30, 33, 34	15
B – PARTIALLY AGREE	08, 32, 36	3
C – DISAGREE	06, 07, 10, 12, 31	5
SUB-TOTAL OF THOSE PROVIDING COMMENTS		23
D – DID NOT COMMENT	01, 03, 04, 05, 13, 15, 17, 19, 24, 25, 27, 29, 35	13
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 10	STAFF COMMENTS
01	D	<i>No comments identified</i>	
02	A	In the opinion of [Respondent 02] over a long period surpluses and deficits should balance out and therefore the same method must be used in recognising them. [Respondent 02] is of the opinion that the insurance approach should be designed in accordance with the standards for private insurance contracts applicable in the future (successor standard to IFRS 4).	Staff notes the support for the proposals
03	D	<i>No comments identified</i>	
04	D	Please see our response to Specific Matter for Comment 9 as we do not agree with the insurance approach for social benefit programs. Social benefit plans are not designed to generate a profit and are often funded on a pay-as-you-go basis, rather than being fully funded. Consequently, insurance accounting would result in unbalanced and misleading information on an entity's financial position in the financial statements. As well, it is impracticable to evaluate social benefit plans on an individual participant basis, which is the intent behind the proposed IFRS 4 guidance, as there may be profits for some participants and losses for others (for example, on employment insurance plans).	No direct response to SMC 10 identified.
05	D	<i>No comments identified</i>	
06	C	We disagree. We can see no reason for treating surpluses and deficits differently. Therefore, the approach in (b) should be applied to a surplus or a deficit.	Staff notes that this respondent would recognize both a surplus and a deficit on initial recognition.
07	C	Expected surpluses and expected deficits should be treated in the same manner to ensure consistency in the recognition and measurement of social benefits over time. This is particularly important for a scheme that is close to break-even and could shift between a surplus and a deficit position. The recognition of an expense pertaining to a social security benefit is complicated by its various components, including the equivalents to its service cost, interest cost, actuarial gains/losses, and curtailments/settlements. We recommend that the IPSASB consider using IPSAS 25 as a starting point in formulating the appropriate	Staff notes the comments that IPSAS 25 may provide a basis for measuring surplus or deficits.

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 10</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>recognition of the expected surplus/deficit of a social security benefit.</p>	
08	B	<p>It would not necessarily be appropriate to recognise an expected deficit as an expense on initial recognition. This would depend on how deficits are dealt with.</p> <p>Where a program is financially self-supporting based on contributions from employers and employees, it would not be appropriate to show a deficit if the financing method is designed to ensure that the system is in balance over the longer term. This is especially true for programs that possess so called self-adjustment mechanisms that prescribe methods for allocating the deficit between different program stakeholders: contributors (i.e. employers and employees) and beneficiaries and thus strive to maintain intergenerational equity. Some programs could be split into two components for the purpose of recognising deficit or surplus -- the first part financed on a pay as you go basis while the second is funded.</p> <p>A different approach would be needed if there is an explicit government guarantee to make up any shortfall, which would be reasonable to show as a debt. However, more often it is the case that the government can change the rules of the game in the future to maintain the system in balance, e.g. by raising retirement age or increasing contributions, so the impact of such future adjustments should be recognized, particularly where the adjustments are automated by indexation of the retirement age to expectation of life at retirement age.</p>	<p>Staff notes the respondent's view that the appropriate treatment of a deficit may depend on the nature of a scheme.</p>
09	A	<p>Our response to this specific matter for comment should be read in the context of our limited support for the insurance approach.</p> <p>If the IPSASB pursues the insurance approach as outlined in the Consultation Paper, we support the proposal that any surplus should be recognised over the period of the benefit, and that any deficit should be recognised immediately. Recognition of the surplus over the period of the contract reflects the period over which the profit is earned. Recognition of the deficit initially reflects the notion that the contract (or arrangement) is onerous.</p>	<p>Staff notes that the support for the proposed treatment is in the context of limited applicability of the insurance approach.</p>
10	C	<p>We understand and agree with the need for applying prudence. If it is a loss, recognize it immediately. If it is a gain, recognize it over the coverage period. However, such a proposal would appear to contradict the IPSASB conceptual framework.</p> <p>Prudence is not explicitly defined in the conceptual framework. It is incorporated in the notion of neutrality, which is a component of faithful representation. In BC3.17 of the conceptual framework, the IPSASB describes</p>	<p>Staff notes the comments that IPSAS 25 may provide a basis for measuring surplus</p>

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 10</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>prudence as the “need to exercise caution in dealing with uncertainty.” This leaves us with the following conundrum – how can we claim to faithfully represent a transaction when the result of that transaction (gain or loss) is what determines its accounting treatment?</p> <p>Overall, proposed approaches should be internally consistent with existing IPSASs (e.g., Employee Benefits) where their substance is comparable.</p>	<p>or deficits.</p>
11	A	<p>Yes. This approach is consistent with IASB’s proposal for insurance contracts and would provide useful information on the performance of the scheme and the level of additional contributions from tax subsidy (or reductions to the benefits offered) required to balance the scheme.</p>	<p>Staff notes these comments.</p>
12	C	<p>We object to the proposal that “(b) Any expected deficit should be recognized as an expense on initial recognition.” Our objection is due to the fact that in consideration of the long-term nature of a social benefit scheme, it would be more appropriate for public-sector entities such as central and local governments to recognize expected deficit over the coverage period, rather than recognizing it temporally as any expense, and the recognitions would be consistent with the recognition of expected surplus. However, the expected deficit would be useful for decision-making. It would thus be preferable to disclose it separately.</p>	<p>Staff notes that the respondent would recognize the deficit over the coverage period. Staff also notes the recommended disclosure.</p>
13	D	<p>Since we have not gone into details concerning the insurance approach, we choose not to comment on these matters.</p>	
14	A	<p>Subject to our comments on the need to distinguish social security schemes or components thereof that are fully funded from contributions from subsidized or partly subsidized-insurance schemes, we agree that any expected surplus should be recognized over the coverage period of the scheme; and any expected deficit recognized as an expense on initial recognition.</p>	<p>Staff notes these comments.</p>
15	D	<p><i>No comments identified</i></p>	
16	A	<p>For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09].</p> <p>Our comments are reflected in [Respondent 09’s] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.</p>	<p>See staff comments under Respondent 09.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 10	STAFF COMMENTS
17	D	<p>We understand the statements in a) and b) with reference to the “principle of prudence”.</p> <p>The financial effects and (any) political consequences of choosing a) or b) are not estimable at present. We also cannot yet judge whether the “insurance approach” in the future IPSAS standard “Social Benefits” should be set up according to the standard applicable for private insurance, and/or where any deviations are necessary.</p> <p>We do not understand [Respondent 02’s] position that surpluses and deficits balance out over a long period of time. Further, it should be considered that contrary to the situation in private insurance, social insurances are not oriented toward the maximization of profitability and primarily economically motivated decisions, but focus on the sustainable financing of benefits under the rubric of the solidarity principle in society and, in the long run, are dependent on political decisions.</p> <p>In our view, greater clarification will be necessary to determine which elements from a standard applicable to private insurance can or should be taken over in an “insurance approach” of a future IPSAS standard on Social Benefits (in any adaptation), and/or where any deviations will be necessary.</p>	<p>No direct response to SMC 10 identified.</p>
18	A	<p>We agree that where a social security benefit is designed to be fully funded from contributions:</p> <p>(a) Any expected surplus should be recognized over the coverage period of the benefit; and</p> <p>(b) Any expected deficit should be recognized as an expense on initial recognition.</p> <p>We agree with this concept because it follows the typical principles of conservatism, and also it provides useful information about the performance of the scheme for which major decisions can be made.</p>	<p>Staff notes these comments.</p>
19	D	<p>Not relevant.</p>	<p>No direct response to SMC 10 identified.</p>
20	A	<p>We agree.</p>	
21	A	<p>CIPFA agrees with this treatment.</p>	
22	A	<p>We agree with IPSASB on the issue of the treatment of any expected surpluses or deficits on unsubsidized schemes as the Board’s suggested treatment is in line with the accrual concept and is a prudent approach to financial reporting.</p>	<p>Staff notes these comments.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 10	STAFF COMMENTS
23	A	Should the IPSASB pursue the insurance approach, we agree that any surplus should be recognized over the coverage period of the scheme, and that any deficit should be recognized immediately.	Staff notes these comments.
24	D	<i>No comments identified</i>	
25	D	<i>No comments identified</i>	
26	A	<p>[Respondent 26] sees no reason for there to be a different treatment for social insurance than for other insurance. Therefore we consider that adopting the same approach as the IASB is proposing has merit.</p> <p>Further, as noted in question 13. below, [Respondent 26] notes that it is common for insurance schemes to determine the liability at a greater level than the mean expectations (e.g. at 75% likelihood of adequacy), and then to fund on that basis so as to increase the likelihood of solvency. This might be regarded as a circumstance where the contribution is designed to exceed the expected benefits paid. If a risk adjustment is allowed or permitted, then again it would be appropriate to recognise any surpluses over the coverage period.</p> <p>However as discussed below, we do not believe such risk adjustments are appropriate.</p>	Staff notes these comments.
27	D	<i>No comments identified</i>	
28	A	[Respondent 28] was broadly supportive of the IASB's ED 2013/7 and agreed with the proposals contained therein for the recognition of surpluses. The immediate recognition of losses on onerous contracts is in line with current accepted accounting practice. Consequently, [Respondent 28] also agrees with the treatment described above pertaining to the recognition of expected deficits.	Staff notes these comments.
29	D	As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 10.	
30	A	<p>Yes, we agree with this view articulated in paragraphs 6.33 and 6.34 of this CP. Where a social security benefit is designed to be fully funded through contributions, any expected deficit should be recognised as expense on initial recognition to indicate to users the deviation from the design/the expectation. This information speaks to both the accountability and decision-making purposes of GPFs referred to in the Conceptual Framework.</p> <p>On a above, while we are in agreement with the principle, it may be useful to disclose the surplus at every reporting period as additional information in the notes.</p>	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 10	STAFF COMMENTS
31	C	For the reasons noted in our response to Specific Matter for Comment Response 9 above, we do not support the insurance approach. However, if the IPSASB determines that the approach is appropriate, we believe that any expected surplus or deficit should be recognized over the coverage period of the benefit.	Staff notes these comments.
32	B	[Respondent 32] is of the preliminary view that recognition of surplus over coverage period would correctly reflect surpluses over the period when it is likely to be realised. Recognising the surplus upfront can be misleading and incorrectly indicate to information users that funds are available for other activities. Expected deficits should generally be recognised as they arise, similar to onerous contracts. However, [Respondent 32] believes that these concepts need to be considered more fully, as there may be legitimate exceptions to these principles in some circumstances.	Staff notes the comment that legitimate exceptions to the principles might exist.
33	A	The above accounting treatment for fully funded social benefits would follow current accepted accounting standards, and we agree with this treatment. The potential difficulty in defining the start and end date for an insurance contract would impact the calculation for cash flows, which in turn would influence the profitability of the contract. Furthermore, a key part of revenue recognition of insurance products is the amortisation of the contractual service margin, which is open to many judgements. The fact that IASB's revised insurance standard has not yet been finalised will not help in the formulation of the social benefits insurance approach and IPSASB may wish to consider what effect IFRS 4 phase II could have on the development of this approach.	Staff notes these comments. Staff agrees that defining the coverage period for a benefit would be a key issue in any future IPSAS. Staff also notes that the proposals in the CP were based on the IASB's Exposure Draft, and that a final pronouncement would need to be considered in implementing the

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 10	STAFF COMMENTS
			approach.
34	A	Yes, I agree that where a social security benefit is designed to be fully funded from contributions for letter a any expect surplus should be recognized over the coverage period of the benefit, so I suggest for the Board’s consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.	Staff notes these comments.
35	D	In [our jurisdiction], there is currently one unsubsidized scheme, [the] Supplementary Pension. [These] pensions are adjusted in accordance to the financial resources of the scheme therefore the benefit will never yield a surplus or a deficit for recognition.	No direct response to SMC 10 identified.
36	B	We think that the Board needs to spend more time determining whether the insurance approach is suitable for social benefits that are of a non-exchange nature. The insurance model developed by the IASB has a similar objective, to account for uncertain liabilities. However, the insurance model is built on the premise of an exchange transaction. We think that the insurance model is a sound starting base for the IPSASB to develop its own model for social benefits, but modifications may need to be made to arrive at an approach suitable for social benefits. Assuming that the insurance approach is used, we think that the proposed approach is reasonable.	Staff notes these comments.

Specific Matter for Comment 11

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions:

- (a) Recognize an expense on initial recognition;
- (b) Recognize the deficit as an expense over the coverage period of the benefit;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and the liability irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation; or
- (e) Another approach?

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – EXPENSE ON INITIAL RECOGNITION	02, 06, 09, 11, 16, 18, 22, 23, 26, 30, 32	11
B – EXPENSE OVER COVERAGE PERIOD	07, 12, 20, 36	4
C – OFFSET ONLY IF TRANSFER		0
D – OFFSET IN ALL CASES	08, 31, 34	3
E – ANOTHER APPROACH	10, 14, 21, 28, 33	5
SUB-TOTAL OF THOSE PROVIDING COMMENTS		23
F – DID NOT COMMENT	01, 03, 04, 05, 13, 15, 17, 19, 24, 25, 27, 29, 35	13
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 11	STAFF COMMENTS
01	F	<i>No comments identified</i>	
02	A	<p>[Respondent 02] is of the opinion that (a) is the correct way. This is consistent with the position adopted by [Respondent 02] that future tax revenues may not be recognized and therefore also not set off; on the other hand benefit obligations should be accrued. Alternative (b) drops out, because [Respondent 02] does not believe that the accrual is dependent on the way of financing (cf. also response to Question 5). Alternatives (c) and (d) drop out, because future tax revenues may not be recognized.</p> <p>[Respondent 02] wishes that the IPSAS Board explains in a future ED with the aid of an example how these alternatives are to be applied.</p>	Staff notes the request for examples in the ED. Staff considers these will be required if the IPSASB includes the insurance approach.
03	F	<i>No comments identified</i>	
04	F	We do not support the insurance approach. Please see our response to Specific Matters for Comment 9 and 10.	
05	F	<i>No comments identified</i>	
06	A	As indicated above we would only apply the insurance approach to social benefits that are mainly funded as defined above. In this case in our view any deficit should be expensed on initial recognition.	Staff notes these comments.
07	B	<p>We prefer option B as expected surpluses and deficits represent flows (not stocks) and therefore they should be recognized as flows over the coverage period.</p> <p>Options C and D appear to be inconsistent with established accounting principles, because these options imply that a liability does not exist until the funding to pay for it is earmarked or reallocated from elsewhere. The funding for a social benefit has no relevance to the existence of the obligation to pay the beneficiaries.</p>	Staff notes these comments.
08	D	We favour (d). In our view a clear distinction needs to be made between financial information regarding social security programs and financial statements of governments. The former might be set up explicitly with a remit to ensure that benefit costs and administrative expenditures are met in full by contributions of employers and employees, together with investment income. If they are fulfilling this requirement it would be strange to force them to present financial statements which appear to show something different. If amounts are due to be paid from other parts of government in order to complete the picture, these should be shown as income, with a	Staff notes these comments

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 11	STAFF COMMENTS
		corresponding liability shown elsewhere in the government accounts.	
09	A	<p>Our response to this specific matter for comment should be read in the context of our views expressed on the appropriateness of the insurance approach.</p> <p>Where social benefits are not designed to be fully funded by contributions, we question whether the insurance approach is appropriate. It may be feasible to explore the premium allocation approach as outlined in our earlier response.</p> <p>If the IPSASB pursues the insurance approach as outlined in the Consultation Paper, then we are of the view that the deficit should be reflected as an expense on initial recognition as this reflects that it is an onerous contract.</p>	Staff notes that this respondent questions the use of the insurance approach for subsidized schemes.
10	E	<p>We believe (a) and (c) are viable options. Option (b) represents deferral and amortization of a loss, which may not represent an entity's financial position accurately. As discussed above (comment 9), we worry that option (d) may represent the indirect recognition of items that would not otherwise meet the asset test.</p> <p>In [our standards], governments may use note disclosure to report on funds. This supplemental disclosure provides governments with an opportunity to show the public how earmarked funds or reserved funds are being used to complete public sector projects and programs. This is a reporting option, not a requirement. We have found this type of reporting to be most common at the municipal level in [our jurisdiction]. While we have conceptual issues with option (d), we do believe this type of transparency and accountability has a role to play in the financial statements. Further elaboration of how such an approach would work within the financial statements would be helpful in understanding this option if it is included in future documents for comment.</p>	Staff notes that the respondent considers two options are viable.
11	A	<p>We believe the expected deficit should be recognised as an expense on initial recognition. This approach would ensure consistency in the accounting treatment for all deficits, whether the scheme is designed to be fully funded from contributions or otherwise.</p> <p>Where transfers are expected from another public sector entity, these would be considered in the measurement and the estimation of the expected future cash inflows only to the extent that the public sector entity has a present legal right to receive such transfers and is expected to continue to have such a right in the future. This assessment would be made at the entity level and the necessary eliminations would need to be made in consolidation as appropriate.</p>	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 11	STAFF COMMENTS
12	B	<p>We agree with “(b) Recognize the deficit as an expense over the coverage period of the benefit.” This would achieve the consistency of recognition points between a scheme fully funded by contributions and a scheme not fully funded by contributions.</p> <p>However, as we discussed in the Specific Matter for Comment 10, the components of liabilities should be presented in detail if financial statements are used for deciding revision of the insurance premium. In addition, when the planned amount of subsidy from another public sector entity is determined at the initial recognition, we propose that the receivables from the planned subsidy should be recognized as scheme assets unlike (c) above. But for the purpose of the presentation, the subsidy would be offset and presented as a part of future cash flow.</p>	<p>Staff notes that the preferred approach is consistent with the respondent’s recommendation for fully funded schemes. Staff also notes the recommended disclosure.</p>
13	F	<p>Since we have not gone into details concerning the insurance approach, we choose not to comment on these matters.</p>	
14	E	<p>As explained above, we believe the insurance approach is not generally appropriate for social security schemes that are not designed to be fully funded from contributions. There is considerable potential for misapplication of the insurance approach, since in comparison with the obligating event approach it is likely that a reporting entity would present less liability in the statement of financial position.</p> <p>In our opinion, individual schemes that are not fully self-funded will need to be analyzed in order to identify whether they comprise a subsidized social assistance component (based on an assessment of substance over form) in addition to a social insurance component.</p>	<p>Staff notes that this respondent would only apply the insurance approach to self-financed schemes (or components of schemes).</p>
15	F	<p><i>No comments identified</i></p>	
16	A	<p>For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09].</p> <p>Our comments are reflected in [Respondent 09’s] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.</p>	<p>See staff comments under Respondent 09.</p>
17	F	<p>The financial effects need to be examined according to these different methods in order for us to make a well-founded statement.</p>	<p>No direct response to SMC 11</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 11	STAFF COMMENTS
			identified.
18	A	We believe that under the insurance approach the appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions is recognized as an expense on initial recognition.	Staff notes these comments.
19	F	Not relevant.	No direct response to SMC 11 identified.
20	B	Based on the limited information available, our preliminary thoughts are that option b would appear to be the most representative of the scheme and therefore best represents the economic reality.	Staff notes these comments.
21	E	<p>In [Respondent 21's] view and based on our understanding of social benefit programmes developed in the United Kingdom, the fact that a social benefit programme is not designed to be fully funded raises a significant challenge as to whether the social insurance approach should be applied, and in general we would not expect this to be appropriate.</p> <p>However, it may be that in other countries, the combination of scheme implementation and the relationship with law and expectations may operate so that the social insurance approach is a realistic representation of the economic substance. Depending upon the specific circumstances, any of the approaches (a) to (d) might potentially be applicable.</p>	Staff notes the concern regarding the applicability of the approach to subsidized schemes, and the comment that if applied, the accounting treatment might depend on the nature of the scheme.
22	A	We agree with the first approach, i.e. "Recognize the deficit as an expense on initial recognition". This aligns with the Prudence principle – deficit is already incurred and should be recognized and expensed immediately. This is to allow for consistent treatment of all deficits irrespective of the nature of the scheme. The reason is tandem with the objective of financial reporting and provides useful information to users of financial statements.	Staff notes these comments.
23	A	Should the IPSASB pursue the insurance approach, we recommend that a deficit of a social security benefit that	Staff notes these

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 11	STAFF COMMENTS
		is not designed to be fully funded from contributions, be recognized as an expense on initial recognition (this reflects an onerous contract).	comments.
24	F	<i>No comments identified</i>	
25	F	<i>No comments identified</i>	
26	A	[Respondent 26] considers that offsetting the liability is tantamount to a misrepresentation of the liability and accordingly rejects those two options outright. Consistent with the private sector, and as a representation of the claims expected to be incurred against the contributions received, [Respondent 26] prefers option (a).	Staff notes these comments.
27	F	<i>No comments identified</i>	
28	E	<p>[Respondent 28] appreciates the arguments in favour of option (a), the immediate recognition of an expected deficit, where a social benefit scheme is not fully funded by contributions. As the CP states, this would ensure consistency of accounting treatments for all deficits with deficits on fully funded schemes and also with more general accounting for deficits, such as those arising from onerous contracts.</p> <p>However, there is some debate whether the immediate recognition of the expected deficit would actually provide meaningful information for the users of the accounts, particularly where the scheme is new and no contributions have been paid and no entitlement to benefits has yet arisen. In these circumstances, there is a good argument to be made for recognising the expected deficit on initial recognition and then recognising the deficit over the coverage period (option (b)). This would provide more meaningful information as to the annual costs of operating such schemes.</p> <p>However, where this accounting treatment is adopted by a scheme that has already been running for some time, we would recommend the immediate recognition of the expected deficit insofar as it could be identified as arising out of past contributions, with the remaining deficit to be recognised as a cost over the remaining term of the contract.</p> <p>[Respondent 28] also believes that the legal nature and terms of the scheme may be of importance in this question. For example, where the scheme permits contributions to be raised to cover deficits there may not be a liability to be recognised even if a public sector body is required to cover any eventual deficit of the scheme. However, this may not be the case if it becomes apparent that a deficit could not practically be funded by raising contributions, at which point the question of how to treat the deficit becomes critical. Also, the terms of the</p>	<p>Staff notes that, depending on the circumstances, this respondent considers that either recognizing an expense on initial recognition or over the coverage period may be appropriate. Staff also notes the factors identified by the respondent which might indicate that an entity is able to avoid an outflow of resources, for</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 11	STAFF COMMENTS
		scheme may permit the cancellation of the scheme or reduction in benefits in certain circumstances, which may allow the public bodies to avoid paying, or reduce the amount of, the deficit. [Respondent 28] does not support Options (c) and (d), not least because they run contrary to the general approach of not recognising an asset until its receipt is virtually certain.	example by increasing contributions.
29	F	As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 11.	
30	A	We believe recognising the expense on initial recognition would be appropriate. However we are not clear if the reasoning provided in the CP, that all deficits would be accounted for consistently irrespective of design of the scheme, is adequate. In fact, it is the design of the scheme that provides rationale for using the insurance accounting in the first place. Wouldn't the expense be on initial recognition even under the obligating event approach?	Staff notes these comments. Staff comments that the expense is on initial recognition under the obligating event approach, but this might not be for all future benefits, depending on the recognition point adopted.
31	D	For the reasons noted in our response to Specific Matter for Comment 9 above, we do not support the insurance approach. However, if the IPSASB determines that the approach is appropriate, we believe that it would be appropriate to offset the planned subsidy and the liability irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation.	Staff notes these comments.
32	A	Refer to the answer in the previous question - Specific Matter for Comment 10 (following paragraph 6.35): [Respondent 32] is of the preliminary view that [...] expected deficits should generally be recognised as they arise, similar to onerous contracts. However, [Respondent 32] believes that these concepts need to be considered more fully, as there may be	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 11	STAFF COMMENTS
		legitimate exceptions to these principles in some circumstances.	
33	E	<p>We believe that the insurance approach will only be applicable in those circumstances where social benefits meet the criteria of an insurance-type benefit which includes the need for the benefit to be fully funded.</p> <p>As we stipulate throughout this response, we would like to see more examples of application to the various types of existing social benefits and related administrative arrangements, in order to come to a firm view as to the most appropriate accounting treatment.</p>	Staff notes that this respondent would only apply the insurance approach to fully funded schemes.
34	D	<p>In my view letter d is appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions, because in the government general taxation there is restrict for some activities to develop, is important specific law or rules of each activities and taxation.</p> <p>I suggest for the Board’s consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.</p>	Staff notes these comments.
35	F	<p>It has earlier been suggested that [our] contributory social benefits can be divided into two different categories; savings related and insurance related. For an example of savings related there is the benefit for pre-retirement [...], for an example of insurance related there is the benefit for unemployment with a connection to the labor market [...].</p> <p>The perception of the benefit seems important, whether a deficit can be recognized as an expense in general.</p> <p>A deficit is not expected as possible for recognition for the insurance related schemes [...]. It would require the individual to have entered unemployment, and even then, the coverage period is unknown.</p> <p>Recognition of a deficit, when the scheme in question is savings related, seems more likely to gain ground. However, this area needs further clarification, whether the additional deposits would stipulate contribution or subsidize. If these deposits are defined as contribution, a deficit can arise. If instead it is to be seen as subsidize, the subsidize will rise, hence there will be no deficit.</p>	<p>Staff notes these comments.</p> <p>No direct response to SMC 11 identified.</p>
36	B	We question whether Option A, upfront recognition of the expected deficit which may not match the period that actual deficits occur, would result in useful financial information for users. Option B would seem to be a supportable conclusion under the Conceptual Framework. Options C and D are unlikely to be consistent with the	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 11	STAFF COMMENTS
		<p>Framework as under these options, it's unclear whether the liability is indeed an obligation of the entity or the other entity that is funding the deficit; it is also unclear whether there should be an asset to be recognized for the transfer. Furthermore the planned subsidy and the liability are unlikely to have the right to be offset under the Framework. The IPSASB could consider whether in this situation an exception needs to be made and a departure from the Framework is necessary.</p>	

Specific Matter for Comment 12

In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities?

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – COST OF FULFILLMENT MEASUREMENT BASIS	01, 07, 08, 09, 10, 11, 12, 14, 16, 20, 21, 22, 23, 26, 28, 30, 31, 32, 33, 35, 36	21
B – ASSMUMTION PRICE MEASUREMENT BASIS	06, 18, 34	3
SUB-TOTAL OF THOSE PROVIDING COMMENTS		24
C – DID NOT COMMENT	01, 03, 04, 05, 13, 15, 17, 19, 24, 25, 27, 29	12
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 12	STAFF COMMENTS
01	C	<i>No comments identified</i>	
02	A	[Respondent 02] is of the opinion that the liabilities should be measured on the basis of <i>fulfillment costs</i> , because there is no active market.	Staff notes the comment.
03	C	<i>No comments identified</i>	
04	C	We do not support the insurance approach. Please see our response to Specific Matters for Comment 9 and 10.	
05	C	<i>No comments identified</i>	
06	B	We find the terminology in the section of CP less than clear, in that different terms are used for what is essentially the same concept, e.g. assumption price, prudentially adjusted liability, cost of fulfilment. In our view the appropriate basis is the risk adjusted cost of fulfilment, referred to as the assumption price.	Staff notes these comments. Cost of fulfilment and assumption price are described in the Conceptual Framework.
07	A	The cost of fulfilment is the more appropriate basis in our view as it represents an objective approach to measuring the liabilities. As stated in paragraph 6.43, the assumption price would not be appropriate for the public sector where there is no third party that might assume the liability. Furthermore, we are assuming that the cost of fulfilment approach would be conducted under the principle of neutrality (such as in International Standard of Actuarial Practice 2, paragraph 2.3) whereby all assumptions are made such that the resulting projection is not considered to be a material underestimate or overestimate, and as such, material levels of uncertainty would already be reflected in the measurement of the liability on a cost of fulfilment basis. The cost of fulfilment represents the best estimate of the cost that is expected to be incurred.	Staff notes these comments
08	A	We do not agree that the normal cost of fulfilment measurement basis should be used. Our understanding is the cost of fulfilment presumes that the future cash flows are adjusted for risk. In particular, although we do agree with the use of expected cash flows, we do not agree that a risk adjustment is appropriate. The primary reason is that governments have the flexibility, especially under dire financial conditions, to modify the terms of the social security system, e.g. decrease benefits, increase contributions or change other program features. In	Staff considers that the respondent supports the cost of fulfilment basis. The respondent

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 12	STAFF COMMENTS
		<p>addition, given the duration of the obligations and the nature of the expected cash flows, a risk adjustment may be disproportionately large.</p> <p>We strongly believe it is necessary to convey the degree of uncertainty as part of disclosure. Actuarial techniques such as sensitivity/stress testing and/or use of stochastic models to illustrate the range of uncertainty in the cash flow estimates are strongly encouraged and will provide proper perspective to the estimates involved.</p>	<p>does not support the use of a risk adjustment.</p> <p>Paragraph 6.39 of the CP makes it clear the cost of fulfillment does not include the risk adjustment.</p>
09	A	<p>If an entity is able to charge contributions that adequately compensate it for the risk assumed, the assumption price is appropriate. We note that if an assumption price is used, it may require complex calculations to be undertaken and significant assumptions to be applied. It is also notable that the measurement model in the insurance approach proposed by the IASB also does not fully align with the concept of an assumption price in the Consultation Paper.</p> <p>However, because many public sector insurance type schemes are not undertaken on this basis, we are of the view that using cost of fulfillment as the measurement basis for liabilities is more appropriate. Cost of fulfillment provides a relevant measure of liabilities as it reflects the cost that the entity will incur to settle the obligation.</p>	<p>Staff notes the comment regarding assumption price.</p>
10	A	<p>We believe the cost of fulfillment is the most appropriate measurement base for all approaches identified in the CP.</p>	<p>Staff notes these comments.</p>
11	A	<p>We believe that the cost of fulfillment measurement basis would achieve faithful representation of the social benefit obligations as the amount so determined represents the best estimate of the expected future cash outflows in the particular given circumstances.</p>	<p>Staff notes these comments.</p>
12	A	<p>We acknowledge that third parties will only rarely assume liability for public sector insurance. It would thus be inappropriate to use the assumption price measurement basis for measuring liabilities. In principle, the cost of fulfillment should be used as the measurement basis.</p>	<p>Staff notes these comments.</p>
13	C	<p>Since we have not gone into details concerning the insurance approach, we choose not to comment on these matters.</p>	

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 12	STAFF COMMENTS
14	A	In our view, the assumption price measurement basis would be impracticable in the public sector, as it will generally not be as feasible for public sector entities to transfer social benefit schemes at a cost representing the “value” of that individual scheme as might be the case in the private sector. The cost of fulfillment measurement basis is also likely to be more straightforward in terms of calculation. For both these reasons we believe that, the cost of fulfillment measurement basis would be preferable in terms of providing faithfully representative information.	
15	C	<i>No comments identified</i>	
16	A	For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09]. Our comments are reflected in [Respondent 09’s] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.	See staff comments under Respondent 09.
17	C	As stated at the beginning, we have not had time to examine the CP sufficiently, and for this reason we cannot adequately assess Comment 12. According to our understanding of Sections 6.38 ff and 6.43 – “For other social security schemes, ... They argue that information regarding the risk adjustment applied by the entity may enable users of the financial statements to better evaluate the risks borne by the entity in operating the scheme.” – either the “cost of fulfillment measurement” or “assumption price measurement” could be more applicable, depending on the category of social insurance.	Do direct response to SMC 12 identified.
18	B	Under the insurance approach, an entity should use the assumption price measurement basis for measuring liabilities. This approach more closely follows IPSAS recognition related to discounted cash flows and so would be more in line with conventional reporting frameworks.	Staff notes these comments.
19	C	Not relevant.	No direct response to SMC 12 identified.
20	A	We support the use of the cost of fulfilment basis.	
21	A	[Respondent 21’s] preliminary view is that the cost of fulfilment basis should be used.	
22	A	Cost of fulfillment measure is the most prudent approach as the assumption of price measurement is based on a	Staff notes these

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 12	STAFF COMMENTS
		risk factor that is subject to relative determination. We consider the cost of fulfillment approach as the best estimate for measuring the liability.	comments.
23	A	In our view, the cost of fulfillment measurement basis should be used as it reflects the cost that the entity will have to incur to settle the obligation. The assumption price measurement basis is more applicable to insurance type schemes where the entity is able to charge contributions that compensate for its risks.	Staff notes these comments.
24	C	<i>No comments identified</i>	
25	C	<i>No comments identified</i>	
26	A	<p>[Respondent 26] supports the cost of fulfilment approach as the most appropriate basis for insurance liabilities. This is consistent with the measurement of most other liabilities.</p> <p>We note that the main difference in these approaches occurs as an assumption price would require the addition of a risk margin to the cost of fulfilment. Effectively, the cost of fulfilment should provide a best estimate of the net present value of the costs that will be met whereas the assumption price adds a prudential margin that inflates that estimate, to an amount another party would require to assume the liability.</p> <p>We understand the importance of this prudent approach in the private sector, particularly given the criticality of the solvency of private sector insurers to their going concern assumption. We believe that for state-owned or guaranteed insurance schemes a more appropriate amount to use in assessing the financial position of the scheme is a ‘best estimate’ rather than (for example) an estimate that is designed to be greater than the actual outcome in 75% of cases. If additional funding to cover underestimated liabilities is needed, and if that funding can be recouped through increasing the level of future taxes/levies/fees, then an accounting approach driven by going concern based on solvency at any point of time is no longer appropriate.</p> <p>If this approach is taken, then it follows that any accounting for unearned premium deficiencies to reflect unexpired risk premiums would also no longer be required. Not only would that be helpful, it would make insurance obligations more understandable, and better able to be budgeted and reported against.</p>	
27	C	<i>No comments identified</i>	
28	A	In accordance with the view expressed in the response to Comment 8(b) above, [Respondent 28’s] view is that the cost of fulfilment measurement basis is the most appropriate to use in these circumstances. Establishing the assumption price may be very difficult for schemes predominantly run by government bodies as there may be	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 12	STAFF COMMENTS
		little in the way of an alternative market that is able or is willing to take over the provision of such services.	
29	C	As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 12.	
30	A	The liability of the public sector entity to meet the social benefit obligation should be measured at cost of fulfilment. However risk adjustment needs to be made in respect of expected contributions from participants, based on past trends and other reasonably valid assumptions. From the CP, it is not clear why under the cost of fulfilment basis, a risk adjustment to contributions is not required. Cost of fulfilment of the public sector entity will obviously increase if participants do not contribute as expected.	Staff notes these comments. Staff considers that the risks referred to by the respondent would be addressed in the calculation of the "best estimate".
31	A	Yes. Regardless of the approach used, the cost of fulfillment is an appropriate measurement basis.	Staff notes these comments.
32	A	<p>[Respondent 32] considers that the cost of fulfilment measurement basis is most appropriate for all approaches to social benefits, except as set out in the answer to Specific Matter for Comment 7.</p> <p>Assumption price is the amount that an entity would rationally be willing to accept in exchange for assuming an existing liability. There are usually no third parties who would be interested in assuming the social benefit liabilities in public sector. Therefore, cost of fulfilment would be appropriate.</p> <p>However in exchange based insurance schemes, assumption price could be used if there are ready and willing parties to purchase or assume the liabilities.</p>	Staff notes these comments.
33	A	See the response to comment 8(b). We support the cost of fulfilment as the measuring basis for social benefit liabilities; the assumption price may be difficult to determine in the absence of an alternative market.	Staff notes these comments.
34	B	<p>I think that this point need to clarify in relation method use for measurement basis or the assumption price measurement basis for measuring liabilities, because in this case the government can be regulator of laws for organizations and companies or elaborate application of this procedures in it.</p> <p>I suggest for the Board’s consults Key International Regulators about what is method of net present value that</p>	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 12	STAFF COMMENTS
		countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.	
35	A	The assumption price approach is generally disliked, due to an entity's possibility of adjusting the risk, the same risk as would be implemented in the calculation. Additionally the view in paragraph 6.43 is acknowledged, hence the approach is found inappropriate for the public sector, where there is no third party that might assume the liability. This approach would most likely not support a faithful representation of the scheme. Cost of fulfillment is generally found appropriate, as this approach represents the best estimate for the cost that is expected to occur. Therefore, this approach is considered more likely to support a faithful representation of the scheme and to support controlling.	Staff notes these comments.
36	A	We agree with the use of cost of fulfillment as a government's liability has no 'assumption' price or exit price. And as discussed in 6.41, the main advantage of using the cost of fulfillment measurement basis is that this represents the best estimate of the cost that is expected to be incurred to settle the obligation.	Staff notes these comments.

Specific Matter for Comment 13

Do you agree that, in those cases where the link between contributions and benefits is not straightforward, the criteria for determining whether the insurance approach is appropriate are:

- The substance of the scheme is that of a social insurance scheme; and
- There is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.

If you disagree, please specify the criteria that you consider should be used.

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	02, 08, 10, 11, 12, 14, 15, 18, 20, 21, 22, 26, 28, 30, 32, 34	16
B – PARTIALLY AGREE	06, 07, 33	3
C – DISAGREE	09, 16, 23, 31	4
SUB-TOTAL OF THOSE PROVIDING COMMENTS		23
D – DID NOT COMMENT	01, 03, 04, 05, 13, 17, 19, 24, 25, 27, 29, 35, 36	13
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 13	STAFF COMMENTS
01	D	<i>No comments identified</i>	
02	A	[Respondent 02] agrees with this statement.	
03	D	<i>No comments identified</i>	
04	D	We do not support the insurance approach. Please see our response to Specific Matters for Comment 9 and 10.	
05	D	<i>No comments identified</i>	
06	B	As indicated above, we would propose a narrow definition of a funded (social insurance) scheme. All other schemes would be treated as social assistance.	Staff considers that the respondent supports a narrow scope when applying the insurance approach, but would use a narrower scope than in the CP.
07	B	We agree with the first criterion. However, the second criterion should be stricter to ensure that there is a dedicated and fixed source of revenue that is clearly attributable to the social security scheme. If the second criterion provides too much flexibility in the interpretation of the link between benefits and contributions, then the resulting measurements could lose relevance, as it would be easy for every social security scheme to have an expected net cash flow of zero based on the assumption that the government will simply reallocate revenues from other sources to pay for any deficits in that scheme.	Staff notes the comment that the second criteria should be stricter.
08	A	We agree.	
09	C	In our response to SMC 9, we indicate that we do not support using the insurance approach in these instances as the accounting approach does not support the economic substance of the arrangement.	
10	A	Agree.	Staff notes the comment that the

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 13</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>Framing the Insurance Approach:</p> <p>In describing the Insurance Approach as a third option, it may appear to some readers that the IPSASB is proposing to restrict the recognition of social benefits to only those obligations that resemble insurance contracts. While we do not believe that this is the IPSASB's intention in setting out the Insurance Approach as a standalone option, it may be interpreted that way.</p> <p>We view the insurance approach as a subset of the obligating event approach. There is broad spectrum of social benefit programs; some are like insurance. The IPSASB may conclude that the obligating event approach is appropriate for all social benefit programs. For a subset of those, there exists a specific measurement approach for the obligations that resemble insurance programs. An entire industry has developed measurement techniques for liabilities related to insurance programs and those techniques can be extrapolated to insurance-type social benefit programs in the public sector.</p> <p>As stated in 6.10, this measurement approach lines up with some variants of Option 1 (threshold eligibility criteria sub-option). The Insurance Approach is an approach toward measurement of liabilities that resemble insurance contracts. The issue with respect to recognition criteria is well described and can best be dealt with as obligating events (approach 1). It is important to use such techniques where they are most applicable in order to recognize and measure liabilities for social benefits.</p> <p>However, strategically, if the Obligating Event approach is not well-received, the Insurance Approach may be a theoretically supportable stand-alone approach to ensuring that some social benefit obligations are recognized as liabilities. Under this scenario, the vast majority of social benefit programs would be considered to fall under the Social Contract approach and the recognition of obligations for such programs may be limited. In contrast, social benefit programs that are comparable to insurance programs could arguably be treated differently as there are standards all over the world regarding the accounting for insurance programs; it may be hard to argue that public sector social insurance programs are substantively different.</p>	<p>respondent views the insurance approach as a subset of the obligating event approach.</p>
11	A	<p>The proposals for insurance accounting included in the Consultation Paper are based on IASB's proposals for insurance contracts. These thus address situations where a contractual relationship exists. The analogy with the accounting treatment of certain types of social benefits is therefore only relevant where a clear and strong link exists between the benefits paid by a social security scheme and the revenue that finances the scheme.</p> <p>We agree with the proposals set out in the Consultation Paper and recommend that clear guidance be</p>	<p>Staff notes the comments that guidance will be required.</p>

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 13</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>developed to help in the determination of whether a clear and strong link exists between the benefits paid by a social security scheme and the revenue that finances the scheme.</p>	
12	A	<p>We agree with the proposals in this CP on this issue.</p> <p>As the paragraph 6.61 of the CP discusses, when the percentage of benefits provided to non-participants becomes greater, the scheme becomes less of a social insurance scheme and more like social assistance. Hence, the application of an insurance approach becomes inappropriate. Furthermore, when the link between the benefits and funding sources is unclear, the application of the accounting for insurance approach would necessarily give rise to various difficulties. It is essential to clarify the link between the benefits and funding sources.</p>	<p>Staff notes these comments, and the need to clarify the link between benefits and funding sources.</p>
13	D	<p>Since we have not gone into details concerning the insurance approach, we choose not to comment on these matters.</p>	
14	A	<p>We fully agree, and refer to our comments elsewhere in this letter in respect of the need for the IPSASB to provide a robust definition of social insurance. Since the insurance approach may ultimately result in less liability being presented in the statement of financial position than might be the case under the obligating event approach, we are concerned as to the potential for misapplication of the insurance approach, particularly where schemes may be (wholly or in part) subsidized so that they represent social assistance in substance. In assessing whether a scheme is in substance subsidized or not, it will be important for both the design of the scheme and actual operation of the scheme to be assessed.</p>	<p>Staff notes these comments.</p>
15	A	<p>We also do support IPSASB's view that application of the insurance approach is only appropriate where there is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.</p>	<p>Staff notes these comments.</p>
16	C	<p>For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09].</p> <p>Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.</p>	<p>See staff comments under Respondent 09.</p>
17	D	<p>"The scheme" in the [old age and survivor insurance and disability insurance] is not entirely "straightforward" – either in its financing (solidarity contributions, federal contribution) or in its benefits with respect to features such as minimum and maximum pensions, splitting, parental credits and care credits, or caps (for married couples).</p>	<p>No direct response to SMC 13 identified.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 13	STAFF COMMENTS
		We cannot currently judge whether the two criteria are enough.	
18	A	We agree with this proposition stated [in SMC 13].	
19	D	Not relevant.	No direct response to SMC 13 identified.
20	A	We agree.	
21	A	[Respondent 21] agrees with these criteria, which will help ensure that the Insurance approach is applied to arrangements for which it will produce useful information.	Staff notes these comments.
22	A	We agree with IPSASB regarding the criteria for determining the appropriateness of the insurance approach. Reason(s) (i) When the link between contributions payable and the benefits is complex and does not relate directly, the exercise of judgment contained in the Consultation Paper (CP) is considered appropriate. (ii) Consideration of allocability of contribution levy is a critical factor as it makes clear to users of financial information how the contribution will be applied. We consider it adequate and sustainable in view of the objective of the related scheme. (iii) Furthermore, a consideration of the substance of the scheme will enable the entity differentiate between a social insurance and social assistance. This is considered important owing to different treatments required and will ensure that objectives of financial reporting are met.	Staff notes these comments.
23	C	We do not recommend using the insurance approach in these instances as the accounting approach does not support the economic substance of the arrangement.	Staff notes these comments.
24	D	<i>No comments identified</i>	
25	D	<i>No comments identified</i>	
26	A	[Respondent 26] agrees with IPSASB's views that the insurance approach should only be used where that is the substance and the link is clear.	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 13	STAFF COMMENTS
		This is based on our understanding that a clear link is established when: <ul style="list-style-type: none"> • The revenue financed from the scheme comes from the recipients covered or from exacerbators of the risk that is being covered • The scheme ensures that revenue generated by the scheme is used for the purposes of the scheme. [Respondent 26] does not consider that the link has to be so strong that only contributors to the scheme can receive benefits from the scheme.	
27	D	<i>No comments identified</i>	
28	A	[Respondent 28] agrees with the criteria stated in the CP.	
29	D	As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 13.	
30	A	Agree. The CP defines social insurance as “the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient”. The two criteria specified above both directly relate to this definition. It may be useful however to add a third criterion that benefits shall be paid to participants, again arising from the definition of social insurance.	Staff notes these comments.
31	C	For the reasons noted in our response to Specific Matter for Comment 9 above, we do not support the insurance approach. Further, we believe that non-exchange revenues should be accounted for consistently across social benefit schemes and other non-exchange transactions.	Staff notes these comments.
32	A	[Respondent 32] agrees but notes that in some circumstances it might be difficult to determine whether the substance of a scheme is insurance or some other form of social risk management.	Staff notes these comments.
33	B	We agree with the above criteria but we have concerns about how often there is a clearly defined link between contributions and benefits paid and therefore consider that these schemes are not prevalent. The question itself is probably symptomatic of the real world whereby in those cases where the link between contributions and benefits is not straightforward, the insurance approach would not apply. It would help to see relevant examples, to assess how such benefits (especially significant benefits as a state pension) are funded from a clearly defined and visible funding stream and the consequential impact on the	Staff considers that the respondent supports the proposed criteria in principle, but considers there will

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 13</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>accounting.</p> <p>Other key criteria in determining whether the insurance approach is appropriate include the following:</p> <ul style="list-style-type: none"> • Cash flows are within the boundary of the insurance contract, ie the government can compel the recipient to pay the premiums, and the government has a substantive obligation to provide the recipient with benefits; • Start and end dates need to be reliably identifiable; • It must be possible to apply an aggregated approach; and • Estimates of future cash flows must be adjusted for time value of money, using discount rates that reflect the characteristics of the cash flows. <p>There will need to be a lot more guidance surrounding these issues</p>	<p>be difficulties in applying them in practice.</p>
34	A	<p>Yes, I agree in those case where the link between contributions and benefits is not straightforward, the criteria for determining whether the insurance approach is appropriate are: the substance of the scheme is that of a social insurance scheme and there is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.</p>	<p>Staff notes these comments.</p>
35	D	<p>In accordance to the definition of social insurance in paragraph 2.18, it is unclear, how contributions paid by other than the participators, as mentioned in paragraph 6.53, will be within this definition. Furthermore it is not clear, whether such contributions are initiated by employers, in such case it is defined as out of scope in paragraph 2.18.</p> <p>In correlation to above stated considerations, the criteria for determining whether the insurance approach is appropriate should, suggestively, be more exact. On the other hand, the insurance approach is not believed sensible to implement.</p>	<p>No direct response to SMC 13 identified.</p>
36	D	<p>No further comments.</p>	

Specific Matter for Comment 14

Do you support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25?

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	02, 06, 07, 09, 10, 11, 12, 14, 16, 18, 20, 21, 22, 23, 26, 28, 30, 31, 33, 34, 35	21
B – PARTIALLY AGREE	32	1
C – DISAGREE	08	1
SUB-TOTAL OF THOSE PROVIDING COMMENTS		23
D – DID NOT COMMENT	01, 03, 04, 05, 13, 15, 17, 19, 24, 25, 27, 29, 36	13
TOTAL RESPONDENTS		36

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 14</p>	<p style="text-align: center;">STAFF COMMENTS</p>
01	D	<i>No comments identified</i>	
02	A	[Respondent 02] supports this proposal. In IPSAS 25 a method has already been proposed. Therefore there is no reason to determine the discount rate in a different way.	
03	D	<i>No comments identified</i>	
04	D	We do not support the insurance approach. Please see our response to Specific Matters for Comment 9 and 10.	
05	D	<i>No comments identified</i>	
06	A	Yes - this is consistent with approaches discussed above.	
07	A	Yes, in our view IPSASB should maximize, to the extent possible, the consistency between the measurement of liabilities from employee benefits and liabilities from social benefits.	
08	C	<p>No. The discussion in the CP points towards use of government bond yields for discounting the benefit payments and future contributions, since this would be consistent with what is done for employee benefits (in IPSAS 25). We consider that market-based spot bond yields are not appropriate for unfunded social security liabilities which are to be financed out of future contributions and tax revenues. One reason is due to the inverse relationship between the yield on government bonds and credit rating of sovereign debt. For countries in a precarious financial position, the cost of borrowing of the government will be high, resulting in smaller social security liabilities. On the other hand, countries with good economic prospects may end up showing larger future liabilities. The economic basis for discounting would point to using discount rates based on the expected real growth of GDP or the real growth of the wage mass (or the contributions base for a contributory scheme) or growth in the real tax base.</p> <p>For programs that are financed in part by investment income, the discount rate might be based on the future expected real return on the assets, adjusted for risk. A way to recognize future investment earnings in financial statements based on asset allocation should be addressed by future IPSAS on social security reporting.</p>	<p>Staff notes these comments.</p> <p>Staff has concerns about whether discount rates calculated in this manner would satisfy the qualitative characteristics.</p>
09	A	Our response to this specific matter for comment is based on the premise that cost of fulfillment rather than an assumption price is used to measure obligations arising from insurance type schemes. If cost of fulfillment is used, then we support the use of a discount rate based on the principles in IPSAS 25 as this reflects a risk free rate.	Staff notes that support for the IPSAS 25 approach is

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 14</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		The discount rate determined in accordance with IPSAS 25 would however be inappropriate if an assumption price measurement basis is used.	contingent on the use of the cost of fulfillment.
10	A	Agree. Internal consistency with other IPSAS is important.	
11	A	We agree that it makes sense to adopt an approach which is consistent with the one adopted in IPSAS 25 'Employee benefits' and which does not include a liquidity adjustment. Determination of the discount rate by reference to either government bonds or high-quality corporate bonds is therefore appropriate.	Staff notes these comments
12	A	We agree with the proposals in this CP on this issue. The notion of the discount rate discussed from paragraphs 91 to 95 in IPSAS 25 could be widely applied to the benefits of public sectors, and not limited to employee benefits. It would thus be reasonable to determine the discount rate used for the insurance approach by the same method used to determine the discount rate under the standard.	Staff notes these comments.
13	D	Since we have not gone into details concerning the insurance approach, we choose not to comment on these matters.	
14	A	We see no reason to suggest that the same approach as that used in IPSAS 25, "Employee Benefits" would not be appropriate.	
15	D	<i>No comments identified</i>	
16	A	For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09]. Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.	See staff comments under Respondent 09.
17	D	The first pillar ([old age and survivor insurance, disability insurance and Income compensation allowances in case of service and in case of maternity]) contains elements unknown to occupational pension schemes. Accordingly, a more detailed analysis of IPSAS 25 and/or a comparison between the occupational pension schemes and the first pillar would be necessary in order to be able to make a statement on this. In the case of benefits provided by [old age and survivor insurance and disability insurance], a determination of obligations based on the "discount rate" in line with IPSAS 25 would be possible in principle, but the	No direct response to SMC 14 identified.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 14	STAFF COMMENTS
		consequences would especially need to be reviewed against the backdrop of its pay-as-you-go financing. We cannot presently comment on other benefits (such as Family Allowances in Agriculture).	
18	A	Yes we support the proposal that under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25. We agree because this is consistent with typical accounting reporting procedures and therefore not only easier to implement but more easily understandable by society since that is what is occurring for IPSAS implementing entities.	Staff notes these comments.
19	D	Not relevant.	No direct response to SMC 14 identified.
20	A	Yes, we agree with this proposal on the basis of consistency.	Staff notes these comments.
21	A	[Respondent 21] agrees with the use of the same discount rate as that used for IPSAS 25, in line with the reasoning set out by the Board at 6.64 to 6.71 of the CP.	Staff notes these comments.
22	A	We support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25. Reason(s) The discount rate as specified in paragraph 91 of IPSAS 25 Employee Benefits is a rate which is determined based on verifiable variables. This discount rate is the rate for financial instrument which has similar characteristics with that offered under the insurance contract. It considers the tenor of a government bond or corporate bond. The tenor of the bonds and discount rates recommended in this Consultation Paper is arrived at by choosing the rate from the market. This reflects the time value of money of the instrument similar to the financial instrument contract under the insurance approach. Where there is neither deep government bond nor corporate bond market, extrapolation is used to estimate the discount rate by using the current market rate of the appropriate term to discount shorter term payments. The method of determining or estimating discount rate under IPSAS 25 is objective and sustainable and should	Staff notes these comments.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 14	STAFF COMMENTS
		be used to reflect the time value of money under the insurance approach.	
23	A	Yes we support this proposal because using the same discount rate as the one determined in IPSAS 25 allows consistency with statistical reporting and reflects a risk free rate.	Staff notes the reference to statistical reporting.
24	D	<i>No comments identified</i>	
25	D	<i>No comments identified</i>	
26	A	As noted previously, [Respondent 26] considers it important that a consistent approach is followed for pension obligations, outstanding insurance claims incurred, and any other long term liability measurement.	Staff notes these comments.
27	D	<i>No comments identified</i>	
28	A	[Respondent 28] supported the approach to the discount rate incorporated in IPSAS 25, and, in particular, that reference should be made to yields on both government stocks and on high quality corporate bonds. We see no reason to adopt a different approach in this CP.	Staff notes these comments
29	D	As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 14.	
30	A	Yes, we support this proposal. We agree with the rationale outlined in paragraphs 6.64 to 6.72.	
31	A	If the IPSASB determines that the insurance approach is appropriate, we agree that the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25.	
32	B	[Respondent 32] agrees a discount rate to reflect time value of money is necessary. However, [Respondent 32] notes that government bonds can be negative at times and volatile over the long term. Therefore, it would prudent to take into account a range of factors in determining discount rates used to reflect time value of money.	Staff notes the concerns raised. Staff considers that the approach in IPSAS 25 would address these concerns, but

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 14</p>	<p style="text-align: center;">STAFF COMMENTS</p>
			further research may be appropriate.
33	A	We support the proposal above that discount rates should be determined in the same way as for IPSAS 25.	Staff notes these comments.
34	A	<p>Yes, I support the proposal that under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25.</p> <p>I suggest for the Board’s consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.</p>	Staff notes these comments.
35	A	<p>The implementation of a discount rate to reflect the time value of money, has deduced some considerations.</p> <p>It is considered important, that the chosen discount rate is based on a reference rate which is initially known. The entity should have the opportunity to choose a rate, which is not from the market of financial instruments. For instance, a rate used in other calculations made by the government could be usably, as long as it reflects the time value of money. This generally approves the approach in IPSAS 25.</p> <p>The rate should be relevant for the specific benefit hence there could be a consideration, when the benefits show similarities to savings or insurance. Different categories of contributory benefits might be more rightfully presented through usage of individual reference rates.</p>	Staff notes these comments.
36	D	No further comments.	

Specific Matter for Comment 15

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?

Please explain the reasons for your views.

Summary of Responses to Specific Matter for Comment

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	06, 08, 09, 11, 12, 14, 16, 18, 20, 21, 22, 23, 26, 28, 30, 32, 33, 34	18
B – PARTIALLY AGREE	02	1
C – DISAGREE	07	1
SUB-TOTAL OF THOSE PROVIDING COMMENTS		20
D – DID NOT COMMENT	01, 03, 04, 05, 10, 13, 15, 17, 19, 24, 25, 27, 29, 31, 35, 36	16
TOTAL RESPONDENTS		36

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 15	STAFF COMMENTS
01	D	<i>No comments identified</i>	
02	B	[Respondent 02] agrees in principle with most proposals in paragraphs 6.73 to 6.76, apart from the last bullet point in paragraph 6.73: changes to the discount rate should not be recognized in the statement of financial performance, but, similarly to IPSAS 25, over equity (or OCI).	Staff notes the proposal to recognize changes in discount rates in equity. [Check revisions to IPSAS 25]
03	D	<i>No comments identified</i>	
04	D	We do not support the insurance approach. Please see our response to Specific Matters for Comment 9 and 10.	
05	D	<i>No comments identified</i>	
06	A	Yes – this is consistent with all our other responses as indicated above.	
07	C	We recommend that the IPSASB considers using IPSAS 25 as a guide in formulating the appropriate subsequent measurement. This will maximize consistency across established accounting standards.	Staff notes the comments that IPSAS 25 may provide a basis for subsequent measurement.
08	A	We believe that, although comprehensive disclosure of the changes and the effect of the changes is appropriate, modifications in the program should, in general, be treated as a change in estimates related to the program or in other comprehensive income. However, if the modification is to introduce a new set or eliminate a set of benefits, the proposals in paragraphs 6.73 to 6.76 would be reasonable.	Staff notes these comments.
09	A	If the insurance approach is pursued by the IPSASB, we support the subsequent measurement proposals.	Staff notes these comments.
10	D	No comment at this time.	

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 15	STAFF COMMENTS
11	A	We agree with the proposals included in this Consultation Paper which are based on IASB's proposals for insurance contracts.	Staff notes these comments.
12	A	We support the proposals for subsequent measurement and significant amendment. We basically believe that there will be "no requirements which should not be applied to the public sector" among the requirements on the above in the Exposure Draft 2013/7 "Insurance Contract" issued by the International Accounting Standards Board (IASB).	Staff notes these comments.
13	D	Since we have not gone into details concerning the insurance approach, we choose not to comment on these matters.	
14	A	The proposals in IASB ED/2013/7 "Insurance Contracts" remain subject to finalization. In general, other than considerations as to the split between profit and loss and other comprehensive income which is an issue in the ongoing discussion of accounting for insurance in the private sector, the IDW is not aware of any specific reasons why the solution determined for the private sector might not generally be appropriate in this project.	Staff notes these comments.
15	D	<i>No comments identified</i>	
16	A	For purposes of our comments on this Consultation Paper, we participated in the Task Group that was set up by [Respondent 09]. Our comments are reflected in [Respondent 09's] comment letter as submitted to the IPSASB, and we will not submit a separate comment letter.	See staff comments under Respondent 09.
17	D	Subsequent measurement must also be assessed under consideration of the administrative work and expense and feasibility in terms of time. Aspects such as materiality and group/individual valuation also play a role in our view. The legal bases for entitlement can change (quickly). How should one proceed in such a case during subsequent measurement to avoid making false statements?	No direct response to SMC 15 identified.
18	A	Under the insurance approach, we support the proposals for subsequent measurement set out in paragraphs 6.73–6.76.	
19	D	Not relevant.	No direct response

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 15	STAFF COMMENTS
			to SMC 15 identified.
20	A	We are supportive of these proposals which are consistent with the IASB (Insurance Contracts).	Staff note these comments.
21	A	[Respondent 21] supports the proposals for subsequent measurement.	Staff notes these comments.
22	A	<p>Yes, we support the proposals for subsequent measurement set out in paragraphs 6.73 – 6.76.</p> <p>The paragraphs consider the appropriate treatment when there is a change or modification of the terms of a social insurance scheme. This change or modification may lead to a rise in the obligation to provide additional benefits, or reduced obligation to provide benefits or a “no change at all” in the obligation to provide benefits.</p> <p>The modification in social insurance schemes under the insurance approach conveyed in paragraph 6.76 of the Consultation Paper reflects similar circumstance as the defined benefit obligation under IPASAS 25. While IPSAS 25 is for exchange transactions, the principle of management of the benefits is the same. Paragraph 65 of IPSAS 25 maintains that defined benefit liability is arrived at by considering the present value of the defined benefit obligation, among other items.</p> <p>The present value of the defined benefit obligation reflects the effects of changes in all variables that affect existing benefit schemes. It is the same as the reflection of the net effect of treatment of subsequent measurement of insurance approach as outlined in paragraph 6.73 (bullet point three (3)). Therefore the proposals of paragraphs 6.73 – 6.76 are supported.</p>	Staff notes these comments.
23	A	Should the insurance approach be pursued, we agree with the proposals for subsequent measurement.	Staff notes these comments.
24	D	<i>No comments identified</i>	
25	D	<i>No comments identified</i>	
26	A	Yes	
27	D	<i>No comments identified</i>	

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS Specific Matter for Comment 15</p>	<p style="text-align: center;">STAFF COMMENTS</p>
28	A	<p>This CP proposes adjustments for relevant decisions on initial measurement:</p> <ul style="list-style-type: none"> • At the end of the reporting period, the carrying amount of a social insurance scheme would reflect the future cash flows, measured at that date, and the remaining expected surplus or deficit. • The remaining expected surplus (or expected deficit) would be adjusted for changes to future cash flows arising from future coverage. • The expected surplus (or expected deficit) would be recognized as revenue (or expense) in the statement of financial performance using a systematic basis that reflects the transfer of benefits provided under the scheme. Benefits payable during the period would be recognized as an expense. • The statement of financial performance would also reflect any changes to the discount rate, and the unwinding of the discounted cash flows. <p>This is in accordance with the current IASB proposals on insurance contracts and [Respondent 28] supports the proposals.</p>	Staff notes these comments
29	D	As noted in our response on Specific Matter for Comment 9, we have not commented on Specific Matter for Comment 15.	
30	A	Yes, we agree with this proposal.	
31	D	For the reasons noted in our response to Specific Matter for Comment 9 above, we do not support the insurance approach and have no comments on this Specific Matter for Comment.	
32	A	[Respondent 32] agrees in principle, as it is consistent with IASB's proposals for insurance contracts. However, in practice this could be complex to implement and administer for the public sector.	Staff notes the concerns about practicability.
33	A	<p>The CP proposes the following requirements for subsequent measurement that are based on IASB's proposals for insurance contracts:</p> <ul style="list-style-type: none"> • At the end of the reporting period, the carrying amount of a social insurance scheme would reflect the future cash flows, measured at that date, and the remaining expected surplus. • The remaining expected surplus (or expected deficit) would be adjusted for changes to future cash flows arising from future coverage. 	Staff notes the concerns that these requirements may be onerous in some circumstances.

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 15	STAFF COMMENTS
		<ul style="list-style-type: none"> • The expected surplus (or expected deficit) would be recognized as revenue (or expense) in the statement of financial performance using a systematic basis that reflects the transfer of benefits provided under the scheme. Benefits payable during the period would be recognized as an expense. • The statement of financial performance would also reflect any changes to the discount rate, and the unwinding of the discounted cash flows. <p>As the above subsequent measurements are in accordance with IASB proposals, we support them in order in the interests of IPSAS and IFRS alignment.</p> <p>New terms and conditions may be put in place for new entrants, in which case the CP proposes to account for these arrangements as two separate schemes (6.75, p.66). This seems sensible, but could potentially make the allocation of funding to the schemes even more onerous.</p>	
34	A	<p>Yes, I support the proposals for subsequent measurement set out in paragraphs 6.73 – 6.76.</p> <p>I suggest for the Board’s consults Key International Regulators about what is method of net present value that countries have to consider present obligation in each region, for me, this point impact internal control and internal audit for systems of public sector, this subject is complex.</p>	Staff notes these comments.
35	D	<p>In correlation to the considerations about savings related and insurance related contributory benefits, it might be necessary to distinguish between the categories, when applying the subsequent measurement, in paragraph 6.76.</p> <p>Generally it is found necessary to divide the obligation into two or more schemes, when a modification changes the contributory amount, in order to finance the new appearance of the scheme. This should make it possible to identify the additional required earmarked funds.</p> <p>However, for the savings related, the obligation should instead be adjusted, if there is a general presumption that the savings would be repaid to the participant that contributed.</p>	Staff notes these comments. No direct response to SMC 15 identified.
36	D	No further comments.	