

**Meeting:** International Public Sector Accounting Standards Board  
**Meeting Location:** Stellenbosch, South Africa  
**Meeting Date:** December 6–9, 2016  
**From:** Paul Mason

# Agenda Item 8

**For:**  
 Approval  
 Discussion  
 Information

## SOCIAL BENEFITS

<b>Project summary</b>	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.	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Instructions up to September 2016 meeting</a>	<a href="#">8.1.1</a>
	<a href="#">Decisions up to September 2016 meeting</a>	<a href="#">8.1.2</a>
	<a href="#">Social Benefits Project Roadmap</a>	<a href="#">8.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Scope and definitions</a>	<a href="#">8.2.1</a>
	<a href="#">Obligating Event</a>	<a href="#">8.2.2</a>
	<a href="#">Presentation and Disclosure</a>	<a href="#">8.2.3</a>
	<a href="#">Amendments to other IPSASs</a>	<a href="#">8.2.4</a>
<b>Other supporting items</b>	<a href="#">Sections of Exposure Draft XX, Social Benefits</a>	<a href="#">8.3</a>

# Agenda Item 8.1.1

## INSTRUCTIONS UP TO SEPTEMBER 2016 MEETING

Meeting	Instruction	Actioned
September 2016	Consider a presentation framework for social benefits, including the issue of gross versus net presentation.	See <a href="#">Agenda Item 8.2.3</a>
September 2016	Undertake further work on the question of whether disclosures relating to contingent liabilities are appropriate, given the differences between the recognition and measurement of liabilities under the Conceptual Framework and under IPSAS 19.	See <a href="#">Agenda Item 8.2.3</a>
September 2016	Develop a proposed disclosure on the material assumptions in recognizing and measuring a social benefit; and consider what information will be provided in the financial statements, what information would be provided under RPG 1, and what information will be required to fill the gap.	See <a href="#">Agenda Item 8.2.3</a>
September 2016	Give further consideration to the issue of whether a liability accrues over time, and to bring revised proposals to the next meeting.	See <a href="#">Agenda Item 8.2.2</a> .
September 2016	Undertake further work on the key participatory event obligating event, and in particular to consider how this relates to the IASB's proposals for insurance accounting	See <a href="#">Agenda Item 8.2.2</a> .
September 2016	Develop material explaining which transactions will fall within social benefits and which will fall within the non-exchange expenses project, and to ensure that there are no gaps between the two projects.	A diagram was circulated with the definitions and guidance on October 6 <sup>th</sup> . Further revisions are discussed in <a href="#">Agenda Item 8.2.1</a> .
September 2016	Redraft the definitions and guidance to respond to the comments made by the IPSASB, and to circulate the revised draft (in mark-up) for comments prior to the next meeting.	Circulated on October 6 <sup>th</sup> . Further revisions are discussed in <a href="#">Agenda Item 8.2.1</a> .
June 2016	Have regard to the IASB's work on discount rates when considering how social benefits shall be measured.	To be discussed at a future meeting.
June 2016	Develop a paper setting out the IASB's latest thinking on insurance accounting.	To be discussed at a future meeting.
June 2016	In determining when a scheme could be considered fully funded, have regard to the issues identified by IPSASB members - commercial substance, "looks and feels" like insurance, user needs/accountability and whether the insurance approach should be mandatory or optional.	To be discussed at a future meeting.

Meeting	Instruction	Actioned
June 2016	Review the IASB's latest position for the insurance standard to identify any guidance that helps determine when a scheme could be considered as "fully funded".	To be discussed at a future meeting.
June 2016	Consider wider issues of asset and revenue presentation, including: <ul style="list-style-type: none"> <li>• Sovereign wealth funds;</li> <li>• Whether the presentation should be a gross presentation or net presentation; and</li> <li>• How similar considerations are addressed in other IPSASs.</li> </ul>	Gross and net presentation is discussed in <a href="#">Agenda Item 8.2.3</a> . Other issues are to be discussed at a future meeting.
June 2016	Consider how to account for contributions and the interaction with certain sovereign wealth funds in developing the future ED.	To be discussed at a future meeting.
June 2016	Consider the following issues in developing the issues paper on when an obligating event can occur: <ul style="list-style-type: none"> <li>• The correlation between the key participatory event and the insurance approach;</li> <li>• The impact on preparers and readers of the financial statements;</li> <li>• The different public interest lenses addressed; and</li> <li>• What examples and flow charts / decision trees will be required to assist users?</li> </ul>	See <a href="#">Agenda Item 8.2.2</a> ; a sample decision tree, based on the proposals in that paper is included as Implementation Guidance in <a href="#">Agenda Item 8.3</a> .
June 2016	Undertake further work on the scope, taking into account the following issues identified by the IPSASB in its discussions: <ul style="list-style-type: none"> <li>• Whether benefits are provided generally or specifically;</li> <li>• Whether a definition of social risks is required, and if so how this should be framed to fit an accounting framework as opposed to an economic/statistical framework; and</li> <li>• The extent to which the scope can or should be aligned with GFS.</li> </ul>	See <a href="#">Agenda Item 8.2.1</a> .
March 2016	Reconsider the definitions once a decision on the scope of the project has been made	See <a href="#">Agenda Item 8.2.1</a> .
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.	
March 2016	Consider the analysis of responses to other SMCs in evaluating options for the project scope.	
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 SEPTEMBER 2016 MEETING

Date of Decision	Decision
September 2016	The ED should treat the claim has been approved and claim is enforceable obligating events as subsets of the eligibility criteria to receive the next benefit have been satisfied obligating event.
September 2016	The ED should include the threshold eligibility obligating event
June 2016	In principle, the ED should refer users to the forthcoming IFRS on insurance.
June 2016	The ED should permit or require the insurance approach in a more limited range of circumstances than proposed in the CP.
June 2016	Under the obligating event approach, assets should be presented as part of a social benefit scheme in all circumstances in which specific assets could be identified.
June 2016	Under the obligating event approach, social benefits should be measured using the cost of fulfillment measurement basis.
June 2016	Exchange transactions covered by other IPSASs should be excluded from the scope of the ED.
June 2016	The definition of an obligating event in the future ED should not distinguish between contributory and non-contributory benefits, but that guidance and examples should discuss how the payment of contributions could provide evidence that an obligating event had occurred.
June 2016	The ED should recognize that the obligating event will be dependent on the nature of the social benefit or the legal framework under which the benefit arises.
June 2016	No amendments to the approaches in the CP are required to address transactions not discussed in the CP.
June 2016	Following the decision not to proceed with the social contract approach, there is no need to resolve the related accounting issues.
June 2016	To include the obligating event approach and insurance approach in the ED on social benefits, but not to proceed with the social contract approach.
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:
December 2016	<ol style="list-style-type: none"> <li>1. Decision on scope of project and definitions</li> <li>2. Decision on when an obligating event may occur</li> <li>3. Discussion on disclosures</li> <li>4. Draft ED: Scope</li> <li>5. Draft ED: Definitions</li> <li>6. Draft ED: Amendments to other IPSASs</li> </ol>
March 2017	<ol style="list-style-type: none"> <li>1. Review previous sections of ED</li> <li>2. Draft ED: Recognition</li> <li>3. Draft ED: Measurement</li> <li>4. Draft ED: Disclosure</li> <li>5. Draft ED: Application Guidance</li> </ol>
June 2017	<ol style="list-style-type: none"> <li>1. Draft ED: Basis for Conclusions</li> <li>2. Draft ED: Illustrative Examples</li> <li>3. Review of full draft ED</li> <li>4. Approval of ED</li> </ol>
September 2017	Consultation Period
December 2017	
March 2018	<ol style="list-style-type: none"> <li>1. Review of Responses</li> <li>2. Initial discussion on issues raised</li> </ol>
June 2018	<ol style="list-style-type: none"> <li>1. Discussion of issues raised</li> <li>2. Review first draft of proposed IPSAS</li> </ol>
September 2018	<ol style="list-style-type: none"> <li>1. Review of draft IPSAS</li> <li>2. Approval of IPSAS</li> </ol>

# Agenda Item

## 8.2.1

### Scope and definitions

#### Questions

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

#### Detail

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 March 2016 meeting. IPSASB members may wish to refer to the [March 2016 meeting papers](#) for further details.
3. A majority of respondents supported the scope of the project as set out in the CP, and the IPSASB's intention to align the scope of the project with GFS. These respondents considered that alignment with GFS would assist with interpreting an IPSAS and help ensure consistency in its application.
4. However, 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 certain other non-exchange 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.

5. At its March 2016 meeting, 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.
6. At the June 2016 IPSASB meeting, staff presented revised proposals, which extended the scope to include "social transfers in kind that address social risk" (see the [June 2016 meeting papers](#) for further details). The IPSASB, following advice from the CAG, decided not to proceed with those proposals.
7. At the September 2016 IPSASB meeting, staff presented further revised proposals (see the [September 2016 meeting papers](#) for further details). These proposals:
  - (a) Distinguished between those benefits that are provided to specific individuals and/or households and those that are universally accessible;
  - (b) Reframed the definition of social risks to fit an accounting framework as opposed to an economic/statistical framework; and

- (c) Sought to align the scope of the project with GFS, with the exception of universal services, which are part of social benefits in GFS but which were outside the proposed scope of this project.
8. The IPSASB agreed in principle with the revised proposals presented at its September 2016 meeting. However, the IPSASB considered that further work was required on the definitions of social benefits and social risks, and on the related guidance.
  9. Since the September 2016 meeting, staff has circulated a revised draft of the definitions and guidance to IPSASB members, technical advisors and observers. Following the receipt of comments on this draft, and subsequent discussions with the TBG, staff has made further revisions to reflect these comments and discussions.
  10. The revised draft of the definitions and guidance is included in [Appendix A](#) to this Agenda Item. The draft is shown in mark-up from the text considered by the IPSASB at its September 2016 meeting. Mark-up shown in red indicates changes made prior to the draft being circulated to the IPSASB in October 2016. Mark-up shown in blue indicates subsequent changes made to reflect the comments received and the subsequent discussions with the TBG.
  11. When the draft definitions and guidance were circulated, staff asked for views as to whether the final paragraph of the guidance on social risks (which is drawn from GFS) should be retained. Most comments received suggested that this paragraph could be deleted. However, some comments suggested that the paragraph should be retained, suggesting that the paragraph provides a very good description of how programs operate in various jurisdictions, and that the section may be useful if the assessment of the obligating event depends on whether an individual makes contributions and/or accumulates entitlements based on contributions. The IPSASB is asked for its views on retaining or deleting this paragraph.
  12. Staff has also received some comments that the penultimate paragraph in the guidance on social benefits (which begins “Where benefits or services are universally accessible, the total amount of benefit ...”) is confusing and could be deleted. However, others consider this paragraph useful as it provides the rationale for excluding universal services from the scope of the project.
  13. Staff considers that it is important that the rationale for excluding universal services from the scope of the project is clearly set out. Staff notes, however, that this could be done in the Basis for Conclusions. The IPSASB is asked for its views on retaining or deleting this paragraph.
  14. Sections of a draft ED covering the scope and definitions are included at [Agenda Item 8.3](#). In the draft ED, guidance on the definitions of social benefits and social risks is included in the Application Guidance section of the ED. This provides the IPSASB an opportunity to contrast the presentation of the material in Appendix A to this Agenda Item and that in the draft ED, and to come to a view on the preferred location of the guidance. Staff considers that separating the guidance from the definitions in this manner necessitates the inclusion of an additional sentence at the end of the definition of social benefits.
  15. The draft ED also includes further definitions that were included in the CP. Staff proposes to review these definitions, including whether they are needed, as the IPSASB makes decisions on the obligating events to be included, and on recognition and measurement issues.

**Decisions required**

16. Does the IPSASB support the staff proposals regarding the scope of the project, and the definitions of social benefits and social risks?
17. If so, should the guidance on the definitions be included in the Application Guidance section of the ED, as shown in the draft ED ([Agenda Item 8.3](#))?
18. If the IPSASB supports the definitions and guidance, should the following paragraphs be retained or deleted:
  - (a) The penultimate paragraph in the guidance on social benefits; and
  - (b) The final paragraph in the guidance on social risks?

## Definitions of social benefit and social risks, and associated guidance

**Social Benefits** are benefits that are provided by a public sector entity:

- (c) ~~By a public sector entity~~ To address the needs of society as a whole;
- (d) To mitigate the effect of social risks;
- ~~(e) Where eligibility criteria are met;~~
- ~~(f)~~(e) Directly to specific individuals and/or households who meet eligibility criteria related to the mitigation of the effect of social risks, rather than being universally accessible; and
- ~~(g)~~(f) In cash or in kind.

*Guidance on the definition of social benefits:*

Social benefits are organized to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance-based schemes, which are organized for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each benefit covers all members of society; in some jurisdictions, social benefits are provided through a range of similar benefits that cover different segments of society. A benefit that covers a segment of society as part of a wider system of benefits meets the requirement that it addresses the needs of society as a whole.

The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to ~~the population~~society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the criteria that they are provided to mitigate the effect of social risks.

Social benefits are only ~~paid~~provided when eligibility criteria are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the scheme potentially covers the population as a whole, benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria.

Public sector entities may provide benefits directly to specific individuals and/or households, or may provide services which are universally accessible.

Where benefits are provided directly to specific individuals and/or households, the ~~level~~total amount of benefits ~~or service~~ provided varies directly with an individual or household's eligibility. For example, when an individual reaches retirement age and becomes entitled to a pension, the total amount of pension payable increases by the amount payable to that individual. Such benefits are social benefits.

Where benefits or services are universally accessible, the ~~level~~total amount of benefit or service provided is not dependent on an individual or household's eligibility. For example, where a public sector entity provides a universal health service, the entity is responsible for paying staff (doctors, nurses, etc.), providing assets such as hospitals and medical equipment, and incurring other expenses. When an individual moves into an area and becomes entitled to access the universal health service, this does not, except at the margin, result in the total level of service increasing. For these types of benefits, the level of

service provided will generally only vary with significant changes in population. This provides evidence that such benefits are not provided directly to specific individuals and/or households, and accordingly, such benefits do not meet the definition of a social benefit. ~~Rather, a public sector entity's liabilities for these benefits relate to the present obligations incurred in providing the service, for example payment of salaries and payment to third parties for service delivery. An entity's liabilities for these benefits do not relate to service beneficiaries. Such benefits are not social benefits as they do not satisfy the criterion that they are provided directly to specific individuals or households.~~

Because social benefits are provided individually, many social benefits will be provided in cash. However, some social benefits may be provided in kind, for example where a government program provides healthcare insurance for those who are unable to afford private healthcare insurance. Where benefits in kind are ~~made generally available~~ universally accessible, for example a universal healthcare service, these do not meet the definition of a social benefit for the purposes of this [draft] IPSAS<sup>1</sup>.

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

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

*Guidance on the definition of social risks:*

Social risks relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status. Risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks, and consequently benefits provided in respect of these risks are not social benefits.

The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.

For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the benefit arises from characteristics of the individuals and/or households – in this case a change in an individual's employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

Public sector entities may provide benefits to mitigate the effect of risks other than social benefits. Such benefits are not social benefits, and are accounted for in accordance with other IPSASs.

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<sup>1</sup> Staff notes such benefits may meet the definition of a social benefit in GFS.

~~Social benefit programs are established to mitigate the effects of social risks such as poverty and unemployment—the existence of the social risk is the primary reason for establishment of the social benefit program. By contrast, in the case of other risks such as those related to geography, poverty and unemployment may arise as a consequence of that other risk occurring. The cause of any benefits provided is the occurrence of the other risk, such as a natural disaster, rather than the direct incidence of poverty or unemployment.~~

Social benefits are provided to mitigate social risks in the following ~~circumstances~~ways:

- ~~Individuals and/or H~~households could receive benefits when they meet certain eligibility criteria that originate from a social risk without making any contributions;
- ~~Individuals and/or H~~households could make contributions and receive benefits in the event of the occurrence of the specified social risks; and
- ~~Individuals and/or H~~households could make contributions to a scheme to accumulate entitlements to future benefits, with the benefits being provided following the occurrence of the specified social risk.

**Obligating Event****Questions**

1. The IPSASB is asked to agree the points at which an obligating event might arise under the obligating event approach.

**Detail**

2. At its June 2016 meeting, the IPSASB agreed that, under the obligating event approach, the ED should recognize that the obligating event will be dependent on the nature of the social benefit or the legal framework under which the benefit arises. Consequently, a range of obligating events would need to be included in the ED. The IPSASB did not consider what those obligating events might be at its June 2016 meeting.
3. At its September 2016 meeting, the IPSASB considered respondents' comments on the points at which an obligating event might arise for social benefits under the obligating event approach. IPSASB members may wish to refer to the [September 2016 meeting papers](#) for further details.
4. At that meeting, the IPSASB agreed that:
  - (a) The ED should include the threshold eligibility obligating event; and
  - (b) The ED should treat the claim has been approved and claim is enforceable obligating events as subsets of the eligibility criteria to receive the next benefit have been satisfied obligating event.
5. The IPSASB did not reach any conclusions regarding the key participatory event obligating event, and the additional event suggested by respondents that a liability accumulates over time. The IPSASB instructed staff to undertake further work on these obligating events. This Agenda Item provides further analysis of these two events.

*Key participatory event obligating event*

6. At the IPSASB's September 2016 meeting, staff had presented an analysis that suggested that the key participating event obligating event was unlikely to satisfy the Conceptual Framework requirements for recognition as a liability.
7. Some IPSASB members challenged this view; they considered that, in some cases, the key participatory event could be seen as analogous to an insurance contract. Staff was instructed to further consider this issue.
8. [Appendix A](#) to this Agenda Item contains staff's comparison of the key participatory event obligating event with an insurance contract.
9. Based on this analysis, staff and the TBG consider that the analogy with an insurance contract cannot be sustained, for the following reasons:
  - (a) Insurance contracts are exchange transactions, whereas social benefits are non-exchange contracts.

- (b) As a consequence of their non-exchange nature, the payment of social benefits and the revenue that funds those benefits are often separate non-exchange transactions that need to be accounted for separately.
  - (c) The ongoing nature of many social benefits means that there is usually no clear “policy period” that is comparable to the coverage period in an insurance contract. This applies particularly to non-contributory social benefits.
  - (d) Staff and the TBG have concerns that the key participatory event could only be considered similar to an insurance contract where the social benefit scheme was contributory, which runs contrary to the IPSASB’s decision that the contributory nature of a social benefit does not affect the obligating event for that social benefit.
  - (e) Staff and the TBG have concerns that adopting an analogy with insurance contracts might result in inconsistent treatment of social benefit schemes.
10. Staff then revisited its analysis of the key participating event obligating event and the Conceptual Framework. This revised analysis is included in [Part A of Appendix B](#) to this Agenda Item.
11. Based on this analysis, staff and the TBG consider that the key participatory event obligating event does not satisfy the Conceptual Framework requirements for recognition as a liability, for the following reasons:
- (a) Key participatory events do not give rise to legal obligations;
  - (b) Key participatory events do not give rise to a valid expectation that the entity has a present obligation;
  - (c) For social benefits, the past event should be the satisfaction of eligibility criteria, not a key participatory event; and
  - (d) Not all social benefits could be measured in a way that achieves the QCs if a liability were to be recognized when a key participatory event occurred.
12. Staff and the TBG have, therefore, concluded the key participatory event obligating event should not be included in the ED. In coming to this view, staff and the TBG noted that the case where the key participatory event came closest to satisfying the Conceptual Framework definition of a liability was in schemes that are fully funded through contributions. Staff and the TBG consider that in such cases, it may be possible to account for a scheme using the insurance approach.

*Liability accumulates over time*

13. At its September 2016 meeting, the IPSASB discussed the proposal made by some respondents to the CP that, for some social benefits, a liability will accumulate over time rather than at a single point, in a similar manner to a defined benefit scheme under IPSAS 25 (or its replacement IPSAS 39), *Employee Benefits*. The IPSASB did not come to any conclusions regarding this proposal, but requested staff undertake further analysis.
14. Staff notes that the IPSASB’s Conceptual Framework is silent about the possibility of there being a series of past events over which a liability accumulates. However, staff has concluded that such an approach would be consistent with the Conceptual Framework, and the IPSASB did not identify any conflict when it approved IPSAS 39. Paragraph 4.36 of the IASB’s Exposure Draft on its *Conceptual*

*Framework for Financial Reporting* explicitly acknowledges the possibility that a present obligation can accumulate over time

15. Staff has undertaken an analysis of the liability accumulates over time obligating event and the Conceptual Framework. This revised analysis is included in [Part B of Appendix B](#) to this Agenda Item. As much of the analysis is the same as for the key participatory events obligating event, Part B focuses on the differences between the two obligating events.
16. Based on this analysis, staff and the TBG consider that the liability accumulates over time obligating event does not satisfy the Conceptual Framework requirements for recognition as a liability, for the following reasons:
  - (a) The liability accumulates over time obligating event does not give rise to legal obligations;
  - (b) The liability accumulates over time obligating event does not give rise to a valid expectation that the entity has a present obligation;
  - (c) Staff has not identified any past event that gives rise to an accumulating present obligation; and
  - (d) Although retirement benefits could be measured in a way that achieves the QCs if an accumulating liability were to be recognized, this is unlikely to be the case for other benefits.
17. Staff and the TBG have, therefore, concluded the liability accumulates over time obligating event should not be included in the ED. In coming to this view, staff and the TBG noted that the case where the liability accumulates over time came closest to satisfying the Conceptual Framework definition of a liability was in schemes that are fully funded through contributions. Staff and the TBG consider that in such cases, it would be appropriate to account for a scheme using the insurance approach.

#### *Recognition of social benefits under GFS*

18. In developing the CP, the IPSASB initially agreed that aligning the recognition and measurement of social benefits with GFS could only be considered once responses had been reviewed. Subsequently, the IPSASB started to form the view that a range of recognition points would be required under the obligating event approach, although this view was not formally stated in the CP. As noted in paragraph 2 above, the IPSASB has now agreed that a range of recognition points will be required. This is in line with the responses received from stakeholders.
19. This decision implicitly rejects aligning the recognition and measurement of social benefits with GFS. This is because, under GFS, an expense is recorded only when the payment of the benefits is due. Some information about obligations for future social benefit payments is provided as a memorandum item.
20. The IPSASB is asked to formally confirm that the ED should not align the recognition and measurement of social benefits with GFS.
21. Extracts from the various statistical reporting manuals covering the treatment of social benefits are included in [Appendix C](#) to this Agenda Item.

*Public Interest*

22. At its June 2016 meeting, the IPSASB requested that staff consider the impact of its proposals on preparers and readers of the financial statements, and the different public interest lenses addressed.
23. If the IPSASB accepts the proposals outlined in this Agenda Item, this will result in an ED in which social benefits are recognized when eligibility criteria are met. Depending on the nature of the scheme, this may be the eligibility criteria for the next benefit, or the threshold eligibility for all future benefits.
24. Staff considers that such an outcome will provide information that satisfies the QCs and takes account of the constraint. In particular, staff notes that the proposals would result in a single, straightforward recognition criteria – that the eligibility criteria have been met. Staff considers that this would be of benefit in achieving the QCs of understandability and comparability. Staff also considers that the proposals satisfy the QC of faithful representation, as the analysis provided by staff indicates that obligating events other than those where the eligibility criteria have been met do not satisfy the recognition criteria in the Conceptual Framework.
25. Staff considers that the proposals will provide users with clear information about an entity's present liabilities in respect of social benefits. Staff notes that the proposals will not include information about future obligations, whether these are obligations to those who have yet to meet the eligibility criteria, or whether they are obligations to those who will need to continue to meet the eligibility criteria in order to receive future benefits. It is possible to provide this information, which will be useful to the users of the financial statements, either in the notes or in other GPFs. This is discussed in [Agenda Item 8.2.3](#).
26. From the perspective of the preparer, the measurement of social benefits is likely to impose costs, in particular when estimating the level of future benefits once threshold eligibility criteria have been met. Staff notes that such measurement is likely to require the application of actuarial techniques.
27. Staff considers that the benefits of providing this information is likely to outweigh the cost, given the significance of social benefits to many entities. Staff also notes that the proposals would result in a straightforward recognition criteria that would avoid much of the judgment associated with other obligating events, which is likely to minimize the costs involved.

**Decisions required**

28. Does the IPSASB support the staff and TBG proposals that:
  - (a) The key participatory event obligating event; and
  - (b) The liability accumulates over time obligating eventShould not be included in the ED?
29. If the IPSASB does not support the staff and TBG proposals above, the IPSASB is asked to identify the elements of the analysis in [Appendix B](#) with which it disagrees.
30. Does the IPSASB support the staff proposal that the ED should not align the recognition and measurement of social benefits with GFS?

## Appendix A to Agenda Item 8.2.2

### Comparison of the key participatory event obligating event and insurance contracts

Insurance contracts		Key participatory event obligating event	
<i>Requirements (from IASB ED)</i>	<i>Staff comments</i>	<i>Similarities</i>	<i>Differences</i>
<b>Insurance contract</b>			
“A contract under which one party (the issuer)	A contract is a legal agreement, usually entered into voluntarily, that requires consideration from both parties.	In the same way that a contract has legal force, the legislation establishing a social benefit may have legal force.	Social benefit schemes are mandated by the establishing legislation, and are not entered into voluntarily.  There is no agreement or contract between the entity and the beneficiary that is entered into prior to the key participatory event occurring.
accepts significant <b>insurance risk</b>	Insurance contracts are exchange transactions. The entity accepts the risk in exchange for a premium that reflects the risk accepted.	The social risk covered by a social benefit scheme would be equivalent to the insurance risk.	Social benefit schemes are non-exchange transactions. Social benefit schemes may be non-contributory.  Where contributions are required, these will generally not reflect individual risk, unlike insurance contracts.

Social Benefits (Comparison of the key participatory event obligating event and insurance contracts)  
 IPSASB Meeting (December 2016)

<b>Insurance contracts</b>		<b>Key participatory event obligating event</b>	
<b>Requirements (from IASB ED)</b>	<b>Staff comments</b>	<b>Similarities</b>	<b>Differences</b>
from another party (the policyholder)	In an insurance contract, the other party and the date at which the risk is accepted is specified in the contract (see coverage period).	The other party would be equivalent to the potential beneficiary under the social benefit scheme.	The point at which the risk is accepted would be a key participatory event. In many cases this will not be clear, as a range of events could be seen as triggering acceptance of the social risk.
by agreeing to compensate the policyholder if a specified uncertain future event (the <b>insured event</b> )		The social benefits provided to a beneficiary would be equivalent to compensating the policy holder	See the discussion above under the acceptance of the risk regarding the non-exchange nature of social benefits.
adversely affects the policyholder”		The definition of social risks includes “may adversely affect the welfare of individuals and/or households”, which is equivalent to “adversely affects the policyholder.”	
<b>Insurance risk</b>			
“Risk, other than financial risk, transferred from the holder of a contract to the issuer”	Financial risk in the Insurance ED relates to changes in interest rates, financial instrument prices etc. that would be outside the definition of a social risk.	The social risk covered by a social benefits scheme would be the equivalent of insurance risk.	See the discussion above under the acceptance of the risk regarding the non-exchange nature of social benefits; this affects the nature of the transfer.
<b>Insured event</b>			

Social Benefits (Comparison of the key participatory event obligating event and insurance contracts)  
 IPSASB Meeting (December 2016)

<b>Insurance contracts</b>		<b>Key participatory event obligating event</b>	
<b>Requirements (from IASB ED)</b>	<b>Staff comments</b>	<b>Similarities</b>	<b>Differences</b>
<p>“An uncertain future event that is covered by an insurance contract</p>		<p>An uncertain future event covered by the social benefit scheme would be equivalent to the uncertain future event covered by an insurance contract.</p>	
<p>and that creates <b>insurance risk.</b>”</p>		<p>The uncertain future event covered by the social benefit scheme would give rise to a social risk.</p>	<p>See the discussion above under the acceptance of the risk regarding the non-exchange nature of social benefits; this affects the nature of the transfer.</p>
<p><b>Coverage period</b></p>			
<p>“The period during which the entity provides coverage for insured events. That period includes the coverage that relates to all premiums within the boundary of the insurance contract.”</p>	<p>In an insurance contract, the coverage period is specified. The point at which the risk is accepted, and the point at which coverage stops, are clearly identified.</p> <p>Under the IASB’s ED, the coverage period ends when the insurer is able to reprice the risk (and the policyholder therefore decides whether to continue with the policy or not).</p>	<p></p>	<p>The key participatory event may or may not align with the acceptance of the social risk. For example, the key participatory event for an unemployment benefit may align with the acceptance of the risk if the key participatory event was the commencement of employment, but not if it was an earlier point, such as starting school or birth.</p> <p>Unlike an insurance contract, the point at which coverage ends is unlikely to be clear; many social benefits are ongoing, and so coverage would be open-ended.</p> <p>For non-contributory social benefit</p>

Social Benefits (Comparison of the key participatory event obligating event and insurance contracts)  
 IPSASB Meeting (December 2016)

<b>Insurance contracts</b>		<b>Key participatory event obligating event</b>	
<i>Requirements (from IASB ED)</i>	<i>Staff comments</i>	<i>Similarities</i>	<i>Differences</i>
			schemes, there is no point at which the public sector entity can be considered to reprice the risk, which results in open ended coverage.
<b>Measurement</b>			
Insurance contracts are measured at the net present value of future cash inflows and outflows over the life of the contract.		<p>Social benefit schemes that are contributory and not subsidized by taxation or general revenue could be measured in a similar manner, provided the start and end points can be identified.</p> <p>However, the IPSASB has already agreed that the contributory nature of a social benefit does not affect the obligating event.</p>	<p>Social benefit schemes will usually involve separate, non-exchange, transactions for the payment of the benefit (and the payment of contributions, if any), and the financing of the subsidy via taxation or levies. This is particularly the case for those social benefits schemes that are non-contributory, or that are subsidized by taxation or general revenue.</p>

## Analysis of obligating events using the Conceptual Framework's element recognition criteria

### A Key Participatory Events

1. The CP described the key participatory events obligating event as follows (see paragraph 4.30 of the CP):

In the absence of a legal obligation, a past event, or series of past events, giving rise to a present obligation occurs prior to the point at which an individual meets threshold eligibility criteria (where threshold criteria are applicable).

The present obligation arises when key participatory events have occurred that lead an individual to have a reasonable expectation of eventually satisfying eligibility criteria for a benefit and, as a result, the individual has relied on that expectation over a period of time leaving the government with no realistic alternative but to settle the obligation in the future.

The present obligation is for all benefits to be provided to the individual in future periods regardless of whether the individual is required to satisfy eligibility criteria again in future periods.

2. Which key participatory events are relevant will depend on the nature of the social benefit being provided. For some benefits, for example education and healthcare, birth may be a relevant key participatory event. For other benefits, such as retirement pensions and unemployment benefits, entry into the workforce may be the relevant key participatory event.
3. Staff notes that key participatory events can occur many years before eligibility criteria are met or before benefits are provided. Staff considers that the longer the period of time between the key participatory event occurring and eligibility criteria being met, the greater the likelihood is of an entity having a realistic alternative to avoid settling an obligation.
4. Much of the discussion below refers to retirement pensions and unemployment benefits, where it is assumed that entry into the workforce is likely to be the key participatory event. Staff considers that this approach minimizes the likelihood is of an entity having a realistic alternative to avoid settling an obligation; for some other benefits, this likelihood might be greater.
5. For a key participatory event to be an appropriate obligating event to be included in the ED, key participatory events would need to give rise to obligations that:
  - (a) Satisfy the definition of a liability; and
  - (b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFs. [Conceptual Framework paragraph 6.2]

6. The Conceptual Framework defines a liability as:

*A present obligation of the entity for an outflow of resources that results from a past event.*  
[Paragraph 5.14]

7. The Conceptual Framework describes a present obligation as follows:

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

8. The following paragraphs consider whether a key participatory event could satisfy the definition of a liability and the recognition criteria.

*Present obligation*

9. Paragraph 5.20 of the Conceptual Framework notes that a legal obligation is enforceable in law, and that in such cases there can be no doubt that an entity has no realistic alternative to avoid the obligation and that a liability exists.
10. Key participatory events arise prior to all eligibility criteria being met. This suggests that, at this point, the obligation to pay a social benefit will be conditional on the occurrence of an uncertain future event. Paragraph BC5.21 of the Conceptual Framework notes:

A conditional obligation involves the possible occurrence of a future event, which may or may not be under the control of the reporting entity. The IPSASB concluded that it is possible for conditional obligations to give rise to liabilities as defined in the Conceptual Framework.

11. Paragraph 5.23 of the Conceptual Framework describes one type of conditional obligation:  
Stand-ready obligations are a type of conditional obligation. Stand-ready obligations require an entity to be prepared to fulfill an obligation if a specified uncertain future event outside the entity's control occurs (or fails to occur).
12. The term "stand-ready obligation" is usually used to describe obligations that meet the definition of a liability and that arise in certain contractual circumstances (i.e., in exchange transactions), such as those related to insurance. Obligations that arise from social benefit schemes arise from non-exchange transactions, where it is less clear whether such obligations will meet the definition of a liability. Staff notes that obligations that arise from social benefit schemes are equally obligations that require an entity to be prepared to fulfill its obligation if a specified uncertain future event outside the entity's control occurs (or fails to occur), although they arise as a result of legislation rather than a contract, and are non-exchange transactions rather than exchange transactions.
13. For example, an entity may provide unemployment benefits. Commencing employment (a key participatory event) might give rise to an obligation to provide benefits at a future date, depending on whether a specified uncertain future event outside the entity's control – the potential beneficiary becoming unemployed – occurs.
14. Similarly, an entity may provide retirement benefits. Commencing employment (a key participatory event) might give rise to an obligation to provide benefits at a future date, depending on whether a specified uncertain future event outside the entity's control – the potential beneficiary dying – does not occur.
15. Staff notes that whilst there are similarities between the stand-ready obligation in an insurance contract and the similar obligations in a social benefits scheme, there are also differences. The key difference relates to the non-exchange nature of the transaction, which differs from an exchange transaction.

16. In an insurance contract, an exchange transaction, it is clear that the stand-ready obligation gives rise to a liability because there is a past event – the receipt by the entity of premium – that means that an entity has little or no realistic alternative to avoid an outflow of resources. This is explained in paragraph 4.36 of the IASB's Exposure Draft on its *Conceptual Framework for Financial Reporting*:

An entity has a present obligation as a result of a past event only if it has already received the economic benefits, or conducted the activities, that establish the extent of its obligation. The economic benefits received could include, for example, goods or services. The activities conducted could include, for example, operating in a particular market. If the economic benefits are received, or the activities are conducted, over time, a present obligation will accumulate over time (if, throughout that time, the entity has no practical ability to avoid the transfer).

17. In a non-exchange transaction – at least those that are non-contributory – there is no equivalent past event. The extract from the IASB's ED above suggests that, without that past event, a conditional obligation does not give rise to a liability in an exchange transaction.
18. Staff considers that the absence of past event such as the receipt of the premium means that, at least for non-contributory social benefits, the conditional obligation is not enforceable, and therefore there is no legal obligation that gives rise to a liability.
19. It can be argued that, for contributory social benefits, the entity has received the economic benefits (or will receive them over time), and a liability should be recognized. However, this depends on whether the contributions are considered to be a form of consideration for the payment of a future benefit, or a form of taxation or general revenue that is used to finance the payment of benefits.
20. The non-exchange nature of social benefits and the fact that many contributory benefits are subsidized through general taxation or other government revenues suggests that the contributions are a form of taxation, not consideration for the future receipt of a social benefit.
21. This view is in line with the decision taken by the IPSASB at its June 2016 meeting, and supported by a significant majority of respondents to the CP, that an obligating event does not occur earlier for contributory benefits than non-contributory benefits. If contributions are a form of consideration, this would provide the past event needed to recognize a legal obligation and therefore a liability; if considerations are a form of taxation, there is no past event that results in the recognition of a legal obligation.
22. For these reasons, staff considers that a legal obligation does not arise when a key participatory event occurs.
23. The next question to ask is whether a non-legally binding obligation arises when a key participatory event occurs.
24. Paragraph 5.23 of the Conceptual Framework sets out the attributes of a non-legally binding obligation:
- (a) The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
  - (b) As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and

- (c) The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.

#### Indication to other parties

- 25. Social benefit schemes are established by legislation. This will be sufficient to satisfy the requirement that "the entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities."

#### Valid expectation

- 26. The fact that social benefit schemes are derived from legislation is sufficient to give rise to a valid expectation that the entity will discharge those responsibilities. However, because a key participatory event gives rise to a conditional obligation, one that involves the possible occurrence of a future event, there is a question as to whether this is a present obligation or a future obligation.
- 27. The definition of a liability in the Conceptual Framework differs from that in the IPSASB's previous literature. The definition of a contingent liability in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, includes "a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity."
- 28. Some would argue that this covers the obligation that arises as a result of a key participatory event, and that, following the change in the definition of a liability, whereby uncertainty is addressed as a measurement issue not a recognition issue, a liability should be recognized. Others would argue that a key participatory event is not a past event that gives rise to a present obligation, and hence no liability should be recognized.
- 29. As noted above in paragraph 10, the Conceptual Framework acknowledges that a conditional obligation may give rise to a liability. However, the only examples of a conditional obligation giving rise to a liability in the Conceptual Framework relate to exchange transactions (and therefore legal obligations). The same is true of the IASB ED.
- 30. A review of earlier literature has also not identified any references to a valid expectation arising in respect of a conditional, non-legally binding obligation. However, because earlier literature references the definitions in IPSAS 19 or its equivalents such as IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, this may have limited value to this discussion.
- 31. The guidance on non-legally binding obligations in the Conceptual Framework provides limited assistance on determining whether a conditional, non-legally binding obligation can give rise to a valid expectation of a present obligation. Staff has identified the following references which may provide some indications:
  - (a) "The early stages of implementation are unlikely to give rise to present obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to obligations that meet the definition of a liability." [Paragraph 5.24] This may suggest that meeting eligibility criteria is required for a present obligation to arise.

- (b) “The ability of the entity to modify or change the obligation before it crystallizes. For example, the announcement of policy will generally not give rise to a non-legally binding obligation, which cannot be modified before being implemented. Similarly, if an obligation is contingent on future events occurring, there may be discretion to avoid an outflow of resources before those events occur.’ [Paragraph 5.25] This may suggest that conditional obligations are less likely to give rise to a present obligation.

However, paragraph 5.22 states, albeit in the context of legal obligations, that “Sovereign power is the ultimate authority of a government to make, amend and repeal legal provisions. Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.” This might suggest that a conditional obligation might give rise to a present obligation if the only discretion to avoid an outflow of resources requires amendment to legal provisions.

- (c) “There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation. For example, where both a budget line item has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, a non-legally binding obligation may exist. However the absence of a budgetary provision does not itself mean that a present obligation has not arisen.” [Paragraph 5.25] Entities are unlikely to approve budget line items for social benefits prior to eligibility criteria being met. This might provide very limited support for the view that conditional obligations are less likely to give rise to a present obligation.

32. Staff also notes that some respondents argue that a valid expectation does not occur until all eligibility criteria have been met.
33. On balance, staff considers that the provisions in the Conceptual Framework support the view that a key participatory event does not give rise to a valid expectation that the entity has a present obligation. The IPSASB is asked to either confirm this view, or to identify the reasons why a key participatory event does give rise to a valid expectation that the entity has a present obligation.

#### No realistic alternative to avoid settling the obligation

34. If the IPSASB supports the staff conclusion that a key participatory event does not give rise to a valid expectation, there is no need to consider whether the entity has no realistic alternative to avoid settling the obligation.
35. However, if the IPSASB considers that a key participatory event can give rise to a valid expectation, the IPSASB will need to consider whether the entity has no realistic alternative to avoid settling the obligation.
36. As a result of the legislation that establishes a social benefit scheme, an entity is unlikely to have any realistic alternative once the uncertain future event has occurred. However, for some benefits, it may be able to take steps to avoid the event occurring. For example, a government could take steps to avoid paying unemployment benefits by providing support to an industry in financial difficulties, thus keeping people in work. In other cases, such action may not be possible, for example retirement benefits.

37. A further question to consider is how the assessment of whether an entity has a realistic alternative to avoid settling the obligation is made; specifically, whether the assessment is made at an individual or portfolio basis. If the assessment is made by considering the benefits provided to individuals, government action may be seen as a realistic alternative. Assessing the portfolio of benefits as a whole may change the likelihood of concluding that there is no realistic alternative to settling the obligation.
38. If the assessment is made by considering benefits provided at an individual level, staff considers that an assessment of whether an entity has a realistic alternative to settling the conditional obligation by taking action to prevent the uncertain event occurring will need to be carried out on a case by case basis.
39. Staff notes that there may also be consolidation issues, as in many cases the entity providing the benefit will not be the entity that can undertake the intervention. The entity providing the benefit would therefore have no realistic alternative to settling the obligation; however, at the consolidated (whole of government) level, there may be a realistic alternative.
40. If the IPSASB considers that a key participatory event does give rise to a valid expectation, it will need to consider which approach to use in determining whether an entity has a realistic alternative to settling an obligation. Staff considers that an assessment at portfolio level is likely to have fewer practical difficulties.

*Past event*

41. As noted in paragraph 6 above, a present obligation only gives rise to a liability if it results from a past event. It is therefore necessary to consider what constitutes a past event in the context of a social benefit, and how this relates to a key participatory event.
42. Paragraph 5.17 of the Conceptual Framework notes that:

Where an arrangement has a legal form and is binding, such as a contract, the past event may be straightforward to identify. In other cases, it may be more difficult to identify the past event and identification involves an assessment of when an entity has little or no realistic alternative to avoid an outflow of resources from the entity. In making such an assessment an entity takes jurisdictional factors into account.
43. By considering an analogy with a contract, staff has identified the following series of events that could potentially be a past event for a social benefit. These are:
  - (a) Enacting the legislation that establishes the social benefit;
  - (b) Key participatory events such as commencing employment; and
  - (c) Satisfying the eligibility criteria.
44. As discussed in paragraph 16 above, the IASB currently considers that, in an exchange transaction, the past event is the receipt of economic benefits or the conducting of activities that establish the extent of its obligation.
45. From this it can be inferred that neither the issuing of a contract (equivalent to enacting the legislation) nor the policyholder commencing an activity (equivalent to a key participatory event such as commencing employment) are past events. This suggests that it is the satisfaction of the eligibility criteria that is the past event.

46. This is consistent with staff's view that a key participatory event does not give rise to a valid expectation, and that the entity has, therefore, a realistic alternative to avoid an outflow of resources.

#### *Measurement*

47. Paragraph 6.2 of the Conceptual Framework specifies the recognition criteria. These are that:
- (a) An item satisfies the definition of an element (in this case a liability); and
  - (b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.
48. The discussion earlier in this Appendix considers the definition of a liability, and concludes that the obligation arising from a key participatory event does not meet the definition of a liability. However, if the IPSASB disagrees with this analysis, it will be necessary to consider whether the liability can be measured in a way that achieves the QCs and takes account of constraints on information in GPFRs.
49. If a liability is to be recognized at the point at which a key participatory event occurs, staff considers that actuarial techniques will be required to measure the liability. Staff considers that, provided the necessary data is available, such liabilities are capable of being measured in a way that achieves the QCs, provided the extent of the liability is known.
50. In some cases, determining the extent of the liability will be straightforward. For a retirement pension, for example, the liability will be for all future benefits to be provided. This is because the valid expectation that would arise when the key participatory event occurs will be that the pension will be provided until the death of the potential beneficiary.
51. However, for some other benefits, the extent will be less clear. For example, an entity will be required to determine what valid expectation is created in the case of an unemployment benefit. This might be that the benefit will be provided for the incidence of unemployment, the next financial reporting period, or for every incidence of unemployment during the potential beneficiary's working life. Staff considers that obtaining evidence as to the extent of the valid expectation will be problematic. Consequently, it may not be possible to determine the extent of a liability. As a result, staff questions whether such benefits can be measured in a way that achieves the QCs.

#### *Staff Conclusions*

52. Staff's conclusions, based on the analysis above, are as follows:
- (a) Key participatory events do not give rise to legal obligations.
  - (b) In considering whether key participatory events give rise to non-legally binding present obligations:
    - (i) The establishment by legislation of social benefits schemes is sufficient to satisfy the requirement that "the entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities."
    - (ii) Key participatory events do not give rise to a valid expectation that the entity has a present obligation.

- (iii) The assessment of whether an entity has little or no realistic alternative to avoid settling the obligation will need to be assessed on a case by case basis. Making the assessment on a portfolio basis (considering the total level benefit to be provided) is likely to be the most practical way of carrying out this assessment.
  - (iv) For social benefits, the past event should be the satisfaction of eligibility criteria, not a key participatory event.
  - (v) Some, but not all, social benefits could be measured in a way that achieves the QCs if a liability were to be recognized when a key participatory event occurred.
53. Consequently, staff's view is that a liability should not be recognized when a key participatory event occurs prior to the eligibility criteria being satisfied.

## **B Liability accumulates over time**

54. The following paragraphs consider whether the liability accumulates over time obligating event could satisfy the definition of a liability and the recognition criteria (discussed in paragraphs 1–7 above).

### *Present obligation*

55. Some respondents commented that there are similarities between some social benefits such as retirement pensions and employer-sponsored defined benefit schemes, accounted for under IPSAS 25 (or its replacement, IPSAS 39), *Employee Benefits*. Consequently, they argued that the accounting for those social benefit schemes should match the accounting for a defined benefit scheme, which involves accumulating a liability over time.
56. Staff notes that there is a significant difference between a social benefit and an employee benefit plan. Under an employee benefit, an individual exchanges their current service for deferred compensation. The employer receives the economic benefits of that services, which establishes the extent of the obligation. This is equivalent to an insurance company receiving a premium (see paragraph 16 above). The provision of services is the past event that gives rise to a present obligation.
57. Under a social benefit, there is no exchange of current service for the benefit to be received. Consequently, there must be a different past event.
58. In proposing the liability accumulates over time obligating event, respondents typically referred to a contributory pension scheme, suggesting that they may consider the payment of the contributions to be the past events that give rise to an accumulating present obligation.
59. Paragraphs 19–21 above discuss whether a contribution can be a past event for a key participatory event, and conclude that this is not the case. Staff considers that the rationale in these paragraphs applies equally to a liability accumulating over time, and that, generally, the payment of a contribution is not a past event that gives rise to an accumulating present obligation. Further, while the factors determining the amount of benefits to be provided may change before eligibility requirements are met, these changes should not impact the obligating event.
60. However, staff does consider that there may be some social benefit schemes that are fully funded through contributions, typically retirement plans, where the future benefits are directly related to the payment of the contributions. In such cases, the economic substance of the contributions may be

closer to that of consideration than taxation. In such cases, staff considers the social benefit should be accounted for using the insurance approach.

#### Indication to other parties

61. Social benefit schemes are established by legislation. This will be sufficient to satisfy the requirement that "the entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities."

#### Valid expectation

62. The fact that social benefit schemes are derived from legislation is sufficient to give rise to a valid expectation that the entity will discharge those responsibilities. However, because a liability accumulating over time gives rise to a conditional obligation, one that involves the possible occurrence (or non-occurrence) of a future event, there is a question as to whether this is a present obligation or a future obligation.
63. Staff considers that the issues discussed in paragraphs 26–32 above in relation to key participatory events apply equally to a liability accumulating over time. Consequently, staff considers that no valid expectation arises, and that, therefore, there is no non-legally binding present obligation.

#### No realistic alternative to avoid settling the obligation

64. Staff considers that the issues discussed in paragraphs 34–40 above in relation to key participatory events apply equally to a liability accumulating over time. Staff notes that a liability accumulating over time is more likely to be applicable to social benefit schemes that are fully funded through contributions such as retirement benefits, where an entity may not have any realistic alternative to avoid settling the obligation once the uncertain future event has occurred.

#### *Past event*

65. As noted in paragraph 6 above, a present obligation only gives rise to a liability if it results from a past event. It is therefore necessary to consider what constitutes a past event in the context of a social benefit, and how this relates to a key participatory event.
66. For social benefits, two types of event could potentially be a past event that give rise to an accumulating present obligation. These include:
  - (a) Ongoing payment of contributions; and
  - (b) Ongoing activities such as being in employment.
67. The payment of contributions is discussed above in paragraphs 56–60. Staff has concluded that, except where a social benefit should be accounted for using the insurance approach, no past event has occurred.
68. Staff considers that if the payment of contributions is insufficient to qualify as a past event, ongoing activities such as being in employment will also be insufficient to qualify as a past event.
69. This is consistent with staff's view that the liability accumulates over time obligating event does not give rise to a valid expectation, and that the entity has, therefore, a realistic alternative to avoid an outflow of resources.

*Measurement*

70. Staff considers that the measurement issues discussed in paragraphs 47–51 above in relation to key participatory events will apply equally to the liability accumulates over time obligating event. Staff notes that a liability accumulating over time is more likely to be applicable to social benefits such as retirement benefits, where the extent of the obligation is likely to be more certain, and therefore more measurable.

*Staff Conclusions*

71. Staff's conclusions, based on the analysis above, are as follows:
- (a) The liability accumulates over time obligating event does not give rise to legal obligations.
  - (b) In considering whether the liability accumulates over time obligating event give rise to non-legally binding present obligations:
    - (i) The establishment by legislation of social benefits schemes is sufficient to satisfy the requirement that "the entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities."
    - (ii) The liability accumulates over time obligating event does not give rise to a valid expectation that the entity has a present obligation.
    - (iii) The assessment of whether an entity has little or no realistic alternative to avoid settling the obligation will need to be assessed on a case by case basis. However, for retirement benefits (the benefits to which this obligating event is most likely to be applicable), an entity may have no realistic alternative to avoid settling the obligation.
    - (iv) Staff has not identified any past event that gives rise to an accumulating present obligation.
    - (v) Retirement benefits could be measured in a way that achieves the QCs if an accumulating liability were to be recognized. However, this is unlikely to be the case for other benefits.
72. Consequently, staff's view is that a liability should not be recognized based on the liability accumulates over time obligating event.

**Extracts from the statistical reporting manuals covering the accounting for social benefits****Government Finance Statistics Manual 2014**

This manual is available at <http://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>.

*Social assistance*

**A2.29** Typically, social assistance benefits will be recorded on an accrual basis as an expense when all eligibility criteria have been met and the benefits become payable. Although some benefits, such as disability or maternity payments, may be payable over several reporting periods, no liability for the future payments of social assistance benefits should be recorded on the balance sheet of government. Other accounts payable will be recognized only in cases where a benefit accrued but remained unpaid at the end of a reporting period. However, to increase transparency and allow an analysis of the sustainability of social assistance policies, an estimate of the present value of social assistance benefits that have already been earned, according to the existing laws and regulations, but are payable in the future, could be calculated in a manner similar to the liabilities of an employment-related insurance scheme.

*Social security schemes*

**A2.38** Social security schemes are characterized by a degree of contingent reciprocity. Social security contributions secure entitlements to benefits that are contingent on the event underlying the social risk occurring. Nonetheless, the amount and timing of receipts of benefits by beneficiaries (if any) are subject to various eligibility criteria without necessarily a direct relationship between the amount of the contribution payable by an individual and the benefits receivable. Therefore, the link between benefits and contributions is not considered sufficiently strong to give rise to a financial claim on the part of contributors. The potential individual claims of contributors (and therefore the corresponding government obligations) are regarded as contingent. Also, because social security benefits can be changed at will by the government or legislature as part of its overall economic policy, there is uncertainty about the eventual payment or level of payment of these social benefits. As a result, in GFS, no liabilities are associated with the potential future claims on social security schemes. An expense is recorded only when payment of the benefits is due.

**A2.39** However, a high expectation exists that social security benefits earned according to the existing laws will be payable in the future. Therefore, an estimate equal to the net implicit obligations for future social security benefits should be presented as a memorandum item to the Balance Sheet, and details of it presented as a supplementary statement, the *Summary Statement of Explicit Contingent Liabilities and Net Implicit Obligations for Future Social Security Benefits* (see paragraphs 4.47 and 7.261).

## **European System of Accounts 2010**

This manual is available at <http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-02-13-269>.

**4.106** Time of recording of social benefits other than social transfers in kind (D.62):

- (a) in cash, they are recorded when the claims on the benefits are established;
- (b) in kind, they are recorded at the time the services are provided, or at the time the changes of ownership of goods provided directly to households by non-market producers take place.

## **System of National Accounts 2008**

This manual is available at <http://unstats.un.org/unsd/nationalaccount/sna2008.asp>.

**17.191** In recognition of the fact that social security is normally financed on a pay-as-you-go basis, entitlements accruing under social security (both pensions and other social benefits) are not normally shown in the SNA. If all countries had similar benefits provided under social security and under private schemes, international comparisons would be relatively straightforward. However, as pointed out at the beginning of this part, this is far from being the case and national perceptions of exactly what is covered by social security vary considerably.

**17.192** There are two problems with simply suggesting that entitlements from social security should be shown in the SNA. The first is that reliable estimates of the entitlements may not be readily available whereas it is increasingly the case that such estimates exist for private schemes. Secondly, there is an argument that such estimates are of limited usefulness where government has the possibility of changing the basis on which entitlements are determined in order to keep the entitlements within the bounds of what is budgetarily feasible. However, the consequence of simply accepting that entitlements for private schemes are shown and for social security are not is that some countries would include the greater part of pension entitlements in the accounts and some would show almost none.

**17.193** In recognition of this dilemma, some flexibility regarding the recording of pension entitlements of unfunded pension schemes sponsored by government for all employees (whether private sector employees or government's own employees) is provided. Given the different institutional arrangements in countries, only some of these pension entitlements may be recorded within the main sequence of accounts (here referred to as the "core accounts"). In addition, however, a further table is to be presented that provides information disclosing the proportion of pension provision covered in the core accounts with some approximate estimates for the remaining schemes. It is a requirement, though, that a set of criteria be provided to explain the distinction between those schemes carried forward to the core accounts and those recorded only in the supplementary table.

**Presentation and Disclosure****Questions**

1. The IPSASB is asked to provide instructions on the presentation and disclosure issues to be included in a future ED on social benefits.

**Detail**

2. The CP generally did not discuss presentation and disclosure issues, the exception being the presentation of assets related to social benefits. The CP noted that it was more appropriate to consider presentation and disclosure issues once decisions had been made regarding the recognition and measurement of social benefits.
3. At its June 2016 and September 2016 meetings, the IPSASB instructed staff to consider various issues related to presentation and disclosure. This Agenda Item addresses a number of these issues where staff considers the analysis required is not dependent on decisions on recognition and measurement.

*Disclosure framework, including disclosure of assumptions*

4. At its September 2016 meeting, the IPSASB instructed staff to consider a disclosure framework, and to develop a proposed disclosure on the material assumptions in recognizing and measuring a social benefit.
5. Staff considers that these items cannot be fully developed until the IPSASB has finalized its position on the recognition and measurement of social benefits and other issues discussed in this Agenda Item. However, staff's initial thoughts on the appropriate disclosures under the obligating event approach are included in the draft ED at [Agenda Item 8.3](#).
6. The IPSASB is asked for its views on the disclosure section of the draft ED.

*Gross versus net presentation*

7. At its June 2016 and September 2016 meetings, the IPSASB raised the issue of gross versus net presentation, noting that the approach selected will affect measurement as well as presentation.
8. IPSAS 39, *Employee Benefits*, adopts the net presentation approach. This approach was taken from the equivalent IASB standard, IAS 19, *Employee Benefits* (revised 2011), and was a departure from previous requirements. Paragraph BC84 of IAS 19 (revised) summarizes the two approaches.

Supporters of both the net interest approach and the expected return approach reasoned that their favoured approach produces more relevant, comparable and understandable information. These contrasting views may reflect how different respondents consider the net defined benefit liability (asset) recognised in the statement of financial position as either comprising two components (the plan assets and the defined benefit obligation), which are measured separately but presented together (the gross view), or representing a single amount owed to, or from, the plan (the net view)...

9. The IASB came to the view that the net approach was appropriate for employee benefits because the surplus or deficit on a defined benefit plan represents the balance outstanding between the entity and the plan (or the employees). Because defined benefit plans provide deferred remuneration, the surplus or deficit can be viewed as the amount the entity has contributed in excess of its obligations (surplus) or, more often, the amount the entity has yet to contribute to satisfy its obligations. In either case, there is a single figure owing between the entity and the plan.
10. Net presentation is also discussed in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*:

64. **In the statement of financial performance, the expense relating to a provision may be presented net of the amount recognized for a reimbursement.**
65. Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses, or suppliers' warranties). The other party may either reimburse amounts paid by the entity, or pay the amounts directly. For example, a government agency may have legal liability to an individual as a result of misleading advice provided by its employees. However, the agency may be able to recover some of the expenditure from professional indemnity insurance.
66. In most cases, the entity will remain liable for the whole of the amount in question, so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognized for the full amount of the liability, and a separate asset for the expected reimbursement is recognized when it is virtually certain that reimbursement will be received if the entity settles the liability.
67. In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case, the entity has no liability for those costs, and they are not included in the provision.

11. Under IPSAS 19, assets and liabilities are presented gross unless a reimbursement (such as an insurance contract) reduces (rather than offsets) the entity's liability.
12. Staff notes that some social benefit schemes may have similarities with defined benefit schemes under IPSAS 39; such schemes would be fully funded from contributions, with no subsidy from taxation. In such cases, it might be possible to consider any balance as owing between the entity and scheme participants.
13. However, most social benefits will not fall into this category. Most social benefit schemes are not fully funded through contributions. These schemes will require funding from additional sources such as general taxation or, in some countries, sovereign wealth funds. Consequently, it is not possible to consider any balance as owing between the entity and scheme participants.
14. For this reason, staff does not consider that IPSAS 39 and IAS 19 (revised) provide a rationale for the net presentation of these social benefits.
15. Staff also considers that an entity's right to receive additional funding, such as general taxation (either directly or as a transfer from another public sector entity) or from a sovereign wealth fund would not reduce its liability to provide social benefits. Consequently, staff considers that it would be appropriate to use the gross presentation model when accounting for these social benefit schemes.

16. Staff considers that many social benefit schemes that are fully funded from contributions will be accounted for using the insurance approach. Consequently, staff recommends that all social benefit schemes that are accounted for under the obligating event approach should adopt the gross presentation, as this will satisfy the qualitative characteristic (QC) of comparability.

*Contingent liabilities*

17. At its September 2016 meeting, the IPSASB instructed staff to undertake further work on the question of whether disclosures relating to contingent liabilities are appropriate, given the differences between the recognition and measurement of liabilities under the Conceptual Framework and under IPSAS 19.
18. IPSAS 19 defines a contingent liability as follows:

A contingent liability is:

- (a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) A present obligation that arises from past events, but is not recognized because:
  - (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
  - (ii) The amount of the obligation cannot be measured with sufficient reliability.

19. The Conceptual Framework definition of a liability, and its application to social benefits, is discussed in detail in [Appendix B to Agenda Item 8.2.2](#). Staff notes that this analysis highlights that:
- (a) Possible obligations can give rise to liabilities, and where this is the case, the uncertainty is reflected in measurement; consequently, under the Conceptual Framework it is no longer appropriate to consider all possible obligations arising from past events (see item (a) above) as contingent liabilities.
  - (b) As long as an outflow of resources is possible, a liability is recognized; the probability of that outflow is reflected in its measurement. Consequently, item (b)(i) above is not a relevant consideration under the Conceptual Framework.
  - (c) The recognition criteria in the Conceptual Framework require that an item can be measured in a way that meets the QCs. Consequently, disclosure of item (b)(ii) above would be appropriate.
20. Staff considers that the definition of a contingent liability under IPSAS 19 is not consistent with the Conceptual Framework. Staff considers that only items that are present obligations arising from past events, but which cannot be measured in a way that meets the QCs should be disclosed.
21. Staff also considers that referring to such items as contingent liabilities may cause confusion, and that an alternative term should be used, for example, “liabilities for social benefits that cannot be measured in a way that meets the QCs.”
22. Staff notes that the analysis in [Appendix B to Agenda Item 8.2.2](#) suggests that items will be capable of being measured in a way that meets the QCs. However, staff accepts that there may be exceptional cases, especially where entities are adopting a new IPSAS on social benefits for the

first time, where the information required to measure the liability in a way that meets the QCs is not available. Staff therefore considers that it would be appropriate to include a disclosure of liabilities for social benefits that cannot be measured in a way that meets the QCs in exceptional cases. Staff considers that this may best be located as part of the transitional arrangements, as such a disclosure might otherwise be misinterpreted as granting permission not to recognize liabilities in respect of social benefits.

*Comparison with RPG1, Reporting on the Long-Term Sustainability of an Entity's Finances*

23. At its September 2016 meeting, the IPSASB instructed staff to consider what information will be provided in the financial statements, what information would be provided under RPG 1, and what information will be required to fill the gap.
24. Staff notes that the information provided in accordance with RPG 1 will be different to that provided under a future IPSAS on social benefits, for the following reasons:
  - (a) RPG 1 is not mandatory; in some jurisdictions, no information will be produced under RGP 1;
  - (b) In some jurisdictions, RPG 1 will be used to provide information at the whole of government level only, whereas in accordance with a future IPSAS on social benefits, information may also be provided at individual reporting entity level;
  - (c) Jurisdictions applying RPG 1 may aggregate information about social benefits to a greater extent than would be permitted under a future IPSAS;
  - (d) Information provided in accordance with RPG 1 is likely to include projections of future inflows and outflows that do not meet the recognition criteria set out in the Conceptual Framework (and a future IPSAS on social benefits); and
  - (e) Information provided in accordance with RPG 1 may have a different time horizon than that provided under a future IPSAS on social benefits.
25. The following table illustrates the expected difference in coverage between information provided in accordance with a future IPSAS on social benefits and in accordance with RPG 1, by considering whether information would be provided on current beneficiaries, current participants and future participants. The table includes all the obligating events discussed in [Agenda Item 8.2.2](#); the rows shown shaded are those obligating events that staff and the TBG do not consider meet the recognition criteria and should therefore not be included in a future IPSAS.

	Current Beneficiaries		Current Participants	Future Participants
	Next Benefit	All Benefits		
Eligibility criteria for next benefit met	✓			
Threshold eligibility criteria met	✓	✓		
Key participatory events occurred	✓	✓	✓	
Liability accrues over time	✓	✓	✓	
RPG 1	✓	✓	✓	✓

26. As discussed in paragraph 5 above, staff has included some initial thoughts on the appropriate disclosures under the obligating event approach in the draft ED attached at [Agenda Item 8.3](#). These disclosures will require information about the characteristics of a social benefit scheme, the amounts in the financial statements arising from social benefit schemes and information about the

effects of uncertainty. Staff considers that these disclosures will address users' needs for information regarding social benefits

27. Staff notes that if the recommendations in [Agenda Item 8.2.2](#) are accepted, no amounts in relation to current participants (those who are either contributing to a scheme or otherwise establishing future eligibility, for example by being in employment) or future participants (those who are yet to contribute to a scheme or otherwise establish future eligibility) will be included in the financial statements.
28. Staff considers that some users may find information about the projected costs of future benefits that may be provided to such potential beneficiaries useful. However, staff also notes that:
  - (a) There will be a cost in providing such information; and
  - (b) Such information must be capable of being audited if it is to be included in the financial statements, which may be a barrier to adoption.
29. Staff also considers that providing information about the funding of social benefits, except where a scheme is wholly funded from contributions, is likely to be problematic for many entities. This is because:
  - (a) The entity that provides the social benefit may not be the entity that controls the funding, especially where a scheme is funded through general taxation.
  - (b) Where social benefits are provided on a "pay as you go" basis, liabilities may be recognized earlier than the related funding. For example, under the threshold eligibility criteria obligating event, a liability for all future benefits will be recognized once someone first satisfies the eligibility criteria (for example, by reaching retirement age). However, the tax revenues that finance these benefits will only be recognized, in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, when a taxable event has occurred.
  - (c) Providing information about future inflows that are not included in the financial statements will face similar difficulties to those discussed in paragraph 28 above.
30. The IPSASB has already acknowledged that "the statement of financial position and statement of financial performance cannot provide all the information that users need on long-term programs, particularly those delivering social benefits" (Conceptual Framework, paragraph 11).
31. Given the issues highlighted above, staff does not consider that the notes to the financial statements is the appropriate location for information that can provide all the information that users need on social benefits. Instead, staff recommends that such information is provided in a separate GPFR, produced in accordance with RPG 1, and that users of the financial statements are referred to that GPFR for further information. If the IPSASB supports this recommendation, it will need to consider whether the GPFR should be mandatory, and whether the GPFR is best produced at the reporting entity or the whole of government level.

### Decisions required

32. The IPSASB is asked to consider whether it supports staff's recommendations that:
  - (a) The draft disclosures under the obligating event approach that are included in the draft ED are appropriate.

- (b) All social benefit schemes that are accounted for under the obligating event approach should adopt the gross presentation.
- (c) It would be appropriate to include a disclosure of liabilities for social benefits that cannot be measured in a way that meets the QCs in exceptional cases; and if so, that this should form part of the transitional provisions.

And

- (d) Information that goes beyond the amounts recognized in the financial statements should not be provided in the notes to the financial statements, but in a separate GPFR, produced in accordance with RPG 1; if so, the IPSASB is asked whether this GPFR should be:
  - (i) Mandatory or discretionary; and
  - (ii) Best produced at the reporting entity or the whole of government level.

**Amendments to other IPSASs****Questions**

1. The IPSASB is asked to agree the amendments to other IPSASs included in the draft ED.

**Detail**

2. There are limited references to social benefits in other IPSASs. Staff has reviewed the IPSASB's existing literature, and identified the following IPSASs where amendments will be required:
  - (a) IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;
  - (b) IPSAS 28, *Financial Instruments: Presentation*; and
  - (c) IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*.
3. The proposed amendments to these IPSASs are included in the draft ED ([Agenda Item 8.3](#)). The proposed amendments to IPSAS 33 are incomplete, as they cannot be finalized prior to decisions on recognition and measurement being made by the IPSASB.
4. Staff has also identified additional references to social benefits which staff does not consider require amendments. These paragraphs are reproduced in [Appendix A](#) to this Agenda Item (with the sentences referring to social benefits highlighted), and relate to the following pronouncements:
  - (a) IPSAS 22, *Disclosure of Financial Information about the General Government Sector*;
  - (b) *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework); and
  - (c) RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*.
5. In addition, there are references to social benefits in the Basis for Conclusions to IPSAS 25, *Employee Benefits*. As this standard will be withdrawn before an IPSAS on social benefits is issued, and these references are not replicated in the replacement standard, IPSAS 39, *Employee Benefits*, staff does not consider it necessary to include proposed amendments to IPSAS 25 in the draft ED.

**Decisions required**

6. The IPSASB is asked to:
  - (a) Confirm that the amendments to IPSAS 19 and IPSAS 28, and the partial amendments to IPSAS 33, included in the draft ED are appropriate;
  - (b) Confirm that no amendments are required to the Conceptual Framework, IPSAS 22, IPSAS 25, or RPG 1; and
  - (c) Confirm that no further amendments to IPSASs are required; or alternatively, identify other IPSASs that require amendment.

# Appendix A to Agenda Item 8.2.4

## References to social benefits in other IPSASs where staff does not consider an amendment is necessary

### IPSAS 22, *Disclosure of Financial Information about the General Government Sector*

#### Implementation Guidance

#### Statement of Financial Performance for the GGS—

#### For Year Ended December 31, 20X2—Economic Classification of Expense (Alternative Presentation Method)

(in thousands of currency units)

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
<b>Revenue</b>								
Taxes	X	X			(X)	(X)	X	X
Fees, fines, penalties	X	X	X	X	(X)	(X)	X	X
Revenue from other sectors	X	X	X	X	(X)	(X)		
Transfers from other governments	X	X	X	X			X	X
Other operating revenue	X	X	X	X	(X)	(X)	X	X
<b>Total revenue</b>	X	X	X	X	(X)	(X)	X	X
<b>Expenses</b>								
Compensation of Employees	X	X	X	X	(X)	(X)	X	X
Use of Goods and Services	X	X	X	X	(X)	(X)	X	X
Consumption of Fixed Capital	X	X	X	X	(X)	(X)	X	X
Interest	X	X	X	X	(X)	(X)	X	X
Subsidies	X	X	X	X	(X)	(X)	X	X
Social Benefits	X	X	X	X	(X)	(X)	X	X
Other Expense	X	X	X	X			X	X
<b>Total expenses</b>	X	X	X	X	(X)	(X)	X	X
<b>Surplus/(deficit)</b>	X	X	X	X	(X)	(X)	X	X

## ***The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities***

### ***The Preface to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities***

#### **The Nature of Public Sector Programs and the Longevity of the Public Sector**

11. Consequently, the statement of financial position and statement of financial performance cannot provide all the information that users need on long-term programs, particularly those delivering social benefits. The financial consequences of many decisions will have an impact many years or even decades into the future, so GPFRs containing prospective financial information on the long-term sustainability of an entity's finances and key programs are necessary for accountability and decision-making purposes as discussed in Chapter 2.

#### **The Nature and Purpose of Assets and Liabilities in the Public Sector**

17. Governments and other public sector entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programs that operate to deliver social benefits. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. In addition many governments have obligations that arise from monetary activities such as currency in circulation. The definition of a liability and recognition criteria are discussed in Chapters 5 and 6.

## ***Chapter 5: Elements in Financial Statements***

### **Basis for Conclusions**

#### **Liabilities**

##### *Stand-Ready Obligations*

BC5.25 A public sector entity's obligation to transfer resources to another entity in particular circumstances that may occur in the future includes, for example, as a potential lender of last resort and in support of programs that provide a wide range of social benefits. The existence of an obligation to transfer resources to another party in these circumstances may be dependent on ongoing satisfaction of a number of conditions of differing significance and nature that are subject to change by the government or public sector entity. The IPSASB is of the view that the circumstances in which liabilities arise as a consequence of the obligation of a public sector entity to transfer resources to other parties consistent with the terms of programs, and how such liabilities should be described and accounted for, should be considered at the standards level consistent with the principles established in the Conceptual Framework. The IPSASB decided that the Conceptual Framework should not resolve whether all obligations that might be classified as stand-ready meet the definition of a liability. The IPSASB also decided not to use the term "stand-ready obligation" in the Conceptual Framework.

##### *Little or No Realistic Alternative to Avoid*

BC5.31 Determining when a present obligation arises in a public sector context is complex and, in some cases, might be considered arbitrary. This is particularly so when considering whether liabilities can arise from obligations that are not enforceable by legal or equivalent means. In the context of programs to deliver social benefits there are a number of stages at which a present obligation can arise and there can be significant differences between jurisdictions, even where programs are similar, and also over time within the same jurisdiction—for example, different age cohorts may

have different expectations about the likelihood of receiving benefits under a social assistance program. Assessing whether a government cannot ignore such expectations and therefore has little or no realistic alternative to transfer resources may be subjective. This gives rise to concerns that such subjectivity undermines consistency in the reporting of liabilities, and can also impact adversely on understandability. Some therefore take the view that an essential characteristic of a liability should be that it is enforceable at the reporting date by legal or equivalent means.

## **RPG 1, Reporting on the Long-Term Sustainability of an Entity's Finances**

### **Status and Scope**

3. The scope of this RPG includes an entity's projected flows. It is not limited to those flows related to programs providing social benefits. Nevertheless, this RPG acknowledges that the flows relating to programs providing social benefits, including entitlement programs that require contributions from participants, can be a highly significant component of reporting long-term fiscal sustainability information for many entities.

### **Determining Whether to Report Long-Term Fiscal Sustainability Information**

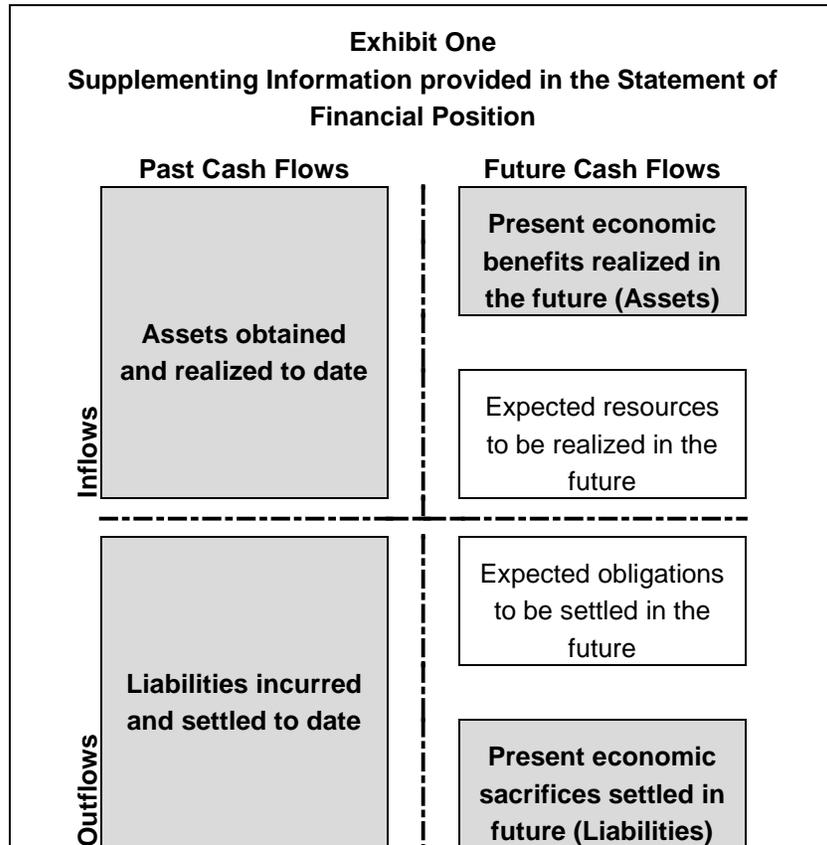
11. Long-term fiscal sustainability information is broader than information derived from the financial statements. It includes projected inflows and outflows related to the provision of goods and services and programs providing social benefits using current policy assumptions over a specified time horizon. It therefore takes into account decisions made by the entity on or before the reporting date that will give rise to future outflows that do not meet the definition of and/or recognition criteria for liabilities at the reporting date. Similarly it takes into account future inflows that do not meet the definition of and/or recognition criteria for assets at the reporting date.

### **Basis for Conclusions**

#### **Background**

- BC1. The IPSASB initially launched a project on accounting for social policy obligations (subsequently re-termed social benefits) in 2002. This led to the publication of an Invitation to Comment (ITC), *Accounting for Social Policies of Governments*, in January 2004. Following an analysis of responses to that ITC, the IPSASB began to develop proposals for accounting for obligations related to different sub-categories of social benefits. In late 2006, due to failure to agree on recognition points and measurement requirements for liabilities, the IPSASB decided not to develop further proposals on recognition and measurement at that time.
- BC2. As an interim step the IPSASB developed proposals for the disclosure of amounts to be transferred to those eligible at the reporting date for cash transfers (benefits settled in cash). It expressly did not propose the disclosure of obligations and liabilities. ED 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, was issued in March 2008.
- BC3. The deliberations on identifying the point at which liabilities for social benefits arise had led the IPSASB to the view that the financial statements cannot provide all the information that users need on social benefits. This is illustrated in Exhibit One below where the shaded boxes indicate information provided in the financial statements. The IPSASB considered that before launching any further project it should consult constituents. Therefore the IPSASB raised this issue in a further Consultation Paper, *Social Benefits: Issues in Recognition and Measurement*, and issued

a Project Brief, *Long-Term Fiscal Sustainability Reporting*. Both these documents were issued at the same time as ED 34.



BC4. In October 2008 the IPSASB reviewed responses to all of the above documents. In the light of these responses, it was decided not to develop ED 34 into an IPSAS. The IPSASB also noted that a large majority of respondents agreed that the financial statements cannot convey sufficient information to users about the long-term financial implications of governmental programs providing social benefits.<sup>2</sup> In light of this view the IPSASB decided to initiate a project on long-term fiscal sustainability (subsequently re-termed “Reporting on the Long-Term Sustainability of Public Finances”). This led to the issue of a Consultation Paper, *Reporting on the Long-Term Sustainability of Public Finances*, in November 2009. Drawing on existing practice the Consultation Paper put forward the case for reporting long-term fiscal sustainability information, made suggestions on how such information might be presented and sought the views of constituents. The majority of respondents to the Consultation Paper favored the continuation of the project, although many said that they preferred the IPSASB to develop guidelines rather than requirements.

<sup>2</sup> Further work on proposals for the recognition and measurement of liabilities arising from obligations to deliver social benefits has progressed indirectly in Phase 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* project. This phase deals with elements, and includes the development of the definition of a liability and other relevant issues such as whether the power to tax is an asset. This work is likely to influence the approach to recognizing and measuring liabilities related to social benefits. The IPSASB decided to reactivate its project on social benefits at its June 2013 meeting.

**Exposure Draft [XX]**  
**[Issued]**  
***Comments due: [Date]***

*Proposed International Public Sector Accounting  
Standard®*

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## Social Benefits



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

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

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

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

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

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## REQUEST FOR COMMENTS

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

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [DATE].**

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

### Objective of the Exposure Draft

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

### Guide for Respondents

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

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

[SMCs to be agreed by the IPSASB]

## EXPOSURE DRAFT XX, SOCIAL BENEFITS

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## Objective

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

## Scope

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

**Paragraphs AG1–AG2 provide additional guidance.**

## Definitions

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

**Social benefits are benefits that are provided by a public sector entity:**

  - (a) **To address the needs of society as a whole;**
  - (b) **To mitigate the effect of social risks;**
  - (c) **Directly to specific individuals and/or households who meet eligibility criteria related to the mitigation of the effect of social risks, rather than being universally accessible; and**

**(d) In cash or in kind.**

Addressing the needs of society as a whole does not require that each benefit covers all members of society (paragraphs AG3–AG9 provide additional guidance).

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

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

Paragraphs AG10–AG14 provide additional guidance.

**Social benefits in cash** are social benefits paid in cash, by or on behalf of a public sector entity, that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.

**Social benefits in kind** are goods and services provided as social benefits to individuals and households by or on behalf of a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.

**Reimbursements** are cash payments made as a social benefit by or on behalf of a public sector entity to compensate a service provider or an individual or household for all or part of the expense incurred or to be incurred by that individual or household in accessing specific services.

**Social insurance** is 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. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).

**Social security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.

**Social assistance** is the provision of social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.

## **Insurance Approach**

7. [To be determined]

## **Obligating Event Approach**

### **Recognition**

8. [To be determined]

## Measurement

### *Initial measurement*

9. [To be determined]

### *Subsequent measurement*

10. [To be determined]

## Disclosure

11. **The objective of the disclosures is for entities to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and statement of cash flows, gives a basis for users of financial statements to assess the effect that social benefits have on the financial position, financial performance and cash flows of the entity. Paragraphs 12–20 specify requirements on how to meet this objective.**
12. **An entity shall disclose information that:**
- (a) **Explains the characteristics of its social benefit schemes and risks associated with them (see paragraph 15);**
  - (b) **Identifies and explains the amounts in its financial statements arising from its social benefit schemes (see paragraphs 16–17); and**
  - (c) **Describes how its social benefit schemes may affect the amount, timing and uncertainty of the entity’s future cash flows (see paragraphs 18–20).**
13. To meet the objectives in paragraphs 11 and 12, an entity shall consider all the following:
- (a) The level of detail necessary to satisfy the disclosure requirements;
  - (b) How much emphasis to place on each of the various requirements;
  - (c) How much aggregation or disaggregation to undertake; and
  - (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.
14. If the disclosures provided in accordance with the requirements in this [draft] Standard and other IPSASs are insufficient to meet the objectives in paragraphs 11 and 12, an entity shall disclose additional information necessary to meet those objectives.

### *Characteristics of social benefit schemes and risks associated with them*

15. An entity shall disclose:
- (a) Information about the characteristics of its social benefit schemes, including:
    - (i) The nature of the benefits provided by the plan (for example, retirement benefits, unemployment benefits, etc.).
    - (ii) A description of the legislative framework governing the scheme, for example, the eligibility criteria that must be satisfied to receive the social benefit, and whether there is an ongoing requirement to satisfy those criteria.

- (iii) A description of how the scheme is funded, including whether the funding for the scheme is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means.
- (b) A description of the risks to which the plan exposes the entity. For example, if the scheme provides unemployment benefits, the scheme may expose the entity to a concentration of risk relating to recession.
- (c) A description of any amendments to the benefits provided by the scheme.
- (d) The basis on which the discount rate or rates have been determined.

*Explanation of amounts in the financial statements*

- 16. [To be determined]
- 17. Where the liability in respect of a social benefit scheme is not expected to be settled by the end of the next reporting period, an entity shall disclose the significant actuarial assumptions used to determine the present value of that liability. Such disclosure shall be in absolute terms (e.g. as an absolute percentage, and not just as a margin between different percentages and other variables).

*Amount, timing and uncertainty of future cash flows*

- 18. Where the liability in respect of a social benefit scheme is not expected to be settled by the end of the next reporting period, an entity shall disclose:
  - (a) A sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 17) as of the end of the reporting period, showing how the social benefit liability, would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.
  - (b) The methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.
  - (c) Changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.
- 19. An entity shall disclose a description of any asset-liability matching strategies used by the entity to manage risk.
- 20. To provide an indication of the effect of the social benefit scheme on the entity's future cash flows, an entity shall disclose:
  - (a) A description of the funding arrangements, including the basis on which future contributions (if any) from beneficiaries and potential beneficiaries are calculated.
  - (b) The expected contributions (if any) for the next reporting period.
  - (c) Information about the maturity profile of the social benefit scheme. This will include the weighted average duration of the social benefit scheme and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

**Transitional Provisions**

- 21. [To be determined]

## Effective Date

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

## Application Guidance

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

### Scope (see paragraphs 4–5)

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

### Definitions (see paragraph 6)

*Guidance on the definition of social benefits*

- AG3. Social benefits are organized to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance-based schemes, which are organized for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each benefit covers all members of society; in some jurisdictions, social benefits are provided through a range of similar benefits that cover different segments of society. A benefit that covers a segment of society as part of a wider system of benefits meets the requirement that it addresses the needs of society as a whole.
- AG4. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the criteria that they are provided to mitigate the effect of social risks.
- AG5. Social benefits are only provided when eligibility criteria are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the scheme potentially covers the population as a whole, benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria.
- AG6. Public sector entities may provide benefits directly to specific individuals and/or households, or may provide services which are universally accessible.
- AG7. Where benefits are provided directly to specific individuals and/or households, the total amount of benefits provided varies directly with an individual or household's eligibility. For example, when an

individual reaches retirement age and becomes entitled to a pension, the total amount of pension payable increases by the amount payable to that individual. Such benefits are social benefits.

- AG8. Where benefits or services are universally accessible, the total amount of benefit or service provided is not dependent on an individual or household's eligibility. For example, where a public sector entity provides a universal health service, the entity is responsible for paying staff (doctors, nurses, etc.), providing assets such as hospitals and medical equipment, and incurring other expenses. When an individual moves into an area and becomes entitled to access the universal health service, this does not, except at the margin, result in the total level of service increasing. For these types of benefits, the level of service provided will generally only vary with significant changes in population. This provides evidence that such benefits are not provided directly to specific individuals and/or households, and accordingly, such benefits do not meet the definition of a social benefit.
- AG9. Because social benefits are provided individually, many social benefits will be provided in cash. However, some social benefits may be provided in kind; for example where a government program provides healthcare insurance for those who are unable to afford private healthcare insurance. Where benefits in kind are universally accessible, for example a universal healthcare service, these do not meet the definition of a social benefit for the purposes of this [draft] IPSAS.

*Guidance on the definition of social risks*

- AG10. Social risks relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status. Risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks, and consequently benefits provided in respect of these risks are not social benefits.
- AG11. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.
- AG12. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the benefit arises from characteristics of the individuals and/or households – in this case a change in an individual's employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.
- AG13. Public sector entities may provide benefits to mitigate the effect of risks other than social benefits. Such benefits are not social benefits, and are accounted for in accordance with other IPSASs.
- AG14. Social benefits are provided to mitigate social risks in the following ways:
- (a) Individuals and/or households could receive benefits when they meet certain eligibility criteria that originate from a social risk without making any contributions;

- (b) Individuals and/or households could make contributions and receive benefits in the event of the occurrence of the specified social risks; and
- (c) Individuals and/or households could make contributions to a scheme to accumulate entitlements to future benefits, with the benefits being provided following the occurrence of the specified social risk.

## Amendments to Other IPSASs

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

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

### Scope

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

...

### ~~Social Benefits~~

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

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

~~10. Where an entity elects to recognize a provision for such obligations, the entity discloses the basis on which the provisions have been recognized and the measurement basis adopted. The entity also makes other disclosures required by this Standard in respect of these provisions. IPSAS 1 provides guidance on dealing with matters not specifically dealt with by another IPSAS. IPSAS 1 also includes requirements relating to the selection and disclosure of accounting policies.~~

~~11. In some cases, social benefits may give rise to a liability for which there is:~~

- ~~(a) Little or no uncertainty as to amount; and~~
- ~~(b) The timing of the obligation is not uncertain.~~

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

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

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

...

### **Definitions**

...

### **Provisions and Other Liabilities**

~~19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:~~

- ~~(a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and~~

...

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

...

## Onerous Contracts

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

...

## Disclosure

...

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

...

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

...

## Effective Date

...

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

...

## Basis for Conclusions

...

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

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

BC4. This Standard did not, however, prohibit the recognition of provisions relating to social benefits, and required disclosures where an entity elected to recognize a provision for such obligations.

BC5. Following the publication of [draft] IPSAS [X] (ED XX), all social benefits will be accounted for in accordance with that Standard. This Standard has therefore been revised to exclude all social benefits within the scope of [draft] IPSAS [X] (ED XX) and to remove the provisions within this Standard that related to social benefits.

### Comparison with IAS 37

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

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

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

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

...

### Effective date

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

### Application Guidance

...

### Definitions (paragraphs 9–12)

*Financial Assets and Financial Liabilities*

...

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

- Obligations to pay income taxes are accounted for in accordance with the relevant international or national accounting standard dealing with income taxes.

- Obligations to provide social benefits are accounted for in accordance with ~~IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors and IPSAS 19~~[draft] IPSAS [X] (ED XX).
- Other statutory obligations are accounted for in accordance with IPSAS 19.

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

Paragraph 36 is amended and paragraphs 37A and 134A–134C are added. New text is underlined and deleted text is struck through.

...

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

...

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

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

36. **Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:**
- (a) **Inventories (see IPSAS 12, *Inventories*);**
  - (b) **Investment property (see IPSAS 16, *Investment Property*);**
  - (c) **Property, plant and equipment (see IPSAS 17, *Property, Plant and Equipment*);**
  - (d) **Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);**
  - (e) **Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);**
  - (f) **Intangible assets (see IPSAS 31, *Intangible Assets*);**
  - (g) **Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*); ~~and~~**
  - (h) **Financial instruments (see IPSAS 29, *Financial Instruments; Recognition and Measurement*); and**
  - (i) **Social benefits (see [draft] IPSAS [X] (ED XX), *Social Benefits*).**

...

- 37A. **Where a first-time adopter applies the exemption in paragraph 36(i), it shall recognize a liability and any related assets at the same time.**

...

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

...

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

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

(a) [To be determined]

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

**134C. An entity shall recognize and/or measure any related assets in accordance with the requirements for the type of asset at the same time that it recognizes and/or measures its initial liability in accordance with paragraph 134A.**

## **Effective Date**

...

**157. Paragraph 36 was amended and paragraphs 37A and 134A–134C were added by [draft] IPSAS [X] (ED XX), Social Benefits, issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED XX) at the same time.**

## **Basis for Conclusions**

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

...

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

...

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

BC79C. [To be determined]

## **Implementation Guidance**

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

...

**[Draft] IPSAS [X] (ED XX), Social Benefits**

IG89A. [To be determined]

**Presentation and Disclosure**

...

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

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

...

	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
[Draft] IPSAS [X] (ED XX), <u>Social Benefits</u>			✓ <u>liabilities for social benefit schemes and related assets not recognized under previous basis of accounting</u>	✓ <u>liabilities for social benefit schemes and related assets recognized under previous basis of accounting</u>				[To be determined]

## Basis for Conclusions

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

### Objective (paragraphs 1–3)

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

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

#### *History*

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

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

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

*Role of Government Finance Statistics (GFS)*

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

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

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

- (b) [Draft] IPSAS [X] (ED XX) distinguishes between those benefits that are provided to specific individuals and/or households and those that are universally accessible. This distinction is intended to provide a more principles based, less artificial boundary between social benefits and non-exchange expenses. Liabilities and expenses associated with social risks can be measured by reference to an individual's eligibility to receive the benefit, which does not apply to non-exchange expenses. In developing this boundary, the IPSASB acknowledges that social benefits and non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. However, the IPSASB's earlier experiences convinced the Board that a boundary would be required for a social benefits project to be manageable.
- BC22. The effect of these decisions is to align the scope of [draft] IPSAS [X] (ED XX), and its definitions of social benefits and social risks, with those in GFS, with the exception of universal services. Universal services such a universal healthcare service are considered to be social benefits under GFS, but are outside the scope of [draft] IPSAS [X] (ED XX). The IPSASB considered that outcome would satisfy the majority of respondents who supported alignment with GFS, whilst addressing the concerns of the significant minority of respondents who had concerns with the boundary between social benefits and non-exchange expenses.

## Implementation Guidance

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

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

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

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

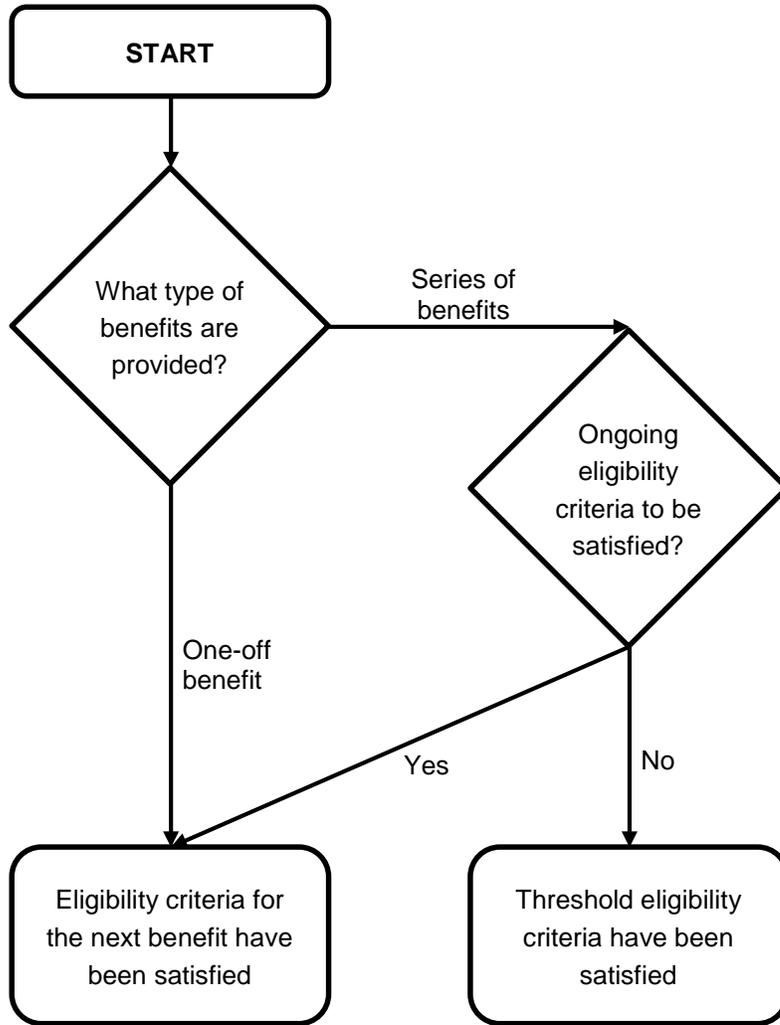
Category	Contracts for Goods and Services	Contracts for Insurance	Employee Benefits	Social Benefits	Universal Services	Ad Hoc / Other Transfers	Collective Goods and Services	Grants and Contributions
Examples	Purchase of goods Payment for services	Vehicle insurance Private medical insurance	Salaries Healthcare Employee pensions	State pensions Unemployment benefits Income support	Universal Healthcare Universal Education	Disaster relief	Defense Street lighting	Grants to other public sector entities Grants to charities
Exchange or Non-Exchange Transaction?	Exchange	Exchange	Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange
Addresses needs of society as a whole?	No	No	No	Yes	Yes	Yes	Yes	Sometimes
Mitigates effect of social risks?	No	No	Yes	Yes	Yes	No	No	No
Eligibility criteria related to social risks?	No	No	Yes	Yes	No	No	No	No
Provided directly to individuals/households?	No	No	Yes	Yes	No	Sometimes	No	No

Other IPSASs / IFRSS
Social Benefits
Non-Exchange Expenses

Scope of Social Benefits in GFS

**Eligibility criteria**

IG3. The decision tree below illustrates the process established by [draft] IPSAS [X] (ED XX) for determining which eligibility criteria will be appropriate for a particular social benefit (see paragraphs xx–xx)



## **Illustrative Examples**

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

### **Scope and definitions**

*Illustrating the consequences of applying paragraphs xx–xx of [draft] IPSAS [X] (ED XX)*

IE1. The following scenarios illustrate

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