

**Meeting:** International Public Sector Accounting Standards Board  
**Meeting Location:** Toronto, Canada  
**Meeting Date:** September 19–22, 2017  
**From:** Paul Mason

# Agenda Item 5

**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 June 2017 Meeting</a>	5.1.1
	<a href="#">Decisions up to June 2017 Meeting</a>	5.1.2
	<a href="#">Social Benefits Project Roadmap</a>	5.1.3
<b>Decisions required at this meeting</b>	<a href="#">Due Process</a>	5.2.1
	<a href="#">Development of Exposure Draft</a>	5.2.2
	<a href="#">Presentation</a>	5.2.3
	<a href="#">Approval of Exposure Draft 63</a>	5.2.4
<b>Other supporting items</b>	<a href="#">Draft Exposure Draft 63, <i>Social Benefits</i></a>	5.3

## INSTRUCTIONS UP TO JUNE 2017 MEETING

Meeting	Instruction	Actioned
June 2017	Work with members on the precise wording of the reference to IFRS 17, <i>Insurance Contracts</i> .	Revised wording is included on page 8 of <a href="#">Agenda Item 5.3</a>
June 2017	Consider the due process implications of converting a RPG 1 into a Standard.	See <a href="#">Appendix A to Agenda Item 5.2.3</a>
June 2017	Prepare example disclosures for inclusion in the ED	See <a href="#">Agenda Item 5.2.3</a>
June 2017	Develop options regarding the disclosure of commitments or future cash flows for the IPSASB to consider at the September meeting.	See <a href="#">Agenda Item 5.2.3</a>
June 2017	Ensure terminology is consistent with the Revenue and Non-Exchange Expenses Consultation Paper.	Changes made in <a href="#">Agenda Item 5.3</a>
June 2017	Include within the Basis for Conclusions the rationale for including universally accessible services in the non-exchange expenses project, and to explain that because social benefits arise from social risks, no performance obligations are involved.	Included on pages 30- 32 of <a href="#">Agenda Item 5.3</a>
June 2017	Communicate to stakeholders the reasons for the handling approach, and the relationships between the social benefits project, fiscal sustainability reporting and non-exchange expenses project in the Basis for Conclusions and in the communications material that will accompany the ED.	Included on page 40 of <a href="#">Agenda Item 5.3</a>
March 2017	Consider how the proposals in the social benefits project relate to the treatment of collective goods and services, and universal benefits, in the non-exchange expenditure project.	
March 2017	Undertake further analysis to consider whether the recognition approaches for non-exchange expenses being considered in that project would be helpful in determining when to recognize an expense and liability related to a social benefit.	
March 2017	Work with the member who raised concerns about the consistency of the obligating event approach with the treatment of financial guarantees in the Financial Instruments project to refine the drafting of the BCs.	
March 2017	Raise the following issues with the CAG: <ul style="list-style-type: none"> <li>• The IPSASB's proposals regarding the applicability of the insurance approach;</li> <li>• The IPSASB's proposal that the insurance approach be optional; and</li> <li>• The IPSASB's proposals regarding discount rates and risk adjustments.</li> </ul>	

Social Benefits (Instructions up to June 2017 meeting)  
*IPSASB Meeting (September 2017)*

<b>Meeting</b>	<b>Instruction</b>	<b>Actioned</b>
March 2017	Include a discussion of discount rates and risk adjustment under IFRS 17 in the Basis for Conclusions, and to consider whether a specific matter for comment will be required in the ED.	
March 2017	Undertake further work with two IPSASB members with experience of insurance or insurance-like schemes, in order to determine whether any amendments to the indicators of whether an entity is managing a scheme in the same way as an insurer are required.	
March 2017	Bring proposals regarding definitions of specific types of social benefits to a future meeting.	
March 2017	Consider how to align the scope of the social benefits project with that of the non-exchange expenses project, and to bring proposals to the next meeting.	
March 2017	Reorder the guidance on social benefits to align with the revised definition.	
December 2016	Staff and the Technical Director should discuss whether paragraph 17 of the Preface to the Conceptual Framework was using the term social benefits in the same way as the draft ED.	
December 2016	Develop a range of options for disclosures, taking into account the points raised by the IPSASB.	See <a href="#">Agenda Item 5.2.3</a>
December 2016	Further develop the obligating event approach in light of the IPSASB's discussions at the December 2016 meeting.	
December 2016	Review the forthcoming IASB staff paper on the past event once issued as it might provide the IPSASB with useful insights.	N/A – the IPSASB has agreed the past event for social benefits.
December 2016	Develop a paper on the proposed IFRS on insurance contracts.	
December 2016	It is expected that the coverage period in the IASB's forthcoming standard on insurance could commence prior to the payment of a premium, and this should be reflected in a future social benefits ED, either in the core text or the Basis for Conclusions.	
December 2016	Consider whether any of the issues covered in the text previously included in the last sentence of the guidance on social risks needed to be reflected in the definitions.	
December 2016	Consider changes to the wording to address a member's concerns that it is not clear why geographical risks are excluded from the scope of the project.	

Social Benefits (Instructions up to June 2017 meeting)  
*IPSASB Meeting (September 2017)*

<b>Meeting</b>	<b>Instruction</b>	<b>Actioned</b>
December 2016	An observer suggested that there was a tension between the words “to address the needs of society as a whole” and the provision of benefits to individuals and households. The IPSASB instructed staff to consider this issue further, and discuss it with the observer.	
December 2016	Consider whether the reference to “insurance-based schemes” in the guidance on social benefits required amendment.	
December 2016	Consider whether the reference to “in cash or in kind” in the definition of social benefits was required; and if not, whether it should be removed completely or replaced with a discussion in the Basis for Conclusions.	
September 2016	Consider a presentation framework for social benefits, including the issue of gross versus net presentation.	
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.	
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 5.2.3</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.	
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	
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.	
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.	
June 2016	Have regard to the IASB’s work on discount rates when considering how social benefits shall be measured.	N/A – the research summary is due to be published in 2018.
June 2016	Develop a paper setting out the IASB’s latest thinking on insurance accounting.	

Meeting	Instruction	Actioned
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.	
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".	
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>	
June 2016	Consider how to account for contributions and the interaction with certain sovereign wealth funds in developing the future ED.	
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>	
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>	
March 2016	Reconsider the definitions once a decision on the scope of the project has been made	
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.	

Social Benefits (Instructions up to June 2017 meeting)  
IPSASB Meeting (September 2017)

Meeting	Instruction	Actioned
June 2015	All directions given in the June 2015 meeting or earlier were reflected in the Consultation Paper, <a href="#">Recognition and measurement of Social Benefits</a> .	

### DECISIONS UP TO JUNE 2017 MEETING

Date of Decision	Decision
June 2017	To include the following staff proposals in the ED: <ul style="list-style-type: none"> <li>• Amendments to IPSAS 23;</li> <li>• Changes to the scope and definitions;</li> <li>• The insurance approach; and</li> <li>• Deletion of the Basis for Conclusions dealing with the key participatory events and liability accumulates over time obligating events.</li> </ul>
June 2017	To include guidance that explains the relationship between the scope of social benefits in Government Finance Statistics and in the ED.
June 2017	To remove the definitions of social benefits in cash; social benefits in kind; reimbursements; social insurance; social security; and social assistance as these are not used in the ED.
June 2017	Not to include a definition of social benefit schemes.
June 2017	Not to amend the definition of social benefits.
June 2017	Wording regarding the level of detail to be reported should not be included in the ED.
June 2017	The merits of making RPG 1 mandatory should be raised with constituents as a Specific Matter for Comment.
June 2017	As a handling approach, the ED should be based on the eligibility criteria for the next benefit have been satisfied as the sole recognition point.
March 2017	Not to include the key participatory event obligating event or the liability accumulates over time approach in the ED.
March 2017	Not to make any modifications to the forthcoming IFRS 17, specifically: <ul style="list-style-type: none"> <li>• Not to include a modified definition of an insurance contract;</li> <li>• That no specific requirements in respect of the premium allocation approach are required;</li> <li>• Not to modify the IFRS 17 requirements in respect of discount rates; and</li> <li>• Not to modify the IFRS 17 requirements in respect of risk adjustments.</li> </ul>
March 2017	The insurance approach should be optional for those schemes that meet the criteria.
March 2017	The insurance approach can be applied to social benefit schemes that are intended to be fully funded from contributions, and where there is evidence that public sector entity manages the scheme in same way as issuer of insurance contract.

Social Benefits (Decisions up to June 2017 meeting)  
*IPSASB Meeting (September 2017)*

Date of Decision	Decision
March 2017	Include the following definition of social benefits in the ED: “Social benefits are provided to: (a) Specific individuals and/or households who meet eligibility criteria; (b) Mitigate the effect of social risks; and (c) Address the needs of society as a whole; but (d) Are not universally accessible services.”
March 2017	Reflect the exclusion of “universally accessible services” in both the definition of social benefits and the scope section of the Exposure Draft (ED).
March 2017	Remove the reference to benefits being provided “directly” to individuals and/or households in the definition of social benefits.
March 2017	Not to include a reference to “large segments of society” in the definition of social benefits, but to address this in the supporting guidance.
March 2017	Base the definition of social benefits on the definition developed by staff on the basis of previous discussions, not the alternative provided by an observer.
December 2016	The final sentence in the guidance on social risks (“Social benefits are provided to mitigate social risks in the following ways...”) should be deleted.
December 2016	The fourth paragraph of the guidance on social risks (“Public sector entities may provide benefits to mitigate the effect of risks other than social benefits...”) should be deleted.
December 2016	The final sentence (“Where benefits in kind are universally accessible...”) in the final paragraph of the guidance on social benefits should be retained.
December 2016	A definition of “universally accessible” should be included in a future ED on social benefits.
December 2016	The three paragraphs prior to the final paragraph in the guidance on social benefits presented at the meeting should be deleted. These paragraphs begin: <ul style="list-style-type: none"> <li>• Public sector entities may provide benefits...</li> <li>• Where benefits are provided directly to specific individuals...</li> <li>• Where benefits or services are universally accessible...</li> </ul>
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.

Social Benefits (Decisions up to June 2017 meeting)  
*IPSASB Meeting (September 2017)*

<b>Date of Decision</b>	<b>Decision</b>
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, <a href="#"><i>Recognition and measurement of Social Benefits</i></a> .

## SOCIAL BENEFITS PROJECT ROADMAP

Meeting	Objective: IPSASB to consider:
September 2017	<ol style="list-style-type: none"> <li>1. Decision on presentation framework (including disclosures)</li> <li>2. Draft ED: Obligating Event Approach–Recognition (to finalize)</li> <li>3. Draft ED: Obligating Event Approach–Measurement (to finalize)</li> <li>4. Draft ED: Disclosures (insurance approach and obligating event approach)</li> <li>5. Draft ED: Transitional Arrangements</li> <li>6. Draft ED: Application Guidance (remaining items)</li> <li>7. Draft ED: Draft ED: Amendments to other IPSASs (remaining items)</li> <li>8. Draft ED: Basis for Conclusions (remaining items)</li> <li>9. Draft ED: Illustrative Examples</li> <li>10. Review of full draft ED</li> <li>11. Decision on Specific Matters for Comment to be included</li> <li>12. Approval of ED</li> </ol>
December 2017	Consultation Period
March 2018	
June 2018	<ol style="list-style-type: none"> <li>1. Review of Responses</li> <li>2. Initial discussion on issues raised</li> </ol>
September 2018	<ol style="list-style-type: none"> <li>1. Discussion of issues raised</li> <li>2. Review first draft of proposed IPSAS</li> </ol>
December 2018	<ol style="list-style-type: none"> <li>1. Review of draft IPSAS</li> <li>2. Approval of IPSAS</li> </ol>

# Agenda Item 5.2.1

## Due Process

### Questions

1. The IPSASB is asked to note the requirements of due process in approving the Exposure Draft.

### Detail

2. At this meeting, IPSASB members will be asked to vote on the approval of draft Exposure Draft (ED) 63, *Social Benefits*. Following the IPSASB's June 2017 meeting, it is clear that some IPSASB members are likely to disagree with, and therefore vote against, the draft ED and will wish to express an alternative view.
3. The process for approving an ED, and for requesting that an alternative view is included in the published ED is set out in the IPSASB's [Due Process and Working Procedures](#). The relevant paragraphs are as follows:

### Due Process

#### Development of Proposed International Standards

10. When the IPSASB staff is satisfied that it has a proposed draft international standard that is ready for exposure, the draft is presented to the IPSASB.
11. The IPSASB votes on the approval of an exposure draft of the proposed international standard in accordance with the IPSASB's terms of reference. In voting in favor of the release of an exposure draft, a member of the IPSASB is confirming that he or she is satisfied that the draft would form an acceptable international standard in the event that no comments were received on exposure that required the IPSASB to amend the proposals. (Ref: Para. A19)

### Working Procedures

#### Development of Proposed International Standards

##### *Approval of Draft International Standard* (Ref: Para. 11)

- A19. The IPSASB votes to approve an exposure draft before publication. IPSASB members that vote against an exposure draft can request that their dissenting views be documented in the minutes to the meeting and can also request they are included as an alternative view.

4. It is clear from the IPSASB's *Due Process and Working Procedures* that, in order to be able to support an alternative view, members must:
  - (a) Vote against the ED when the IPSASB conducts the vote for approval;
  - (b) Request that their dissenting views are recorded in the minutes; and
  - (c) Request that their dissenting views are included in the ED as an alternative view.

**Due Process – Voting Considerations**

5. IPSASB members will need to take the due process requirements into account when voting on whether to approve ED 63 (see [Agenda Item 5.2.4](#)).

# Agenda Item 5.2.2

## Development of Exposure Draft

### Questions

1. The IPSASB is asked to review the draft Exposure Draft (ED) 63 at Agenda Item 5.3 and to agree any changes that are required.

### Detail

#### *Sections of ED 63 Previously Considered by the IPSASB*

2. Sections of the draft ED 63 that the IPSASB has previously discussed and agreed are shown shaded. Any changes since the version considered by the IPSASB at its June 2017 meeting are shown in mark-up. These changes are either editorial, or minor changes to reflect decisions taken by the IPSASB in June 2017.
3. The IPSASB is asked to review the changes made to these sections, and raise any issues on an exception basis.

#### *New Sections of ED 63*

4. The following table summarizes the new sections of ED 63 that have been included since the IPSASB's June 2017 meeting. The IPSASB is asked to review these sections (which are shown unshaded in the draft ED) and agree any changes that are required.

Page	Section of ED 63	Staff Comments
3-4	Specific Matters for Comment (SMCs)	See <a href="#">Agenda Item 5.2.4</a> . The IPSASB is asked to consider the SMCs after agreeing the rest of the ED.
8	Footnote 1, IFRS 17, <i>Insurance Contracts</i>	Footnote 1 includes the revised wording for referring to international or national accounting standards dealing with insurance contracts agreed with interested members outside of the meeting.
9	Insurance approach: disclosures	Paragraph 12 includes the additional disclosure requirements for the insurance approach. The disclosures mirror the proposed disclosures about the nature of a social benefit scheme under the obligating event approach, omitting the funding disclosures (which will be covered by IFRS 17 or similar national standards).
9-11	Obligating event approach: recognition and measurement	Paragraphs 13-30 include the recognition and measurement requirements for liabilities and expenses arising from social benefit schemes. These are substantially the same as the proposals included in the June 2017 agenda papers. Paragraph 31 requires that revenue is recognized and measured in accordance with IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> .

Page	Section of ED 63	Staff Comments
11-13	Obligating event approach: disclosures	Paragraphs 32-40 include proposals for the disclosure requirements under the obligating event approach. The IPSASB is asked to consider these proposals as part of its discussions of the disclosure requirements at <a href="#">Agenda Item 5.2.3</a> .
13	Transitional Provisions	Paragraphs 41-43 include transitional provisions for both the insurance approach and obligating event approach. These reflect decisions the IPSASB has made about recognition and measurement. The obligating event approach includes transitional arrangements regarding disclosures; these may need to be revisited once the IPSASB has discussed the disclosures.
18-19	Obligating event approach: Application Guidance on recognition and measurement	Paragraphs AG16-AG22 include guidance on the recognition and measurement requirements for liabilities and expenses arising from social benefit schemes. The guidance supplements paragraphs 13-30 (see above).
25-27	Amendments to Other IPSAS – IPSAS 33, <i>First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)</i>	The amendments to IPSAS 33 have been redrafted since the June 2017 meeting. This is to reflect the IPSASB's decision to recognize a liability for the next benefit only. Staff considers that no specific guidance on recognizing a liability for the first time is required; previously, the drafting had assumed that such guidance would be necessary. The drafting retains the three year relief period for recognizing the liability.
32	Basis for Conclusions: Non-Exchange Expenses Project	Paragraphs BC29-BC31 explain the relationship between the ED and the non-exchange expenses project, in particular the reasons why the ED does not consider the performance obligation approach.
40	Basis for Conclusions: approach to developing Exposure Draft 63	Paragraphs BC87-BC89 explain the “handling approach” that the IPSASB has decided to follow in developing the ED. Possible drafts of paragraph BC90 (which may explain how the handling approach relates to disclosures depending on the decisions the IPSASB makes) are included in the appendices to <a href="#">Agenda Item 5.2.3</a> .
40-41	Basis for Conclusions: obligating event approach – measurement and revenue	Paragraphs BC91-BC93 explain the IPSASB's reasons in deciding that social benefits should be measured using the cost of fulfillment measurement basis.  Paragraphs BC94-BC95 explain the IPSASB's reasons in deciding that social contributions should be accounted for using IPSAS 23.

Page	Section of ED 63	Staff Comments
41-42	Basis for Conclusions: obligating event approach – disclosure	Paragraphs BC96-BC98 explain the IPSASB’s reasons for requiring certain disclosures. Possible drafts of additional paragraphs, beginning with BC99 (which will be dependent on the decisions the IPSASB makes) are included in the appendices to <a href="#">Agenda Item 5.2.3</a> . The IPSASB is asked to consider these proposals as part of its discussions of the disclosure requirements.
43	Alternative View	An additional section has been added to the ED to allow for an Alternative View (or Views) to be expressed. The wording for this section will be finalized by those members who vote against the approval of the ED and who wish to express an Alternative View. <b>This section is not agreed by the IPSASB.</b>
45-47	Implementation Guidance: comparison with GFS	Paragraphs IG3-IG7 describe some of the classifications used in Government Finance Statistics (GFS), and explains which classifications are covered by the ED. Some of the wording has been taken from the definitions in the IPSASB’s Consultation Paper, which the IPSASB agreed at its June 2017 meeting should not be included in the core ED.
47-48	Implementation Guidance: recognition and measurement	Paragraphs IG8-IG13 provide guidance to answer some questions preparers may have regarding the recognition and measurement of social benefits under the obligating event approach.
49-62	Illustrative Examples	<p>Illustrative examples are included as follows:</p> <p><b>Scope:</b></p> <p>Example 1–Retirement benefits to employees (IE2-IE4)</p> <p>Example 2–State retirement pension (IE5-IE8)</p> <p>Example 3–Healthcare services (IE9-IE11)</p> <p>Example 4–Disability pensions (IE12-IE14)</p> <p>Example 5–Unemployment benefits (IE15-IE17)</p> <p>Example 6–Disaster relief (IE18-IE20)</p> <p>Example 7–Defense services (IE21-IE23)</p> <p><b>Obligating event approach – recognition and measurement:</b></p> <p>Examples 8 and 9 (IE24-IE44)</p> <p><b>Obligating event approach – disclosure:</b></p> <p>Examples 10-13 (IE45-IE48). Possible drafts of Example 14 (which will be dependent on the decisions the IPSASB makes regarding disclosure) are included in the appendices to <a href="#">Agenda Item 5.2.3</a>. The IPSASB is asked to consider these proposals as part of its discussions of the disclosure requirements.</p>

**Decisions required**

5. Have IPSASB identified any issues they wish to raise in respect of the minor changes made to the ED (shaded sections)?
6. Does the IPSASB support the new (unshaded) sections of the ED (excluding the Specific Matters for Comment and disclosure sections, which are discussed in later Agenda Items)? If not, what changes are required?

# Agenda Item 5.2.3

## Presentation

### Questions

1. The IPSASB is asked to agree the disclosure requirements to be included in the Exposure Draft (ED).

### Detail

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

2. At its June 2017 meeting, the IPSASB discussed the merits of making RPG 1 mandatory. The IPSASB decided that this should be raised with constituents as a Specific Matter for Comment (SMC), and instructed staff to consider the due process implications of converting an RPG into a Standard.
3. A draft SMC is included in [Agenda Item 5.2.4](#). The IPSASB will be asked to consider the wording along with the other SMCs.
4. [Appendix A](#) to this Agenda Item sets out the due process arrangements for making RPG 1 mandatory. The Appendix also sets out some project management issues that would need to be addressed if the IPSASB decided to develop an IPSAS based on RPG 1.
5. Because RPG 1 cannot be made mandatory without further formal consultation, the social benefits ED cannot propose requirements for entities to apply RPG 1. However the draft ED includes a recommendation that entities prepare reports that provide information on the long-term sustainability of the entity's finances (see [paragraph 40 in Agenda Item 5.3](#)).
6. The IPSASB is asked to take account of these issues in agreeing the disclosure requirements to be included in the ED.

#### *Disclosures to be Included in the Exposure Draft*

7. At its June 2017 meeting, the IPSASB agreed that some disclosure of future obligations or future cash flows would be required to meet users' needs, and instructed staff to develop options for the IPSASB to consider, along with proposals for the remaining disclosure requirements.
8. After the IPSASB's June 2017 meeting, staff circulated a presentation setting out some initial thoughts on the disclosure requirements. The proposals in this Agenda Item build on those proposals, taking into accounts comments received from members of the IPSASB and the TBG.

#### Minimum disclosures

9. In the presentation circulated to members, staff proposed minimum disclosure requirements that should be included in the ED regardless of the approach selected in respect of commitments or future cash flows. These disclosures (referred to in the presentation as "core disclosures") covered the characteristics of the social benefit scheme and the amounts in the financial statements.
10. Comments received indicated support for these disclosures, while noting that the term "core disclosures" was inconsistent with the Conceptual Framework. This term is not used in the draft ED.

11. The TBG considered that the proposed disclosure of a “description of risks to which the entity is exposed and how these are managed” was unlikely to provide useful information. The TBG considered that in many cases, the risks associated with a social benefit would be indistinguishable from general economic risks. Staff concurred with this view, and has removed the disclosure.
12. Some members suggested requiring the disclosure of the number of beneficiaries for each social benefit scheme. Staff has incorporated this disclosure (which is consistent with the IPSASB’s previous proposals in ED 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*) in the ED under the characteristics of the social benefit scheme (see [paragraph 35\(a\)\(iii\) in Agenda Item 5.3](#)).
13. Some TBG members have questioned whether disclosing the number of beneficiaries will provide useful information. Some TBG members have also questions whether disclosing total expense recognized in the current reporting period and previous four reporting periods (see [paragraph 38 in Agenda Item 5.3](#)) will provide useful information. This disclosure was referred to as “trend information” in the presentation circulated to members.
14. The IPSASB is asked to consider the proposed disclosures in [paragraphs 35-38](#) (and the examples in [paragraphs IE45-IE48](#)) in Agenda Item 5.3, taking into account the TBG’s concerns, and to agree what changes, if any, are required.

#### Disclosure of Future Obligations or Future Cash Flows

15. At its June 2017 meeting, the IPSASB agreed that some disclosure of future obligations or future cash flows would be required to meet users’ needs. In the presentation circulated to the members, staff identified five options. For three of these options, sub-options were also identified.
16. The five options are discussed below, and the amendments to the draft ED that would be required to for each option are included in Appendices B-F to this Agenda Item. These appendices include alternative wording for each sub-option where these are relevant. Where existing paragraphs are amended or deleted, the changes are shown in mark-up. Additional paragraphs are shown in plain text.
17. Staff notes that, because of the number of options and sub-options being considered, there is a significant volume of material in Appendices B-F. Consequently, IPSASB members with limited time to review the material may wish to focus primarily on the option recommended by staff and—if they do not support this recommendation—their preferred option. This would allow members to concentrate on considering the merits of each option, and reduce the amount of time spent reviewing detailed drafting suggestions.
18. The options identified in the presentation circulated to members are as follows:
  - (a) *No additional disclosures*. While this would not address the IPSASB’s concerns that the information to be included in the financial statements is insufficient to meet users’ needs (unless addition information is provided in a sustainability report), it would be consistent with the IPSASB’s usual approach to disclosures. These generally explain the information in the financial statements, rather than providing information about additional economic phenomena. [Appendix B](#) to this Agenda Item includes amendments to the draft ED that would be required for this option.

- (b) *Cash flows in next reporting period.* This option would provide an estimate of one year's future cash flows. While this is more information than would be provided by the previous option, staff considers that it is still unlikely to address the IPSASB's concerns that the information to be included in the financial statements is insufficient to meet users' needs (unless additional information is provided in a sustainability report). However, some members consider that this option would be sufficient to meet users' needs. [Appendix C](#) to this Agenda Item includes amendments to the draft ED that would be required for this option.
- (c) *Future obligations (or future cash flows) to current beneficiaries.* Under this option, the obligations (or cash flows) in respect of future benefits to be provided to current beneficiaries in the future would be disclosed. In some cases this will involve disclosing lifetime benefits for current beneficiaries. While this option discloses information that is not included in the financial statements, the group of individuals and households considered is the same as the group for whom a liability is recognized. This option does not consider future obligations to those who have not already met the eligibility criteria. As such, staff considers that this approach is similar to existing approaches in IPSAS, for example the disclosure of future minimum lease payments in IPSAS 13. [Appendix D](#) to this Agenda Item includes amendments to the draft ED that would be required for this option; alternative drafting is provided for each sub-option discussed below.
- (d) *Future obligations (or future cash flows) to current beneficiaries and current participants.* This option expands the previous option by also including the obligations (or cash flows) in respect of future benefits to be provided to current participants. For contributory schemes, participants will be those who are making contributions but not receiving benefits. In other cases, judgment will be required to determine when an individual becomes a participant. As an example, for work-related benefits, entering the workforce is likely to indicate that an individual has become a participant. Current participants do not meet the eligibility criteria for the provision of a social benefit. Consequently, staff considers that disclosing information about current participants will break the link with the information included in financial statements. In staff's view, this information would be more appropriately presented in a sustainability report. [Appendix E](#) to this Agenda Item includes amendments to the draft ED that would be required for this option; alternative drafting is provided for each sub-option discussed below.
- (e) *Future obligations (or future cash flows) to current beneficiaries, current participants and future participants.* This option expands the previous option by also including the obligations (or cash flows) in respect of future benefits to be provided to future participants. Future participants are those who are not currently participating in a scheme, but who are expected to do so at some point in the future. As an example, for work-related benefits a future participant would be an individual who is expected to enter the workforce at some point in the future. Future participants may include those who have yet to be born, and future immigrants. Staff considers that disclosing information about future participants will break the link with the information included in financial statements. In staff's view, this information would be more appropriately presented in a sustainability report. [Appendix F](#) to this Agenda Item includes amendments to the draft ED that would be required for this option; alternative drafting is provided for each sub-option discussed below.

19. Some members have commented that the final three options would provide more relevant information to users of the financial statements if future cash inflows (social contributions) were included in the disclosures. Staff concurs with this observation, but notes that the IPSASB has agreed that social contributions should be considered as part of the revenue project, and excluded from this ED. Staff does not consider including future cash inflows in the disclosures is consistent with the IPSASB's previous decisions. Staff considers that reports on the long-term sustainability of an entity's finances would be a more appropriate location for disclosing future cash inflows.
20. The final three options described above would provide information on future cash flows or obligations that extend beyond the next reporting period. The presentation circulated to members identified four sub-options that could be adopted for each of those three options, as shown in the table below:

	Undiscounted Cash Flows	Present Value (Actuarial Valuation)
Disclose all Benefits Equally	Sub-Option A	Sub-Option B
Different Disclosures for Long-Term and Short-Term Benefits	Sub-Option C	Sub-Option D

21. Disclosing undiscounted future cash flows has the advantage of simplicity; it is likely to be more readily understood by users of the financial statements than a single, present value figure. However, where benefits may extend over many years, disclosing the undiscounted future cash flows is likely to require a long table of cash flow estimates (although this could be mitigated, either by disclosing future cash flows for a fixed period, or by disclosing future cash flows in bands of, for example, five or ten years). Disclosing undiscounted future cash flows for long periods could also be misleading, as the time value of money can significantly reduce the significance of later years' estimates.
22. Disclosing either undiscounted cash flows or a present value for all benefits equally would be consistent with the IPSASB's approach to recognition and measurement, where the same recognition point is applied to all social benefits.
23. However, the future cash flows of different benefits do behave differently. For example, in many cases an individual who meets the eligibility criteria for a retirement benefit will continue to receive that benefit until death. By contrast an individual who receives unemployment benefits may have periods where they alternate between being unemployed (and receiving benefits) and being in employment.
24. This latter point suggests that there would be merit in disclosing all future benefits for long-term benefits such as the retirement benefit described above, and less information for short-term benefits such as unemployment benefits.
25. One difficulty with this is in defining what long-term social benefits are, and what short-term social benefits are. Some retirement benefits are only payable while an individual passes a means test; some unemployment benefits can be paid over a long period if the individual does not find work.
26. Staff considers that, for disclosure purposes, long-term benefits could be considered to be those where the only ongoing eligibility criterion is being alive. Short-term benefits could be considered to be those where there are ongoing eligibility criteria in addition to being alive. This convention is

adopted in the drafting of the sub-options in Appendices D-F to this Agenda Item. The terms “long-term social benefits” and “short-term social benefits” are not used in the draft wording; instead, reference is made to whether there are eligibility criteria in addition to being alive.

#### Staff Recommendations

27. For the reasons given in paragraph 18 above, staff considers that disclosing future obligations (or future cash flows) to current beneficiaries best addresses the IPSASB’s concerns that information to be included in the financial statements is insufficient to meet users’ needs, without breaking the link with those financial statements.
28. Staff considers that disclosing the present value of future cash flows will produce more relevant information, and that this will also avoid lengthy disclosures.
29. Staff considers that the fact that the future cash flows of different benefits behave differently means that different disclosures for long-term social benefits and short term social benefits is appropriate.

#### Actuarial Considerations

30. Staff met with representatives from the International Actuarial Association (IAA) in Ottawa during August to discuss the social benefits project. The drafting of this Agenda Item takes into account the information received at that meeting. A summary of the meeting as it relates to presentation is included at [Appendix G](#) to this Agenda Item.

#### Decisions required

31. Does the IPSASB agree with the proposed drafting of the disclosures on the characteristics of social benefit schemes and the amounts in the financial statements ([paragraphs 35–38](#) in the draft ED)? If not, what changes are required?
32. Does the IPSASB agree with the staff recommendation that the ED require the disclosure of the present value of future obligations to current beneficiaries, with different disclosures for long-term and short-term social benefits? If not, how should future cash flows or future obligations be disclosed?
33. Does the IPSASB agree with the proposed drafting of the disclosures of future cash flows or future obligations (Appendix B–F to this Agenda Item depending on the agreed approach)? If not, what changes are required?
34. Does the IPSASB agree that the ED should encourage, but not require, entities to prepare general purpose financial reports that provide information on the long-term sustainability of the entity’s finances (see [paragraph 40](#) in the draft ED)?

## Process for Making RPG 1 Mandatory

### Introduction

1. At its June 2017 meeting, members discussed the possibility of making RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, a mandatory requirement for entities with social benefits.
2. The IPSASB instructed staff to consider the due process implications of converting a RPG 1 into a Standard, and this Paper provides staff's views on the matter.

### Due Process Requirements

3. The IPSASB's process for approving an IPSAS is set out in the IPSASB's [Due Process and Working Procedures](#)<sup>1</sup>. The IPSASB's due process applies only to the approval of an IPSAS; although the IPSASB follows a similar process for the approval of non-mandatory guidance in Recommended Practice Guidelines (RPGs), this is not subject to the same formal due process requirements.
4. In developing RPG 1, the IPSASB voted on the approval of an exposure draft of the proposed RPG, and exposed this for public comment. Approval of a proposed RPG is not the same as the approval of a proposed IPSAS, and consequently RPG 1 cannot be said to have followed the IPSASB's due process.
5. RPG 1 cannot, therefore, be made mandatory without further formal consultation.

### Project Management Issues

6. If the IPSASB wishes to convert RPG 1 into a mandatory IPSAS, it will need to approve a proposed international standard in accordance with the IPSASB's due process. Staff considers that some of the wording would need to be more prescriptive, and that additional guidance is likely to be required, for example on appropriate measurement bases. A separate project to make the permissive wording in RPG 1 appropriate for an IPSAS is likely to be required. The IPSASB has agreed to include a Specific Matter for Comment in the social benefits ED, seeking stakeholders' views on making RPG 1. The IPSASB could instead propose to make these changes as amendments to other pronouncements within the social benefits ED; however, this would introduce significant delays in the approval of the ED.
7. In developing RPG 1, some IPSASB members expressed concerns regarding the auditability of information on the long-term sustainability of an entity's finances. This was one factor that led to the project delivering non-mandatory guidance for a wider general purpose financial report (GPFR) rather than requiring information to be included in the financial statements.

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<sup>1</sup> Paragraphs 11 and 12 set out the requirements for the IPSASB to vote on the approval of an exposure draft of the proposed international standard in accordance with the IPSASB's terms of reference, and for the approved draft international standards to be exposed for public comment.

8. It is likely that such concerns will remain. Therefore, in making RPG 1 mandatory, the IPSASB will need to consider whether the mandatory requirements should require information to be published in the financial statements or in a separate GPFR. If the IPSASB concludes that it should be the latter, the IPSASB may also wish to consider the level of assurance to which the report should be subject. Alternatively, the IPSASB may consider it would be more appropriate for the report to be subject to an agreed-upon procedures engagement, under which assurance is expressed by the auditor.
9. Currently, IPSAS only deal with the financial statements. Guidance on wider GPFRs is included in RPGs, which are not mandatory. If the IPSASB concludes that information on the long-term sustainability of an entity's finances should be provided in a mandatory, wider GPFR, the IPSASB will need to consider how to address this in an IPSAS. It would also be possible for a new type of international standard to be developed to address wider GPFRs, although this would require minor amendments to the IPSASB's due process; although the due process generally refers to "international standards", there are some references to "IPSASs" which would not cover a new type of international standard.
10. This paper does not seek to address these issues. If the IPSASB decides that information on the long-term sustainability of an entity's finances should be made a mandatory requirement, the IPSASB will need to initiate a new project to achieve this. That project will need to address where information on the long-term sustainability of an entity's finances should be presented and; if the IPSASB concludes that this is in a GPFR, whether an IPSAS is the appropriate vehicle for achieving this.

#### **Staff Conclusion**

11. RPG 1 cannot be made mandatory without the IPSASB undertaking a separate project to develop an international standard.
12. If the IPSASB decides to undertake such a project, there are a number of project management issues, outlined above, that will need to be considered at that time.

## Disclosure of Future Obligations – Option 1: No Additional Disclosures

Under this approach, the notes to the financial statements would not include an explanation of future obligations that may arise from an entity's social benefit schemes. The disclosures would only explain the characteristics of social benefit schemes and the risks associated with them; and identify and explain the amounts in the financial statements arising from the social benefit schemes.

If the IPSASB agreed to proceed with this option, the draft ED at Agenda Item 5.3 would be amended as follows:

### Obligating Event Approach

#### Disclosure

**33 An entity shall disclose information that:**

- (a) Explains the characteristics of its social benefit schemes and risks associated with them (see paragraph 34); and
- ~~(b) Identifies and explains the amounts in its financial statements arising from its social benefit schemes (see paragraphs 35–38); and~~
- ~~(c)(b) Describes how its social benefit schemes may give rise to future obligations (see paragraphs 39–xx).~~

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

~~39. [To be added once the IPSASB has agreed the disclosure approach – see Agenda Item x.x]~~

### Basis for Conclusions

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

#### Obligating Event Approach (paragraphs 13–38)

Approach to developing Exposure Draft 63

BC90. In deciding to adopt the “handling approach”, the IPSASB also took into account the difficulties that preparers would face in measuring a liability under the threshold eligibility criteria have been met recognition point. The closed group and open group methods used by actuaries assess both future income and future expenses. The methods also take account of current participants (closed group) and current and future participants (open group), unlike the threshold eligibility criteria have been met recognition point. Actuarial assessments only consider current beneficiaries as a subset of a wider assessment.

#### Disclosure

BC97. The IPSASB agreed that entities should disclose information that explains the characteristics of its social benefit schemes and risks associated with them; and identifies and explains the

amounts in its financial statements arising from its social benefit schemes; ~~and describes how its social benefit schemes may give rise to future obligations.~~

BC99. The IPSASB considered whether to require an entity to describe how its social benefit schemes may give rise to future obligations. The IPSASB decided not to require such disclosures. The IPSASB noted that information about future obligations would not simply explain the amounts in the financial statements, but would provide information that goes beyond the information in the financial statements. As such, information about future obligations does not assist users in assessing the performance of the entity during the reporting period. The IPSASB also noted that the difficulties entities would have in measuring the liability under the threshold eligibility criteria have been met recognition point (see paragraph BC90) would apply equally to amounts in the notes to the financial statements.

## Illustrative Examples

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

### Obligating Event Approach: Disclosure

*Illustrating the consequences of applying paragraphs 32–38 of [draft] IPSAS [X] (ED 63)*

~~*Explanation of Future Obligations that May Arise from an Entity's Social Benefit Schemes*~~

~~*Example 14*~~

~~IE49. [To be added once the IPSASB has agreed the disclosure approach – see Agenda Item 5.2.3]~~

## Disclosure of Future Obligations – Option 2: Cash Flows in Next Reporting Period

Under this approach, the explanation of future obligations that may arise from an entity's social benefit schemes in the notes to the financial statements would include limited cash flow projections. The proposal is that the projections cover the next financial reporting period, although the IPSASB may decide that the projections should cover a longer period – say up to five years.

If the IPSASB agreed to proceed with this option, the draft ED at Agenda Item 5.3 would be amended as follows:

### Obligating Event Approach

#### Disclosure

**33 An entity shall disclose information that:**

- (a) Explains the characteristics of its social benefit schemes and risks associated with them (see paragraph 34);
- (b) Identifies and explains the amounts in its financial statements arising from its social benefit schemes (see paragraphs 35–38); and
- (c) ~~Describes how its~~ **Explains the future cash flows that may arise from its** social benefit schemes ~~may give rise to future obligations~~ (see paragraphs ~~39–xx~~).

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

39. For each social benefit scheme, an entity shall disclose:

- (a) Its best estimate of the expected cash outflows that will arise from the scheme in the reporting period immediately following the reporting date; and
- (b) The key assumptions that the entity has relied on in making its best estimate of the expected cash outflows.

### Basis for Conclusions

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

#### Obligating Event Approach (paragraphs 13–39)

Approach to developing Exposure Draft 63

BC90. In deciding to adopt the “handling approach”, the IPSASB also took into account the difficulties that preparers would face in measuring a liability under the threshold eligibility criteria have been met recognition point. The closed group and open group methods used by actuaries assess both future income and future expenses. The methods also take account of current participants (closed group) and current and future participants (open group), unlike the threshold eligibility criteria have been met recognition point. Actuarial assessments only consider current beneficiaries as a subset of a wider assessment.

*Disclosure*

- BC96. The IPSASB agreed that entities should disclose information that explains the characteristics of its social benefit schemes and risks associated with them; identifies and explains the amounts in its financial statements arising from its social benefit schemes; and ~~describes how~~explains the future cash flows that may arise from its social benefit schemes ~~may give rise to future obligations~~.
- BC99. The IPSASB considered whether to require an entity to describe how its social benefit schemes may give rise to future obligations. The IPSASB decided not to require such disclosures. However, the IPSASB agreed that providing the entity's best estimate of the expected cash outflows for the next reporting period. This information, along with the required disclosure of previous expenses (see paragraph BC98), will provide useful information for assessing the expenditure on a social benefit scheme.
- BC100. The IPSASB noted that information about future obligations would not simply explain the amounts in the financial statements, but would provide information that goes beyond the information in the financial statements. As such, information about future obligations does not assist users in assessing the performance of the entity during the reporting period. The IPSASB also noted that the difficulties entities would have in measuring the liability under the threshold eligibility criteria have been met recognition point (see paragraph BC90) would apply equally to amounts in the notes to the financial statements.

**Illustrative Examples**

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

**Obligating Event Approach: Disclosure**

*Illustrating the consequences of applying paragraphs 32–39 of [draft] IPSAS [X] (ED 63)*

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

*Example 14*

- IE49. The following example illustrates some of the disclosure requirements that explain future cash flows that may arise from an entity's social benefit schemes; it is not based on actual transactions. The example assumes that Agency N provides unemployment benefits and retirement benefits.

**Paragraph  
reference**

39(a) **Expected Cash Outflows during the Year Ending December 31, 20X9**

	<b>Unemployment Benefits CU (,000)</b>	<b>Retirement Benefits CU (,000)</b>
Agency N estimates that the cash outflows during the year ending December 31, 20X9 in respect of its social benefit schemes will be as follows:	413,400	2,445,900

39(b) **Key Assumptions**

Agency N has based its estimates of the cash outflows during the year ending December 31, 20X9 in respect of its social benefit schemes on the following key assumptions:

Unemployment rate	6.4%
Life expectancy at age 70 – Male	15.9 years
Life expectancy at age 70 – Female	17.6 years

## Disclosure of Future Obligations – Option 3: Future Obligations to Current Beneficiaries

Under this approach, the explanation of future obligations that may arise from an entity's social benefit schemes in the notes to the financial statements would include future obligations to current beneficiaries only. Future obligations to current participants (for example, those working and making social contributions to a retirement benefit prior to the retirement age) are not included.

There are four sub options of option 3:

- (a) Disclose undiscounted cash flows for all benefits equally;
- (b) Disclose the present value of obligations for all benefits equally;
- (c) Disclose the undiscounted cash flows, with different disclosures depending on the type of benefit; and
- (d) Disclose the present value of obligations, with different disclosures depending on the type of benefit.

If the IPSASB agreed to proceed with this option, the draft ED at Agenda Item 5.3 would be amended. The text below shows the amendments that would be made, indicating which amendments would be relevant to the different sub options.

## Obligating Event Approach

### Disclosure

#### *Explanation of Future Obligations that May Arise from an Entity's Social Benefit Schemes*

##### Sub Option (a) - disclose undiscounted cash flows for all benefits equally

39. For each social benefit scheme, an entity shall disclose:
- (a) Its best estimate of the expected future cash outflows (undiscounted) that will arise from the scheme in each future reporting period in respect of those who meet the eligibility criteria at the reporting date until the point at which they cease to meet the eligibility criteria; and
  - (b) The key assumptions that the entity has relied on in making its best estimate of the expected cash outflows.

##### Sub Option (b) - disclose the present value of obligations for all benefits equally

39. For each social benefit scheme, an entity shall disclose:
- (a) Its best estimate of the total present value of future cash outflows that will arise from the scheme in future reporting periods in respect of those who meet the eligibility criteria at the reporting date until the point at which they cease to meet the eligibility criteria; and
  - (b) The key assumptions that the entity has relied on in making its best estimate of the total present value of future cash outflows.

Sub Option (c) - disclose undiscounted cash flows, with different disclosures depending on the type of benefit

39. For each social benefit scheme, an entity shall disclose:
- (a) Its best estimate of the expected future cash outflows (undiscounted) that will arise from the scheme in each future reporting period as follows:
    - (i) For social benefit schemes where the only criterion current beneficiaries are required to satisfy on an ongoing basis is being alive, the expected future cash outflows to those who meet the eligibility criteria at the reporting date until the point at which they cease to meet the eligibility criteria; or
    - (ii) For social benefit schemes where current beneficiaries are required to satisfy eligibility criteria in addition to being alive, the expected future cash outflows to those who meet the eligibility criteria at the reporting date until the earlier of the point at which they cease to meet the eligibility criteria, or one year after the reporting date; and
  - (b) The key assumptions that the entity has relied on in making its best estimate of the expected cash outflows.

Sub Option (d) - disclose the present value of obligations, with different disclosures depending on the type of benefit

39. For each social benefit scheme, an entity shall disclose:
- (a) Its best estimate of the total present value of future cash outflows that will arise from the scheme in future reporting periods as follows:
    - (i) For social benefit schemes where the only criterion current beneficiaries are required to satisfy on an ongoing basis is being alive, the present value of future cash outflows to those who meet the eligibility criteria at the reporting date until the point at which they cease to meet the eligibility criteria; or
    - (ii) For social benefit schemes where current beneficiaries are required to satisfy eligibility criteria in addition to being alive, the present value of future cash outflows to those who meet the eligibility criteria at the reporting date until the earlier of the point at which they cease to meet the eligibility criteria, or one year after the reporting date; and
  - (b) The key assumptions that the entity has relied on in making its best estimate of the total present value of future cash outflows.

Sub Options (a), (b), (c) and (d)

40. Being alive at the point at which the eligibility criteria are validated is an eligibility criterion, whether explicitly stated or implicit. For social benefit schemes where the only criterion current beneficiaries are required to satisfy on an ongoing basis is being alive, an individual will cease to meet the eligibility criteria at the date they die, except where paragraph 41 applies.
41. Some social benefit schemes may provide benefits to survivors or dependents following the death of the principal beneficiary. In these circumstances, for the purposes of paragraphs 39 and 40 an individual ceases to meet the eligibility criteria at the date when the last survivor or dependent to whom benefits are provided ceases to be eligible for those benefits.

42. For social benefit schemes where current beneficiaries are required to satisfy eligibility criteria in addition to being alive, an individual will cease to meet the eligibility criteria either in accordance with paragraphs 40 and 41, or when another eligibility criterion is no longer met (for example, when an individual enters employment and ceases to be unemployed).

## **Basis for Conclusions**

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

### **Obligating Event Approach (paragraphs 13–42)**

Approach to developing Exposure Draft 63

Sub Options (a), (b), (c) and (d)

~~BC90. [To be added once the IPSASB has agreed the disclosure approach—see Agenda Item 5.2.3]~~

#### *Disclosure*

- BC99. The IPSASB considered whether to require an entity to describe how its social benefit schemes may give rise to future obligations. The IPSASB agreed that such information would be useful to users of the financial statements, and agreed to require entities to disclose information about future obligations. In doing so, the IPSASB acknowledged that this information does not simply explain the amounts in the financial statements, but requires entities to provide information that goes beyond the information in the financial statements. The IPSASB considered that this information was required to meet the objectives of financial reporting.
- BC100. The IPSASB then considered the extent of future obligations to be disclosed. The IPSASB agreed to require disclosure of future obligations to current beneficiaries only. Current beneficiaries satisfy the eligibility criteria at the reporting date. Future obligations to these individuals represent amounts that, if being alive at the point at which the eligibility criteria are validated were not an eligibility criterion; might be present obligations. These disclosures approximate the amount that would be recognized under the threshold eligibility criteria have been met recognition point.
- BC101. The IPSASB did not consider it appropriate to extend the future obligations to be disclosed to current participants. The past event that gives rise to a present obligation and a liability for a social benefit is the satisfaction of all eligibility criteria. Current participants have not satisfied all eligibility criteria, and hence there is no past event on which to base such disclosures. The IPSASB considered that information about future obligations to current participants would be useful to users in assessing the sustainability of the entity's service performance and other operations over the long term, but that this information is more appropriately located in reports on the long term sustainability of an entity's finances.

## **Illustrative Examples**

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

*Illustrating the consequences of applying paragraphs 32–42 of [draft] IPSAS [X] (ED 63)*

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

*Example 14*

Sub Options (a), (b), (c) and (d)

IE49. The following example illustrates some of the disclosure requirements that explain future cash flows that may arise from an entity's social benefit schemes; it is not based on actual transactions. The example assumes that Agency N provides unemployment benefits and retirement benefits. Unemployment benefits are payable for a maximum of two years.

Sub Option (a) - disclose undiscounted cash flows for all benefits equally

**Paragraph reference**

39(a)

**Expected Future Cash Outflows**

Agency N estimates that the future undiscounted cash outflows in respect of current beneficiaries of its social benefit schemes will be as follows:

	<b>Unemployment Benefits CU (,000)</b>	<b>Retirement Benefits CU (,000)</b>
Year ending December 31, 20X0	413,400	2,445,900
Year ending December 31, 20X1	259,500	2,395,600
Year ending December 31, 20X2	0	2,289,700
Year ending December 31, 20X3	0	2,210,000
Year ending December 31, 20X4	0	1,789,100
Year ending December 31, 20X5	0	1,533,200
Year ending December 31, 20X6	0	1,487,600
Year ending December 31, 20X7	0	1,398,500
Year ending December 31, 20X8	0	1,301,500
Year ending December 31, 20X9	0	1,176,200
Year ending December 31, 20Y0	0	1,045,900
Year ending December 31, 20Y1	0	987,400
...		
Year ending December 31, 20Z9	0	45,000

**Paragraph  
reference**

39(b)

**Key Assumptions**

Agency N has based its estimates of the future cash outflows in respect of its social benefit schemes on the following key assumptions:

Unemployment rate	6.4%
Life expectancy at age 70 – Male	15.9 years
Life expectancy at age 70 – Female	17.6 years

Sub Option (b) - disclose the present value of obligations for all benefits equally

**Paragraph  
reference**

39(a)

**Present Value of Expected Future Cash Outflows**

	<b>Unemployment Benefits CU (,000)</b>	<b>Retirement Benefits CU (,000)</b>
Agency N estimates that the present value of the future cash outflows in respect of current beneficiaries of its social benefit schemes will be:	650,313	25,754,800

39(b)

**Key Assumptions**

Agency N has based its estimates of the cash outflows during the year ending December 31, 20X9 in respect of its social benefit schemes on the following key assumptions:

Unemployment rate	6.4%
Life expectancy at age 70 – Male	15.9 years
Life expectancy at age 70 – Female	17.6 years
Discount rate for unemployment benefits (1-2 year government bond rate)	2.5%
Discount rate for retirement benefits (50 year government bond rate)	3.7%

Sub Option (c) - disclose undiscounted cash flows, with different disclosures depending on the type of benefit

<b>Paragraph reference</b>	<b>Paragraph 39(a)(ii)</b>	<b>Paragraph 39(a)(i)</b>
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39(a)

**Expected Future Cash Outflows**

Agency N estimates that the future undiscounted cash outflows in respect of current beneficiaries of its social benefit schemes will be as follows:

	<b>Unemployment Benefits (next period only) CU (,000)</b>	<b>Retirement Benefits CU (,000)</b>
Year ending December 31, 20X0	413,400	2,445,900
Year ending December 31, 20X1		2,395,600
Year ending December 31, 20X2		2,289,700
Year ending December 31, 20X3		2,210,000
Year ending December 31, 20X4		1,789,100
Year ending December 31, 20X5		1,533,200
Year ending December 31, 20X6		1,487,600
Year ending December 31, 20X7		1,398,500
Year ending December 31, 20X8		1,301,500
Year ending December 31, 20X9		1,176,200
Year ending December 31, 20Y0		1,045,900
Year ending December 31, 20Y1		987,400
...		
Year ending December 31, 20Z9		45,000

39(b)

**Key Assumptions**

Agency N has based its estimates of the future cash outflows in respect of its social benefit schemes on the following key assumptions:

Unemployment rate	6.4%
Life expectancy at age 70 – Male	15.9 years
Life expectancy at age 70 – Female	17.6 years

Sub Option (d) - disclose the present value of obligations, with different disclosures depending on the type of benefit

<b>Paragraph reference</b>	<b>Paragraph 39(a)(ii)</b>	<b>Paragraph 39(a)(i)</b>
39(a)	<b>Present Value of Expected Future Cash Outflows</b>	
	<b>Unemployment Benefits (next period only) CU (,000)</b>	<b>Retirement Benefits CU (,000)</b>
	403,317	25,754,800
	Agency N estimates that the present value of the future cash outflows in respect of current beneficiaries of its social benefit schemes will be:	
39(b)	<b>Key Assumptions</b>	
	Agency N has based its estimates of the cash outflows during the year ending December 31, 20X9 in respect of its social benefit schemes on the following key assumptions:	
	Unemployment rate	6.4%
	Life expectancy at age 70 – Male	15.9 years
	Life expectancy at age 70 – Female	17.6 years
	Discount rate for unemployment benefits (1-2 year government bond rate)	2.5%
	Discount rate for retirement benefits (50 year government bond rate)	3.7%

## Disclosure of Future Obligations – Option 4: Future Obligations to Current Beneficiaries and Current Participants

Under this approach, the explanation of future obligations that may arise from an entity's social benefit schemes in the notes to the financial statements would include future obligations to current beneficiaries and current participants (for example, those working and making social contributions to a retirement benefit prior to the retirement age). Future obligations to future participants (for example, those who have yet to enter the workforce for an unemployment benefit) are not included.

There are four sub options of option 4:

- (a) Disclose undiscounted cash flows for all benefits equally;
- (b) Disclose the present value of obligations for all benefits equally;
- (c) Disclose the undiscounted cash flows, with different disclosures depending on the type of benefit; and
- (d) Disclose the present value of obligations, with different disclosures depending on the type of benefit.

If the IPSASB agreed to proceed with this option, the draft ED at Agenda Item 5.3 would be amended. The text below shows the amendments that would be made, indicating which amendments would be relevant to the different sub options.

## Obligating Event Approach

### Disclosure

#### *Explanation of Future Obligations that May Arise from an Entity's Social Benefit Schemes*

#### Sub Option (a) - disclose undiscounted cash flows for all benefits equally

39. For each social benefit scheme, an entity shall disclose:

- (a) Its best estimate of the expected future cash outflows (undiscounted) that will arise from the scheme in each future reporting period in respect of those who:
  - (i) Meet the eligibility criteria at the reporting date; or
  - (ii) Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date

Until the point at which they cease to meet the eligibility criteria; and

- (b) The key assumptions that the entity has relied on in making its best estimate of the expected cash flows.

An entity shall estimate the future cash outflows on the assumption that no benefits are accrued after the reporting date.

**Sub Option (b) - disclose the present value of obligations for all benefits equally**

39. For each social benefit scheme, an entity shall disclose:

(a) Its best estimate of the total present value of future cash outflows that will arise from the scheme in future reporting periods in respect of those who:

- (i) Meet the eligibility criteria at the reporting date; or
- (ii) Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date

Until the point at which they cease to meet the eligibility criteria; and

(b) The key assumptions that the entity has relied on in making its best estimate of the total present value of future cash flows.

An entity shall estimate the present value of the future cash outflows on the assumption that no benefits are accrued after the reporting date.

**Sub Option (c) - disclose undiscounted cash flows, with different disclosures depending on the type of benefit**

39. For each social benefit scheme, an entity shall disclose:

(a) Its best estimate of the expected future cash outflows (undiscounted) that will arise from the scheme in each future reporting period as follows:

(i) For social benefit schemes where the only criterion current beneficiaries are required to satisfy on an ongoing basis is being alive, the expected future cash outflows to those who:

- a. Meet the eligibility criteria at the reporting date; or
- b. Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date

Until the point at which they cease to meet the eligibility criteria; and

(ii) For social benefit schemes where current beneficiaries are required to satisfy eligibility criteria in addition to being alive, the expected future cash outflows to those who:

- a. Meet the eligibility criteria at the reporting date; or
- b. Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date

Until the earlier of the point at which they cease to meet the eligibility criteria, or one year after the reporting date; and

(b) The key assumptions that the entity has relied on in making its best estimate of the expected cash outflows.

An entity shall estimate the future cash outflows on the assumption that no benefits are accrued after the reporting date.

Sub Option (d) - disclose the present value of obligations, with different disclosures depending on the type of benefit

39. For each social benefit scheme, an entity shall disclose:

(a) Its best estimate of the total present value of future cash outflows that will arise from the scheme in future reporting periods as follows:

(i) For social benefit schemes where the only criterion current beneficiaries are required to satisfy on an ongoing basis is being alive, the expected future cash outflows to those who:

a. Meet the eligibility criteria at the reporting date; or

b. Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date

Until the point at which they cease to meet the eligibility criteria; and

(ii) For social benefit schemes where current beneficiaries are required to satisfy eligibility criteria in addition to being alive, the expected future cash outflows to those who:

a. Meet the eligibility criteria at the reporting date; or

b. Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date

Until the earlier of the point at which they cease to meet the eligibility criteria, or one year after the reporting date; and

(b) The key assumptions that the entity has relied on in making its best estimate of the total present value of future cash flows.

An entity shall estimate the present value of the future cash outflows on the assumption that no benefits are accrued after the reporting date.

Sub Options (a), (b), (c) and (d)

40. Current participants are those who, through their activities or circumstances, are currently accruing the right to future social benefits in the event that the specified social risk occurs. The activities or circumstances that result in an individual being a current participant will depend on the legislation or regulations governing the social benefit scheme. Examples may include being in work, making contributions to a social benefit scheme, and residing in a jurisdiction where a social benefit is based on minimum residency requirements.

41. Being alive at the point at which the eligibility criteria are validated is an eligibility criterion, whether explicitly stated or implicit. For social benefit schemes where the only criterion current beneficiaries are required to satisfy on an ongoing basis is being alive, an individual will cease to meet the eligibility criteria at the date they die, except where paragraph 42 applies.

42. Some social benefit schemes may provide benefits to survivors or dependents following the death of the principal beneficiary. In these circumstances, for the purposes of paragraphs 39 and 41 an individual ceases to meet the eligibility criteria at the date when the last survivor or dependent to whom benefits are provided ceases to be eligible for those benefits.

43. For social benefit schemes where current beneficiaries are required to satisfy eligibility criteria in addition to being alive, an individual will cease to meet the eligibility criteria either in accordance with paragraphs 41 and 42, or when another eligibility criterion is no longer met (for example, when an individual enters employment and ceases to be unemployed).

## **Basis for Conclusions**

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

### **Obligating Event Approach (paragraphs 13–43)**

Approach to developing Exposure Draft 63

Sub Options (a), (b), (c) and (d)

~~BC90. [To be added once the IPSASB has agreed the disclosure approach—see Agenda Item 5.2.3]~~

#### *Disclosure*

- BC99. The IPSASB considered whether to require an entity to describe how its social benefit schemes may give rise to future obligations. The IPSASB agreed that such information would be useful to users of the financial statements, and agreed to require entities to disclose information about future obligations. In doing so, the IPSASB acknowledged that this information does not simply explain the amounts in the financial statements, but requires entities to provide information that goes beyond the information in the financial statements. The IPSASB considered that this information was required to meet the objectives of financial reporting. In particular, the IPSASB considered that this information would assist users to assess the sustainability of the entity's service performance and other operations over the long term.
- BC100. The IPSASB then considered the extent of future obligations to be disclosed. The IPSASB agreed to require disclosure of future obligations to current beneficiaries and current participants in the social benefit scheme, based on the benefits that have already been accrued. These disclosures approximate the closed group without accruals method of actuarial valuation that is commonly used in assessing social benefit schemes. These disclosures will also provide similar information to that required by IPSAS 39 for defined benefit schemes, although there are some differences (for example, social security schemes may include subsidies that are not present in defined benefit plans).
- BC101. The IPSASB did not consider it appropriate to extend the future obligations to be disclosed to future participants. Future participants have not satisfied all eligibility criteria, and are not currently participating in the social benefit scheme. Consequently, the IPSASB considered that future obligations to future participants were too remote for inclusion in the financial statements. The IPSASB considered that information about future obligations to future participants would be useful to users in assessing the capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions, but that this information is more appropriately located in reports on the long term sustainability of an entity's finances.

## Illustrative Examples

### Obligating Event Approach: Disclosure

*Illustrating the consequences of applying paragraphs 32–43 of [draft] IPSAS [X] (ED 63)*

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

*Example 14*

Sub Options (a), (b), (c) and (d)

IE49. The following example illustrates some of the disclosure requirements that explain future cash flows that may arise from an entity's social benefit schemes; it is not based on actual transactions. The example assumes that Agency N provides unemployment benefits and retirement benefits. Unemployment benefits are payable for a maximum of two years; to receive benefits, an individual must have been employed for at least 150 days in the preceding year.

Sub Option (a) - disclose undiscounted cash flows for all benefits equally

<b>Paragraph reference</b>	Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(i)	Paragraph 39(a)(ii)
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39(a)

#### Expected Future Cash Outflows

Agency N estimates that the future undiscounted cash outflows in respect of current beneficiaries and current participants of its social benefit schemes will be as follows:

<b>Year Ending December 31</b>	<b>Unemployment Benefits (Current Beneficiaries) CU (,000)</b>	<b>Unemployment Benefits (Current Participants) CU (,000)</b>	<b>Retirement Benefits (Current Beneficiaries) CU (,000)</b>	<b>Retirement Benefits (Current Participants) CU (,000)</b>
20W0	413,400	301,200	2,445,900	37,200
20W1	259,500	387,600	2,395,600	63,900
20W2	0	57,000	2,289,700	99,500
20W3	0	0	2,210,000	123,100
20W4	0	0	1,789,100	179,800
20W5	0	0	1,533,200	241,300
20W6	0	0	1,487,600	274,900
20W7	0	0	1,398,500	345,700
20W8	0	0	1,301,500	415,000
20W9	0	0	1,176,200	489,300
20X0	0	0	1,045,900	575,900

Paragraph reference	Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(i)	Paragraph 39(a)(ii)
20X1	0	0	987,400	691,100
...				
20Z9	0	0	45,000	1,357,400

39(b)

**Key Assumptions**

Agency N has based its estimates of the future cash outflows in respect of its social benefit schemes on the following key assumptions:

Unemployment rate	6.4%
Life expectancy at age 70 – Male	15.9 years
Life expectancy at age 70 – Female	17.6 years

Sub Option (b) - disclose the present value of obligations for all benefits equally

Paragraph reference	Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(i)	Paragraph 39(a)(ii)
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39(a)

**Expected Future Cash Outflows**

Agency N estimates that the present value of the future cash outflows in respect of current beneficiaries and current participants of its social benefit schemes will be:

Unemployment Benefits (Current Beneficiaries) CU (,000)	Unemployment Benefits (Current Participants) CU (,000)	Retirement Benefits (Current Beneficiaries) CU (,000)	Retirement Benefits (Current Participants) CU (,000)
650,313	715,707	25,754,800	10,863,200

39(b)

**Key Assumptions**

Agency N has based its estimates of the future cash outflows in respect of its social benefit schemes on the following key assumptions:

Unemployment rate	6.4%
Life expectancy at age 70 – Male	15.9 years
Life expectancy at age 70 – Female	17.6 years
Discount rate for unemployment benefits (1-2 year government bond rate)	2.5%
Discount rate for retirement benefits (50 year government bond rate)	3.7%

Sub Option (c) - disclose undiscounted cash flows, with different disclosures depending on the type of benefit

<b>Paragraph reference</b>	Paragraph 39(a)(ii)a.	Paragraph 39(a)(ii)b.	Paragraph 39(a)(i)a.	Paragraph 39(a)(i)b.
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39(a)

**Expected Future Cash Outflows**

Agency N estimates that the future undiscounted cash outflows in respect of current beneficiaries and current participants of its social benefit schemes will be as follows:

<b>Year Ending December 31</b>	<b>Unemployment Benefits (Current Beneficiaries) CU (,000)</b>	<b>Unemployment Benefits (Current Participants) CU (,000)</b>	<b>Retirement Benefits (Current Beneficiaries) CU (,000)</b>	<b>Retirement Benefits (Current Participants) CU (,000)</b>
20W0	413,400	301,200	2,445,900	37,200
20W1			2,395,600	63,900
20W2			2,289,700	99,500
20W3			2,210,000	123,100
20W4			1,789,100	179,800
20W5			1,533,200	241,300
20W6			1,487,600	274,900
20W7			1,398,500	345,700
20W8			1,301,500	415,000
20W9			1,176,200	489,300
20X0			1,045,900	575,900
20X1			987,400	691,100
...				
20Z9			45,000	1,357,400

39(b)

**Key Assumptions**

Agency N has based its estimates of the future cash outflows in respect of its social benefit schemes on the following key assumptions:

Unemployment rate	6.4%
Life expectancy at age 70 – Male	15.9 years
Life expectancy at age 70 – Female	17.6 years

Sub Option (d) - disclose the present value of obligations, with different disclosures depending on the type of benefit

<b>Paragraph reference</b>	Paragraph 39(a)(ii)a.	Paragraph 39(a)(ii)b.	Paragraph 39(a)(i)a.	Paragraph 39(a)(i)b.
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39(a)

**Expected Future Cash Outflows**

Agency N estimates that the present value of the future cash outflows in respect of current beneficiaries and current participants of its social benefit schemes will be:

<b>Unemployment Benefits (Current Beneficiaries)</b>	<b>Unemployment Benefits (Current Participants)</b>	<b>Retirement Benefits (Current Beneficiaries)</b>	<b>Retirement Benefits (Current Participants)</b>
<b>CU (,000)</b>	<b>CU (,000)</b>	<b>CU (,000)</b>	<b>CU (,000)</b>
403,317	293,854	25,754,800	10,863,200

39(b)

**Key Assumptions**

Agency N has based its estimates of the future cash outflows in respect of its social benefit schemes on the following key assumptions:

Unemployment rate	6.4%
Life expectancy at age 70 – Male	15.9 years
Life expectancy at age 70 – Female	17.6 years
Discount rate for unemployment benefits (1-2 year government bond rate)	2.5%
Discount rate for retirement benefits (50 year government bond rate)	3.7%

## Disclosure of Future Obligations – Option 5: Future Obligations to Current Beneficiaries and Current and Future Participants

Under this approach, the explanation of future obligations that may arise from an entity's social benefit schemes in the notes to the financial statements would include future obligations to current beneficiaries, current participants (for example, those working and making social contributions to a retirement benefit prior to the retirement age) and future participants (for example, those who have yet to enter the workforce for an unemployment benefit).

There are four sub options of option 5:

- (a) Disclose undiscounted cash flows for all benefits equally;
- (b) Disclose the present value of obligations for all benefits equally;
- (c) Disclose the undiscounted cash flows, with different disclosures depending on the type of benefit; and
- (d) Disclose the present value of obligations, with different disclosures depending on the type of benefit.

If the IPSASB agreed to proceed with this option, the draft ED at Agenda Item 5.3 would be amended. The text below shows the amendments that would be made, indicating which amendments would be relevant to the different sub options.

### Obligating Event Approach

#### Disclosure

#### *Explanation of Future Obligations that May Arise from an Entity's Social Benefit Schemes*

#### Sub Option (a) - disclose undiscounted cash flows for all benefits equally

39. For each social benefit scheme, an entity shall disclose:

- (a) Its best estimate of the expected future cash outflows (undiscounted) that will arise from the scheme in each future reporting period in respect of those who:
  - (i) Meet the eligibility criteria at the reporting date; or
  - (ii) Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date; or
  - (iii) Are expected to become participants in the social benefit scheme after the reporting date.
- (b) The key assumptions that the entity has relied on in making its best estimate of the expected cash outflows.

An entity shall disclose all estimated future cash outflows on the assumption that, where relevant, benefits continue to be accrued after the reporting date.

Sub Option (b) - disclose the present value of obligations for all benefits equally

39. For each social benefit scheme, an entity shall disclose:
- (a) Its best estimate of the total present value of future cash outflows that will arise from the scheme in future reporting periods in respect of those who:
    - (i) Meet the eligibility criteria at the reporting date; or
    - (ii) Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date; or
    - (iii) Are expected to become participants in the social benefit scheme after the reporting date.
  - (b) The key assumptions that the entity has relied on in making its best estimate of the total present value of future cash outflows.

An entity shall estimate the present value of the future cash outflows on the assumption that, where relevant, benefits continue to be accrued after the reporting date.

Sub Option (c) - disclose undiscounted cash flows, with different disclosures depending on the type of benefit

39. For each social benefit scheme, an entity shall disclose:
- (a) Its best estimate of the expected future cash outflows (undiscounted) that will arise from the scheme in each future reporting period as follows:
    - (i) For social benefit schemes where the only criterion current beneficiaries are required to satisfy on an ongoing basis is being alive, the expected future cash outflows to those who:
      - a. Meet the eligibility criteria at the reporting date; or
      - b. Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date; or
      - c. Are expected to become participants in the social benefit scheme after the reporting date.
    - (ii) For social benefit schemes where current beneficiaries are required to satisfy eligibility criteria in addition to being alive, the expected future cash outflows in the year following the reporting date to those who:
      - a. Meet the eligibility criteria at the reporting date; or
      - b. Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date; or
      - c. Are expected to become participants in the social benefit scheme after the reporting date.
  - (b) The key assumptions that the entity has relied on in making its best estimate of the expected cash outflows.

An entity shall disclose all estimated future cash outflows on the assumption that, where relevant, benefits continue to be accrued after the reporting date.

**Sub Option (d) - disclose the present value of obligations, with different disclosures depending on the type of benefit**

39. For each social benefit scheme, an entity shall disclose:

- (a) Its best estimate of the total present value of future cash outflows that will arise from the scheme in future reporting periods as follows:
  - (i) For social benefit schemes where the only criterion current beneficiaries are required to satisfy on an ongoing basis is being alive, the expected future cash outflows to those who:
    - a. Meet the eligibility criteria at the reporting date; or
    - b. Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date; or
    - c. Are expected to become participants in the social benefit scheme after the reporting date.
  - (ii) For social benefit schemes where current beneficiaries are required to satisfy eligibility criteria in addition to being alive, the expected present value of future cash outflows in the year following the reporting date to those who:
    - a. Meet the eligibility criteria at the reporting date; or
    - b. Are current participants in the social benefit scheme, but do not meet the eligibility criteria at the reporting date; or
    - c. Are expected to become participants in the social benefit scheme after the reporting date.
- (b) The key assumptions that the entity has relied on in making its best estimate of the total present value of future cash outflows.

An entity shall estimate the present value of the future cash outflows on the assumption that, where relevant, benefits continue to be accrued after the reporting date.

**Sub Options (a), (b), (c) and (d)**

- 40. Current participants are those who, through their activities or circumstances, are currently accruing the right to future social benefits in the event that the specified social risk occurs. The activities or circumstances that result in an individual being a current participant will depend on the legislation or regulations governing the social benefit scheme. Examples may include being in work, making contributions to a social benefit scheme, and residing in a jurisdiction where a social benefit is based on minimum residency requirements.
- 41. Individuals who are expected to become participants and to commence accruing rights to future social benefits in a social benefit scheme after the reporting date are future participants. An example of future participants includes individuals who are currently in education, but are expected to enter the workforce at a future date.

42. Being alive at the point at which the eligibility criteria are validated is an eligibility criterion, whether explicitly stated or implicit. For social benefit schemes where the only criterion current beneficiaries are required to satisfy on an ongoing basis is being alive, an individual will cease to meet the eligibility criteria at the date they die, except where paragraph 43 applies. Ceasing to meet the eligibility criteria is taken into account in estimating the future cash flows.
43. Some social benefit schemes may provide benefits to survivors or dependents following the death of the principal beneficiary. In these circumstances, for the purposes of paragraphs 39 and 42 an individual ceases to meet the eligibility criteria at the date when the last survivor or dependent to whom benefits are provided ceases to be eligible for those benefits. Ceasing to meet the eligibility criteria is taken into account in estimating the future cash flows.
44. For social benefit schemes where current beneficiaries are required to satisfy eligibility criteria in addition to being alive, an individual will cease to meet the eligibility criteria either in accordance with paragraphs 42 and 43, or when another eligibility criterion is no longer met (for example, when an individual enters employment and ceases to be unemployed). Ceasing to meet the eligibility criteria is taken into account in estimating the future cash flows.

## Basis for Conclusions

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

### Obligating Event Approach (paragraphs 13–44)

Approach to developing Exposure Draft 63

Sub Options (a), (b), (c) and (d)

~~BC90. [To be added once the IPSASB has agreed the disclosure approach – see Agenda Item 5.2.3]~~

#### Disclosure

- BC99. The IPSASB considered whether to require an entity to describe how its social benefit schemes may give rise to future obligations. The IPSASB agreed that such information would be useful to users of the financial statements, and agreed to require entities to disclose information about future obligations. In doing so, the IPSASB acknowledged that this information does not simply explain the amounts in the financial statements, but requires entities to provide information that goes beyond the information in the financial statements. The IPSASB considered that this information was required to meet the objectives of financial reporting. In particular, the IPSASB considered that this information would assist users to assess the sustainability of the entity's service performance and other operations over the long term.
- BC100. The IPSASB then considered the extent of future obligations to be disclosed. The IPSASB agreed to require disclosure of future obligations to current beneficiaries, current participants and future participants in the social benefit scheme. These disclosures take into account benefits that are expected to be accrued in the future. These disclosures approximate the open group method of actuarial valuation that is commonly used in assessing social benefit schemes. These disclosures will also provide similar information to that provided in reports on the long term sustainability of an entity's finances, produced in accordance with RPG 1. The IPSASB considered that such

information best meets users' needs for information about the long term sustainability of social benefit schemes.

## Illustrative Examples

### Obligating Event Approach: Disclosure

*Illustrating the consequences of applying paragraphs 32–44 of [draft] IPSAS [X] (ED 63)*

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

*Example 14*

#### Sub Options (a), (b), (c) and (d)

IE49. The following example illustrates some of the disclosure requirements that explain future cash flows that may arise from an entity's social benefit schemes; it is not based on actual transactions. The example assumes that Agency N provides unemployment benefits and retirement benefits. Unemployment benefits are payable for a maximum of two years; to receive benefits, an individual must have been employed for at least 150 days in the preceding year.

#### Sub Option (a) - disclose undiscounted cash flows for all benefits equally

Paragraph reference		Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(iii)	Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(iii)
39(a)	<b>Expected Future Cash Outflows</b>						
	Agency N estimates that the future undiscounted cash outflows in respect of current beneficiaries, current participants and future participants of its social benefit schemes will be as follows:						
	Year Ending December 31	Unemployment Benefits (Current Beneficiaries) CU (,000)	Unemployment Benefits (Current Participants) CU (,000)	Unemployment Benefits (Future Participants) CU (,000)	Retirement Benefits (Current Beneficiaries) CU (,000)	Retirement Benefits (Current Participants) CU (,000)	Retirement Benefits (Future Participants) CU (,000)
	20W0	413,400	301,200	0	2,445,900	37,200	0
	20W1	259,500	397,200	19,800	2,395,600	83,900	0
	20W2	0	692,000	26,300	2,289,700	102,500	0
	20W3	0	680,700	49,100	2,210,000	157,100	0
	20W4	0	651,300	64,200	1,789,100	204,800	0
	20W5	0	590,200	87,900	1,533,200	306,300	0
	20W6	0	560,100	102,400	1,487,600	420,900	0
	20W7	0	543,100	130,300	1,398,500	573,700	0
	20W8	0	537,600	135,100	1,301,500	812,000	0

Social Benefits (Disclosure of Future Obligations – Option 5: Future Obligations to Current Beneficiaries and  
Current and Future Participants)  
IPSASB Meeting (September 2017)

Paragraph reference		Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(iii)	Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(iii)
	20W9	0	420,800	183,500	1,176,200	1,134,300	0
	20X0	0	398,300	207,600	1,045,900	1,295,900	23,000
	20X1	0	358,200	345,900	987,400	1521,100	27,300
	...						
	20Z9	0	34,100	630,900	45,000	2,557,400	603,789
39(b)	<b>Key Assumptions</b>						
	Agency N has based its estimates of the future cash outflows in respect of its social benefit schemes on the following key assumptions:						
	Unemployment rate					6.4%	
	Life expectancy at age 70 – Male					15.9 years	
	Life expectancy at age 70 – Female					17.6 years	
	Total fertility rate					1.72	
	Net migration rate					0.7%	
	Real wage increases					1.2%	

Sub Option (b) - disclose the present value of obligations for all benefits equally

Paragraph reference	Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(iii)	Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(iii)
39(a)	<b>Expected Future Cash Outflows</b>					
	Agency N estimates that the present value of the future cash outflows in respect of current beneficiaries, current participants and future participants of its social benefit schemes will be:					
	Unemployment Benefits (Current Beneficiaries) CU (,000)	Unemployment Benefits (Current Participants) CU (,000)	Unemployment Benefits (Future Participants) CU (,000)	Retirement Benefits (Current Beneficiaries) CU (,000)	Retirement Benefits (Current Participants) CU (,000)	Retirement Benefits (Future Participants) CU (,000)
	639,962	6,103,200	4,945,100	25,754,800	21,813,900	11,895,100
39(b)	<b>Key Assumptions</b>					
	Agency N has based its estimates of the future cash outflows in respect of its social benefit schemes on the following key assumptions:					
	Unemployment rate				6.4%	
	Life expectancy at age 70 – Male				15.9 years	

Social Benefits (Disclosure of Future Obligations – Option 5: Future Obligations to Current Beneficiaries and Current and Future Participants)  
IPSASB Meeting (September 2017)

Paragraph reference	Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(iii)	Paragraph 39(a)(i)	Paragraph 39(a)(ii)	Paragraph 39(a)(iii)
	Life expectancy at age 70 – Female				17.6 years	
	Total fertility rate				1.72	
	Net migration rate				0.7%	
	Real wage increases				1.2%	
	Discount rate for social benefits (50 year government bond rate)				3.7%	

Sub Option (c) - disclose undiscounted cash flows, with different disclosures depending on the type of benefit

Paragraph reference		Paragraph 39(a)(ii)a.	Paragraph 39(a)(ii)b.	Paragraph 39(a)(ii)c.	Paragraph 39(a)(i)a.	Paragraph 39(a)(i)b.	Paragraph 39(a)(i)c.
39(a)	<b>Expected Future Cash Outflows</b>						
	Agency N estimates that the future undiscounted cash outflows in respect of current beneficiaries, current participants and future participants of its social benefit schemes will be as follows:						
	Year Ending December 31	Unemployment Benefits (Current Beneficiaries) CU (,000)	Unemployment Benefits (Current Participants) CU (,000)	Unemployment Benefits (Future Participants) CU (,000)	Retirement Benefits (Current Beneficiaries) CU (,000)	Retirement Benefits (Current Participants) CU (,000)	Retirement Benefits (Future Participants) CU (,000)
	20W0	413,400	301,200	0	2,445,900	37,200	0
	20W1				2,395,600	83,900	0
	20W2				2,289,700	102,500	0
	20W3				2,210,000	157,100	0
	20W4				1,789,100	204,800	0
	20W5				1,533,200	306,300	0
	20W6				1,487,600	420,900	0
	20W7				1,398,500	573,700	0
	20W8				1,301,500	812,000	0
	20W9				1,176,200	1,134,300	0
	20X0				1,045,900	1,295,900	23,000
	20X1				987,400	1,521,100	27,300
	...						
	20Z9				45,000	2,557,400	603,789

Social Benefits (Disclosure of Future Obligations – Option 5: Future Obligations to Current Beneficiaries and  
Current and Future Participants)  
IPSASB Meeting (September 2017)

Paragraph reference	Paragraph 39(a)(ii)a.	Paragraph 39(a)(ii)b.	Paragraph 39(a)(ii)c.	Paragraph 39(a)(i)a.	Paragraph 39(a)(i)b.	Paragraph 39(a)(i)c.
39(b)	<b>Key Assumptions</b>					
	Agency N has based its estimates of the future cash outflows in respect of its social benefit schemes on the following key assumptions:					
	Unemployment rate				6.4%	
	Life expectancy at age 70 – Male				15.9 years	
	Life expectancy at age 70 – Female				17.6 years	
	Total fertility rate				1.72	
	Net migration rate				0.7%	
	Real wage increases				1.2%	

Sub Option (d) - disclose the present value of obligations, with different disclosures depending on the type of benefit

Paragraph reference	Paragraph 39(a)(ii)a.	Paragraph 39(a)(ii)b.	Paragraph 39(a)(ii)c.	Paragraph 39(a)(i)a.	Paragraph 39(a)(i)b.	Paragraph 39(a)(i)c.
39(a)	<b>Expected Future Cash Outflows</b>					
	Agency N estimates that the present value of the future cash outflows in respect of current beneficiaries, current participants and future participants of its social benefit schemes will be:					
	Unemployment Benefits (Current Beneficiaries) CU (,000)	Unemployment Benefits (Current Participants) CU (,000)	Unemployment Benefits (Future Participants) CU (,000)	Retirement Benefits (Current Beneficiaries) CU (,000)	Retirement Benefits (Current Participants) CU (,000)	Retirement Benefits (Future Participants) CU (,000)
	398,650	290,453	0	25,754,800	21,813,900	11,895,100
39(b)	<b>Key Assumptions</b>					
	Agency N has based its estimates of the future cash outflows in respect of its social benefit schemes on the following key assumptions:					
	Unemployment rate				6.4%	
	Life expectancy at age 70 – Male				15.9 years	
	Life expectancy at age 70 – Female				17.6 years	
	Total fertility rate				1.72	
	Net migration rate				0.7%	
	Real wage increases				1.2%	

Social Benefits (Disclosure of Future Obligations – Option 5: Future Obligations to Current Beneficiaries and  
Current and Future Participants)  
*IPSASB Meeting (September 2017)*

Paragraph reference	Paragraph 39(a)(ii)a.	Paragraph 39(a)(ii)b.	Paragraph 39(a)(ii)c.	Paragraph 39(a)(i)a.	Paragraph 39(a)(i)b.	Paragraph 39(a)(i)c.
	Discount rate for social benefits (50 year government bond rate)					3.7%

**Summary of Staff Meeting with Representatives from International Actuarial Association****Introduction**

1. Staff met with representatives from the International Actuarial Association (IAA) in Ottawa during August to discuss the social benefits project. Staff considers that the views of the IAA representatives may be helpful to the IPSASB in considering the disclosures to be included in the social benefits ED, and in considering whether to make RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, mandatory.

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

2. The representatives' preferred approach for reporting on social benefits is sustainability reporting. As such, they would support RPG 1 becoming mandatory. For sustainability reporting, they consider that an "open group" method is the best approach. This method considers all future benefits provided to, and contributions received from, current beneficiaries, current participants and future participants. The latter category may include benefits provided to, and contributions received from, individuals who have not yet been born.

**Disclosure Options**

3. The following paragraphs discuss the disclosure options being considered in the light of the representatives' comments. Actuarial methods usually consider both the benefits provided (outflows) and any contributions received (inflows). These paragraphs assume that the IPSASB's decision to exclude social contributions from the social benefits ED would make adoption of financial statement disclosures including contributions problematic. Consequently, it is assumed that only future benefits will be disclosed.

*Option 1: No Additional Disclosures*

4. There are no implications for this option. No actuarial input would be required.

*Option 2: Cash Flows in Next Reporting Period*

5. There are no implications for this option. No or limited actuarial input would be required.

*Option 3: Future Obligations to Current Beneficiaries*

6. Actuarial assistance would be required with the estimation of future cash outflows to current beneficiaries. The main actuarial methods generally do not consider only current beneficiaries, but extend to current participants, or current and future participants.
7. If the IPSASB were to proceed with this option, actuarial valuations of the cash outflows to current beneficiaries only would be possible by carrying out a wider valuation ("open group" method or "closed group" method) and separating out the component that relates to current beneficiaries.

*Option 4: Future Obligations to Current Beneficiaries and Current Participants*

8. Actuarial assistance would be required with the estimation of future cash outflows to current beneficiaries and current participants. This would be a “closed group” method.
9. There are two variations of a “closed group” method:
  - (a) The “with accruals” variation takes into account the future benefits that participants will continue to accrue, along with any contributions that they would make. So for a state retirement pension where benefits are proportional to the amount of time an individual has worked (up to a maximum of, say, 40 years), the “with accruals” variation would estimate benefits based on the amount of time individuals would be expected to have worked by retirement age. Any contributions during that period would also be taken into account.
  - (b) The “without accruals” variation does not take into account the future benefits that participants will continue to accrue, nor any contributions that they would continue to make. So for a state retirement pension where benefits are proportional to the amount of time an individual has worked (up to a maximum of, say, 40 years), the “without accruals” variation would estimate benefits based on the amount of time individuals have worked at the date the estimate is made, and contributions already made at that date. The “without accruals” variation has the most similarities with the “projected unit credit method” used in measuring employee pensions under IPSAS 39, *Employee Benefits*. However, there are some important differences. Social security schemes often include some type of subsidies when benefits are calculated (for example, some years with low earning are omitted; or subsidies are provided for periods when individuals are caring for children). These types of features are not present in the defined benefit plans.
10. If the IPSASB were to proceed with this option, actuarial valuations of the cash outflows to current beneficiaries and current participants would be possible by carrying out a “closed group” method valuation and disclosing only the benefits to be paid.
11. Staff notes that including current participants would go beyond the past event that the IPSASB has agreed should be applied to social benefit schemes – that eligibility criteria have been met. The disclosures would be based on a past event of commencing participation in a social benefit scheme.

*Option 5: Future Obligations to Current Beneficiaries and Current and Future Participants*

12. Actuarial assistance would be required with the estimation of future cash outflows to current beneficiaries, current participants and future beneficiaries. This would be an “open group” method, as described above.
13. Staff considers that an “open group” method might be appropriate for sustainability reporting, but the lack of a past event would be problematic for the financial statements.
14. If the IPSASB were to proceed with this option, actuarial valuations of the cash outflows to current beneficiaries and current participants would be possible by carrying out an “open group” method valuation and disclosing only the benefits to be paid.

### Approval of Exposure Draft 63

#### Questions

1. The IPSASB is asked to:
  - (a) Agree the Specific Matters for Comment (SMCs) to be included in Exposure Draft (ED) 63;
  - (b) Review any parts of the ED not discussed under previous Agenda Items;
  - (c) Approve ED 63 for issue; and
  - (d) Agree the consultation period.

#### Detail

##### *Specific Matters for Comment*

2. At its June 2017 meeting, the IPSASB agreed to seek stakeholders' views (through an SMC) on whether RPG 1 should be made mandatory. The IPSASB has not previously discussed what other SMCs should be included in the ED.
3. Following discussions with the TBG, staff is proposing the following SMCs:

Number	Specific Matter for Comment
1	Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?
2	Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?
3	Do you agree that, with respect to the insurance approach: <ol style="list-style-type: none"> <li>(a) It should be optional;</li> <li>(b) The criteria for determining whether the insurance approach may be applied are appropriate; and</li> <li>(c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, <i>Insurance Contracts</i> and national standards that have adopted substantially the same principles as IFRS 17) is appropriate?</li> </ol> If not, how do you think the insurance approach should be applied?

Number	Specific Matter for Comment
4	Do you agree that, under the obligating event approach: (a) The past event that gives rise to a liability is the satisfaction of all eligibility criteria for the provision of the next benefit by the beneficiary; and (b) Being alive at the point at which the eligibility criteria are validated is an eligibility criterion, whether explicitly stated or implicit? If not, what past event should give rise to a liability for a social benefit?
5	Do you agree with the disclosure requirements in this Exposure Draft? If not, what disclosure requirements should be included?
6	The IPSASB has acknowledged that that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of those schemes is required. RPG 1, <i>Reporting on the Long Term Sustainability of an Entity's Finances</i> , was developed to address this need for additional information. Following the publication of an IPSAS on Social Benefits and based on the current proposals for universally accessible services, the need for this information is likely to increase, and the IPSASB is considering undertaking a project to develop mandatory requirements for reporting on the long term sustainability of an entity's finances, based on RPG 1. Do you agree that such a project should be undertaken?

4. Staff notes that the IPSASB may wish to revise the proposed SMC 5 to highlight any specific issues on which it is seeking responses once it has agreed the disclosures to be included in the ED.
5. Staff also notes that the IPSASB may wish to amend SMC 6 once it has discussed the role of RPG 1. For example, if the IPSASB agreed that an IPSAS based on RPG 1 should be developed, this could be reflected in SMC 6.

*Consultation Period*

6. Under the IPSASB's due practice, the normal consultation period is 120 days (effectively four months). Assuming the ED is issued towards the end of October, this would result in a consultation period ending February 28, 2018. Taking into account the IPSASB's cycle of meetings, staff considers that it would be possible for the consultation period to extend to the end of March without impacting the preparation of Agenda Items for the June 2018 meeting.

**Decisions required**

7. Does the IPSASB support the SMCs proposed by staff? If not, what SMCs should be included in the ED?
8. Are there any sections of the ED that the IPSASB considers need to be further reviewed?
9. The IPSASB is asked to approve ED 63.
10. The IPSASB is asked to decide the consultation period for ED 63.

Exposure Draft ~~XX~~63  
[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.

DRAFT

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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]**

#### Specific Matter for Comment 1:

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

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

#### Specific Matter for Comment 2:

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

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

#### Specific Matter for Comment 3:

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

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate; and
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate?

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

**Specific Matter for Comment 4:**

Do you agree that, under the obligating event approach:

- (a) The past event that gives rise to a liability is the satisfaction of all eligibility criteria for the provision of the next benefit by the beneficiary; and
- (b) Being alive at the point at which the eligibility criteria are validated is an eligibility criterion, whether explicitly stated or implicit?

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

**Specific Matter for Comment 5:**

Do you agree with the disclosure requirements in this Exposure Draft?

If not, what disclosure requirements should be included?

**Specific Matter for Comment 6:**

The IPSASB has acknowledged that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of those schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to address this need for additional information. Following the publication of an IPSAS on Social Benefits and based on the current proposals for universally accessible services, the need for this information is likely to increase, and the IPSASB is considering undertaking a project to develop mandatory requirements for reporting on the long term sustainability of an entity's finances, based on RPG 1. Do you agree that such a project should be undertaken?

# EXPOSURE DRAFT ~~XX63~~, SOCIAL BENEFITS

## CONTENTS

	Paragraph
Objective .....	1–3
Scope .....	4–5
Definitions.....	6
Insurance Approach.....	
Recognition and measurement .....	
.....	7–12
Recognition and Measurement .....	7–9
Disclosure .....	10–12
Obligating Event Approach.....	13–17
Recognition .....	13
Measurement .....	14–15
Disclosure .....	16–17
Transitional provisions .....	18
Effective date .....	19–20
.....	13–40
Recognition of a Liability for a Social Benefit Scheme .....	13–17
Recognition of an Expense for a Social Benefit Scheme .....	18–19
Measurement of a Liability for a Social Benefit Scheme .....	20–28
Measurement of an Expense for a Social Benefit Scheme .....	29–30
Revenue .....	31
Disclosure .....	32–40
Transitional Provisions .....	41–43
Insurance Approach .....	41
Obligating Event Approach .....	42–43
Effective Date.....	44–45
Application Guidance	
Amendments to Other IPSAS	
Basis for Conclusions	
Alternative View	
Implementation Guidance	

Illustrative Examples

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## Objective

1. This [draft] Standard sets out the principles for the recognition, measurement, presentation and disclosure of social benefits.
2. The objective of this [draft] Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:
  - (a) The nature of social benefits provided by the entity, and the key features of the operation of 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*;**
  - (c) **Insurance contracts that are within the scope of the relevant international or national accounting standard dealing with insurance contracts; and**
  - (d) **Universally accessible services as defined in paragraph 6 of this [draft] Standard.**

**Paragraphs AG1–AG3 provide additional guidance.**

## Definitions

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

**Social benefits are provided to:**

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

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

Paragraphs AG4–AG7 provide additional guidance.

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

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

Paragraphs AG8–AG10 provide additional guidance.

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

## Insurance Approach

### Recognition and Measurement

7. Where a social benefit scheme satisfies the criteria in paragraph 9, an entity is permitted, but not required, to recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts<sup>1</sup>. Paragraph AG11 provides additional guidance.
8. Where an entity elects not to apply by analogy the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme in accordance with paragraphs ~~13~~13–40 of this [draft] Standard.
9. An entity may recognize and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts where:

- (a) The social benefit scheme is intended to be fully funded from contributions; and
- (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

Paragraphs AG12–AG15 provide additional guidance.

### Disclosure

10. The objective of the disclosures is for entities to disclose information in the notes that, together with the information provided in the statement of financial position, statement of

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

financial performance and statement of cash flows, gives a basis for users of financial statements to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 11~~–xx~~ and 12 specify requirements on how to meet this objective.

11. Where an entity recognizes and measures the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall:

- (a) Disclose the ~~reason or reasons why the entity elected to apply~~ basis for determining that the insurance approach is appropriate;
- (b) Disclose the information required by the international or national accounting standard dealing with insurance contracts; and
- (c) Disclose any additional information required by paragraphs 12~~–xx~~ of this [draft] Standard.

12. To meet the requirements of paragraph 11(c) of this [draft] Standard, an entity shall disclose:

- (a) Information about the characteristics of its social benefit schemes, including:
  - (i) The nature of the social benefits provided by the plan (for example, retirement benefits, unemployment benefits, child benefits);
  - (ii) A description of the legislative framework governing the scheme, for example, a summary of the main eligibility criteria that must be satisfied to receive the social benefit, and a statement about how additional information about the scheme can be obtained; and
  - (iii) The number of eligible individuals or households at the reporting date;
- (b) A description of any significant amendments to the social benefit scheme made during the reporting period. Amendments to a social benefit scheme include, but are not limited to:
  - (i) Changes to the level of social benefits provided; and
  - (ii) Changes to the eligibility criteria, or to the individuals and/or households covered by the social benefit scheme.

## Obligating Event Approach

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

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

### *Outflow of Resources*

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

### *Past Event*

16. For a social benefit scheme, the past event that gives rise to a liability is the satisfaction of all eligibility criteria for the provision of the next social benefit by the beneficiary.
17. For a social benefit scheme, being alive at the point at which the eligibility criteria are validated is an eligibility criterion, whether explicitly stated or implicit.

Paragraphs AG16–AG19 provide additional guidance.

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

18. **An entity shall recognize an expense for a social benefit scheme at the same point that it recognizes a liability.**
19. An entity shall not recognize an expense for a social benefit scheme where a social benefit is provided prior to all eligibility criteria being satisfied, except where the social benefit is irrecoverable. Where the social benefit is recoverable, an entity shall initially recognize a payment in advance, and recognize an expense at the point that all eligibility criteria are satisfied.

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

#### *Initial Measurement of the Liability*

20. **An entity shall measure the liability for a social benefit scheme at the best estimate of the costs that the entity will incur in fulfilling the obligations represented by the liability.**
21. Being alive is an eligibility criterion for social benefit schemes. Consequently, the maximum amount to be recognized as a liability is the costs that the entity will incur in fulfilling the obligations represented by the liability until the next point at which eligibility criteria are required to be satisfied.
22. An entity's best estimate of the costs that the entity will incur in fulfilling the obligations represented by the liability take into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria are required to be satisfied.
23. When the liability in respect of a social benefit scheme is not expected to be settled wholly before twelve months after the end of the reporting period in which the liability is recognized, the liability shall be discounted using the discount rate specified in paragraph 28.
24. Paragraphs AG20–AG22 provide additional guidance on measuring the liability.

### *Subsequent Measurement*

25. **The liability for a social benefit scheme shall be reduced as social benefits are provided. Any difference between the cost of providing social benefits and the carrying amount of the liability in respect of the social benefit scheme is recognized in surplus or deficit, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**
26. **Where a liability is discounted in accordance with paragraph 23, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.**
27. **The liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate.**

### *Discount Rate*

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

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

29. **An entity shall measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 20, except where the entity provides a social benefit prior to all eligibility criteria being satisfied.**
30. **Where an entity provides a social benefit prior to all eligibility criteria being satisfied, it shall measure the expense at the cost of providing the social benefit.**

### **Revenue**

31. **An entity shall recognize, measure, present and disclose revenue in respect of a social benefit scheme in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.**

### **Disclosure**

32. **The objective of the disclosures is for entities to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and statement of cash flows, gives a basis for users of financial statements to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 33–40 specify requirements on how to meet this objective.**
33. **An entity shall disclose information that:**
  - (a) **Explains the characteristics of its social benefit schemes with them (see paragraph 35);**
  - (b) **Identifies and explains the amounts in its financial statements arising from its social benefit schemes (see paragraphs 36–38); and**
  - (c) **Describes how its social benefit schemes may give rise to future obligations (see paragraphs 39–xx).**

34. In disclosing information about social benefit schemes in accordance with this [draft] Standard, an entity shall disclose information for each material social benefit scheme individually. Where social benefit schemes are not individually material, an entity shall disclose information about those social benefit schemes in aggregate.

*Characteristics of Social Benefit Schemes and Risks Associated with Them*

35. An entity shall disclose:
- (a) Information about the characteristics of its social benefit schemes, including:
    - (i) The nature of the social benefits provided by the scheme (for example, retirement benefits, unemployment benefits, child benefits).
    - (ii) A description of the legislative framework governing the scheme, for example, a summary of the main eligibility criteria that must be satisfied to receive the social benefit, and a statement about how additional information about the scheme can be obtained.
    - (iii) The number of eligible individuals or households at the reporting date.
    - (iv) A description of how the scheme is funded, including whether the funding for the scheme is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means. If a scheme is funded (whether in full or in part) by social contributions, the entity shall provide:
      - a. A cross reference to the location of information on those social contributions and any dedicated assets (where this information is included in the entity's financial statements); or
      - b. A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements (which may a government's consolidated financial statements) and how that information can be obtained.
  - (b) A description of any amendments to the social benefit scheme made during the reporting period, along with a description of the expected effect of the amendments on future obligations. Amendments to a social benefit scheme include, but are not limited to:
    - (i) Changes to the level of social benefits provided; and
    - (ii) Changes to the eligibility criteria, or to the individuals and/or households covered by the social benefit scheme.

*Explanation of Amounts in the Financial Statements*

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

- (i) Amounts recognized in the reporting period (including those settled in the reporting period);
  - (ii) Changes in accounting estimates; and
  - (iii) Interest expense; and
- (b) Liabilities settled in the reporting period.
38. For each social benefit scheme, and entity shall disclose the total expense recognized in the current reporting period and previous four reporting periods.

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

39. [To be added once the IPSASB has agreed the disclosure approach – see [Agenda Item 5.2.3](#)]

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

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

## Transitional Provisions

### Insurance Approach

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

### Obligating Event Approach

42. **In accounting for a social benefit scheme that is recognized and measured in accordance with the obligating event approach (see paragraphs 13–40), an entity shall apply this [draft] Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except that an entity is not required to provide the information required by paragraph 38 for periods prior to the comparative period.**
43. In the first financial statements in which the requirements of this [draft] Standard are adopted, an entity shall report the total expense recognized in the current reporting period and the comparative period. Information on prior reporting periods can be provided prospectively as the entity reports under the requirements of this [draft] Standard. This allows entities to build trend information over time.

## Effective Date

44. **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.**
45. 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.

DRAFT

**Appendix A**

**Application Guidance**

*This Appendix is an integral part of [draft] IPSAS [X] (ED ~~XX63~~)*

**Scope (see paragraphs 4–5)**

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

**Definitions (see paragraph 6)**

*Guidance on the Definition of Social Benefits*

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

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

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

AG8. Social risks relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.

AG9. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the unemployment benefit arises from characteristics of the individuals and/or households – in this case a change in an individual’s employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

AG10. Risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks, and consequently benefits provided in respect of these risks are not social benefits.

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

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

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

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

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

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

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

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

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

*Guidance on Determining Whether an Entity is Managing a Scheme in the same way as an Insurer*

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

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

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

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

### **Obligating Event Approach (see paragraphs 13–30)**

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

- AG16. In accordance with paragraph 16 of this [draft] Standard, the past event that gives rise to a liability for a social benefit is the satisfaction of all eligibility criteria for the provision of the next social benefit by the beneficiary. Being alive at the point at which the eligibility criteria are validated is an eligibility criterion, whether explicitly stated or implicit.
- AG17. Where a beneficiary has not previously satisfied the eligibility criteria, or there has been a break in satisfying the eligibility criteria, a liability is recognized at the point that the eligibility criteria are first satisfied. Examples may include:

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

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

- AG18. Where a beneficiary has previously satisfied the eligibility criteria, and there has been no break in satisfying those criteria, a liability for future social benefits is recognized each time the criteria are validated. This will usually be the point at which a social benefit is provided.
- AG19. Being alive at the point at which the eligibility criteria are validated is an eligibility criterion, whether explicitly stated or implicit. Consequently, a liability cannot extend beyond the point at which eligibility criteria will be next validated.

*Measurement of a Liability for a Social Benefit Scheme*

- AG20. In accordance with paragraph 20 of this [draft] Standard, an entity shall measure the liability for a social benefit scheme at the cost of fulfilment. The maximum amount to be recognized as a liability is the costs that the entity will incur until the next point at which eligibility criteria are required to be satisfied.
- AG21. In measuring the liability, an entity takes into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria are required to be satisfied. Examples include:
- (a) The death of the beneficiary;
  - (b) Commencing employment (in the case of an unemployment benefit); and
  - (c) Exceeding the maximum period for which a social benefit is provided (for example, where an unemployment benefit is provided for a maximum of one year).

Because a liability cannot extend beyond the point at which eligibility criteria will be next validated, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorized for issue, an entity may receive information regarding beneficiaries who have ceased to be eligible for the social benefit, and may rely on that information in measuring the liability.

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

**Appendix B**

**Amendments to Other IPSAS**

**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) ~~These 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~~63);

...

**Social Benefits**

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

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

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

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

~~(a) Little or no uncertainty as to amount; and~~

~~(b) The timing of the obligation is not uncertain.~~

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

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

~~12. This Standard does not apply to executory contracts unless they are onerous. Contracts to provide social benefits entered into with the expectation that the entity will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of 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 **XX63**), *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 **XX63**) at the same time.

...

## Basis for Conclusions

...

### Revision of IPSAS 19 as a result of [draft] IPSAS [X] (ED **XX63**)

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

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

BC5. Following the publication of [draft] IPSAS [X] (ED ~~XX63~~), 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 ~~XX63~~) 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 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

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

...

### Scope

2 **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to:**

**(a) ~~A~~ a public sector combination that is a non-exchange transaction; and**

**(b) Contributions to social benefit schemes that are accounted for in accordance with paragraphs 7–12 of [draft] IPSAS [X] (ED ~~XX63~~), *Social Benefits* (the insurance approach).**

...

124F **Paragraph 2 was amended by [draft] IPSAS [X] (ED ~~XX63~~), *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 ~~XX63~~) at the same time.**

...

### Basis for Conclusions

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

...

### Compulsory Contributions to Social Security Schemes

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

BC26A The IPSASB reconsidered this issue in developing [draft] IPSAS [X] (ED ~~XX63~~), *Social Benefits*. The IPSASB concluded that such contributions are non-exchange transactions, and should be accounted for in accordance with ~~th~~is Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to social benefit schemes accounted for under the insurance approach are not accounted for ~~separately~~ as revenue under this Standard.

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

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

...

### Effective date

60E. Paragraph AG23 was amended by [draft] IPSAS [X] (ED ~~XX63~~), *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 ~~XX63~~) 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~~63), Social Benefits.
- Other statutory obligations are accounted for in accordance with IPSAS 19.

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

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

...

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

...

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

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

36. **Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:**
- (a) **Inventories (see IPSAS 12, *Inventories*);**
  - (b) **Investment property (see IPSAS 16, *Investment Property*);**
  - (c) **Property, plant and equipment (see IPSAS 17, *Property, Plant and Equipment*);**
  - (d) **Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);**
  - (e) **Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);**
  - (f) **Intangible assets (see IPSAS 31, *Intangible Assets*);**
  - (g) **Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*); ~~and~~**
  - (h) **Financial instruments (see IPSAS 29, *Financial Instruments; Recognition and Measurement*); and**
  - (i) **Social benefits (see [draft] IPSAS [X] (ED 63), *Social Benefits*).**

...

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

...

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

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

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

### Effective Date

...

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

### Basis for Conclusions

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

...

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

...

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

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

### Implementation Guidance

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

...

**Presentation and Disclosure**

...

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

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

...

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

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED ~~XX63~~)*

### 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 ~~XX63~~) 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 ~~XX63~~), the IPSASB noted that existing IPSASs do not define social benefits. Instead, a broad description is given in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

BC3. IPSAS 19 describes social benefits as “goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:

- (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
- (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.”

BC4. The IPSASB also had regard to its previous work in this area. The 2004 Invitation to Comment (ITC), *Accounting for Social Policies of Government*, sought views on how to account for a wide range of social benefits. The ITC noted that “Social benefits could also be provided under other categories of government activity (for example, Defense, Public Order and Safety and Community Amenities).” These are often referred to as “collective services” or “collective goods and services.”

BC5. Responses to the ITC supported the development of an IPSAS on social benefits. However, the IPSASB failed to reach a consensus on when a present obligation arises especially for contributory cash transfer schemes. Consequently, in 2008 the IPSASB issued Exposure Draft ((ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, and a Consultation Paper (CP), *Social Benefits: Issues in Recognition and Measurement*. At this time the IPSASB also issued a Project Brief, *Long-Term Fiscal Sustainability*.

BC6. Respondents did not consider that the proposed disclosures in the financial statements could convey sufficient information about social benefits. Consequently, the IPSASB agreed not to proceed with ED 34.

- BC7. The CP, *Social Benefits: Issues in Recognition and Measurement*, proposed a narrower definition of social benefits than had been included in the 2004 ITC. The CP included the following definition of social benefits:
- “The IPSASB defines social benefits as;
- (a) Cash transfers; and
  - (b) Collective and individual goods and services
- that are provided by an entity to individuals or households in non-exchange transactions to protect the entire population, or a particular segment of the population, against certain social risks.”
- BC8. This definition introduced the idea of social benefits being related to social risks for the first time in the IPSASB’s literature. According to this definition, not all cash transfers or collective and individual goods and services are social benefits. Only those cash transfers or collective and individual goods and services that are provided to protect the entire population, or a particular segment of the population, against certain social risks meet the definition of social benefits. The CP did not, however, define social risks.
- BC9. Despite the narrower scope and the link with social risks, the IPSASB did not reach a consensus on when a present obligation arises for social benefits within the scope of the CP. The IPSASB recognized the linkages between its work in developing *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and accounting for social benefits. The elements and recognition phase of the Conceptual Framework would define a liability. This definition and supporting analysis would influence the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic until after the completion of the Conceptual Framework.
- BC10. In the interim, the IPSASB initiated a project on the long-term sustainability of the public finances in 2008, based on the project brief. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity’s Finances* was published in 2013.
- BC11. RPG 1 provides guidance on preparing general purpose financial reports that can meet users’ needs for information about the long-term fiscal sustainability of an entity, including the social benefit schemes the entity provides.
- BC12. In the context of social benefits, general purpose financial reports prepared in accordance with RPG 1 will provide information about expected obligations to be settled in the future, including obligations to individuals who have not met the eligibility criteria for a scheme, or who are not currently contributing to a scheme that would entitle them to future social benefits. RPG 1 does not address the question of whether such obligations meet the definition of a present obligation, and so should be recognized in the financial statements.
- BC13. The general purpose financial report will also include information about the expected resources to be realized in the future that will be used to finance social benefits. In many jurisdictions this will include future taxation income. Because an entity does not currently control these resources, they are not recognized in the financial statements.
- BC14. The IPSASB restarted its work on social benefits in 2014. The IPSASB noted that the broad scope of social benefits included in previous projects had been a factor in the IPSASB failing to reach consensus. Consequently, the IPSASB decided to adopt a 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 ~~XX63~~), 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 ~~XX63~~), 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 ~~XX63~~) distinguishes between social risks and other risks, for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring. The hazards or events that give rise to these risks are not related to the characteristics of individuals and/or households, which is a distinguishing feature of social risks. The IPSASB also noted that governments' responses to social risks is often different to their response to other risks. Governments usually plan for the occurrence of social risks, with schemes, backed by legislation, in place to address these risks. By contrast, governments' responses to other risks such as geographical risks is often reactive, with any schemes being put in place following the occurrence of an event such as flooding or an earthquake. The IPSASB considered that the reactive nature of responses to other risks was more suited to its non-exchange expenses project than this [draft] Standard. The IPSASB also noted that this approach would be consistent with the approach taken in GFS.
- (c) [Draft] IPSAS [X] (ED ~~XX63~~) distinguishes between those benefits that are provided to specific individuals and/or households and those that are universally accessible. This distinction is intended to provide a more principles based, less artificial boundary between social benefits and non-exchange expenses. Liabilities and expenses associated with social risks can be measured by reference to an individual's eligibility to receive the social benefit, which does not apply to non-exchange expenses. In developing this boundary, the IPSASB acknowledges that social benefits and non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. However, the IPSASB's earlier experiences convinced the Board that a boundary would be required for a social benefits project to be manageable.

BC22. The effect of these decisions is to align the scope of [draft] IPSAS [X] (ED ~~XX63~~), and its definitions of social benefits and social risks, with those in GFS, with the exception of universally accessible services. Universally accessible services such a universal healthcare service are considered to be social benefits under GFS, but are outside the scope of [draft] IPSAS [X] (ED ~~XX63~~). The IPSASB considered that outcome would satisfy the majority of respondents who supported alignment with GFS, whilst addressing the concerns of the significant minority of respondents who had concerns with the boundary between social benefits and non-exchange expenses.

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

BC23. The IPSASB consulted on three approaches to accounting for social benefits in the CP, *Recognition and Measurement of Social Benefits*. These were the obligating event approach, the social contract approach and the insurance approach.

BC24. The social contract approach viewed obligations to provide social benefits by governments as quasi-contractual in nature, and adopted executory contract accounting.

BC25. In developing the CP, the IPSASB came to a preliminary view that the social contract approach was not consistent with the Conceptual Framework. Respondents to the CP supported this preliminary view. Respondents considered that the social contract approach would result in items that met the definition of a liability not being recognized. Consequently, respondents considered that the social contract approach would not provide information that is useful for accountability and decision-making purposes.

BC26. The IPSASB noted the support for its preliminary view, and agreed not to proceed with the social contract approach.

BC27. In developing the CP, the IPSASB came to a preliminary view that a combination of the obligating event approach and (for some or all contributory schemes) the insurance approach might be required to reflect the different economic circumstances arising in respect of social benefits.

BC28. Respondents to the CP supported this preliminary view. The IPSASB therefore agreed to develop both the insurance approach and the obligating event approach in [draft] IPSAS [X] (ED ~~XX~~63).

#### *Non-Exchange Expenses Project*

BC29. As noted in paragraph BC14, the IPSASB has adopted a narrow definition of social benefits, considering that this would best meet the project management needs of both the social benefits project and the non-exchange expenses project.

BC30. The IPSASB issued a CP, *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. In this CP, the IPSASB expressed a preliminary view a performance obligation approach would be appropriate for recognizing and measuring some types of non-exchange expense transaction. Consequently, the IPSASB considered whether such an approach could be applied to social benefits.

BC31. The IPSASB noted that social benefits are provided where a social risk has occurred, for example an individual has become unemployed or an individual has reached retirement age. The IPSASB concluded that social risks do not involve performance of an obligation by the individual and, consequently, the performance obligation approach would not be appropriate for recognizing and measuring social benefits.

#### **Insurance Approach (paragraphs 7-~~x~~-12)**

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

BC32. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed an approach based on insurance accounting for some or all contributory schemes. The IPSASB proposed that this approach should be based on the IASB's proposed IFRS on insurance contracts, contained in Exposure Draft ED/2013/7, *Insurance Contracts* (June 2013). This ED has subsequently been further developed and issued as IFRS 17, *Insurance Contracts*.

BC33. Respondents to the CP generally supported the IPSASB's proposals regarding the insurance approach, although a number of concerns were raised. Respondents considered that the insurance approach should only be applied in limited circumstances. These were that the social benefit scheme operated in a similar manner to an insurance contract, and that the scheme was funded from dedicated sources of revenue, not general taxation. Respondents considered that applying the insurance approach to other social benefit schemes would not faithfully represent the economic substance of those schemes.

BC34. The IPSASB concurred with this view. Consequently, the IPSASB agreed that the insurance approach should only be applied where:

- (a) The social benefit scheme is intended to be fully funded from contributions; and
- (b) There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

- BC35. In developing [draft] IPSAS [X] (ED ~~XX63~~), the IPSASB then considered whether the insurance approach should be mandatory for social benefit schemes that meet the criteria, or optional.
- BC36. The IPSASB considered that, for social benefit schemes that meet the criteria to apply the insurance approach, that approach is expected to provide the information that best meets users' needs. In order to assess whether the entity is managing the financial performance of the social benefit scheme appropriately, users will need information as to whether the contributions are sufficient to meet the expected liabilities. Where a loss is recorded under the insurance approach, this will provide users with the information they need to question whether a scheme is sustainable without changes to contribution rates or benefits. Similarly, if a social benefit scheme has ongoing large surpluses, this will allow a debate as to whether that scheme is being used to subsidize other expenditure, and if so, whether this is appropriate. The IPSASB initially considered that the fact that users' needs are best met by the insurance approach was the main reason for making the insurance approach mandatory.
- BC37. The insurance approach is, however, expected to be more costly and complex to implement than the obligating event approach. Where actuarial estimates are required under the obligating event approach, only estimates of cash outflows are required. The insurance approach will require those estimates (as well as estimates relating to those individuals who are participating in a scheme but are not yet beneficiaries) along with estimates of cash inflows. In addition, the IASB had only recently issued IFRS 17 and that Standard has significantly different requirements from many existing national standards dealing with insurance. Consequently, it may take some time for any practical issues to be fully identified and addressed. Applying these new requirements to social benefits would introduce a further level of complexity. The IPSASB considered that there may be cost/benefit reasons for not using the insurance approach, and that this was the main reason for making the insurance approach an optional approach.
- BC38. The IPSASB did note that, if an entity is genuinely managing a social benefit scheme as if it were a portfolio of insurance contracts, the entity may already have the information required to implement the insurance approach. It may also need that information in order to be able to effectively manage the social benefit scheme. This suggested that, where a social benefit scheme meets the criteria to be accounted for under the insurance approach, the costs associated with so doing may not be as high as it would initially appear.
- BC39. The IPSASB considered that a further advantage of making the insurance approach optional would arise where an entity is having difficulty determining whether the criteria for applying the insurance approach have been met. The entity could avoid expending additional resources to make that determination by electing to apply the obligating event approach.
- BC40. However, the IPSASB accepted that making the insurance approach optional would carry the risk that very few entities adopt the approach, and that users would not be provided with the most appropriate information about some social benefit schemes. Social benefit schemes that could be accounted for under the insurance approach are likely to have a different economic substance to other social benefit schemes, which the obligating event approach may not fully capture.
- BC41. On balance, the IPSASB considered that the insurance approach should be optional, based on the cost/benefit reasons given above. The IPSASB noted that this could be revisited at a future date, once entities have experience with applying the new IFRS Standard, and the insurance approach in [draft] IPSAS [X] (ED ~~XX63~~).

### Accounting Requirements

BC42. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed that the insurance approach should be based on the IASB's Exposure Draft.

BC43. The IPSASB identified three options for introducing the insurance approach:

- (a) Develop the insurance approach in [draft] IPSAS [X] (ED ~~XX63~~). The IPSASB noted that this option would be consistent with the proposals in the CP, and would be tailored to social benefits. However, this option would significantly increase the duration of the project, and would not have wider application.
- (b) Develop a separate IPSAS on insurance. The IPSASB noted that this would fill a gap in the IPSASB's literature and could address social benefits as well as having wider application. However, the IPSASB noted that such an IPSAS was not included in the IPSASB's work plan, and that developing an additional Standard would delay the social benefits project.
- (c) Direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes that meet the criteria for applying the insurance approach. The IPSASB noted that this would require less resources and would ensure consistency with IFRS. However, guidance on social benefit specific issues might be required.

BC44. The IPSASB noted that the number of preparers to whom the insurance approach will be relevant is likely to be small. The IPSASB also noted that the criteria for applying the insurance approach meant that only those social benefit schemes that were very similar to insurance contracts would be affected.

BC45. The IPSASB concluded, therefore, that the additional time and resources required to develop the insurance approach, either in [draft] IPSAS [X] (ED ~~XX63~~) or as a separate IPSAS on insurance, could not be justified. The IPSASB agreed to direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes:

- (a) That meet the criteria for applying the insurance approach; and
- (b) Which the entity elects to account for under the insurance approach.

BC46. The IPSASB then considered whether any guidance on social benefit specific issues was required when applying IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to social benefit schemes. In particular, the IPSASB considered whether the arrangements in IFRS 17 in respect of the discount rate and the risk adjustment were appropriate for a social benefit scheme. In considering these questions, the IPSASB agreed to limit the application of the insurance approach to those cases where an entity would be referring to IFRS 17 or a national standard that ~~was based on~~ that has adopted substantially the same principles as IFRS 17. This is because other standards, for example IFRS 4, *Insurance Contracts* (and national standards based on IFRS 4) may not provide information that meets users' needs and satisfy the qualitative characteristics.

BC47. The requirements in IFRS 17 specify that the selected discount rate should adjust the future cash flows to reflect the time value of money. Such rates should be consistent with observable market prices for instruments with cash flows that are consistent with the timing, currency and liquidity of the insurance contract. The IPSASB noted that these requirements differ from those in IPSAS 39, *Employee Benefits*, where no liquidity adjustment is included in the discount rate.

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

6.42 For some social security schemes, uncertainty regarding future cash flows will be relatively small. An example would be where past experience shows that the level of both contributions received and benefits provided is relatively stable. In these circumstances, information about the best estimate of the entity's liability related to the scheme may be most useful to users of the financial statements.

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

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

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

### **Obligating Event Approach (paragraphs ~~xx~~13-~~xx~~)**

#### *Recognition*

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

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

BC64. If this were the case, this would implicitly reject aligning the recognition and measurement of social benefits with GFS under the obligating event approach. This is because, under GFS, an expense is recorded only when the payment of the social benefits is due (i.e., in line with the claim is enforceable obligating event only).

BC65. The IPSASB also concluded that the recognition and measurement of social benefits should be consistent with the Conceptual Framework, and that this should take priority over alignment with the GFS treatment. Any alignment that emerged from the IPSASB's deliberations would, therefore, be coincidental.

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

BC66. The IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement. This could be the case where a social benefit was intended to be provided on a "one-off" or short term basis. The IPSASB therefore considered when it would be appropriate to recognize a liability that took account of the requirement to satisfy ongoing eligibility criteria.

BC67. The first possible obligating event identified in the CP that took account of the requirement to satisfy ongoing eligibility criteria was that the eligibility criteria to receive the next benefit have been satisfied. Respondents to the CP gave significant support to the inclusion of this obligating event. Respondents noted that for some social benefits, the satisfaction of the eligibility criteria by a potential beneficiary would be sufficient to give rise to a legal obligation for an entity. Where this was not the case, respondents considered that this obligating event would give rise to a non-legally binding obligation. The IPSASB agreed with these comments.

BC68. A small number of respondents did not support this obligating event, arguing that an entity still had discretion to avoid payment until a claim has been approved. These respondents commented that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power.

BC69. The IPSASB did not support this view. The IPSASB noted that paragraph 5.22 of the Conceptual Framework addressed the issue of sovereign power:

"Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability."

BC70. The IPSASB concluded that a beneficiary satisfying the eligibility criteria to receive the next social benefit would give rise to an obligation that meets the definition of a liability. Consequently, the IPSASB agreed that the eligibility criteria to receive the next social benefit have been satisfied obligating event should be included as an obligating events in [draft] IPSAS [X] (ED ~~XX~~63).

BC71. The IPSASB next considered the claim has been approved and claim is enforceable obligating events. The IPSASB noted that respondents generally did not support the use of these obligating events. In particular, a significant majority of respondents opposed the use of the claim is enforceable obligating event, arguing that it would limit the recognition of a liability to those cases where a legal obligation existed. Respondents argued that this was inconsistent with the

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

BC72. Respondents also argued that, once eligibility criteria have been satisfied, an obligation that the entity would have little or no realistic alternative to avoid would usually arise. Consequently, a liability would arise prior to a claim being approved or becoming enforceable.

BC73. The IPSASB concurred with respondents' views, and agreed that, for social benefits where there was a requirement to satisfy ongoing eligibility criteria only the eligibility criteria to receive the next social benefit have been satisfied obligating event should be included in [draft] IPSAS [X] (ED ~~XX~~63).

BC74. In coming to this conclusion, the IPSASB noted that there may be social benefits where the eligibility criteria are not met until a claim has been approved or is enforceable. The IPSASB considered these obligating events to be effectively subsets of the eligibility criteria to receive the next social benefit have been satisfied obligating event. Consequently, these obligating events did not need to be separately addressed.

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

BC75. As noted in paragraph BC66, the IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement.

BC76. The IPSASB considered whether, for some other social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition.

BC77. The IPSASB noted that for a liability to exist, there has to be a past event that gives rise to the liability. The IPSASB considered the nature of the past event for a social benefit and concluded that the past event is the satisfaction of all eligibility criteria, including being alive. Consequently, any liability that arises is only for the next social benefit. Additional liabilities only arise when all eligibility criteria, including being alive, are met for further social benefits. Until an individual has remained alive, they have not satisfied the eligibility criteria and hence the past event that is required for a liability to be recognized has not occurred.

BC78. In coming to this conclusion, the IPSASB also had regard to a number of supporting points:

(a) Accepting that the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition could result in obligations for long-term social benefits for certain social benefit schemes (primarily old-age pensions). Other social benefit schemes would recognize relatively short-term social benefits, even though for certain schemes, they may ultimately be paid to beneficiaries over a long-term horizon (e.g., income-based welfare benefits).

(b) Being alive is an explicit eligibility criterion for some social benefits programs, established through law or policy, and in these cases there is frequently active compliance monitoring and enforcement. Many public sector entities take active steps to periodically validate that a beneficiary is alive and actively monitor and enforce compliance with this eligibility criterion. For example, annual certifications that the beneficiary is alive may be required. Also, there may be requirements for hospitals, funeral homes, or others to report deaths. Further, many public sector entities retract social benefits improperly paid to beneficiaries who are not alive or prosecute fraudulent non-reporting of a beneficiary's death.

- (c) Meeting all eligibility requirements creates an obligation to provide a social benefit related to eligibility requirement(s) that are met, consistent with social benefit schemes where there are ongoing eligibility requirements. Typically, for an individual social benefit scheme, eligibility requirements and related social benefits are clearly established. For example, a social benefit may be paid monthly based on meeting eligibility criteria as of the end of the prior month. This would be true both for schemes that have ongoing eligibility criteria (other than being alive) and those where being alive is the only ongoing eligibility criteria.

BC79. The IPSASB also considered paragraph 5.21 of the Conceptual Framework, which states (emphasis added):

“Some obligations related to **exchange transactions** are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.”

BC80. The IPSASB considered whether, although social benefits are not exchange transactions, a liability should be recognized for social benefit schemes such as retirement benefits when threshold eligibility criteria are met. This would be as a result of legal obligations arising with the passage of time without the beneficiary having to take any further action or meet further conditions.

BC81. The IPSASB concluded this was not appropriate. Paragraph 5.21 of the Conceptual Framework relates solely to legal obligations in the context of exchange transactions, as indicated. Specifically, this paragraph would apply where the external party in the exchange transaction has met all of the conditions of the exchange transaction and it is unconditionally enforceable, but the public sector entity will not meet its conditions until after the reporting date.

BC82. Consequently, the IPSASB considered that the only appropriate obligating event is that all eligibility criteria for the next social benefit have been met. The IPSASB concluded that this approach, combined with the insurance approach, would recognize the nature of the social benefit and the legal framework under which the social benefit arises.

BC83. The IPSASB also considered that there would be practical difficulties with recognizing a liability prior to all eligibility criteria (including being alive) being satisfied. The IPSASB noted that approaches such as “threshold eligibility criteria have been met” are said to give rise to a non-legally binding obligation where there is a valid expectation that results in an entity having little or no realistic alternative to settling the obligation. The basis for including threshold eligibility is that a valid expectation will arise when there are no further eligibility criteria (excluding being alive) to be satisfied. The IPSASB was not convinced that this would be the case in all instances, and considered that there may be situations where:

- (a) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation did not arise, even though there were no further eligibility criteria (excluding being alive) to be satisfied; or
- (b) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation arose, even though there were further eligibility criteria (excluding being alive) to be satisfied.

- BC84. The IPSASB considered that similar difficulties would arise with other obligating events that occur prior to all eligibility criteria (including being alive) being satisfied, such as “key participatory events have occurred”.
- BC85. The IPSASB considered that, under these alternative obligating events, determining whether a valid expectation that results in an entity having little or no realistic alternative to settling the obligation has arisen could only be determined on a case by case basis. The IPSASB considered that this would result in inconsistent application of [draft] IPSAS [X] (ED ~~XX63~~), and considered that this was a further reason for not including the threshold eligibility criteria obligating event in [draft] IPSAS [X] (ED ~~XX63~~).
- BC86. The IPSASB concluded that only the eligibility criteria for the next social benefit have been met should be included in [draft] IPSAS [X] (ED ~~XX63~~), and that the accounting treatment should consider that being alive is an eligibility criterion (whether explicitly stated or implicit) that affects recognition.

#### Approach to developing Exposure Draft 63

- BC87. In coming to the conclusion that only the eligibility criteria for the next social benefit have been met should be included in [draft] IPSAS [X] (ED 63), the IPSASB did not reach consensus, with some members holding the view that threshold eligibility criteria have been met should also be included as a recognition point.
- BC88. As a consequence of the lack of consensus, the IPSASB agreed to adopt a “handling approach” to the development of ED 63. The eligibility criteria for the next social benefit have been met recognition point was included in ED 63 as all members agreed that this would be appropriate for at least some social benefits. The threshold eligibility criteria have been met recognition point was not included in ED 63 as some members considered that this would never be an appropriate recognition point for a social benefit. In agreeing to adopt this “handling approach” the IPSASB noted that members who supported the inclusion of the threshold eligibility criteria have been met recognition point were likely to set out their reasoning in an Alternative View. The IPSASB considered it important that this reasoning was exposed to stakeholders.
- BC89. In agreeing to adopt the “handling approach”, the IPSASB confirmed its previously expressed view that the financial statements cannot satisfy all a user’s information needs on social benefits. Further information about the long-term fiscal sustainability of those schemes is required. The IPSASB considered that adoption of the guidance in Recommended Practice Guideline (RPG) 1, *Reporting on the Long Term Sustainability of an Entity’s Finances*, would provide users with the information they need. Consequently, the IPSASB agreed to encourage entities to prepare general purpose financial reports that provide information on the long-term sustainability of the entity’s finances. The IPSASB also agreed to seek stakeholders’ views on whether RPG 1 should be converted to a mandatory standard.
- BC90. [To be added once the IPSASB has agreed the disclosure approach – see [Agenda Item 5.2.3](#)]

#### *Measurement*

- BC91. In developing the CP, the IPSASB came to a preliminary view that, “under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits.” The Conceptual

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

BC92. The IPSASB came to this view because:

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

BC93. Respondents to the CP supported this view. Consequently, the IPSASB agreed that liabilities in respect of social benefits should be measured using the cost of fulfillment.

#### *Revenue*

BC94. ED 63 requires an entity to recognize, measure, present and disclose revenue in respect of a social benefit scheme in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

BC95. At the time of developing ED 63, the IPSASB had an ongoing project to review the requirements in all of its revenue standards. The IPSASB decided that social contributions (revenue in respect of a social benefit scheme) would be best addressed in that project, to ensure that all revenue is accounted for on a consistent basis.

#### *Disclosure*

BC96. The IPSASB agreed that entities should disclose information that explains the characteristics of its social benefit schemes and risks associated with them; identifies and explains the amounts in its financial statements arising from its social benefit schemes; and describes how its social benefit schemes may give rise to future obligations.

BC97. As part of the explanation of the characteristics of a social benefit scheme, the IPSASB agreed that an entity should explain how a social benefit scheme is funded. Where a scheme is funded, (whether in full or in part) by social contributions, an entity is required to provide a cross reference to the location of information on those social contributions. Although [draft] IPSAS [X] (ED 63) does not address social contributions (as explained in paragraphs BC94–BC95 above), the IPSASB considers that users will need information about social contributions in order to make assessments of social benefit schemes. In most cases, the cross reference will be to information presented elsewhere in the entity’s financial statements. However, the IPSASB acknowledges that in some jurisdictions, social contributions for different social benefits may be collected by one entity, and the social benefits provided by another entity. In these circumstances, the entity that provides the

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

- BC98. As part of the explanation of amounts in the financial statements, the IPSASB agreed to require entities to disclose the total expense recognized in the current reporting period and previous four reporting periods for each social benefit scheme. Although this information would be available from an entity's previous financial statements, the IPSASB considered that having all the information in one place would be of benefit to users of the financial statements. The IPSASB also considered that providing this information would not be onerous for preparers.
- BC99. [To be added once the IPSASB has agreed the disclosure approach – see [Agenda Item 5.2.3](#)]

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## **Alternative View**

AV1.

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## Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED ~~XX63~~)

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of [draft] IPSAS [X] (ED ~~XX63~~).

### Scope of [draft] IPSAS [X] (ED ~~XX63~~)

IG2. The following diagram illustrates the scope of [draft] IPSAS [X] (ED ~~XX63~~) and the boundaries between social benefits and other transactions.

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

Scope of Social Benefits in GFS

Scope of Social Benefits in GFS

Collective Services	Universally Accessible Services	Social Benefits	Employee Benefits	Contracts for Insurance	Contracts for Goods and Services
Defense Street Lighting	Universal Education Universal Healthcare	State pensions Unemployment benefits Income support	Salaries Healthcare Employee pensions	Vehicle insurance Private medical Insurance	Purchase of goods Payment for services
Yes	No	Yes	Yes	Yes	Yes
No	Yes	Yes	No	No	No
No	No	Yes	Yes	No	No
Non-Exchange	Non-Exchange	Non-Exchange	Exchange	Exchange	Exchange

**Comparison with Government Finance Statistics (GFS)**

- IG3. **Government Finance Statistics (GFS) includes various categories of social protection arrangements. Which categories are covered by [draft] IPSAS [X] (ED 63)?**
- IG4. The following table describes some of the categories of social benefits (social protection arrangements) in GFS, and highlights whether these are covered by [draft] IPSAS [X] (ED 63).

GFS Category	Description	Covered by [draft] IPSAS [X] (ED 63)?
Social assistance	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.	Yes (except where the social benefits meet the definition of universally accessible services).

GFS Category	Description	Covered by [draft] IPSAS [X] (ED 63)?
Social insurance	The provision of social benefits where the social 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).	See social security and employment-related social insurance below.
Social security	Social insurance that arises outside of an employer-employee relationship, and provides social benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.	Yes (except where the social benefits meet the definition of universally accessible services).
Employment-related social insurance	Social insurance that arises from an employer-employee relationship, and provides social benefits to the employees and their beneficiaries.	No. Employment-related social insurance is covered by IPSAS 39, <i>Employee Benefits</i> .
Social benefits in cash	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.	Yes (except where the social benefits meet the definition of universally accessible services).
Social benefits in kind	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.	Yes (except where the social benefits meet the definition of universally accessible services).
Reimbursements	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.	Yes (except where the social benefits meet the definition of universally accessible services).
Pensions and other retirement benefits	Social benefits payable when individuals cease employment upon retirement. Social benefits may also be payable to other individuals, for example, a bereaved spouse or other dependents, or to someone suffering from a permanent disability.	Yes (except where the social benefits meet the definition of universally accessible services).

GFS Category	Description	Covered by [draft] IPSAS [X] (ED 63)?
Nonpension benefits	Nonpension social benefits include payments made to individuals when they are temporarily unemployed, suffering from a medical condition, or suffering from an event that prevents them from working for a period.	Yes (except where the social benefits meet the definition of universally accessible services).

- IG5. [Draft] IPSAS [X] (ED 63) does not distinguish between the different categories of social benefits identified in GFS.
- IG6. [Draft] IPSAS [X] (ED 63) excludes universally accessible services (as defined in paragraph 6 of the [draft] Standard) from its scope. Universally accessible services are within the scope of the IPSASB's project on non-exchange expenses.
- IG7. GFS also refers to "collective services." A collective service is "a service provided simultaneously to all members of the community or to all members of a particular section of the community, such as all households living in a particular region."<sup>3</sup> Collective services do not meet the definition of a social benefit in [draft] IPSAS [X] (ED 63), nor in GFS. Collective services are within the scope of the IPSASB's project on non-exchange expenses.

#### Recognition and measurement of liabilities and expenses in [draft] IPSAS [X] (ED 63)

- IG8. **A retirement pension is paid monthly. Will the liability at the reporting date be the same as the amount paid in the following month?**
- IG9. The liability at the reporting date is unlikely to be exactly the same as the amount paid the following month. The extent of the difference will depend on the circumstances of the retirement benefit. Factors that will affect the extent of the difference include the following:
- (a) Payment date. If the last payment in the reporting period was prior to the reporting date, the payment in following month is likely to include payments that do not form part of the liability at the reporting date. For example, an entity prepares its financial statements as at December 31. If retirement benefits are paid on the 15<sup>th</sup> of each month, the payment made on January 15 is likely to include payments made to individuals who reached retirement age between January 1 and January 15. The payments to these individuals will not form part of the liability as at December 31, because at that date, those individuals had not met the eligibility criteria for the retirement pension.
  - (b) Incomplete information. The information which is used to calculate payments may be incomplete, and consequently the payment in the following month may not exactly match the liability at the reporting date. For example, payments are usually calculated a number of days prior to the payment being made. Changes in circumstances notified after that date are not reflected in the payment, but are adjusted in subsequent periods.
- IG10. In considering the liability to be recognized as at the reporting date, entities may find it helpful to refer to the discussion of materiality in IPSAS 3.

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<sup>3</sup> Paragraph 6.134 of the Government Finance Statistics Manual 2014.

- IG11. **How do breaks in meeting the eligibility criteria for a social benefit scheme affect the recognition and measurement of the liability?**
- IG12. For social benefit schemes that have ongoing eligibility criteria in addition to being alive, an individual may alternate between periods when they meet the eligibility criteria for the social benefit, and periods when they do not meet those eligibility criteria. In these circumstances, each instance of an individual satisfying the eligibility criteria is recognized and measured separately.
- IG13. For example, an entity prepares its financial statements as at December 31. As at that date, an individual was unemployed, and eligible to receive unemployment benefits. Consequently, the entity has a present obligation to the individual at the reporting date. The individual finds temporary employment on January 10 and ceases to be eligible for the unemployment benefits. This employment ends on January 24, when the individual once more becomes eligible for unemployment benefits. Only the first period of unemployment would be included in the liability at the reporting date, as the eligibility criteria for the subsequent period were not satisfied until after that reporting date.

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## Illustrative Examples

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

### Scope and Definitions

*Illustrating the consequences of applying paragraphs 4–6 and AG1–AG10 of [draft] IPSAS [X] (ED 63)*

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

*Example 1—Provision of retirement benefits to government employees*

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

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

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

*Example 2—Provision of state retirement pension*

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

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

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

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

*Example 3—Provision of healthcare services*

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

*Example 4—Provision of disability pensions*

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

*Example 5—Provision of unemployment benefits*

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

*Example 6—Provision of disaster relief*

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

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

*Example 7–Provision of defense services*

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

**Obligating Event Approach: Recognition and Measurement**

*Illustrating the consequences of applying paragraphs 13–30 and AG16–AG22 of [draft] IPSAS [X] (ED 63)*

*Example 8*

- IE24. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.
- IE25. Government H provides a retirement pension to its citizens and permanent residents. The scheme pays a fixed amount of CU100 per month to each individual who has reached the retirement age of 70. Amounts are pro-rated in the months in which an individual reaches the retirement age, and in the months in which an individual dies.
- IE26. Government H prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.
- IE27. As at December 31, 20X7, Government H recognized a liability for retirement pensions of CU2,990,656. During 20X8, Government H paid retirement pensions as follows:

<b>Month</b>	<b>Pensions Paid (CU)</b>
January 20X8	3,024,997
February 20X8	3,026,219
March 20X8	3,034,868
April 20X8	3,035,280
May 20X8	3,026,432

<b>Month</b>	<b>Pensions Paid (CU)</b>
June 20X8	3,034,686
July 20X8	3,041,956
August 20X8	3,050,190
September 20X8	3,044,998
October 20X8	3,045,134
November 20X8	3,041,752
December 20X8	3,053,668
<b>Total</b>	<b>36,460,180</b>

- IE28. In this example, it is assumed that Government H has complete information at the date it pays retirement pensions. Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the pro-rated retirement pensions paid to those who reached retirement age during January 20X8 (CU34,341).
- IE29. During January 20X9, Government H pays retirement pensions totaling CU3,053,576. There are three elements to this payment:

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

- IE30. As at December 31, 20X8, Government H recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 20X8 financial statements are issued after the January 20X9 retirement pensions have been paid, Government H uses the information available at that time to prepare its financial statements.
- IE31. Consequently, Government H recognizes a liability of CU3,016,020. This includes the full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions paid to those pensioners eligible at December 31 who died during January 20X9 (CU36,420). The liability does not include the pro-rated pensions paid to those who reached retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.
- IE32. During 20X8, the total amount recognized as a liability and an expense is CU36,485,544. The breakdown of this amount is as follows:

	<b>CU</b>
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid in February 20X8 (recognized in January 20X8)	3,026,219
Pensions paid in March 20X8 (recognized in February 20X8)	3,034,868
Pensions paid in April 20X8 (recognized in March 20X8)	3,035,280
Pensions paid in May 20X8 (recognized in April 20X8)	3,026,432
Pensions paid in June 20X8 (recognized in May 20X8)	3,034,686
Pensions paid in July 20X8 (recognized in June 20X8)	3,041,956
Pensions paid in August 20X8 (recognized in July 20X8)	3,050,190
Pensions paid in September 20X8 (recognized in August 20X8)	3,044,998
Pensions paid in October 20X8 (recognized in September 20X8)	3,045,134
Pensions paid in November 20X8 (recognized in October 20X8)	3,041,752
Pensions paid in December 20X8 (recognized in November 20X8)	3,053,668
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31 who died during January 20X9 (recognized in December 20X8)	36,420
<b>Total</b>	<b>36,485,544</b>

IE33. The movement in the liability during 20X8 can be summarized as follows:

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

*Example 9*

IE34. The following example illustrates the process for recognizing and measuring the liability and expense for an unemployment pension. This example is not based on actual transactions.

IE35. State Government I provides unemployment benefits to its citizens and permanent residents. The scheme pays monthly amounts of 50% of an individual's previous salary, to a maximum of CU500 per month. Unemployment benefits are payable for a maximum of eighteen months. To be eligible to receive benefits, an individual must have been in paid employment in the State for at least 100 days in the past twelve months. Eligibility commences fourteen days after the individual last worked. Amounts are pro-rated in the months in which an individual first meets the eligibility criteria, and in

the months in which an individual ceases to be eligible (finding paid employment, becoming self-employed, expiry of the eighteen month maximum period, moving out of the State or dying).

- IE36. State Government I prepares its financial statements as at June 30. Unemployment benefits are paid on the 15<sup>th</sup> day of each month.
- IE37. As at June 30, 20X1, State Government I recognized a liability for unemployment benefits of CU125,067. During the financial year July 1, 20X1–June 30, 20X2, State Government I paid unemployment benefits as follows:

<b>Month</b>	<b>Unemployment Benefits Paid (CU)</b>
July 20X1	129,745
August 20X1	134,252
September 20X1	140,903
October 20X1	146,579
November 20X1	145,562
December 20X1	128,627
January 20X2	157,687
February 20X2	153,519
March 20X2	150,764
April 20X2	147,002
May 20X2	141,824
June 20X2	135,412
<b>Total</b>	<b>1,711,876</b>

- IE38. In this example, it is assumed that State Government I has complete information at the date it pays retirement pensions. Consequently, the difference between the amount paid on July 15, 20X1 (CU129,745) and the liability recognized as at June 30 20X1 (CU125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between July 1, 20X1 and July 15, 20X1 (CU4,678).
- IE39. On July 15, 20X2, State Government I pays unemployment benefits totaling CU132,952. There are four elements to this payment:

	<b>CU</b>
Unemployment benefits paid to unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits paid to those unemployed persons eligible at June 15 20X2 who had ceased to be eligible by July 15, 20X2	9,975
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045

**CU**

Pro-rated unemployment benefits paid to those unemployed persons who became eligible between July 1, 20X2 and July 15, 20X2	4,812
---	-------

Total	132,952
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IE40. As at June 30, 20X2, State Government I recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. Because its July 20X1–June 20X2 financial statements are issued after the July 20X2 unemployment benefits have been paid, State Government I uses the information available at that time to prepare its financial statements.

IE41. Consequently, State Government I recognizes a liability of CU128,140. This includes:

- (a) The unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2 (CU113,120);
- (b) The pro-rated unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 who had ceased to be eligible by July 15, 20X2 (CU9,975); and
- (c) The pro-rated unemployment benefits paid to those unemployed persons who became eligible who became eligible between June 15, 20X2 and June 30, 20X2 (CU5,045).

IE42. The liability does not include the pro-rated unemployment benefits paid to those who became eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.

IE43. During the financial year July 1, 20X1–June 30, 20X2, the total amount recognized as a liability and an expense is CU1,714,949. The breakdown of this amount is as follows:

	CU('000)	CU('000)
Pro-rated unemployment benefits paid in July 20X1 to those who became eligible between July 1, 20X1 and July 15, 20X1 (recognized in July 20X1)		4,678
Unemployment benefits paid in August 20X1 to unemployed persons eligible at July 15, 20X1, both those remaining eligible and those who ceased to be eligible by August 15, 20X1; and those unemployed persons who became eligible between July 15, 20X1 and July 31, 20X1 (recognized in July 20X1)	129,539	
Pro-rated unemployment benefits paid in August 20X1 to those who became eligible between August 1, 20X1 and August 15, 20X1 (recognized in August 20X1)	4,713	
Total unemployment benefits paid in August 20X1	134,252	
Unemployment benefits paid in September 20X1 to unemployed persons eligible at August 15, 20X1, both those remaining eligible and those who ceased to be eligible by September 15, 20X1; and those unemployed persons who became eligible between August 15, 20X1 and August 31, 20X1 (recognized in August 20X1)	136,004	

	CU('000)	CU('000)
Pro-rated unemployment benefits paid in September 20X1 to those who became eligible between September 1, 20X1 and September 15, 20X1 (recognized in September 20X1)	4,899	
Total unemployment benefits paid in September 20X1	<hr/>	140,903
Unemployment benefits paid in October 20X1 to unemployed persons eligible at September 15, 20X1, both those remaining eligible and those who ceased to be eligible by October 15, 20X1; and those unemployed persons who became eligible between September 15, 20X1 and September 30, 20X1 (recognized in September 20X1)	141,643	
Pro-rated unemployment benefits paid in October 20X1 to those who became eligible between October 1, 20X1 and October 15, 20X1 (recognized in October 20X1)	4,936	
Total unemployment benefits paid in October 20X1	<hr/>	146,579
Unemployment benefits paid in November 20X1 to unemployed persons eligible at October 15, 20X1, both those remaining eligible and those who ceased to be eligible by November 15, 20X1; and those unemployed persons who became eligible between October 15, 20X1 and October 31, 20X1 (recognized in October 20X1)	140,561	
Pro-rated unemployment benefits paid in November 20X1 to those who became eligible between November 1, 20X1 and November 15, 20X1 (recognized in November 20X1)	5,001	
Total unemployment benefits paid in November 20X1	<hr/>	145,562
Unemployment benefits paid in December 20X1 to unemployed persons eligible at November 15, 20X1, both those remaining eligible and those who ceased to be eligible by December 15, 20X1; and those unemployed persons who became eligible between November 15, 20X1 and November 30, 20X1 (recognized in November 20X1)	123,725	
Pro-rated unemployment benefits paid in December 20X1 to those who became eligible between December 1, 20X1 and December 15, 20X1 (recognized in December 20X1)	4,902	
Total unemployment benefits paid in December 20X1	<hr/>	128,627
Unemployment benefits paid in January 20X2 to unemployed persons eligible at December 15, 20X1, both those remaining eligible and those who ceased to be eligible by January 15, 20X2; and those unemployed persons who became eligible between December 15, 20X1 and December 31, 20X1 (recognized in December 20X1)	149,842	
Pro-rated unemployment benefits paid in January 20X2 to those who became eligible between January 1, 20X2 and January 15, 20X2 (recognized in January 20X2)	7,845	
	<hr/>	

	<u>CU('000)</u>	<u>CU('000)</u>
Total unemployment benefits paid in January 20X2		157,687
Unemployment benefits paid in February 20X2 to unemployed persons eligible at January 15, 20X2, both those remaining eligible and those who ceased to be eligible by February 15, 20X2; and those unemployed persons who became eligible between January 15, 20X2 and January 31, 20X2 (recognized in January 20X2)	147,922	
Pro-rated unemployment benefits paid in February 20X2 to those who became eligible between February 1, 20X2 and February 15, 20X2 (recognized in February 20X2)	5,597	
Total unemployment benefits paid in February 20X2		153,519
Unemployment benefits paid in March 20X2 to unemployed persons eligible at February 15, 20X2, both those remaining eligible and those who ceased to be eligible by March 15, 20X2; and those unemployed persons who became eligible between February 15, 20X2 and February 28, 20X2 (recognized in February 20X2)	144,918	
Pro-rated unemployment benefits paid in March 20X2 to those who became eligible between March 1, 20X2 and March 15, 20X2 (recognized in March 20X2)	5,846	
Total unemployment benefits paid in March 20X2		150,764
Unemployment benefits paid in April 20X2 to unemployed persons eligible at March 15, 20X2, both those remaining eligible and those who ceased to be eligible by April 15, 20X2; and those unemployed persons who became eligible between March 15, 20X2 and March 31, 20X2 (recognized in March 20X2)	141,543	
Pro-rated unemployment benefits paid in April 20X2 to those who became eligible between April 1, 20X2 and April 15, 20X2 (recognized in April 20X2)	5,419	
Total unemployment benefits paid in April 20X2		147,002
Unemployment benefits paid in May 20X2 to unemployed persons eligible at April 15, 20X2, both those remaining eligible and those who ceased to be eligible by May 15, 20X2; and those unemployed persons who became eligible between April 15, 20X2 and April 30, 20X2 (recognized in April 20X2)	136,578	
Pro-rated unemployment benefits paid in May 20X2 to those who became eligible between May 1, 20X2 and May 15, 20X2 (recognized in May 20X2)	5,246	
Total unemployment benefits paid in May 20X2		141,824

	CU('000)	CU('000)
Unemployment benefits paid in June 20X2 to unemployed persons eligible at May 15, 20X2, both those remaining eligible and those who ceased to be eligible by June 15, 20X2; and those unemployed persons who became eligible between May 15, 20X2 and May 31, 20X2 (recognized in May 20X2)	130,278	
Pro-rated unemployment benefits paid in June 20X2 to those who became eligible between June 1, 20X2 and June 15, 20X2 (recognized in June 20X2)	5,134	
	<hr/>	
Total unemployment benefits paid in June 20X2		135,412
Unemployment benefits paid in July 20X2 to unemployed persons eligible at June 15, 20X2, both those remaining eligible and those who ceased to be eligible by July 15, 20X2; and those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (recognized in June 20X2)		128,140
		<hr/>
		1,714,949

IE44. The movement in the liability during the financial year July 1, 20X1–June 30, 20X2 can be summarized as follows:

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

**Obligating Event Approach: Disclosure**

*Illustrating the consequences of applying paragraphs 32–39 of [draft] IPSAS [X] (ED 63)*

*Characteristics of Social Benefit Schemes*

*Example 10*

IE45. The following example illustrates some of the disclosure requirements relating to the characteristics of social benefit schemes; it is not based on actual transactions. The example assumes that the Department of Health of Government J provides disability benefits to those who have been assessed as having a permanent disability that prevents them from undertaking paid employment.

**Paragraph  
reference**

**Disability Support Scheme**

- 35(a)(i) The disability support scheme is a social benefit provided by the Department of Health to disabled individuals. Beneficiaries receive a fixed monthly payment (CU1,750 in 20X7) to cover living expenses, supplemented by individual payments, awarded on the basis of annual medical assessments, to allow the individual to pay for an appropriate level of care.
- 35(a)(ii) The disability support scheme was created by the Disabled Persons Support Act 19X5. This Act establishes the eligibility criteria for the scheme. The main criteria are that the individual is either a citizen or a legal resident who has been assessed by a registered medical practitioner as having a permanent disability; and that the disability prevents them from undertaking paid employment. Once awarded, the social benefit is payable to the individual's death, with no further assessments being required.
- 35(a)(iii) As at 31 December 20X7, there were 31,602 people eligible to receive disability support.
- 35(a)(iv)a The disability support scheme is a non-contributory social benefit. The Department of Health receives an annual budget appropriation from Government J to cover the costs of the scheme. Further details can be found in the note on income from government transfers in these financial statements.
- 35(b) The fixed monthly payment element of the disability support scheme is increased annually in line with inflation; in 20X7, this increase was 1.3%. Individual elements of the disability support scheme are assessed annually. In most cases, the amounts payable increase to reflect increased costs, although advances in medical science can lead to reductions in some cases. In 20X7, the average cost of the individual elements increased by 2.1%. Future obligations in respect of the disability support scheme reflect these increases. There were no other changes to the disability support scheme during 20X7.

*Example 11*

- IE46. The following example illustrates some of the disclosure requirements relating to the characteristics of social benefit schemes; it is not based on actual transactions. The example assumes that Agency K provides unemployment benefits.

**Paragraph  
reference**

**Unemployment Insurance Scheme**

- 35(a)(i) The unemployment insurance scheme was created by the Unemployment  
35(a)(ii) (Insurance) Act 20X1, and is administered by Agency K. The scheme pays  
35(a)(iii) unemployment benefits to insured individuals who become unemployed. The  
unemployment benefits paid are set at 75% of the individual's previous salary,  
subject to a maximum payment of CU3,000 per month. To be eligible to receive

**Paragraph  
reference**

unemployment benefits, an insured individual must be unemployed, must have been in employment for a minimum of 150 days in the twelve months immediately prior to becoming unemployed, and must have made contributions (of 1.5% of the gross salary) during that period. No unemployment benefits are payable for the first fourteen days after the individual becomes unemployed, and eligibility for unemployment benefits ceases the day prior to an individual re-entering employment, attaining retirement age, or dying. Unemployment benefits are payable for a maximum of twelve months. As at 31 December 20X5, there were 178,689 people eligible to receive unemployment benefits.

- 35(a)(iv)a The unemployment insurance scheme is funded from the contributions received. Details of these contributions can be found in the note on non-exchange revenue in these financial statements.
- 35(b)(i) There have been no changes to the level of unemployment benefits provided during 20X5.
- 35(b)(ii) On July 1, 20X5, the eligibility criteria for receiving unemployment benefits were changed. The period from becoming unemployed to unemployment benefits being payable was increased to fourteen days (from seven days) and the minimum number of days in employment in the previous twelve months was increased to 150 days from 120 days. Agency K estimates that the effect of these changes will be to reduce future obligations by approximately 2%.

*Explanation of Amounts in the Financial Statements*

*Example 12*

IE47. The following example illustrates some of the disclosure requirements that explain the amounts in the financial statements; it is not based on actual transactions. The example assumes that the Government L provides unemployment benefits and employment injury benefits.

**Paragraph  
reference**

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

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

**Paragraph  
reference**

38

**Total Expense Recognized in the Year Ended December 31**

	<b>20X0</b>	<b>20X1</b>	<b>20X2</b>	<b>20X3</b>	<b>20X4</b>
	<b>CU (,000)</b>				
Unemployment Benefits	209,915	210,863	211,743	212,284	213,704
Employment Injury Benefits	38,604	40,787	45,096	37,219	41,355

*Example 13*

IE48. The following example illustrates some of the disclosure requirements that explain the amounts in the financial statements; it is not based on actual transactions. The example assumes that the Agency M provides retirement pensions.

**Paragraph  
reference**

37

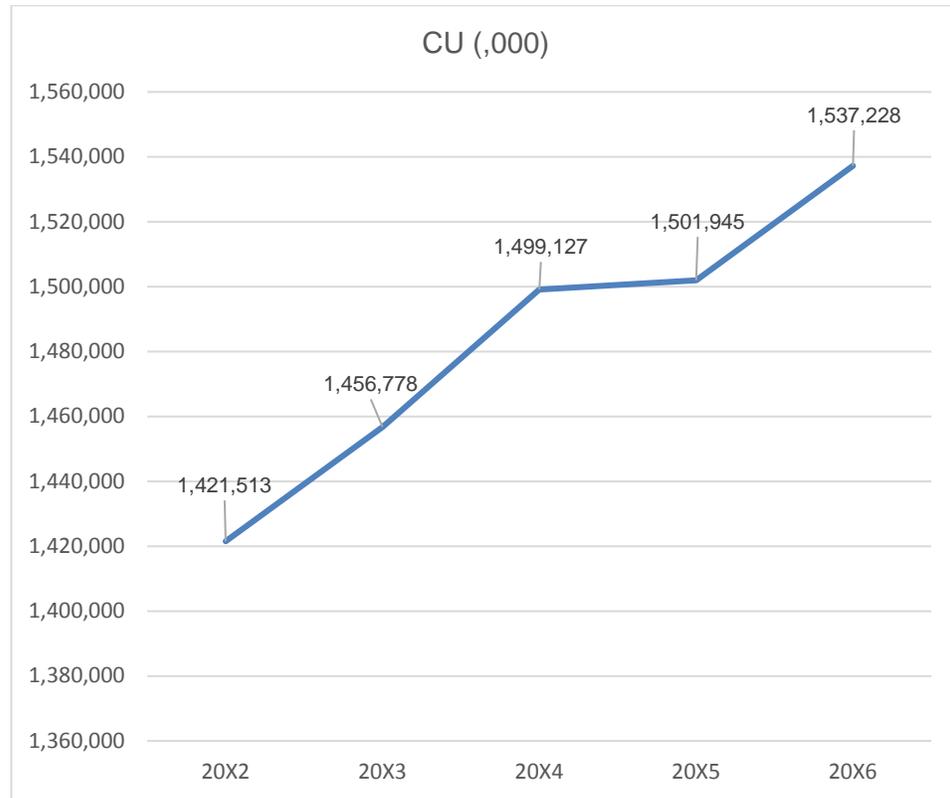
**Retirement Pension Amounts Recognized in the  
Statement of Financial Position as at December 31, 20X6 and  
Statement of Financial Performance for 20X6**

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

**Paragraph  
reference**

38

**Total Retirement Pension Expense Recognized in the Year Ended  
December 31, 20X6**



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

*Example 14*

IE49. [To be added once the IPSASB has agreed the disclosure approach – see [Agenda Item 5.2.3](#)]

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