



JUL 11 2008

Ms. Stephenie R. Fox, Technical Director  
International Public Sector Accounting Board  
International Federation of Accountants  
277 Wellington Street West  
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Dear Ms. Fox:

Subject: Social Benefits: IPSASB Exposure Draft #34 - Disclosure of  
Cash Transfers to Individuals or Households,  
Consultation Paper on Issues in Recognition and Measurement and  
Project Brief on Long-Term Fiscal Sustainability Reporting

Thank you for the opportunity to comment on the Exposure-Draft (ED) # 34 – *Social Benefits: Disclosure of Cash Transfers to Individuals or Households* that was issued in March 2008, as well as the accompanying Consultation Paper on *Social Benefits: Issues in Recognition and Measurement* and the Project Brief on: *Long-Term Fiscal Sustainability Reporting*.

By the way of background, the Government of Canada bases its accounting policies on the Accounting Standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Our government is therefore not required to follow the International Public Sector Accounting Standards (IPSAS). Nonetheless, we read the three documents for consultation with great interest since IPSAS have become an increasingly important secondary source of generally accepted accounting principles (GAAP) in Canadian GAAP literature.

We support the objective of the Board to endeavour to increase accountability and reporting in the area of government's long-term fiscal sustainability.

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However, we are of the view that financial statements are not the right medium to best address this complex issue and question whether accounting standards are the appropriate means to address this area. Nonetheless, any study that the Board undertakes to document best practices is welcome and will be useful for governments. Ultimately, general guidance based on these best practices will also be useful if it is intended to supplement guidance on the content of Financial Statement Discussion and Analysis (FSD&A). However, since parameters of fiscal sustainability could vary widely from one government to the next, we do not support an outcome that could lead to standardized reporting requirements in this area.

Regarding Social Benefits recognition, measurement and disclosure, we hold the view that recognition should only occur when a present obligation exists and that a present obligation generally does not exist until all eligibility criteria have been met. We also believe that no present obligation exists for collective or individual goods and services until the costs incurred to provide the goods or services (employee salaries, goods are received, contracts are performed, etc.) have been recognized as recorded under the current accrual framework.

We also hold the view that it is paramount to distinguish present obligations and future obligations or commitments. Disclosure of important commitments in financial statements is a GAAP requirement in Canada.

However, users, including Parliamentarians, often express concerns over the increasing complexity of financial statements and their lack of understandability. Therefore, while the proposal of ED #34 has merit, it appears too complex in disclosure, preparation and audit requirements, especially when balanced against objectives of understandability and timeliness of financial reporting.

Adding this information in the financial statements while the reporting framework on social benefits and sustainability is not yet complete may be premature. Except for a limited number of technical users, there is a risk that this new information could be misleading without being given the proper context that a full discussion, such as in a FSD&A or special report, could provide.

We acknowledge the Board's intentions to move beyond financial accounting to a general financial reporting approach. However, governments prepare a wide range of reports on programs performance and fiscal policy that may touch upon financial reporting, and all of these do not necessarily have to be coded into requirements.

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For these reasons, we are of the view that any new requirements for financial statements of governments stemming from these projects should reflect the very summarized nature of government's financial statements. They should also reflect the fact that a vast number of users of these financial statements or reports are not versed in complex technical issues and that there are also many other means for governments to report on various aspects of their activities.

You will find in the attached annex additional comments on the above as well as on other issues identified in the documents.

In closing, I wish to commend the Board for having undertaken this ambitious project. However, I would like to point that given that the package included three documents for consultation that are related, the period allowed for comments seemed relatively short in proportion to the importance of the issues under consideration. The Board may wish to consider such in the future to ensure sufficient time for adequate consultation of all interested parties within governments.

Thank you again for providing the opportunity to comment on these documents. If you have any further questions related to these comments, please do not hesitate to contact me at [John.Morgan@tbs-sct.gc.ca](mailto:John.Morgan@tbs-sct.gc.ca) or (613-957-9659).

Yours sincerely,



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## Annex

**Additional comments on IPSASB documents for comments**  
**Exposure-Draft #34 - *Social Benefits: Disclosure of Cash Transfers to Individuals or Households***  
**Consultation Paper - *Social Benefits: Issues in Recognition and Measurement*, and**  
**Project Brief - *Long-Term Fiscal Sustainability Reporting***

**Long-Term Fiscal Sustainability Reporting**

For the reasons below, we question whether accounting standards are the appropriate means to address this area:

- Accounting in financial statements is generally focused on reporting on the results of past decisions as opposed to the long-term future outlook of fiscal sustainability.
- Financial statements have more of a short-term focus as they are prepared to report on activities since the last period, normally one year, and one of their main benefits - and challenge - is to be prepared with a quick turn around after year-end to allow the timely assessment of a government's recent decisions.
- Financial statements are generally based on past events, and although they include estimations, all are subject to audit.
- On the other hand, fiscal sustainability analysis, is more useful when presented with various options scenarios in the context of future policy decisions analysis. Their long-term nature would not necessarily require annual preparation at the same time and within the same timeliness as financial statements, nor would it also necessarily require external audit.

Nonetheless, fiscal sustainability is an extremely important but complex area. Any study that the Board will undertake to document best practices is welcome and will be useful. Ultimately, general guidance based on these best practices will also be useful if it is intended to supplement guidance on the content of Financial Statement Discussion and Analysis (FSD&A). However, since parameters of fiscal sustainability could vary widely from one government to the next, we do not support the possible outcome that could lead to standardized reporting requirements in this area.

## **Social Benefits: Issues in Recognition and Measurements**

We hold the view that recognition for liabilities related to social benefits should only happen when a present obligation exists and that a present obligation generally does not exist until all eligibility criteria have been met. We also believe that no present obligation exist for collective or individual goods and services until the costs incurred to provide the goods or services (employee salaries, goods are received, contracts are performed, etc.) have been recognized as recorded under the current accrual framework. Finally, we also hold the view that it is important to distinguish present obligations and future obligations or commitments.

### Benefits excluded

In addition, given that the Consultation Paper proposes to review whether liabilities exist for all types of social benefits, it is unclear why the paper excludes collective or individual goods and services that are provided through a service provider as opposed to services provided directly to recipient.

Conceptually, it is difficult to see that if a liability could exist for Individual Goods and Services provided directly to a recipient, the same type of benefit would not create a liability to an individual if its delivery was to be outsourced. Similarly, it is unclear as to why the administration costs associated with delivering a program would not be included in the actuarial liability.

If the ultimate intent is to present the anticipated full cost of continuing current social benefit programs, their valuation should include all future costs associated with the a program, including administration and outsourced costs.

From a practical perspective, the potential recognition of such liabilities for individual goods and service could become very cumbersome for governments as it would essentially mean recording all future costs in anticipation of their occurrence and their reversal in the years in which they actually occur. The increased complexity in the accounting and reporting of results could quickly outweigh the benefits of presenting this information.

### Contributory benefits and date of obligating event

The Consultation Paper breaks down programs between contributory and non-contributory as the two main types of programs to be analysed. We would argue that this breakdown is only one of a few other possible categories that could be looked at to do a full analysis.



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For example on the aspect of contributory programs, the Consultation Paper seems to assume that all contributory programs are generally of a long-term nature. However, some contributory programs may be of a short-term nature and work in a way similar to private insurance programs. In those cases, members may leave a program for a period and return a few years later and they are covered by the program only while they are members of the program and they contribute. The fact that they contribute and have contributed in the past may increase expectations for beneficiaries that a government will continue to pay, nonetheless, the fact that they contributed in earlier years would not give members additional right.

On the other hand, for some long-term programs the eligibility and or the type of benefit are clearly linked to the years of active service. In these cases, the expectations to receive benefits may be clearly established whether or not contributions were made, and this solely on the basis that eligibility is linked to service. It may then be considered “earned” by the beneficiaries and these programs would be viewed more as “quasi-exchange” type of transactions.

In such cases, the analysis should therefore differentiate not necessarily between contributory programs and non-contributory programs, but rather on the types of benefits and the means by which members become eligible, i.e. whether it is linked to service or solely to age and means test for example, such as old age security programs that are not linked to employment.

#### **ED # 34 Disclosure of Cash Transfer Payments to Individuals or Households**

While the proposal of ED #34 has merit, it appears too complex in disclosure, preparation and audit requirements when balanced against objectives of understandability and timeliness of financial reporting.

We earlier cautioned that adding the new ED #34 requirements in the financial statements while the reporting framework on social benefits and sustainability is not yet complete may be premature. However, if the project is to go through, we recommend giving consideration to the following.

##### Objectives of the section

The focus of this section should be more clearly defined. For instance, if the objective is to start providing information on long-term fiscal sustainability, then it would benefit from differentiating the requirements between short-term and long-term programs.

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As an example, in Canada, Employment-Insurance is a major program, but benefits can only be paid for a short period, averaging less than one year. The ED proposal would require significant disclosure for this program in the same manner as for other much longer-term programs, such as old age security. As an unexpected result, the financial statements could end-up providing more information on the program's annual budgeted payments calculation than on actual amounts recorded in the year.

#### Complexity of information

We see value in disclosing commitments for future period, but would recommend that the requirements be greatly paired down to reflect the very high summary nature of government's financial statements.

The information suggested in the current proposal seems very onerous in the context of financial statements that are to be prepared on a timely basis and under audit scrutiny. It is also questionable whether the actuarial value of very long-term program is necessary as of the reporting date, as these numbers may change little for year-to year.

The disclosure on the principal assumptions and their impacts also goes further then the current requirements on future benefit accounting and should be paired down. Experience has shown that this type of information can only be understood by technical users and generally is a turn off for other users of the statements.

#### Other

The use of the term individual or collective "goods and services" could be confused with exchange transactions for goods or services by some readers. It may be advisable to try and find other terminology that would reinforce the non-exchange nature.

We are not convinced that the distinction being proposed between long-term social benefit cash transfers that are subject to be accounted for or used for a specified purpose (conditional) and those that are not (unconditional) warrants different treatment. Much depends on the substance of the arrangement and the likelihood of compliance.