The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, Ontario Canada M5V 3H2
Tel: 416 977.3222 Fax: 416 977.8585
www.cica.ca

L'Institut Canadien des Comptables Agréés
277, rue Wellington Ouest
Toronto (Ontario) Canada M5V 3H2
Tél. : 416 977.3222 Téléc. : 416 977.8585
www.icca.ca

Sent by e-mail
edcomments@ifac.org

August 15, 2008

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington St W
Toronto, Ontario
M5V 3H2

Re: Exposure Draft – Social Benefits – Disclosure of Cash Transfers to Individuals and Households

Thank you for the opportunity to comment on the exposure draft (ED). Its wording is clear and understandable. I am supportive of the objective of the ED and offer my comments for consideration and suggested improvements. Comments on the questions raised in the ED are appended to this letter.

I agree that disclosure in the notes is supported as IPSAS 1 – PRESENTATION OF FINANCIAL STATEMENTS, paragraph 127(c) indicates that notes shall:

> *Provide additional information that is not presented on the face of the statement of financial position, statement of performance, statement of changes in net assets/equity or cash flow statement, but that is relevant to an understanding of any of them.*

The ED requires note disclosure of expected cash transfers to those meeting the threshold eligibility criteria, while this is clear, it seems conceptually difficult to separate these items from other individual goods and services such as a food stamp programs.

Applying the notion that the recipient has "*wider discretion over the purposes for which the economic benefits may be used*" to delineate a difference between cash transfers and certain individual goods and services (transfers in kind), while clear in intent, may pose difficulties. For example, there may be a portion of the population who might be expected to continually meet the threshold eligibility criteria for food stamps that can be similarly measured. It raises the question as to why only cash transfers are required to be disclosed and not other programs which may be just as important.

Paragraph 28 of the ED notes that unless an individual is 65 years of age he/she has not met all of the threshold criteria. This paragraph seems to pre-judge a possible recognition and measurement Standard that has yet to be developed. One approach to mitigate this concern may be to indicate that "for the purposes of this Standard disclosure and measurement of cash transfers exclude…" or alternatively note that the IPSASB is currently developing a project on this subject. A more basic question needs to asked in this regard is why issue a disclosure Standard if IPSASB may address the issue from a recognition perspective.

If IPSASB decides to move forward with this disclosure requirement, it may also be useful to require, not just encourage, the effect of these programs on cash outflows over a time horizon. When disclosing information about lease, for example, IPSAS 13 would require, not just encourage, disclosures of the minimum lease payments under finance and non-cancellable operating leases in accordance with paragraphs 40 and 44. This adds further depth and information about the timing of future cash outflows.

Because governments can change their programs and the legislative frameworks within which they operate, it may also be useful to include a reference to the legislative framework in place at the time of the financial statement date. Further, it may also be useful to disclose information about the effects of any changes in that legislative framework when changes have been made.

These comments are my views and should not be attributed to or interpreted as those of the Canadian Institute of Chartered Accountants or the Public Sector Accounting Board.

Yours truly,

Tim Beauchamp

Tim Beauchamp
Director, Public Sector Accounting
277 Wellington Street West
Toronto, Ontario
Canada
M5V 3H2

Comments on questions posed in the Exposure Draft

1. **Do you agree that the scope of this ED is appropriate (paragraphs 2 – 8)?**

   It is conceptually difficult to understand the reason(s) for excluding transfers in kind in-lieu of cash. The fact that a recipient can exchange the transfer in kind into cash being a separate consideration appears to be form over substance. This could lead one to provide transfers in kind rather than cash simply to avoid the disclosure requirements.

   Considering the above issue, the scope is appropriate.

2. **Do you agree the new definitions in this ED (paragraph 10) are sufficiently clear and comprehensive?**

   I agree that the definitions are sufficiently clear and comprehensive. The following are suggested for your consideration:

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

   Present value is an undefined term.

3. **Do you agree that the requirements for the determination of amounts expected to be transferred to eligible individuals or households are appropriate (paragraphs 30 – 44)?**

   The ED calls for an entity to determine its best estimate of the *present value* of the amounts to be transferred under cash transfer programs. Present value is not a basis of measurement, but a valuation technique that may be used within historical cost-based or current-value models.

   I agree with the use of present value techniques for making the estimate of historical cost or current value associated with cash transfers.

   Present value techniques are used in specific Canadian public sector accounting standards but the accounting objective is *to attribute the costs* of employee benefits, for example, to the periods in which the related employee services are rendered.

   Frequency and Timing of Valuations

   Most governments will not have full actuarial valuations performed annually because of the magnitude of the information gathering and processing required. Actuarial valuations would generally be done at a predetermined interval. Actuarial valuations may not be done at the financial reporting date, but they should be done as close to the related financial statement date as is practical.

In the years between valuations, an extrapolation could be used to compute the expected cash transfers. Each year the government would review matters such as changes to the programs, the actuarial assumptions, etc. and determine whether such matters necessitate any adjustments to the extrapolations. When the effect of any change in fact or assumption is significant, a new valuation may be necessary.

Comments on Paragraph 31

Paragraph 31 second sentence should read "The estimate is on a gross basis….contributions **by or on behalf** of individuals or households…"

Comments on Paragraph 32

The estimates make the assumption of continuous entitlement. It should also include a reference to the fact that estimates should take into account the probability that individuals or households may not continue to meet eligibility criteria. Consider moving this paragraph to a separate paragraph under paragraph 35 and combining with last sentence in paragraph 36.

I would also suggest "the assessment includes estimates of the number of those currently eligible who ~~will~~ **are expected to** revalidate… (See last sentence in paragraph 36 as well)

Comments on Paragraph 35

I believe that word "between" in the Standard should be "among".

Comments on Paragraph 36

This paragraph states that in making estimates of amounts to be transferred, the entity takes into account variables that will determine the ultimate cost of benefits. The introduction of "cost" is a new concept. It is suggested that this paragraph refer to the requirement to make actuarial assumptions about demographic factors like life expectancy, morbidity, emigration and the extent of periods of unemployment in estimating cash transfers. Financial factors to consider would include future benefit levels. It might also include forecasts of inflation, particularly if cash transfers are indexed.

Comments on Paragraph 41

Paragraph 41 states that the discount rate does *not* reflect other risks such as risk that future experience may be differ from actuarial assumptions. It is not clear how changes in these other risks are to be reflected in the estimate of cash outflows.

4. **Do you agree the disclosure requirements (paragraph 45) are appropriate?**

   I agree with the disclosures proposed but suggest:

   That the information would be more complete if the additional information that entities are "encouraged" to report in paragraph 46 relating to the timing of payments is required. This may be important given the demographic situation faced by a government. For example, some situations may represent a relatively even flow of cash outflows. In others, however, the cash outflows may "spike" in certain years. If this information is known, it too should be disclosed.

   Disclosures should include the date of the last actuarial valuation and basis upon which extrapolations of estimates has been made in the interim if estimates are not re-measured on an annual basis.

5. **Do you agree the disclosure requirements (paragraph 45) are going to provide information that is verifiable?**

   Provided that an actuarial cost method is used, when appropriate, information should be verifiable. This comment is based on the assumption that is defined as information that knowledgeable and independent observers would concur is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.