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Federal Department of Home Affairs FDHA

Federal Social Insurance Office

AHV, Occupational Pension and Supplementary Benefits Domain

CH-3003 Berne, FSIO

By electronic submission

Mr. Paul Mason
International Public Sector
Accounting Standards Board
529 Fifth Avenue
New York, NY 10017
USA

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Official in charge: Beatrice Solida / Sob

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**Re: Consultation Paper IPSAS Recognition and Measurement of Social Benefits
FSIO response to IPSAS Board (by 31 January 2016)**

Dear Mr. Mason

On 1 January 2016 the legal foundations in Switzerland were changed: in future the social insurances OASI (Old-age and survivors' insurance¹), DI (Disability insurance²), APG (Income compensation allowances in case of service and in case of maternity³) and AC (Unemployment insurance⁴) will be included in the federal consolidated financial statements. The standard "Social Benefits" will be of great relevance to us. This document is a response to the IPSAS Board on the subject of the individual comments, and supplements the position paper of the Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP).

If any uncertainties are raised by the English translation, the German response is authoritative.

¹ AHV – Alters- und Hinterlassenenversicherung (OASI – Old-age and survivors' insurance)

² IV – Invalidenversicherung (DI – Disability insurance)

³ EO – Erwerbsersatzordnung (APG – Income compensation allowances in case of service and in case of maternity)

⁴ ALV – Arbeitslosenversicherung (AC – Unemployment insurance)

Federal Social Insurance Office
Beatrice Solida
Effingerstrasse 20, CH-3003 Berne
Phone +41 58 462 90 80, Fax +41 58 462 78 80
Beatrice.Solida@bsv.admin.ch
<http://www.bsv.admin.ch>

1 Introduction

The Federal Social Insurance Office (FSIO) is the national centre of expertise on policies related to old-age, invalidity and the family. It plans, manages and monitors the corresponding social insurance systems to ensure that they function effectively. The FSIO also initiates and coordinates reciprocal social security agreements with other countries.

The Swiss Confederation spends about one third of its budget on social welfare. In recent years this amounted to about CHF 18 billion.

Further information on the tasks of the FSIO and the individual social insurance schemes can be found at the following websites (not all information is available in English):

<http://www.bsv.admin.ch/index.html?lang=en>

<http://www.bsv.admin.ch/org/index.html?lang=en>

<http://www.bsv.admin.ch/themen/internationales/aktuell/index.html?lang=en>

<https://www.ahv-iv.ch/en/Leaflets-forms/Leaflets/International>

2 Basic remarks

In principle we agree with the SRS-CSPCP position. We also take a positive view of the work and objectives of the IPSASB to date.

However, we would like to note that owing to the complexity of the social insurance systems, the large number of parties involved in the Swiss federal system, and in conjunction with the complexity of the existing IPSAS bases and our own incomplete knowledge, we can respond initially only under the reservation of a further and more detailed examination of the material and the effects of the individual requirements.

At the moment we also cannot tell in which cases “recognition and measurement” with its corresponding entry in the “financial statements” could lead to an incorrect judgement, and whether or where pure “disclosure” would be preferable. This also applies in view of the complexity of measuring liability in connection with the understanding and interpretation of these “financial statements” by their recipients.

More detailed examination is likewise needed to determine which of the three *options* could be applied meaningfully. This is also the case with respect to the economic viability of the information expected in the “financial statements” and the administrative effort and expense of providing relevant figures, but especially in order to avoid incorrect interpretations arising from false disclosures. For this reason, we share the SRS-CSPCP view that “a future standard must offer feasible solutions”.

Standards for statistical and financial reporting should create added value, improve transparency and be applicable in an economic manner. Against this backdrop, we believe it is important that the regulations governing such standards have a scope that meets these requirements adequately, yet is not too detailed.

3 Preliminary View 1 – Scope and definitions

Chapter 2 – Scope and Definitions

3.1 Specific Matter of Comment 1

In your view:

(a) Is the scope of this CP (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) appropriate?

(b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

Please explain the reasons for your views.

On a)

The explanations in the CP use the terms “employment-related social insurance” “fully financed by contributions” with reference to the limit of IPSAS 25 employee benefits in a way that is not completely clear to us. As we presently understand it, at the federal level only the PP (Occupational benefit plan) and any other ‘employee benefits’ from the Confederation as an employer must be shown under IPSAS standard 25.

On b)

In our judgement, the *definitions* in the CP do not correspond completely to the definitions used in Switzerland or internationally, which hinders the understanding of the CP. It should be noted in particular that the social insurances often encompass different types of benefits (and different calculation factors: see also Comment 13).

Moreover, the CP only mentions the “invalidity insurance system” in Section A.33; explanations and examples in Appendix A are missing. However, we assume that the specific benefits of the disability insurance have a significant influence on the assessment of the methods. Wherever possible, we have accounted for this starting situation in our comments on the individual questions.

Information about invalidity insurance benefits in English can be found at:

<http://www.bsv.admin.ch/themen/iv/00021/03187/index.html?lang=en>

As mentioned in the SRS-CSPCP position on Specific Matter of Comment 2 (Section 4.1 a), the question arises of how to report social insurances in a *pay-as-you-go system*. As we understand it, the special features of a pay-as-you-go system should be stated precisely in the standard. When are accruals recognized (e.g. if the legal basis for the benefit entitlement changes)? From our present point of view we ask ourselves to what degree the IPSAS standard “Cash Basis” offers further details on accounting for a pay-as-you-go system. What is the difference between the terms “redistribution principle” (see Section 2.18) and “pay-as-you-go” (Sections 4.57 and A.34)? We recommend that a *definition of “pay-as-you-go system”* be included in the future standard. It is for the reason that a suitable approach has to be defined for social insurances that use a pay-as-you-go system.

4 Preliminary View 2 – Identifications of approaches

Chapter 3 – Identification of Approaches

4.1 Specific Matter of Comment 2

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

(i) The obligating event approach;

(ii) The social contract approach; and

(iii) The insurance approach.

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

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

We think it is too early to take a final position on this. We would need to examine the individual approaches more closely with respect to their effects.

In general, in Switzerland there are *legal entitlements* vis-a-vis the social insurance providers (which are generally legally, economically and organizationally separate from the state) to which entitled persons can lay claim independently of parliamentary financial planning. The calculation and payment of the Confederation's contributions to OASI and DI moreover take place on the basis of a clear legal foundation (defined as a percentage of the two insurances' expenses) and not on the basis of a planning decision.

Even if the present status of the insights and discussions suggests that option 2 (social contract approach) is less likely because benefits within the FSIO's jurisdiction are delivered independently of budget decisions, in principle we do not yet want to exclude any option.

As the largest part of the expenses of OASI and DI is "funded by contributions", we share the view that assets must be considered as well as liabilities.

4.2 Specific Matter of Comment 3

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP? If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

It is not possible for us to make a final judgement at this time.

Pension entitlements, for instance in the DI, are reviewed periodically and can be reduced or increased in conjunction with other measures. An examination of how these would be assessed and presented still needs to take place.

5 Obligating Event Approach

5.1 Specific Matter of Comment 4

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

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

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

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

Please explain the reasons for your views.

We cannot comment adequately on this point at this time.

As explained above (see Comment 2), it is generally the case in Switzerland that legal entitlements exist, but that they must be claimed by the person who holds the entitlement.

In the case of DI, we must also assume a more complex starting point: the individual systems provide more than just cash benefits, they also provide other types of benefits, both individual (e.g. medical or occupational measures or aids) and collective (subsidies for benefits from organizations) in addition to pension benefits. Assessments of the resulting obligations would likewise need to be examined further and in greater detail. Even the federal old-age and survivors' insurance (OASI) provides other benefits (such as aids) in addition to its main benefit of pensions.

5.2 Specific Matter of Comment 5

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

Please explain the reasons for your views.

In every case, the payment of benefits takes place on the basis of investigations and decisions made by the responsible authority. We assume that valuation and accounting will not take place for a general and abstract entitlement; rather, only events that are ultimately obligating (on the basis of a decision by an authority or court) will be valued. It is not (yet) possible for us to make further statements on this matter.

5.3 Specific Matter of Comment 6

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

(a) In accordance with a future IPSAS on social benefits; or

(b) In accordance with other IPSASs?

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

Please explain the reasons for your views.

We can only respond to this question and provide any examples when we better understand the various aspects of "exchange transaction".

5.4 Specific Matter of Comment 7

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

(a) In all cases;

(b) For contributory schemes;

(c) Never; or

(d) Another approach (please specify)?

Please explain the reasons for your views.

Our understanding is that "assets" and "liabilities" basically have to be recognised at the same time and for the same time period.

6 Social Contract Approach

6.1 Specific Matter of Comment 8

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

(a) Recognize an obligation in respect of social benefits at the point at which:

(i) A claim becomes enforceable; or

(ii) A claim is approved?

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

Please explain the reasons for your views.

On a): Fundamentally only obligations that are based on a legally effective decision should be recognised in the financial statements.

On b) Different factors can have an influence on the measurement. Examples include an increase in life expectancy, changes in the assessment basis or discretionary decision (as described in Section 4.84). It is important that the "cost of fulfillment" be ascertainable according to simple, constant principles. We would first need to examine in greater detail whether this is possible.

7 Insurance approach

7.1 Specific Matter of Comment 9

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

Please explain the reasons for your views.

We agree with the SRS-CSPCP position.

We cannot yet sufficiently judge the consequences of the statements in the CP.

7.2 Specific Matter of Comment 10

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

(a) Any expected surplus should be recognized over the coverage period of the benefit; and

(b) Any expected deficit should be recognized as an expense on initial recognition?

Please explain the reasons for your views.

We understand the statements in a) and b) with reference to the "principle of prudence".

The financial effects and (any) political consequences of choosing a) or b) are not estimable at present. We also cannot yet judge whether the "insurance approach" in the future IPSAS standard "Social Benefits" should be set up according to the standard applicable for private insurance, and/or where any deviations are necessary.

We do not understand the SRS-CSPCP position that surpluses and deficits balance out over a long period of time. Further, it should be considered that contrary to the situation in private insurance, social insurances are not oriented toward the maximization of profitability and primarily economically motivated decisions, but focus on the sustainable financing of benefits under the rubric of the solidarity principle in society and, in the long run, are dependent on political decisions.

In our view, greater clarification will be necessary to determine which elements from a standard applicable to private insurance can or should be taken over in an "insurance approach" of a future IPSAS standard on Social Benefits (in any adaptation), and/or where any deviations will be necessary.

7.3 Specific Matter of Comment 11

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

(a) Recognize an expense on initial recognition;

(b) Recognize the deficit as an expense over the coverage period of the benefit;

(c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;

(d) Offset the planned subsidy and the liability irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation; or

(e) Another approach?

Please explain the reasons for your views.

The financial effects need to be examined according to these different methods in order for us to make a well-founded statement.

7.4 Specific Matter of Comment 12

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

Please explain the reasons for your views.

As stated at the beginning, we have not had time to examine the CP sufficiently, and for this reason we cannot adequately assess Comment 12. According to our understanding of Sections 6.38 ff and 6.43 – “For other social security schemes, ... They argue that information regarding the risk adjustment applied by the entity may enable users of the financial statements to better evaluate the risks borne by the entity in operating the scheme.” – either the “cost of fulfillment measurement” or “assumption price measurement” could be more applicable, depending on the category of social insurance.

7.5 Specific Matter of Comment 13

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

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

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

Please explain the reasons for your views.

“The scheme” in the OASI and DI is not entirely “straightforward” – either in its financing (solidarity contributions, federal contribution) or in its benefits with respect to features such as minimum and maximum pensions, splitting, parental credits and care credits, or caps (for married couples). We cannot currently judge whether the two criteria are enough.

7.6 Specific Matter of Comment 14

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

Please explain the reasons for your views.

The first pillar (OASI, DI, APG) contains elements unknown to occupational pension schemes. Accordingly, a more detailed analysis of IPSAS 25 and/or a comparison between the occupational pension schemes and the first pillar would be necessary in order to be able to make a statement on this.

In the case of benefits provided by OASI and DI, a determination of obligations based on the “discount rate” in line with IPSAS 25 would be possible in principle, but the consequences would especially need to be reviewed against the backdrop of its pay-as-you-go financing. We cannot presently comment on other benefits (such as Family Allowances in Agriculture).

7.7 Specific Matter of Comment 15

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

Please explain the reasons for your views.

Subsequent measurement must also be assessed under consideration of the administrative work and expense and feasibility in terms of time.

Aspects such as materiality and group/individual valuation also play a role in our view.

The legal bases for entitlement can change (quickly). How should one proceed in such a case during subsequent measurement to avoid making false statements?

8 Additional Comments about Annex A

We see the following 'additional comments' on Annex A:

A.29: We request the same amendment as SRS-CSPCP.

Add: "... *It is a state-run scheme. Non-working and self-employed people must also compulsorily contribute to it. The Swiss central government finances 19.5% of the outgoing annual payments.*" ~~It acquires this sum through direct federal taxes and value-added taxes (VAT) as well as the taxes on tobacco products and alcohol and gambling casinos.~~ This contribution is specified in legislation, as are the contributions from employees/employers, as well as the benefits. In addition, a fixed proportion of VAT is directly allocated to the scheme and an amount from gambling casinos.

A.30: We request the same amendment as SRS-CSPCP.

Add: "...record. *However other factors are also taken into account to set the amount of the benefits.*

A.31: We request the same amendment as SRS-CSPCP.

Add: "... *Early withdrawal is possible from 62 (women) resp. 63 (men). Withdrawal can be postponed until the age of 70. In such cases the retirement pensions are actuarially reduced or increased.*"

A.35: We request the same amendment as SRS-CSPCP.

„ out of kilter. *To face up to such difficulties, a smoothing fund (buffer fund) has been established. Presently it amounts to the equivalent of more than 100% of the annual outgoing payments.*" ~~The Swiss Confederation also contributes 19.55% of outgoings. It acquires this sum through direct federal and value-added taxes (VAT) as well as the taxes on tobacco products and alcohol. This amountto the scheme.~~

A.35: We request the same amendment as SRS-CSPCP.

Add: „Therefore, in case of no default option. *However a smoothing fund has been established that currently amounts to more than 100% of the annual outgoing payments. If the financial situation gets worse, the Executive should submit to the Parliament the necessary amendment to the existing act in order to balance the budget of the scheme.*"

Yours sincerely,

Federal Social Insurance Office
AHV, Occupational Pension and Supplementary Benefits Domain



Colette Nova
Vizedirektorin