

Ian Carruthers  
Chairman  
IPSASB  
IFAC

Submitted via website

Brussels, 26 March 2018

**Subject: IPSASB Exposure Draft, Social Benefits**

Dear Sir,

We are **pleased to respond to the IPSASB's** Exposure Draft concerning Social Benefits.

We encourage the development of high quality financial reporting standards which are designed to address the specificities of the public sector environment.

Existing International Public Sector Accounting Standards currently do not provide requirements on how to account for social benefits, such as retirement, unemployment and disability. Social benefit schemes however account for an important portion of government expenditure.

Recognition of social benefits

We are pleased that the IPSASB released an Exposure Draft, concerning social benefits, for consultation after 15 years. We understand that it has taken a significant period to publish the Exposure Draft because it covers a wide range of social benefits and Board members could not agree on the proposed model.

From a technical perspective, we do not think that the proposed recognition point (i.e. when an individual becomes eligible for social benefits) is appropriate for all social benefit schemes. The proposed recognition model does indeed not reflect the economic substance of certain social benefits.

**We do not think that 'being alive' at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the liability recognition. We do not believe that there is a reason to treat 'being alive' differently to other transactions (e.g. post-employment plans in the scope of IPSAS 25/IPSAS 39 *Employee Benefits*). 'Being alive' should rather impact the measurement of the benefit through the actuarial calculation (i.e. use of mortality table rates). We therefore do support the rationale provided in the Alternative View.**

Additionally, we believe that the proposals set out in the Exposure Draft will not result in information that meets the qualitative characteristics listed in the *Conceptual Framework*, i.e. relevance, faithful representation, understandability and comparability.

We however realise that the Alternative View would have a very significant impact on the balance sheets of governments. Considering the aforementioned, the IPSASB might consider using a **'step-by-step' approach over time**. In a first step the **'minimum requirements'** (i.e. the requirements as reflected in the Exposure Draft), which are the result of a compromise, could be implemented resulting in probably **fairly small liabilities**. The **'obligating event' determination** (i.e. earlier recognition of certain social benefit liabilities) and linked measurement model (e.g. reflecting mortality), could be finetuned in a next step to better reflect the economic substance of the different social benefit schemes.

#### Disclosure requirements related to the obligating event approach

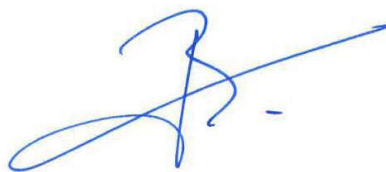
We note that the disclosed projected cash outflows (paragraph 34 of the Exposure Draft) are not limited to those relating to current beneficiaries. We however do not think that these future cash flow projections should be limited to five reporting periods immediately following the reporting date. We suggest disclosing the complete projected future cash outflows linked to a social benefit in the following brackets: due in less than 5 years, due between 5 and 10 years, due in more than 10 years. We understand that it might be challenging to estimate the future cash outflows, especially beyond 10 years. We however believe this key information will allow users to evaluate the effect of social benefits on future government finances and should as such be disclosed in the financial statements.

Please do not hesitate to contact Ben Renier ([Ben@accountancyeurope.eu](mailto:Ben@accountancyeurope.eu)) in case of any additional questions or remarks.

Sincerely,



Edelfried Schneider  
President



Olivier Boutellis-Taft  
Chief Executive

#### **About Accountancy Europe**

Accountancy Europe unites 51 professional organisations from 37 countries that represent **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

## Annex 1 - detailed response

- (1) We are pleased to present below our responses to the Specific Matters for Comment.

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### Question 1: 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) We agree with the proposed scope of this Exposure Draft, and specifically the exclusion of universally accessible services. Liabilities and expenses associated with social risks can indeed be measured by reference to **an individual's eligibility to receive** the social benefit, which does not apply to universally accessible services (non-exchange expenses). The latter type of transactions is as such covered in the Non-Exchange Expenses Project.

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### Question 2: 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?*

- (3) We agree with the suggested definitions of social benefits, social risks, and universally accessible services as reflected in the Exposure Draft.

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### Question 3: 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;*

*(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; and*

*(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?*

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

- (4) We think that the insurance approach is appropriate for contributory social benefit schemes which are both intended to be fully funded from contributions, and to be managed in the same way as insurance contracts by their issuer.
- (5) We had discussions within our group regarding the permission versus the requirement to use the insurance approach where a social benefit scheme meets certain criteria. A requirement results in enhanced comparability, it ensures that similar plans are accounted for in the same way. An option allows entities to still recognize and measure assets, liabilities, revenue and expenses, linked to plans satisfying the criteria in paragraph 9 of the Exposure Draft, in accordance with the obligating event approach (see question 4).
- (6) If an entity would opt for the insurance approach, considering the scheme meets the stipulated criteria, it would indeed be appropriate to refer to IFRS 17 *Insurance Contracts* or national standards that have adopted substantially the same principles as IFRS 17. These accounting principles will provide **information that meets users' needs and** results in qualitative financial reporting.
- (7) Where an entity has elected to use the insurance approach, it would be appropriate to provide information about the characteristics of the social benefit scheme, as well as a description of any significant scheme amendments during the reporting period.

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#### Question 4: Specific Matter for Comment 4

*Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?*

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

*This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

- (8) We are pleased that the IPSASB released an Exposure Draft, concerning social benefits, for consultation after 15 years. Social benefits represent an important part of government expenditure. We understand that it has taken a significant period to publish the Exposure Draft because it covers a wide range of social benefits and Board members could not agree on the proposed model.
- (9) From a technical perspective, we do not think that the proposed recognition point (i.e. when an individual becomes eligible for social benefits) is appropriate for all social benefit schemes. The proposed recognition model does indeed not reflect the economic substance of certain social benefits.
- (10) **We do not think that ‘being alive’ at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the liability recognition. We do not believe that there is a reason to treat ‘being alive’ differently to other transactions (e.g. post-employment plans in the scope of IPSAS 25/IPSAS 39 *Employee Benefits*). ‘Being alive’ should rather impact the measurement of the benefit through the actuarial calculation (i.e. use of mortality table rates). We therefore do support the rationale provided in the Alternative View.**
- (11) Additionally, we believe that the proposals set out in the Exposure Draft will not result in information that meets the qualitative characteristics listed in the *Conceptual Framework*, i.e. relevance, faithful representation, understandability, and comparability.
- (12) We however realise that the Alternative View would have a very significant impact on the balance sheets of governments. **Considering the aforementioned we could agree with a ‘step-by-step’ approach over time.** In a first step the ‘minimum requirements’ (i.e. the requirements as reflected in the Exposure Draft), which are the result of a compromise, could be implemented resulting in probably fairly small liabilities. The ‘obligating event’ **determination** (i.e. earlier recognition of certain social benefit liabilities) and linked measurement model (e.g. reflecting mortality), could be finetuned in a next step to better reflect the economic substance of the different social benefit schemes.

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#### Question 5: Specific Matter for Comment 5

*Regarding the disclosure requirements for the obligating event approach, do you agree that:*

**(a) The disclosures about the characteristics of an entity’s social benefit schemes (paragraph 31) are appropriate;**

**(b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and**

**(c) For the future cash flows related to from an entity’s social benefit schemes (see paragraph 34):**

*(i) It is appropriate to disclose the projected future cash flows; and*

*(ii) Five years is the appropriate period over which to disclose those future cash flows.*

*If not, what disclosure requirements should be included?*

- (13) Concerning the obligating event approach, we note the proposed disclosures about characteristics (paragraph 31) and amounts in the financial statements (paragraph 32-33).

- (14) We note that the disclosed projected cash outflows (paragraph 34) are not limited to those relating to current beneficiaries. We however do not think that these future cash flow projections should be limited to five reporting periods immediately following the reporting date. We suggest disclosing the complete projected future cash outflows linked to a social benefit in the following brackets: due in less than 5 years, due between 5 and 10 years, due in more than 10 years. We understand that it might be challenging to estimate the future cash outflows, especially beyond 10 years. We however believe this key information will allow users to evaluate the effect of social benefits on future government finances and should as such be disclosed in the financial statements.

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#### Question 6: Specific Matter for comment 6

*The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, Reporting on the Long Term Sustainability of an Entity's Finances, was developed to provide guidance on presenting this additional information.*

*In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:*

##### *Advantages*

*Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.*

*This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.*

*Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.*

*Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.*

##### *Disadvantages*

*The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.*

*The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.*

*Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.*

*RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.*

*Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?*

*If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?*

- (15) We encourage the IPSASB to undertake further work on reporting on long-term financial sustainability.

- (16) We note the increasing importance of non-financial information. Non-financial information is, in some cases, also more forward-looking compared to financial information, and as such very valuable<sup>1</sup>.
- (17) It is important to clarify that non-financial information goes well beyond Environmental, Social and Governance key performance indicators (ESG). Indeed, non-financial information could also address operating performance metrics which are indicators of long term value creation. Some specific examples of such indicators could include for example citizen satisfaction scores, and civil servant motivation.
- (18) Financial information combined with non-financial information will assist stakeholders in getting a more complete picture of the performance of an entity. State of the art public sector reporting, i.e. reporting covering interconnected financial and non-financial information, would give an opportunity to communicate better with the different involved stakeholders.
- (19) We recognise that non-financial information is a complex domain as it covers a lot of topics of different natures. Materiality is an important concept considering the large scope of non-financial information. The inherent link between financial information and non-financial information also adds to the complexity.
- (20) We observe a significant proliferation of initiatives and frameworks around non-financial information reporting, which makes it challenging for those involved to cope with this topic. Therefore, we called for decisive leadership to achieve greater standardisation, and to eventually develop a robust global principles-based reporting framework<sup>2</sup>.
- (21) This framework would ensure a high level of quality and discipline in non-financial information reporting. The principles underpinning the framework should be comparable to those currently existing regarding financial reporting, namely the IPSAS Standards. Such a framework would promote consistency among preparers and provide users with comparable information across different reporting entities.
- (22) The International Integrated Reporting Council (IIRC) and Accountancy Europe share the same long-term goal of evolving from financial reporting to state of the art public sector reporting by also embracing the non-financial information agenda. We agree that the future direction of travel for reporting should be a more holistic and coherent reporting concept. This approach would probably lead to better informed decision making<sup>3</sup>.
- (23) The Integrated Reporting initiative has been a major catalyst over recent years to achieve global acceptance of value driven reporting. The initiative makes use of interconnected financial and non-financial information. It covers the six capitals to communicate a clear, concise, and integrated story **that will explain how an organisation's resources are creating value**. The multi-capital approach aims to encourage better reporting. The Integrated Reporting framework is the most promising initiative in place to improve interconnectivity between financial and non-financial information reporting.

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<sup>1</sup> <https://www.accountancyeurope.eu/wp-content/uploads/170322-Publication-Follow-up-paper-on-FoCR.pdf>

<sup>2</sup> <https://www.accountancyeurope.eu/wp-content/uploads/170918-Call-for-action-letter.pdf>

<sup>3</sup> <https://www.accountancyeurope.eu/wp-content/uploads/170918-Publication-Core-More.pdf>