



ICAS RESPONSE TO IPSASB

Recognition and Measurement of Social Benefits

29 January 2016

Introduction

ICAS (The Institute of Chartered Accountants of Scotland) is a professional body for more than 20,000 Chartered Accountants across the UK and internationally. We are an educator, examiner, regulator and thought leader. Our Public Sector Committee is a broad based committee of ICAS members with representation from across the public sector. ICAS's Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first.

We welcome the opportunity to comment on this consultation.

Key messages

We agree that there is a gap in international public sector accounting standards for transactions which involve social benefits and welcome IPSASB's efforts to take this project forward to help strengthen the reporting of financial position in government financial statements.

A principles based approach is essential given the myriad nature of social benefit schemes and legal frameworks. It is also the corner stone of high quality accounting standards. We would therefore welcome greater clarity of the principles underpinning a standard on social benefits. These could include the following:

- Supporting simpler, transparent and meaningful information for readers;
- Proper application of materiality;
- Alignment with IFRS principles, avoiding unnecessary specialism and new definitions; only diverging from IFRS where there is a clear, justifiable need of a uniquely public sector matter that is material, adversely impacts the true and fair view and is not covered by IFRS.

The application of a social benefits standard sits best at national, i.e. whole of government accounts level, not below. We suggest that this is clarified going forward.

The implications for going concern are material. These will also need to be considered and justified. Governments with credit ratings, access to capital markets and tax raising powers should be able to demonstrate a form of either going concern or pending default. We believe it is important that each country explains clearly and succinctly in its Strategic Report (or equivalent high level narrative commentary preceding the financial statements) what its obligations are and how it intends to fund them as they fall due. How these liabilities have been treated in the financial statements also needs to be clearly referenced and explained in the accounting policies.

We would add that accruals accounting is only part of the overall picture. Financial planning and sustainability reporting should also be given greater priority.

Discussion is still at a conceptual stage and we would welcome further information and examples to inform an impact assessment and support informed discussion on the potential consequences of different options for practical implementation.

Our responses to the detailed questions are in Annex A.

Any enquiries should be addressed to Alice Telfer, Assistant Director, Business Policy and Public Sector, at atelfer@icas.com.

Responses to detailed questions

Specific Matter for Comment 1 (following paragraph 2.50)

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.

We are supportive of the scope.

Chapter 3 – Identification of Approaches

Specific Matter for Comment 2 (following paragraph 3.4)

- (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.

We are supportive of the preliminary view which supports a combination of approaches i and iii.

- (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 are not aware of any additional approaches.

Specific Matter for Comment 3 (following paragraph 3.4)

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.

No, we are not aware of any social benefits transactions that have not been discussed in the consultation paper.

Preliminary View 2 (following paragraph 3.4)

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

We agree with this assessment.

Chapter 4 – Option 1: Obligating Event Approach

Specific Matter for Comment 4 (following paragraph 4.69)

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.

Given the variety of different forms of social benefits and legislative frameworks that are in existence, some degree of flexibility is essential. This remains a matter of professional judgement related to which event best represents the trigger point for meeting the definition of a liability. Our initial impressions are that a difference in timing exists between planned and unplanned benefits, with the latter being a later recognition trigger due to the inherent level of uncertainty. A one size fits all option is not a feasible solution and decisions need to be made on a case by case basis, or at best, category by category basis. In general terms options b and c would be the earliest point (given the high level uncertainty in option a) and options d and e are likely to be too late to recognise a liability.

Specific Matter for Comment 5 (following paragraph 4.76)

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.

Generally, yes, as it creates a reasonable expectation, however the exact terms and nature of the scheme would need to be considered to confirm this is appropriate.

Specific Matter for Comment 6 (following paragraph 4.80)

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 are supportive of option b where the characteristics of exchange transactions are addressed by another standard.

Preliminary View 3 (following paragraph 4.91)

Under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfilment. The cost of fulfilment should reflect the estimated value of the required benefits.

Specific Matter for Comment 7 (following paragraph 4.91)

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.

Where scheme assets are earmarked, we would support option (a) as we believe this gives a more balanced picture of the financial position. This should be presented gross, not netted off.

Chapter 5 – Option 2: Social Contract Approach

Specific Matter for Comment 8 (following paragraph 5.38)

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 fulfilment?*

Please explain the reasons for your views.

We are not convinced this approach would support transparent reporting, appropriate application of prudence or effective management of resources.

Chapter 6 – Option 3: Insurance Approach

Specific Matter for Comment 9 (following paragraph 6.24)

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 proposal to align with existing insurance approach where appropriate.

Specific Matter for Comment 10 (following paragraph 6.35)

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 agree.

Specific Matter for Comment 11 (following paragraph 6.37)

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.

Based on the limited information available, our preliminary thoughts are that option b would appear to be the most representative of the scheme and therefore best represents the economic reality.

Specific Matter for Comment 12 (following paragraph 6.43)

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

Please explain the reasons for your views.

We support the use of the cost of fulfilment basis.

Specific Matter for Comment 13 (following paragraph 6.63)

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.*

We agree.

Specific Matter for Comment 14 (following paragraph 6.72)

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.

Yes, we agree with this proposal on the basis of consistency.

Specific Matter for Comment 15 (following paragraph 6.76)

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.

We are supportive of these proposals which are consistent with the IASB (Insurance Contracts).