



**The Japanese Institute of
Certified Public Accountants**

4-4-1 Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan

Phone: 81-3-3515-1129 Fax: 81-3-3515-1167

Email: hieirikaikai@sec.jicpa.or.jp

January 29, 2016

Mr. James Gunn

Managing Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, Ontario, Canada M5V 3H2

***Comments on the Consultation Paper
“Recognition and Measurement of Social Benefits”***

Dear Mr. Gunn,

The Japanese Institute of Certified Public Accountants (subsequently referred to as “we”, “our”, and “JICPA”) is pleased to provide you with our comments on the Consultation Paper “Recognition and Measurement of Social Benefits.”

I. Comment on Chapter 2 of this CP (Scope and Definitions)

Preliminary View 1

Social Benefits are benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks.

The other key definitions are as follows:

- (a) **Social risks** are events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their

resources or by reducing their income.

Social benefits are provided to mitigate social risks in the following circumstances:

- Households could receive benefits when they meet certain eligibility criteria that originate from a social risk without making any contributions;
- Households could make contributions and receive benefits in the event of the occurrence of the specified social risks; and
- Households could make contributions to a scheme to accumulate entitlements to future benefits, with the benefits being provided following the occurrence of the specified social risk.

- (b) **Social Benefits in Cash** are social benefits paid in cash, by or on behalf of a public sector entity, that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.
- (c) **Social Benefits in Kind** are goods and services provided as social benefits to individuals and households by or on behalf of a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.
- (d) **Reimbursements** are cash payments made as a social benefit by or on behalf of a public sector entity to compensate a service provider or an individual or household for all or part of the expense incurred or to be incurred by that individual or household in accessing specific services.
- (e) **Social Insurance** is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).
- (f) **Social Security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.
- (g) **Social Assistance** is the provision of social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.

Specific Matter for 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.

We generally agree with the scope of this CP. To avoid overlapping, the requirements specified in other IPSASs and issues considered under other IPSASB projects should be excluded from the scope of this CP. We believe that this CP fully explains this point.

In Japan, however, “other transfers in kind” described in paragraph 2.23 of the CP might be implemented for the purpose of “protecting a particular segment of the population against certain social risks” as defined in the SNA.

Under the mandatory education system, all of the pupils of elementary school age in Japan can receive public elementary education for free. The expenses for lunch (equivalent to 30 to 50 US dollars per month) provided at the schools, however, are partly incurred by the parents or guardians, with some subsidies from the government. School lunches have several objectives, such as maintaining and developing the health of pupils and enhancing their understanding of the importance of appropriate eating habits. The school lunch system functions as an important social risk-mitigation measure, as children in low-income families can take the meals they need during their growing years at a low cost. Does this system fall within the definition of “other transfers in kind?” If so, we should determine whether the system should be addressed in a non-exchange expenses project or social benefit project. In determining the relevant project, we believe that the scope of “other transfers in kind” should be clarified. This comment also relates to the “Specific Matter for Comment 6.”

We believe that all of the definitions in Preliminary View 1 would be appropriate. It would be desirable to maintain consistency between the definitions in a future IPSAS on social benefits and the definitions in the Government Finance Statistics (GFS) in light of the policy paper on the *Process for Considering GFS Reporting Guidelines during Development of IPSASs*. We also believe that the definitions and explanations of terms in this CP, developed based on the definitions of terms in the GFS, would be consistent with the notion underlying the scope of this CP and could be incorporated in a future

IPSAS on social benefits.

II. Comment on Chapter 3 (Identification of Approaches)

Specific Matter for 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 support the obligating event approach and insurance approach.

For a social benefit system like social assistance, where contributions are not precedent to the benefit, we believe that the recognition of liabilities and expenses based on the satisfaction of eligibility criteria under the obligating event approach would reflect the substance more appropriately than other approaches. For any social benefit scheme in the social security system conditional on contributions, the insurance approach would be an appropriate starting point for discussion.

Our current accounting practices for the public pension system in Japan have been designed on a “pay-as-you-go” basis. The Government of Japan has recognized assets (cash and deposits for investments) that it has been decided to appropriate as a funding source for future pension benefits, including reserves funded by some of insurance premiums paid by the participants in the past. The bulk of the amounts corresponding to the assets have been recognized as a liability as “public pension deposits”. The portion of deposits that have become due is reclassified as “payables” in the liability. The Government has adopted the notion that it should distribute the amounts deposited by participants to those eligible to receive the benefits, and accordingly expenses corresponding to liabilities are not be recognized.

Notwithstanding our practices, we believe payables would be recognized at the time “(ii) A claim is approved”, as discussed for the Specific Matter for Comment 8. It would therefore be possible to consider this to be the point of recognition of liabilities.

These accounting practices also appear to be based on the notion that “social benefits can be accounted for by applying the analogy of an executory contract” in paragraph 5.32 under the Social Contract Approach, as well as the concept of a “point of recognition” described in paragraphs 5.36 and 5.37. Several jurisdictions seem to have adopted the “pay-as-you-go” principle. We believe that it would be important to clarify the issues and reasons why the social contract approach has not been adopted, in order to obtain the consensus of stakeholders in developing the exposure draft. For example, we encourage the IPSASB to discuss relevant matters in detail, including inconsistencies with the conceptual framework or the difficulties faced by individual public sector entities in recognizing liabilities.

We believe that no approaches other than the above could currently exist.

Preliminary View 2

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 Preliminary View 2. As discussed in our comment on the Specific Matter for Comment 2, we encourage the IPSASB to continue certain discussions on the social contract approach.

III. Comment on Chapter 4 of this CP (Obligating Event Approach)

Specific Matter for 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 assume that if we adopt the obligating event approach for every type of social benefit, the obligating event would not occur at the same point. Specifically, obligating events for social benefits and their timing requiring participation in a scheme differ from obligating events for social benefits not requiring participation.

Social benefits requiring participation in a scheme include social security, such as a pension scheme. The pension scheme in Japan requires all nationals to participate when they reach the age of 20. The eligibility to receive benefits requires at least 25 years of contributions and a participant age of 65 or over. Those who participate in the scheme certainly expect that they will receive the benefits in the future. We thus believe that an obligating event appropriately occurs at either of “(a) key participatory events occurs” or “(b) the threshold eligibility criteria are satisfied”. The point at which participants reach the age of 20 would be considered to fall under (a), while the elapse of at least 25 years from the participation would fall under (b). Those who satisfy the 25-year condition would be able to receive the benefits upon reaching the age of 65. We assume that the “present obligations” have been incurred.

Paragraph 4.36 of this CP includes “[Reaching] a pensionable age” as an example of a “threshold eligibility criterion” being met. We do not agree that age should be treated as a threshold eligibility criterion similar to other eligibility criteria. Everybody ages at the same rate, nothing can be done discretionarily to stop the process of aging, and aging can never be reversed. For example, for those who satisfy the criteria for the contributions for at least 25 years, obligations for social benefits could be recognized, and the obligations could thus be measured based on statistical mortality. “Age,” therefore should be an eligibility criterion separate from (b) proposed in this CP.

For your information, under the public pension scheme in Japan, public pensions are currently accounted for as a social insurance scheme basically funded on a “pay-as-you-go” basis. The duty of the Government of Japan to pay the pensions is not triggered by the payment of insurance premiums, but it is triggered when an individual become eligible to receive a pension. As such, the government does not account for the duty to pay the public pensions as a liability. The National government of Japan discloses estimated amounts equivalent to liabilities in the notes to its financial statements as supplementary information. This estimated amount is reviewed based on “fiscal verification” procedures every five years.

Social benefits not requiring participation in a scheme in Japan include social assistance such as ‘livelihood assistance’ (through which the government guarantees a minimal standard of living). For these social benefits, the government must determine whether an applicant meets the eligibility criteria for the receipt of benefits by obtaining necessary information when the individual claims the benefit. Hence, it may be impracticable to recognize any obligation at either of the points, (a) or (b). The obligations would not be completely recognized. We therefore believe that an obligating event occurs when “(c) The eligibility criteria to receive the next benefit have been satisfied” and “(d) A claim has been approved.” Furthermore, the benefit payment policy of a social benefit not requiring participation in a scheme is more likely to suddenly change than a policy requiring participation in a scheme, during a change of government. In light of this, (d) would be preferable.

We discussed the strengths and weaknesses of each sub-option in the process of reaching the above conclusion. We enumerate them below.

Strengths and weakness of the sub-options when social benefits require participation in a scheme

	Strengths	Weaknesses
(a)	Participants’ expectations are specifically presented that on participation in a scheme, they will receive pensions in the future, as such expectations will be recognized as liabilities in the financial statements.	Due to early recognition, the uncertainty in estimating or measuring the obligations would be greater.
(b)	Participants’ expectations are specifically	Some degree of uncertainty would arise in the

	presented that even if individuals did not reach their eligible age for pensions, they will receive pensions in the future by satisfying eligibility criteria, as such expectations will be recognized as liabilities in the financial statements.	estimate in measuring the obligations especially when individuals did not reach their eligible age, though such uncertainty will be less than in (a) above.
(c)	Cases where pensioners would survive at a certain point could be considered one of the eligibility criteria. The measurement as well as recognition by the government of liabilities would be made with more accuracy.	If the government was highly stable, the timing of recognition of “present obligations” would become too late in consideration of the definition of liabilities in the Conceptual Framework.
(d)	Same as above	In addition to the above factor, the examination of claims might incur significant costs.
(e)	Demands by law would be aligned with the timing of the recognition for accounting purposes. Measurement would be highly accurate.	Same as above

Strengths and weakness of the sub-options when social benefits require no participation in a scheme

	Strengths	Weaknesses
(a)	N/A	There is no assumption for participation in a scheme.
(b)	Individuals or households requiring social assistance would be universally eligible to receive social benefits, and the fact would be reflected for accounting purposes through the recognition of liabilities.	In practice, the government would need judgments to determine whether individuals or households have satisfied the eligibility criteria.
(c)	It may be easy at a practical level to recognize liabilities when individuals asserting their claims apply for social benefits.	Certain liabilities might be recognized even when individuals not qualified for claims file applications for social benefits.
(d)	When the contents of an application for a	In practice, the examination of claims might

	claim are confirmed to be accurate, liabilities could be recognized. Higher accuracy would be attained.	incur significant costs.
(e)	Demands by law would be aligned with the timing of recognition for accounting purposes. Measurement would be very accurate.	If the government was highly stable, liabilities might have arisen at the time of (d), so the recognition of liabilities at this point would be too late.

We believe that since the legal framework for social benefits may differ from one jurisdiction to another, obligating events depend on the legal framework of each jurisdiction. A future IPSAS should incorporate the fact that obligating events might occur at different points. However, as the comparability will be reduced accordingly, we recommend that the IPSASB discuss the possibility of grouping various patterns of frameworks. It would also be useful to require any public entity applying the IPSASs to disclose the timing of the obligation recognition for each of the main social benefit schemes.

Specific Matter for 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.

For the obligating event approach, we separately discussed the schemes requiring and not requiring participation. As a result, obligating events for the scheme requiring the participation may occur at either (a) or (b), as commented on in the “Specific Matter for Comment 4.” On the other hand, obligating events not requiring the participation may occur at (d). While participation in a scheme does not necessarily require contributions, contributory schemes generally require participation in the schemes. So obligating events may occur earlier for contributory schemes than for non-contributory schemes.

Specific Matter for 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.

With regard to social benefits arising from exchange transactions, we believe that they should be accounted for within “(a) In accordance with a future IPSAS on social benefits” so that any issues that are not clearly specified in other standards would be addressed early for accounting purposes. However, in cases where under a scheme the benefits are expected to be paid shortly after the obligations are recognized, they would not need to be considered as relevant issues.

We cited the example of our school lunch system for public schools as social benefits arising from exchange transactions in the Specific Matter for Comment 1. The other examples are earthquake insurance (a fund established by the contributions paid by building owners and the subsidies granted by the government) and the government’s assistance system for subsidizing charges for nursery schools, nursing and caring services, and the users of private taxis in regions with undeveloped public transportation.

Preliminary View 3

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

We agree with Preliminary View 3 of the IPSASB.

Specific Matter for 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.

We propose “(d) Another approach.”

If scheme assets are tied to liabilities for social benefits and are clearly separated from other assets, they should be included in the presentation of a social benefit scheme. If the separation of scheme assets from other assets is unclear due to the nature of the framework, the classification of assets for accounting purposes are likely to be difficult.

IV. Comment on Chapter 5 of this CP (Social Contract Approach)

Specific Matter for 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.

For question (a), we favor “(ii) A claim is approved.” With this, the amounts of obligations should be clear, as the liabilities are legally determined. For question (b), we agree with the measurement at the cost of fulfillment, as we refer to issues included in the paragraph 4.82 of the CP for the obligating event approach.

V. Comment on Chapter 6 of this CP (Insurance Approach)

Specific Matter for 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 IPSASB’s conclusions. As described in the paragraph 6.21 of the CP, when large amount of contributions are paid into a scheme, the insurance approach would be appropriate for the measurement of the liabilities and expenses of the scheme, as it would provide reliable measurements of the contributions.

Specific Matter for 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 object to the proposal that “(b) Any expected deficit should be recognized as an expense on initial recognition.” Our objection is due to the fact that in consideration of the long-term nature of a social benefit scheme, it would be more appropriate for public-sector entities such as central and local governments to recognize expected deficit over the coverage period, rather than recognizing it temporally as any expense, and the recognitions would be consistent with the recognition of expected surplus. However, the expected deficit would be useful for decision-making. It would thus be preferable to disclose it separately.

Specific Matter for 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.

We agree with “(b) Recognize the deficit as an expense over the coverage period of the benefit.” This would achieve the consistency of recognition points between a scheme fully funded by contributions and a scheme not fully funded by contributions.

However, as we discussed in the Specific Matter for Comment 10, the components of liabilities should be presented in detail if financial statements are used for deciding revision of the insurance premium. In addition, when the planned amount of subsidy from another public sector entity is determined at the initial recognition, we propose that the receivables from the planned subsidy should be recognized as scheme assets unlike (c) above. But for the purpose of the presentation, the subsidy would be offset

and presented as a part of future cash flow.

Specific Matter for 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.

We acknowledge that third parties will only rarely assume liability for public sector insurance. It would thus be inappropriate to use the assumption price measurement basis for measuring liabilities. In principle, the cost of fulfillment should be used as the measurement basis.

Specific Matter for 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.

We agree with the proposals in this CP on this issue.

As the paragraph 6.61 of the CP discusses, when the percentage of benefits provided to non-participants becomes greater, the scheme becomes less of a social insurance scheme and more like social assistance. Hence, the application of an insurance approach becomes inappropriate. Furthermore, when the link between the benefits and funding sources is unclear, the application of the accounting for insurance approach would necessarily give rise to various difficulties. It is essential to clarify the link between the benefits and funding sources.

Specific Matter for 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.

We agree with the proposals in this CP on this issue. The notion of the discount rate discussed from paragraphs 91 to 95 in IPSAS 25 could be widely applied to the benefits of public sectors, and not limited to employee benefits. It would thus be reasonable to determine the discount rate used for the insurance approach by the same method used to determine the discount rate under the standard.

Specific Matter for 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.

We support the proposals for subsequent measurement and significant amendment.

We basically believe that there will be “no requirements which should not be applied to the public sector” among the requirements on the above in the Exposure Draft 2013/7 “Insurance Contract” issued by the International Accounting Standards Board (IASB).

Yours sincerely,

Naohide Endo
Executive Board Member
Public Sector Accounting and
Audit Practice
JICPA

Azuma Inoue
Executive Board Member
Public Sector Accounting and
Audit Practice
JICPA