



CH-3003 Bern, 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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Contact: Claudia Michlig / mic
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Response of the Federal Social Insurance Office to Exposure Draft 63 – Social Benefits

Dear Mr Mason

Since 1 January 2016, the social insurance schemes AHV, IV, EO and ALV have been included in the federal government's consolidated financial statements. These financial statements (including the figures for social insurance schemes) are expected to be published for the first time in April 2018. The federal government's consolidated financial statements are prepared in accordance with International Public Sector Accounting Standards (IPSAS). Consequently, the future standard on social benefits is very relevant to us.

This document is a response to the IPSAS Board on specific matters, and supplements the opinion 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.

Federal Social Insurance Office (FSIO)

Effingerstrasse 20, 3003 Bern, Switzerland
Tel. , Fax +41 58 462 78 80
<http://www.bsv.admin.ch>



General remarks

We fundamentally agree with the SRS-CSPCP opinion. We also take a positive view of the work and objectives of the IPSASB to date. On the whole, it is gratifying that the disclosure requirements in the present exposure draft (ED) are less complicated than those in the consultation paper (CP). We consider it positive that all eligibility criteria have to be met for recognition of the obligation as that can substantially reduce uncertainty in measuring the liability. Nevertheless, we are critical as regards the recognition of obligations for the next accounting period. The effort required to calculate these obligations does not seem to be commensurate with the additional benefit gained. It does not make the annual financial statements more meaningful to any material degree. What is more, assigning obligations to reporting periods without also taking the contributions for the next period into account results in an imbalance in the annual financial statements (matching of cost and revenue).

Specific matters for Comment

Specific Matter for Comment 1:

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services (UAS for the reasons given in paragraph BC21(c))?

If not, what changes to the scope would you make?

The FSIO is in agreement with the exclusion of universally accessible services. Such a demarcation is sensible and necessary.

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?

Social benefits:

The explanation of social benefits in para 6 of the ED does not constitute a definition of the term. An explanation is given of whom social benefits are paid to, what they are for and what the prerequisites for receiving them are, but there is no clear definition of the term in the sense of "social benefits are...". Nor do the explanations in the application guidelines (AG) 4–7 contain further information in this regard. In our opinion, a clear definition of the term "social benefits" is indispensable. We recommend using the definition originally included in the CP: "Social Benefits are benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks." This definition makes clear that benefits "in kind" are also included, which is only implied in AG 7 of the present ED.

Social risks:

The definition does not make clear which benefits of the Swiss social insurance system fall within the scope of the ED. This raises questions with regard to the benefits paid in cases of maternity and military service. How can the "society as a whole" prerequisite be applied here? In addition, we do not consider the explanations in AG 8 to be pertinent. A social risk is described as being "an unplanned or undesired event". That may be true for risks such as unemployment or invalidity, but the definition does not apply to risks such as old age, military service or maternity. In our view, AG 8 should be adapted and/or made more specific. In addition, invalidity should be added as an example of a social risk.

Universally accessible services:

The definition of this term is not very clear. It is not apparent why the definition of UAS is dependent on whether the risk is a social one or not. Further, we consider UAS to be generally accessible *per se* and not linked to any eligibility criteria. The words "if any" in the definition are thus confusing.

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?

On the basis of the prerequisites given in the ED concerning application of the insurance approach, the latter is applicable to very few social benefits in Switzerland (really only SUVA, perhaps also military insurance). We are thus in agreement with the proposed option and will not respond to the remaining questions. We are also in agreement with the criteria for applying the insurance approach.

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.

The requirement that all eligibility criteria must be satisfied is of crucial importance to us. This is apparent, in particular, with respect to benefits in connection with the invalidity risk. After an application for benefits has been lodged, it takes a long time to assess a case. It can be several years before an application is approved and thus becomes legally enforceable. In the intervening period, there would be a high degree of uncertainty involved in recognising a liability, as it would be unclear whether a measure, daily allowance or pension will ultimately be approved (and in what amount). The requirement that all recognition criteria must be satisfied would make the recognition of liabilities more reliable.

In our opinion, the condition expressed in the "being alive" criterion comes closest in spirit to pay-as-you-go social insurance systems, in which no hypothetical future liabilities are recognised. As a result, only those obligations to be paid in the following month are recognised as of the reporting date. An actual definition of the term "pay-as-you-go method", which we requested in our response to the CP, has thus become a secondary issue. Nevertheless, it should be noted that we do not consider the resulting benefit to be commensurate with the cost of recognising the next pension. It is also unclear to what extent "being alive", which has now been defined as a recognition criterion, is to be taken into account when measuring the liability. It is unrealistic to assume that the liability can be recognised individually on the basis of the "being alive or not" criterion. Instead it ought to be permissible to apply mortality tables collectively across the population in question.

In our view, it makes sense to recognise liabilities for those benefits of the next period that are known as of the reporting date. The impact on liquidity should be apparent for readers of financial statements. However, as the contributions are treated in a separate standard on "revenue and non-exchange expenses" (which is likely to take effect at a later date), that will give rise to a mismatch in the balance sheet – at least for a certain period. The liabilities recognised will reduce equity and also impact liquidity. But the contributions for the month of January will be missing on the assets side of the balance sheet, giving rise to a mismatch. As it is currently not known what direction the "Revenue and non-exchange transactions" standard will take, there appears to be no definitive solution to the mismatch problem.

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;

The FSIO is in agreement with the explanations given in para 31. Given the costs and benefits involved and the relevance of the information, however, it is important that the required disclosures are made only for material social benefits.

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

In the Swiss social insurance system, the majority of benefits are paid monthly. Thus, reconciliation of liabilities as of the end of the previous year with those of the reporting period provides very little additional information. There is not expected to be any interest expense (no discounted liabilities), and the difference between the liability recognised in the balance sheet and the amount paid out will also be marginal owing to the low level of estimation uncertainty. Therefore, we consider a reconciliation in the true sense (as is carried out for provisions) to be neither sensible nor necessary – and of only extremely limited validity.

(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?

In our opinion, the notes to the annual financial statements are not the appropriate place to make forecasts concerning social benefit schemes. In Switzerland, comprehensive reports on the financial situation and prospects of the social insurance schemes are already available (e.g. the Federal Council's annual report on social insurance). Further, political decisions in Switzerland are taken on the basis not of disclosures made in the annual financial statements, but of other documents and fundamentals. Disclosures of this kind are advisable only in countries that do not have separate reports.

Specific Matter for Comment 6:

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?

The FSIO is of the opinion that the IPSAS Board should not conduct any further work as regards sustainability reporting as the latter does not form part of the financial accounts.

Yours sincerely

Federal Social Insurance Office



Colette Nova
Vice-Director



Claudia Michlig