



ACT
Government

Chief Minister, Treasury and
Economic Development

Mr John Stanford
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
United States of America

Dear Mr Stanford

Exposure Draft 63 *Social Benefits*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on IPSASB Exposure Draft (ED) 63 – *Social Benefits*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC broadly agrees with the scope of this ED and the definitions included. HoTARAC strongly supports the proposed eligibility criteria and would not favour recognising a liability unless there is an immutable obligation. HoTARAC suggests maintaining the IPSASB's current policy of presenting information on projected cash flows and fiscal sustainability in a separate report to the financial statements.

The attachment to this letter sets out HoTARAC's response to the specific matters for comment. If you have any queries regarding our comments, please contact Peter Gibson from the Commonwealth Department of Finance on +61 2 6215 3551 or by email to peter.gibson@finance.gov.au.

Yours sincerely

David Nicol

Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

12 January 2018

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?

HoTARAC broadly agrees.

In distinguishing between universally accessible services and social benefits, the IPSASB may want to consider the applicability of the economic concept of public goods.

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?

HoTARAC agrees.

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?

(a) HoTARAC strongly agrees

(b)–(d) HoTARAC jurisdictions do not have these type of schemes and do not intend to adopt an insurance approach for any social benefits.

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.

HoTARAC agrees.

HoTARAC has considered the alternative view set out in paragraphs AV1 to AV23. While HoTARAC agrees that liabilities should be recognised where they meet the criteria of the conceptual framework, HoTARAC does not find the arguments presented for recognition prior to the eligibility criteria being met convincing.

Paragraph AV4 and AV5 propose considering community expectations in determining whether an unavoidable obligation to government has arisen. In HoTARAC's view, a constructive or legal obligation would rarely, if ever, be formed as the government can always change the eligibility criteria for the payment (or even abolish the payment itself). This is acknowledged in paragraph AV9 that discusses government's future obligations changing as eligibility criteria are changed. As a recent example of this in practice, the Australian government has recently raised the eligibility age for state pensions, notwithstanding any community expectation that they would be entitled to this payment when they reached the existing retirement age.

Imposing a requirement that preparers include a liability based on community expectation may also lead to divergence in practice as different views may be reached on whether the government's obligation is binding and similar schemes give rise to very different liabilities.

Paragraphs AV7 to AV10 discuss improving the faithful representation of the economic substance of the inter-generational impacts of social benefits through earlier recognition. HoTARAC believes this is mistaken for two reasons. Firstly, the exposure draft only applies to a portion of the benefits government pays. For example, it would not be consistent to recognise a liability for pensions, but exclude a liability for the free education for children reaching school age. Secondly, recognising the government's future obligation to provide social benefits to citizens without recognising an asset for the government's right to receive taxes from their future income would distort the balance sheet by partially presenting future rights and obligations.

In considering the application of the being alive criterion (AV16-AV21), HoTARAC notes that other obligations are rarely extinguished on death of the recipient. For example, an employer's post-employment benefits may be paid to other family members.

Paragraphs AV22-23 propose that future payments are important in meeting user needs. Information being useful to users is a necessary, but not sufficient condition for inclusion in the financial statements. Information also needs to meet the qualitative characteristics of financial statements. HoTARAC notes that the IPSASB has an existing Recommended Practice Guideline (RPG) on fiscal sustainability to meet users need for this type of information.

Finally, HoTARAC notes that it would be extremely difficult to reliably measure future benefit payments to the standard that can be audited for inclusion in the financial reports. This has the potential to lead to a divergence in practice, as some preparers may assess this information as unreliable and omit it from the financial statements, while others include a best estimate.

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?

- (a) HoTARAC notes that the current focus of standard-setters is on reducing disclosures to avoid cluttering the financial statements with unnecessary information. As information about the benefits available, eligibility criteria and recent amendments must be widely known for citizens to be able to make claims, HoTARAC questions whether there is any benefit in replicating this information in the financial report.

- (b) Paragraphs 32 and 33 do not seem relevant unless the social benefit is treated as an insurance type arrangement. Where recognition is at the point when the eligibility criteria are met, HoTARAC sees little point in extensive disclosures and believes the requirements of paragraph 33 are unnecessary.
- (c) HoTARAC does not agree. Financial statements report on the current financial position of the entity; this is budget information that will be extremely difficult to prepare and audit. If the IPSASB believes this information is useful to users, HoTARAC recommends it be external to the financial statements or reported through a cross-reference to budget or other document (in Australia, the government publishes the Intergeneration Report every 5 years¹)

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 finalising 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:

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?

HoTARAC supports providing information in the financial statements to assess sustainability. HoTARAC supports the current IPSASB approach of favouring separate long term fiscal sustainability reports under RPG 1. If the IPSASB believe this information should be included in the financial reports, it should first identify the shortcomings of current policy of RPG 1.

Additionally, HoTARAC would urge the IPSASB to exercise caution in providing an opinion on governments' fiscal sustainability. The budget is national governments' main tool for macroeconomic policy and the IPSASB should avoid any comment on the size of the government's surplus or deficit to avoid the appearance of political bias from preparers. This information would be extremely difficult to audit and would potentially place the auditor in the difficult position of adjudicating on the sustainability of the budget deficit.

¹ <https://treasury.gov.au/publication/2015-intergenerational-report/what-is-the-intergenerational-report//>