



John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ONTARIO
M5V 3H2

Dear Mr. Stanford:

SUBJECT: Exposure Draft: *Social Benefits*

Thank you for the opportunity to comment on the Exposure Draft: *Social Benefits* issued in October 2017.

The Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada). The Government of Canada is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS are regarded as an important secondary source of generally accepted accounting principles.

Our comments with respect to the specific matters for comment in the Exposure Draft (ED) are included in the attached appendix.

We thank you again for providing the opportunity to comment on this Exposure Draft. If you require further information, please do not hesitate to contact either Blair Kennedy at blair.kennedy@tbs-sct.gc.ca (613-404-2996) or myself at diane.peressini@tbs-sct.gc.ca (613-369-3107).

Yours sincerely,

Diane Peressini
Executive Director,
Government Accounting Policy and
Reporting

c.c.: Tom Scrimger, Assistant Comptroller General of Canada

Responses to 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 for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?

We agree with the scope of the ED, except with respect to the interaction of the scope exception for universally accessible services and the definition of social benefits. Specifically excluding universally accessible services from the definition of social benefits means that the scope exception is unnecessary; i.e. given that universally accessible services are not social benefits by definition, they could never be in the scope of the standard. Therefore, we suggest that either the definition of social benefits is amended to remove the specific exclusion for universally accessible services, or the scope exception for universally accessible services is removed.

As noted in BC21(c), any boundary between social benefits included in this proposed standard and guidance for other non-exchange expenses is somewhat artificial. However, we agree that placing the boundary based on the requirement to assess an individual's eligibility to receive benefits related to social risk is reasonable, as long as there is consistency with the principles applied to recognizing obligations for other non-exchange expenses.

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?

We agree with the definitions of social risks and universally accessible services. We agree with the definition of social benefits except as outlined in our comments on Question 1 with respect to universally accessible services.

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) We believe that the insurance approach should not be optional for those schemes which are exchange transactions and have, with the exception that they are enforceable through legislation, all of the characteristics of insurance contracts. Such schemes warrant different accounting considerations than those social benefit schemes which are non-exchange transactions and are discretionary in nature.

While we acknowledge that providing an option could be warranted from a practical standpoint, given the inherent complexities in applying IFRS 17 or similar standards, we believe that allowing a choice to apply the insurance approach may lead to inconsistency in the accounting treatment by governments for similar plans and, therefore, reduce the comparability of financial statements. Consequently, we believe that the insurance approach should be a requirement for those schemes which meet the criteria in paragraph 9(a) and (b) of the ED, and as outlined in our comment (b) below.

- b) We agree that the two criteria (paragraph 9(a) and (b)) to determine whether the insurance approach is applicable are appropriate, but suggest that the guidance for determining whether the social benefit scheme is managed in the same way as an insurance contract should be changed so that the “indicators” in paragraph AG 15 (a) to (d) are “criteria” that must be satisfied in order to account for a social benefit scheme under the insurance approach. This would ensure better alignment with insurance contracts accounted for under IFRS 17.
- c) We agree that preparers should be directed to follow either IFRS 17, or a relevant national standard with substantially the same principles as IFRS 17, when a social benefit scheme has the same characteristics as a group of insurance contracts except that the beneficiaries’ rights are enforceable through legislation rather than contract law.
- d) We agree with the disclosure requirements in paragraph 12.

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.

We agree with the proposal in the ED, that a liability should be recognized when the beneficiary satisfies all eligibility criteria to receive the next benefit, including staying alive. This principle establishes the liability when the obligating event occurs, i.e. at the point that the government entity has little or no discretion to avoid an outflow of resources. We regard “staying alive” as an eligibility criterion, rather than a measurement factor, in order to ensure consistent application of the accounting principle that the entity has a present obligation.

Recognition of a liability at an earlier point prior to all eligibility criteria being met for the next benefit is not appropriate, as the entity has not yet lost its discretion to avoid the outflow of resources. Although an individual may have an expectation of receiving a benefit in the future, and/or legislation may have been enacted, the event that creates a present obligation for a social benefit is the satisfaction of the eligibility criteria, which includes being alive; until this event has occurred, the recipient is not entitled to the benefits. This approach results in more relevant, meaningful information in the financial statements than other contemplated approaches which would result in the recognition of significant future obligations for schemes designed to be funded through future tax revenues.

The non-exchange nature of social benefits distinguishes them from employee future benefits, where the employee has earned his/her entitlement to the benefit in the future through the provision of past services.

As well, it is important that there is consistency with the principle that a liability for universally accessible services, or for collective goods and services, does not arise prior to delivery of the benefits. Governments engage in many programs that will provide either direct or indirect benefits to citizens. Applying the same accounting principles for direct versus indirect programs better demonstrates the qualitative characteristics of reporting.

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 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?

We agree with the disclosure requirements for the obligating event approach, as outlined in (a), (b) and (c) above.

In our opinion, disclosure of projected undiscounted cash flows for the next five periods, item (c), provides useful information to users with respect to the financial commitments of the entity. In addition to the above, we believe that there should also be a requirement to disclose the projected cash inflows for the next five periods for contributory schemes, so as to provide full information on the scheme. Although the ED states that the disclosure requirements for social contributions are contained in IPSAS 23 *Revenue from Non-Exchange Transactions*, that standard does not include a requirement to disclose future cash flows. Therefore, to provide more complete information to users, we suggest that the requirement to disclose the projected future cash inflows related to a contributory social benefits scheme should be in the Social Benefits standard, unless the IPSASB is intending to revise the disclosure requirements in IPSAS 23 accordingly.

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 sustainability of an entity's finances, which includes social benefits...

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?

Overall we do not support mandatory requirements for reporting on the long-term sustainability of an entity's finances. Various jurisdictions already have legislation or a policy that requires sustainability reporting. The development of such legislation or policy will have considered the needs of legislators and other users of the reports. Should IPSASB put in place mandatory requirements, this could result either in reports that do not meet the needs of legislators/users in various jurisdictions or the need to prepare two reports, one as stipulated in legislation/policy and one for compliance with IPSAS.

Also, many governments currently have various mechanisms for reporting on programs of a long-term nature; for example, budgets provide long term views on financing and programs to be delivered by governments. There are also various reports on social benefit programs that discuss in more detail, and with proper context, the future sustainability of the programs (e.g. Canada Pension Plan Annual Report).

We believe that the IPSASB's mandatory requirements should only cover financial statements that are subject to audit. Given that auditing long-term sustainability reports would be very challenging due to the inherent subjectivity and long-term nature of the assumptions, the implications of mandatory long-term sustainability reporting would need to be considered from the perspective of the auditor's report.

As well, we believe that the Board should take into account the capacity of various jurisdictions to produce such reports if they become mandatory. In particular, long-term sustainability reporting is generally performed by economists, as it is outside the knowledge and skills base of most accountants.

We think that it may be a worthwhile exercise for the IPSASB to review the uptake of RPG-1 since its issuance, and discuss with adopters of accrual-based IPSASs their reasons for either developing, or not undertaking, long-term sustainability reporting.