



KOREA INSTITUTE OF PUBLIC FINANCE

Government Accounting and Finance Statistics Center

IPSASB Exposure Draft 63

Social Benefits

Comments on ED 63, Social Benefits

March 30, 2018

March 30, 2018

John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

**Re: The comments on the Exposure Draft 63,
Social Benefits**

Dear Mr. Stanford,

The Government Accounting and Finance Statistics Center (GAFSC) at the Korea Institute of Public Finance (KIPF) is pleased to provide comments on the Exposure 63, Social Benefits issued by the International Public Sector Accounting Standards Board (IPSASB).

The comments have been prepared and reviewed by the staffs of the GAFSC and are available in the following pages. Please feel free to contact us if you have any questions regarding our comments. You may direct your inquiries to the technical staff of GAFSC, Stella Kim (sjkim@kipf.re.kr).

Sincerely,



Do-Jin Jung
Director (GAFSC at KIPF)

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?

[GAFSC comments] We agree to the idea that the IPSASB makes a distinction between social benefits and universally accessible services and excludes universally accessible services from the scope of the Exposure Draft. Social benefits, such as old age pensions, are intended to provide income to all individuals and/or households and therefore are different in nature from social benefits which provide income to specific individuals and/or households. Accordingly, it is appropriate to make distinctions between them and apply different accounting treatments.

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?

[GAFSC comments] We disagree. We are of an opinion that it is difficult for a preparer to make judgment on whether or not to apply the Exposure Draft because the definitions in the Exposure Draft are not practical or specific enough. For example, AG7 differentiates social benefits from universally accessible services by stating that “many benefits are provided in cash.” If such a characteristic of social benefits is significant, we believe that it needs to be included in the definition of social benefits.

In Korea, the government provides benefits for certain individuals, such as veterans and farmers. As far as we understand from the definitions in the Exposure Draft, those benefits fall into the scope of social benefits. So it is questionable whether or not the IPSASB intends to include such benefits in social benefits.

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?

[GAFSC comments] We fundamentally agree to all four conditions for the insurance approach. Yet, we think that the applicability of the insurance approach is a very sensitive and critical issue in a way that it may lead to a debate on fiscal sustainability of public sector entities. In reality, the applicability of the insurance approach is likely to be determined by political intentions rather than the results of cost-benefit analysis. Accordingly, we encourage entities to disclose the following information in the footnotes to help users make better decisions on whether or not to apply the insurance approach.

A complete list of all social benefits		
A list of social benefits that meet the conditions of the insurance approach		A list of social benefits that do not meet the conditions of the insurance approach
A list of social benefits that apply the insurance approach	A list of social benefits that do not apply the insurance approach	
The basis for application	The basis for application	

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.

[GAFSC comments] In line with the Alternative View, “being alive” should be a measurement criterion instead of a recognition criterion. If “being alive” is to be recognition criterion, only the next due benefit may be recognized as liabilities and therefore the current obligations can be underestimated. Consequently, useful information to decide economic substance of social benefits is not likely to be provided to users.

If the intention on inclusion of “being alive” in the recognition criteria is to consider the applicability of the Exposure Draft to public sectors and recognize the least possible amount of unavoidable liabilities in relation to social benefits, it will be appropriate to defer the recognition till the point at which a claim is approved.

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?

[GAFSC comments] We agree to (a) and (b). For (c), we agree to disclose the projected future cash flows, but we disagree to 5 reporting periods for disclosing future cash flows. While financial statements indicate liabilities for a very short period of time for those social benefits applying the obligating event approach, the footnotes provide information on projected future cash flows for five years. Therefore, users might experience difficulties in comparing stock information and flow information. Accordingly, a preparer may need to disclose additional information explaining the relationship between liabilities on financial statements and projected future cash flows.

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?

[GAFSC comments] We are of a view that it is too early to require preparers to report long-term fiscal sustainability. Usefulness of long-term fiscal sustainability report and the possibility to connect with financial statements cannot be upheld without sufficient experiences and cases. Therefore, it is appropriate to defer

reporting of long-term fiscal sustainability. Although Korea has been obligated to issue long-term fiscal sustainability reports, usefulness of those reports is still controversial mainly due to the massive amount of information on those reports.