



International Public Sector Accounting Standards Board
Mr Ian Carruthers, IPSASB Chair
and Mr John Stanford, IPSASB Deputy Director
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Dear Mr Carruthers, dear Mr Stanford,

Consultation Paper on Recognition and Measurement of Social Benefits

We are pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on Consultation Paper on Recognition and Measurement of Social Benefits (the Consultation Paper) on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Exposure Draft. “PricewaterhouseCoopers” or ‘PwC’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency, and transparency of public sector financial reporting worldwide.

The Consultation Paper on the Recognition and Measurement of Social Benefits addresses a very important topic in public sector accounting. Social benefits represent a significant portion of expenses for many governments and it is therefore key that the consequences of such transactions be properly reflected in government financial statements. Timely issuance of a standard on social benefits is crucial as it will fill one of the most important remaining gaps in the suite of IPSAS standards. We therefore support IPSASB’s proposal regarding the limitation of the scope of the project.

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We agree with IPSASB's preliminary view that a combination of the obligating event approach and insurance approach would best reflect the accounting substance of the transactions that will fall into the scope of the social benefits standard. We do however reject the social contract approach which would not result in providing information that can achieve the accountability and decision-making objectives of financial reporting. We also raise some recommendations in order to enhance consistency in application of the proposed approaches.

If you would like to discuss any of these points in more detail, please contact Paul Fitzsimon ((+1) 416 869 2322), Jean-Louis Rouvet ((+33) 1 56 57 85 78), Patrice Schumesch ((+32) 2 710 40 28) or Sebastian Heintges ((+49) 69 9585 3220).

Yours sincerely,

A handwritten signature in black ink, which appears to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

Responses to the questions in IPSASB's Consultation Paper on the Recognition and Measurement of Social Benefits
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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.

- (a) We believe that the scope limitation proposed by the IPSASB is appropriate and agree with the proposal to deal with other transfers in kind and collective goods and services in a separate project on non-exchange expenses as the substance of such transactions, which do not aim to mitigate the effects of social risks, is different. We also welcome the closer alignment with GFS guidelines which is one of the IPSASB's strategic objectives.

In addition, this limitation in scope would facilitate timely issuance of a standard on social benefits, which we strongly encourage as it will fill one of the most important remaining gaps in the suite of IPSAS standards. This will further enhance the relevance and usefulness of the IPSAS framework for governments, and therefore should contribute to the wider acceptability and adoption of IPSAS.

- (b) We believe that the definitions in Preliminary View 1 provide an appropriate basis for a standard on the accounting for social benefits.

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;**
 - 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.**

- (a) We support the view that a combination of the obligating event approach (option 1) and insurance approach (option 3) would best reflect the accounting substance of the transactions that will fall into the scope of the social benefits standard.

The obligation event approach appears to be the most appropriate due to its consistency with the definition of a liability in the IPSASB Conceptual Framework and its applicability to all kinds of social benefits. However, the insurance approach may also be appropriate for social insurance schemes that are contributory in nature (i.e. similar to a typical insurance contract in the private sector).

We do not believe that the social contract approach is appropriate and strongly reject it. It would be inconsistent with the IPSASB Conceptual Framework and its application would leave many liabilities unrecognised in the financial statements, which would not result in providing information that can achieve the accountability and decision-making objectives of financial reporting. There is typically no direct link between the tax collection and the social security provided by a government. When the government has an obligation to provide social benefits, it has to settle the obligation regardless of the quantum of its tax collections.

- (b) We are not aware of any additional approaches.

Specific Matter for Comment 3

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?

If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

We are not aware of any social benefit transactions which could not be addressed by the options set out in the Consultation Paper.

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 do not believe that it is possible to define a rule that would be appropriate for the recognition of a social benefit liability for all types of social benefits at the same point in time. Instead we believe that the variety of the types of social benefits and the specific circumstances of the legal environments and jurisdictions in which they are granted should inevitably lead to different conclusions as to the most appropriate timing for recognition.

In particular, there may be situations linked to certain types of social benefits in specific jurisdictions where the obligation is created over time and which should trigger recognition of the social benefit liability and of the related expense over time as well, while the obligation event in other circumstances (other types of benefits and/or other jurisdictions) may be the occurrence of one specific event which then should lead to the recognition of the social benefit liability and the related expense at one point in time.

We strongly recommend that the IPSASB develop clear principles that go beyond the basic characteristics of a liability and non-country specific illustrative examples that will provide useful guidance as to how the recognition principles should be applied to various types of social benefits, by distinguishing between those benefits for which recognition of a liability / an expense over time is appropriate on the one hand, and those benefits for which recognition of a liability / an expense at one point in time is appropriate on the other hand. Where recognition at one point in time is appropriate, we believe that recognising a social benefit liability when the claim is approved or is enforceable is in any case too late and would lead to an understatement of government liabilities as defined in the Conceptual Framework.

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.

In principle no. For an event to be an obligating event in the absence of a legally binding obligation, it is necessary that the entity has no realistic alternative but to settle the obligation created by the event, and it should in theory not be affected by the way the funding of that obligation is designed.

However, the existence of a contributory element may increase the legitimate expectation that the public sector entity will pay the social benefits and is therefore an element to be considered in the assessment of whether or not a non-legal binding obligation has been created.

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.

Where a social benefit is provided by the government through an exchange transaction in an employer-employee relationship, such benefit is an employee benefit by nature and should be accounted for in accordance with IPSAS 25.

For those contributory schemes that have the characteristics of an insurance scheme, the insurance approach as mentioned in the Consultation Paper seems appropriate.

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.

Where social benefit obligations are funded by dedicated scheme assets, we believe that such scheme assets should be included in the presentation of the social benefit scheme.

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:
 - a. A claim becomes enforceable ; or**
 - b. A claim is approved****
- (b) Measure this liability at the cost of fulfilment?**

Please explain the reasons for your views.

We do not support the social contract approach. This question is therefore in our view not relevant.

Specific Matter for Comment 9

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?

Yes. We agree that the insurance approach may provide useful information in circumstances where social benefit schemes have characteristics similar to private sector schemes to which insurance accounting is applied. We also agree that the insurance approach would be appropriate for such contributory schemes only and that the insurance approach would need to be combined with another approach (in our opinion, the obligating event approach) to appropriately cover the accounting treatment applicable to all types of social benefits.

It might in practice not be easy to distinguish between contributory schemes that would be assimilated to insurance schemes and other social benefit schemes with a contributory element to which the obligating event approach would apply. We recommend that the IPSASB develop clear principles and illustrative examples to provide guidance on how contributory schemes should be treated.

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.

Yes. This approach is consistent with IASB's proposal for insurance contracts and would provide useful information on the performance of the scheme and the level of additional contributions from tax subsidy (or reductions to the benefits offered) required to balance the scheme.

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) Recognise 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 believe the expected deficit should be recognised as an expense on initial recognition. This approach would ensure consistency in the accounting treatment for all deficits, whether the scheme is designed to be fully funded from contributions or otherwise.

Where transfers are expected from another public sector entity, these would be considered in the measurement and the estimation of the expected future cash inflows only to the extent that the public sector entity has a present legal right to receive such transfers and is expected to continue to have such a right in the future. This assessment would be made at the entity level and the necessary eliminations would need to be made in consolidation as appropriate.

Specific Matter for Comment 12

In your view, under the insurance approach, should an entity use the cost of fulfilment measurement basis or the assumption price measurement basis for measuring liabilities?

Please explain the reasons for your views.

We believe that the cost of fulfilment measurement basis would achieve faithful representation of the social benefit obligations as the amount so determined represents the best estimate of the expected future cash outflows in the particular given circumstances.

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.

The proposals for insurance accounting included in the Consultation Paper are based on IASB's proposals for insurance contracts. These thus address situations where a contractual relationship exists. The analogy with the accounting treatment of certain types of social benefits is therefore only relevant where a clear and strong link exists between the benefits paid by a social security scheme and the revenue that finances the scheme.

We agree with the proposals set out in the Consultation Paper and recommend that clear guidance be developed to help in the determination of whether a clear and strong link exists between the benefits paid by a social security scheme and the revenue that finances the scheme.

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, Employee Benefits?

Please explain the reasons for your views.

We agree that it makes sense to adopt an approach which is consistent with the one adopted in IPSAS 25 'Employee benefits' and which does not include a liquidity adjustment. Determination of the discount rate by reference to either government bonds or high-quality corporate bonds is therefore appropriate.

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 agree with the proposals included in this Consultation Paper which are based on IASB's proposals for insurance contracts.