

The Danish comments to the Consultation Paper, *Recognition and Measurement of Social Benefits*

IPSASB

First of all, we would like to thank IPSASB for the opportunity to comment on the Consultation Paper “Recognition and Measurement of Social Benefits”. Below is the answer, with primary focus on the points that have given rise to considerations.

General comments

Currently, the recognition criterion for social benefits in Denmark is transaction-based.

In Denmark, like in many other countries, social benefits are paid or subsidized by tax from individuals and entities. The social benefits are financed through general taxation and therefore the amount of taxation specified for social benefits cannot be separated from other taxation; additionally there is no recognition of future taxes.

Furthermore, social benefits are paid as gross payments that are taxed this leads to a consideration how to measure an obligation. If a method of net valuation shall be used, it will require information about the specific part of the benefit, the part that does not contain future taxation.

If social benefits should be recognized and measured as an obligation, following one of the models in the Consultation Paper, the revenue and expenses related to social benefits would differ. The accounting then is to estimate an obligation for future social benefits, but the financing generated through taxation is not estimated at the same time.

The obligation related to social benefits, will always contain estimated values that can be difficult to review. This can stipulate a rise in administration costs that has to be compared to the increased information in the financial statement. We are not sure if these initiatives will improve the financial statement enough, compared to the related administration costs.

If more obligations are implemented in the financial statement, here among social benefits, the expenditure policy might need to be reconsidered for EU member states.

Furthermore, the definitions in this CP have been sought to align with the existing definitions in government finance statistics (GFS). However, the recognition suggested in this CP is not in line with the current form of recognition in the GFS. For instance sub-option A in the obligating event approach will recognize the

social benefit at a very early point of time, while the GFS focus at the point of time when the transaction occurs. This would yield a need for adjustment between the financial statement and the GFS.

Additionally from the year 2017 the Danish GFS will recognize obligations for civil service pension schemes ('tjenestemandspension') and pre-retirement schemes ('efterløn') within a supplement table to Eurostat.

The convergence between IPSAS and GFS is a potential issue to be considered, in the general approach to the implementation of a standard for social benefits.

Comment 1 (chapter 2, paragraph 2.50)

Generally, the definitions in this CP on Social Benefits can be agreed upon. However, to the definition of "Social Risk", there have been some challenges related to some Danish social benefits, here among the Danish student grants scheme ('Statens Uddannelsesstøtte'). This is a benefit granted by the government for active students, due to their participation in educational schemes. The "Social Risk" is difficult to identify, as the benefit arguably has similarities to an employee relationship. The student, sort of, contributes in kind by studying, which can be compared to working. On the other hand, the benefit is meant to minimize the risk of future unemployment, or current risk of maintaining an appropriate level of welfare while studying, which is within the CP scope. The Danish student grants scheme and similar benefits have been suggested as within scope.

Furthermore, there have been some challenges related to the categorizing (in or out of scope) of some Danish injury benefits, due to considerations whether the benefits correlate to an employment relationship or not. Danish injury insurance is provided either by a private insurance company, or through the employment relationship. The question arises, when the Danish government is the (former) employer, for instance the veterans-scheme of The Danish Ministry of Defense. It is debatable, whether this would be categorized as a social benefit or part of an employer-employee relationship. These injury benefits have been suggested as being outside of scope, primarily based on the employment status.

Social benefits are defined as services paid in cash or kind. Unemployment benefits are examples of a set of benefits, where the services are delivered to the individual as cash or kind. The cash can be received by unemployed individuals available to the workforce, when specific criteria have been met. One criterion is that the individual must attend certain programs with the purpose of getting a job. These programs can be seen as benefits in kind but the value is difficult to measure. The same schemes are registered as subsidies by the Danish GFS.

Social benefits in kind are generally difficult to measure; there are no similar benefits to compare, the administration costs cannot be divided among the partici-

pants, and the number of participants is unknown until the day the program is initiated.

Comment 2 (chapter 3, paragraph 3.4)

The obligation event approach

Generally, the obligation event approach is supported as being useful for recognition of social benefits.

However, not all sub-options within the approach are found equally applicable. The uncertainty of the obligation event to arise is often unpredictable in sub-option A and B. No Danish benefits have been identified to be possibly recognized in accordance to sub-option A, at the same time very few benefits are able to be recognized with the use of sub-option B.

Sub-option C, D and E are more applicable for recognition, but in most cases, sub-option E appears expedient for implementation, due to concerns related to measurement. If the obligating event approach is implemented sub-option E is to prefer.

For further explanations see comment 4-7.

The social contract approach

The social contract approach cannot be supported.

Due to the argumentation in the CP we support that the social contract approach cannot be used for recognition of social benefits in a reliable way.

The insurance approach

Generally, the insurance approach is supported as being useful for recognition of social benefits with contribution.

However, very few Danish schemes involve contribution therefore the usability of the approach will be rather limited in Denmark. For measurement of the insurance approach, rather complicated actuarial calculations are required. It is uncertain how these calculations can have the sufficient reliable precision, and thus measure up to the correlated administration costs.

For further explanations see comment 9-15.

Comment 3 (chapter 3, paragraph 3.4)

ATP (The Danish Labor Market Supplementary Pension)¹ has given rise to some considerations, due to the nature of the contribution payment. In general the contributions are issued by the employee (1/3) and by the employer (2/3). The two contributions are dependent of each other and will not be paid separately. The employee part of the contribution is considered as within scope in accordance to this CP, but the employer part is considered as out of scope. This generates the question; how the ATP scheme is to be treated in accordance of being both in and out of scope? The Danish GFS does not categorize ATP as a social benefit, as the ATP is categorized outside the public sector.

Under certain conditions the Danish government will provide the employer part of the contribution in accordance to the ATP scheme, when the individual is unemployed. In this scenario, the contribution will be issued by the unemployed (1/3) and by the government (2/3). Thus, the question arises, whether the contribution made by the Danish government is to be recognized as a contribution or as a subsidized transfer? It also has to be clarified if the 2/3 contribution is within scope, when the government ensures the payment?

Comment 4 (chapter 4, paragraph 4.69)

As a general consideration, the sub-options are rather open for interpretation, which has to be further clarified, if the obligating event approach is implemented. Hence, the different member states could expectedly have differing views on the meaning and effect of these. The following considerations thus relate to the Danish immediate interpretation of the sub-options.

In order to separate and comment on each sub-option, a suggested Danish model was constructed to clarify the identification and criteria leading to one sub-option or another. This decision-model is to be found in appendix 1.

A viable method could be to implement more than one sub-option, in order to strengthen the usability of the obligating event approach, due to the diversity of the social benefits. In addition, the insurance approach would be fitting for the contributory benefits; hence our model generally focuses on non-contributory social benefits. If contributory benefits were to be governed by the obligating event approach, earlier occurrence of recognition for the unsubsidized part might be suggested.²

For the obligating event approach, sub-option D and E has consequently been seen as the most commonly fitting to find use in DK³. The Danish analysis suggests that, for approximately 80% percentage of the social benefit schemes, it

¹ ATP is described in the CP appendix A, point A9-A11

² See our answer in comment 5

³ Appendix 1, The Danish social benefit decision-model

would be optimal to use sub-option D or E. As an additional note, in respect to the specific benefit, the belief is both times of recognition might be appropriate. However, the measurement would in many cases share identical characteristics; several schemes in Denmark grant the individuals with a single payment, executed at the time of application approval.

The beliefs presented in the reports paragraph 4.66 – 4.68 is generally shared, hence in almost all cases, sub-option A and B are found inferior to sub-option C, D and E. The early recognition of a liability, pre all the applicable eligibility criteria's have been satisfied, are considered at high risk of providing misleading information.

a) Key participatory events have occurred

The usability of sub-option A is disagreed upon.

The early recognition is considered valuable, in order to specify the entity's financial state and provide useful information to the users of the financial statements. However, too early recognition of a social benefit might have a larger negative impact as such an approach easily could be misleading due to the, in most cases, dynamic nature of the benefits. Hence, the usage of approach A is opposed, as this would be at a high risk of initiating unreliable financial information.

In general the recognition criteria of an obligation are not seen to be met in sub-option A, while the obligating event most likely has not occurred due to the argumentation above. It is not found justified for the individual to have a legitimate expectation to receive social benefits without any expected social risk.

b) Threshold eligibility criteria have been satisfied

The sub-option B is can be used under rare circumstances but is not supported.

As above stated, early recognition can be valuable, but only if it governs a reliable financial statement. In order to implement sub-option B, it is found as a requirement, that the social benefit scheme has simple static criteria's and is almost unchangeable. Furthermore there should be rarely or no expected law changes related to the scheme (see appendix 1). It is considered that, very few Danish social benefits would be fitting to present accurate and reliable financial information at this early point of recognition.

This sub-option is not fully supported, but there are some social benefits, which are able to be recognized under this sub-option. These are retirement benefit ('folkepension') and child-youth benefit ('børne-unge ydelse'). Child-youth benefits are awarded to all households with child/children below the age of 18 years. Due to the nature of these schemes, individuals most likely consider an approval for guaranteed, when all eligibility criteria have been met.

Generally sub-option B is expected to be inferior to sub-options C, D and E, as it is assumed most social benefits would require all applicable eligibility criteria to be fulfilled. This correlates with the dynamic nature of most of the Danish social benefits. Therefore this sub-option cannot be supported.

c) The eligibility criteria to receive the next benefit have been satisfied

Sub-option C can be supported under some circumstances.

Generally the point of recognition in the sub-options C, D and E is agreed upon as possibly expedient and able to grant the individual with a valid expectation to receive the benefit, in correlation with the individual criteria of the social benefit.

Hence, sub-option C can be an expedient approach, when some factors have been considered and fulfilled. For the usability of both sub-option C and D, the valid expectation is found to correlate with the frequency or expectancy of law changes (see appendix 1).

The considerations in the reports paragraph 4.46 is generally supported, hence this recognition approach could be used for benefits with complex dynamic criteria, where the approval of an individual's claim is solely an administrative process. Due to the fact some benefits do not require a true exercise of judgement by an entity, sub-option C's strength is considered to be a faithful representation of these financial statements. However, a limited amount of the Danish social benefits, are governed by a solely administrative process.

An example of a benefit which can be recognized in accordance to sub-option C is the Danish student grants scheme (however see comment 1 about the Danish student grants scheme).

d) A claim has been approved

The sub-option D is supported for recognition.

As above stated, sub-option D is considered expedient and suitable for granting the individual with a valid expectation to receive the benefits, in correlation with the individual criteria of the benefit.

Hence, where the grant of a social benefit requires true exercise of judgement by the entity, the recognition in sub-option D would represent a more faithfully expression of the financial statements, than sub-option C. In accordance to the analysis, a large portion of the Danish schemes would be recognized under sub-option D.

The measurement of the obligation arising from this sub-option is difficult. It can be administrative complicated to calculate and value all approved claims from

databases. In addition, most of these benefits are granted for a short period of time or constitutes a one-time payment.

e) A claim is enforceable

The sub-option E is supported for recognition and measurement.

Sub-option E is found expedient and capable of granting the individual with a valid expectation to receive the benefits. This sub-option has its strengths, when law changes are expected to occur frequently, for instance when the area is governed by high political attention.

The analysis suggests that a large portion of the Danish schemes would be recognized under sub-option E.

A large portion of Danish social benefits are only given for a shorter period (for instance a month) and to receive the next benefit, the individual has to make a new application or otherwise prove the criteria are still met. Due to this the measurement of an obligation in the balance sheet, will present the problem that the obligation cannot at the same time represent the obligation on the balance day and the expected future payments on the benefit scheme. This problem combined with the GFS-convergence is the main reason why the sub-option is supported.

General comments for the obligation event approach

The Danish analysis suggests that an obligating event can arise at different points in accordance to its format. As earlier stated, we believe sub-option D and E will be the generally most fitting approach for the Danish social benefit schemes. When including the measurement considerations sub-option E would be preferable. However, different sub-options might be useful to implement, for the different kinds of social benefits they seem to fit. This should depend on the characteristics of the scheme, as have been analyzed and can be seen in the Danish decision model in appendix 1. This does not support a view, where the different social benefit schemes, should be able to shift between sub-options.

As long as the chosen point of recognition, i.e. the sub-option, protects the faithful expression of the financial statement, it is found potentially usable. This is considered to be the scenario for all sub-options, except for sub-option A and B.

Comment 5 (chapter 4, paragraph 4.76)

In correlation to the Danish analysis, it is suggested the insurance approach is implemented in addition to the obligating event approach, hence covering contributory social benefits. However, comment 5 is addressed for the sake of completeness, if the insurance approach is not supported. If this is the case, the obli-

gating event would be expected to occur at an earlier point of time, when considering contributory benefits.

In Denmark contributory benefits could be divided into two different groups; savings related benefits and insurance related benefits, where savings related would be expected to have an earlier point of recognition.

The presence of contribution is generally found suitable to cause earlier recognition, as contribution is found to increase the individual's valid expectation to receive a future benefit. Due to the individuals' contribution, it will be less likely for the entity to avoid payment, even for benefits only provided several years into the future. This would be expected, even in areas where the law, historically, has suffered from numerous ongoing changes.

For an example of this, the Danish contributory scheme pre-retirement benefit ('*efterløn*') was modified in recent years. The Danish government did not just adjust the conditions of all scheme-participants from day one instead participants had the opportunity to utilize the benefit within 5-6 years with unchanged conditions. In addition to this, all participants were given the option to withdraw their entire contribution.

Comment 6 (chapter 4, paragraph 4.80)

No Danish social benefits arise from exchange transactions, in accordance to the definition in IPSAS 9, due to the lack of approximately equal value.

Only one social benefit is closely related hereby, but the format of the scheme, is like placing money in a bank with a favorable interest. Thus, this social benefit is considered outside the definition of an exchange transaction.

Preliminary View 3 (following paragraph 4.91)

The estimated value of cost of fulfillment appears expedient for usage, when measuring liabilities in respect of social benefits governed by the obligating event approach.

Comment 7 (chapter 4, paragraph 4.91)

It is considered as necessity for scheme assets to fulfill some requirements, in order to recognize these in the presentation of a social benefit scheme. The scheme assets must be deduced from contribution and separated from other assets, for instance in a specific fund.

Danish non-contributory schemes have no earmarked assets. The assets cannot be identified as subsidized to a specific benefit, as general taxation is not divided among these schemes.

This supports comment 7 (b).

Comment 8 (chapter 5, paragraph 5.38)

The social contract approach is not considered appropriate for recognizing and measuring social benefits.

The argumentation in this CP is agreed upon and supported.

Comment 9 (chapter 6, paragraph 6.24)

IPSASB's conclusions related to the applicability of the insurance approach are generally supported, corresponding to the definitions in paragraph 6.21-6.24. The considerations about significant and reliable measured cash contribution as an essential requirement are found convenient.

For Denmark, the insurance approach would find usage for a small amount of benefits, due to having few benefits with contribution. In Denmark, general taxation cannot be identified as allocated for an individual scheme, hence general taxation will never be seen as contribution. This correlates to the definition in this CP paragraph 6.23.

Comment 10 (chapter 6, paragraph 6.35)

In Denmark, there is currently one unsubsidized scheme, ATP (The Danish Labor Market Supplementary Pension).

ATP pensions are adjusted in accordance to the financial resources of the scheme therefore the benefit will never yield a surplus or a deficit for recognition.

Comment 11 (chapter 6, paragraph 6.37)

It has earlier been suggested that the Danish contributory social benefits can be divided into two different categories; savings related and insurance related. For an example of savings related there is the benefit for pre-retirement ('efterløn'), for an example of insurance related there is the benefit for unemployment with a connection to the labor market ('dagpenge').

The perception of the benefit seems important, whether a deficit can be recognized as an expense in general.

A deficit is not expected as possible for recognition for the insurance related schemes, as 'dagpenge'. It would require the individual to have entered unemployment, and even then, the coverage period is unknown.

Recognition of a deficit, when the scheme in question is savings related, seems more likely to gain ground. However, this area needs further clarification, whether the additional deposits would stipulate contribution or subsidize. If these deposits are defined as contribution, a deficit can arise. If instead it is to be seen as subsidize, the subsidize will rise, hence there will be no deficit.

Comment 12 (chapter 6, paragraph 6.43)

The assumption price approach is generally disliked, due to an entity's possibility of adjusting the risk, the same risk as would be implemented in the calculation. Additionally the view in paragraph 6.43 is acknowledged, hence the approach is found inappropriate for the public sector, where there is no third party that might assume the liability. This approach would most likely not support a faithful representation of the scheme.

Cost of fulfillment is generally found appropriate, as this approach represents the best estimate for the cost that is expected to occur. Therefore, this approach is considered more likely to support a faithful representation of the scheme and to support controlling.

Comment 13 (chapter 6, paragraph 6.63)

In accordance to the definition of social insurance in paragraph 2.18, it is unclear, how contributions paid by other than the participators, as mentioned in paragraph 6.53, will be within this definition. Furthermore it is not clear, whether such contributions are initiated by employers, in such case it is defined as out of scope in paragraph 2.18.

In correlation to above stated considerations, the criteria for determining whether the insurance approach is appropriate should, suggestively, be more exact. On the other hand, the insurance approach is not believed sensible to implement.

Comment 14 (chapter 6, paragraph 6.72)

The implementation of a discount rate to reflect the time value of money, has deduced some considerations.

It is considered important, that the chosen discount rate is based on a reference rate which is initially known. The entity should have the opportunity to choose a rate, which is not from the market of financial instruments. For instance, a rate used in other calculations made by the government could be usable, as long as it reflects the time value of money. This generally approves the approach in IPSAS 25.

The rate should be relevant for the specific benefit hence there could be a consideration, when the benefits show similarities to savings or insurance. Different

categories of contributory benefits might be more rightfully presented through usage of individual reference rates.

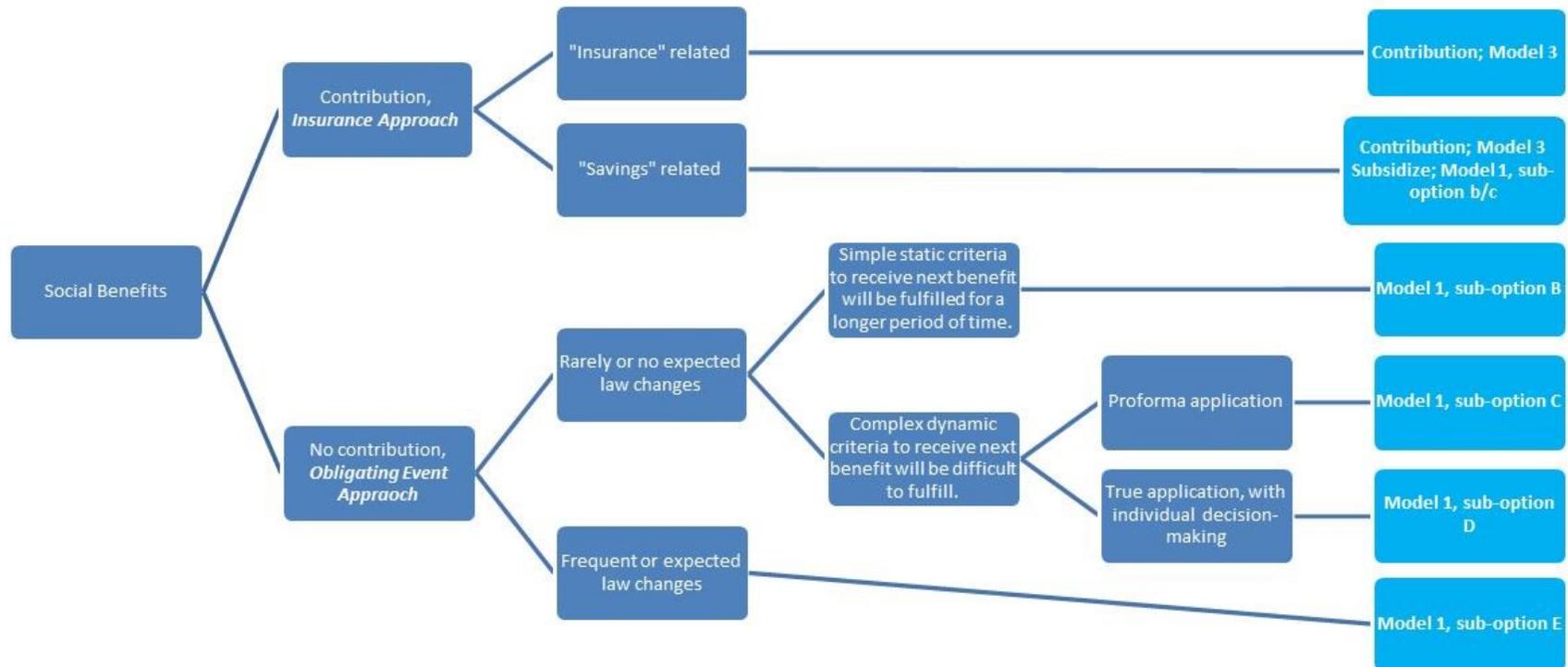
Comment 15 (chapter 6, paragraph 6.76)

In correlation to the considerations about savings related and insurance related contributory benefits, it might be necessary to distinguish between the categories, when applying the subsequent measurement, in paragraph 6.76.

Generally it is found necessary to divide the obligation into two or more schemes, when a modification changes the contributory amount, in order to finance the new appearance of the scheme. This should make it possible to identify the additional required earmarked funds.

However, for the savings related, the obligation should instead be adjusted, if there is a general presumption that the savings would be repaid to the participant that contributed.

Appendix 1. The Danish Social Benefits Decision Model





We have constructed a decision tree for categorization of social benefits. The decision model describe the earliest suggested point of recognition.

Expecting the usage of the Insurance Approach, thus contributory schemes will be handled by this model, non-contribution schemes will be handled by the Obligating Event Approach.

Insurance approach (contribution)

Social benefits with a contribution can be divided into two groups; insurance related and savings related. The contributions can be recognized recording to the insurance approach, but the recognition regarding the subsidies will differ.

Obligating event approach (no contribution)

For the further sub-option categorization, the decision tree has implemented the obligating event definition:

1. Indication to others that the entity will accept certain responsibilities
2. Creation of a valid expectation
3. Little or no realistic alternative to avoid an outflow of resources

The frequency or expectancy of law changes

Social benefits of high political interest, where law changes have been frequent or expected (for instance due to shifting governments) are categorized here. Here we believe that recognition should only happen for the legal obligations, when the payments due date has arrived. We consider recognition before this date at a very high risk for providing misleading information.



The static/dynamic nature of social benefits criteria

Social benefits eligibility criteria should be categorized with information of:

1. The transparency of these
2. The expectancy the criteria will be fulfilled for a longer period of time
3. The possibility of calculating the benefit period pre initiation

Unless the social benefit can be said to be extremely static and almost unchangeable, we disagree that sub-option A and B will be an expedient approach in order to represent valid information for the entity's financial performance.

Our analysis indicates that almost no Danish social benefits would be fitting to present accurate and reliable financial information at this early point of recognition.

The format of the application

We generally agree to the considerations in the reports paragraph 4.46.

When benefits do not require a true exercise of judgement by the entity, we believe the sub-option C faithfully would represent these financial statements. Where the grant of a social benefit requires true exercise of judgement by the entity, we believe sub-option D would represent a more faithful expression of the financial statements.