

## Exposure Draft (ED) 63 Summary—*Social Benefits*

This summary provides an overview of Exposure Draft (ED) 63, *Social Benefits*.

**Project objective:** The objective of this project is to establish the recognition and measurement requirements for social benefits.

**The project and stage:** The International Public Sector Accounting Standards Board® (IPSASB®) issued the Consultation Paper (CP) [Recognition and Measurement of Social Benefits](#), in July 2015. The IPSASB issued Exposure Draft (ED) 63 in October 2017.

**Next steps:** The IPSASB seeks feedback on ED 63 to guide it in developing a final International Public Sector Accounting Standard® (IPSAS®) that establishes requirements for accounting for social benefits

**Comment deadline:** ED 63 is open for public comment until March 31, 2018.

**How to respond:** Respondents are asked to submit their comments electronically through the IPSASB website, using the [“Submit a Comment”](#) link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

## Why the IPSASB Undertook this Project

The purpose of the IPSASB's project on social benefits is to establish requirements for defining, recognizing and measuring social benefits.

The delivery of social benefits to the public is a primary objective of most governments and accounts for a large proportion of their expenditure. Existing IPSAS do not provide requirements and guidance on how to account for social benefits.

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, excludes provisions related to social benefits in non-exchange transactions from its scope.

As a result, users may not be able to obtain the information needed to evaluate the nature and financial effect of a social benefit scheme, and the impact of social benefits on the finances of the government as a whole.

There is an opportunity for the IPSASB to improve its suite of standards by developing a new IPSAS on social benefits. An IPSAS on social benefits will enhance accountability and transparency and improve decision making, which are in the public interest.

The IPSASB issued a CP, *Recognition and Measurement of Social Benefits*, in July 2015. This was an important step in determining the appropriate reporting of social benefits.

As well as building on the previous work of the IPSASB on social benefits, the CP was influenced by more recent developments in the IPSASB's literature:

- *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*
- Recommended Practice Guideline 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*
- Policy Paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*

ED 63 provides a definition of a social benefit, and proposes requirements for the recognition and measurement of social benefit schemes. ED 63 also proposes disclosure requirements that will provide additional information that users will need to evaluate the effect that social benefits have on finances of a government.

The IPSASB believes the proposals in ED 63, will promote consistency and comparability in how social benefit schemes are reported by public sector entities.

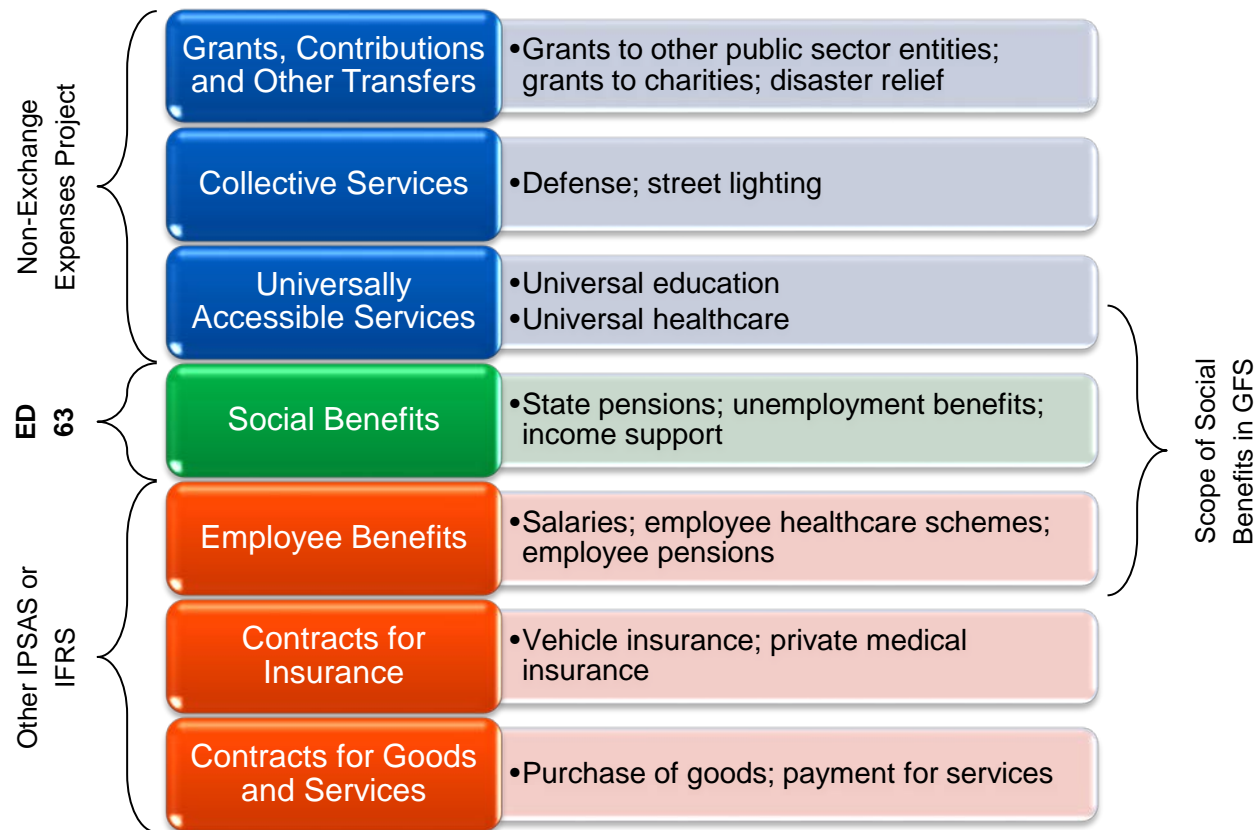
## Scope of Exposure Draft 63

Figure 1 illustrates the scope of Exposure Draft 63 and the boundaries between social benefits and other transactions. Examples of each type of transaction are also provided.

Where a transaction is outside the scope of ED 63, Figure 1 indicates how the transaction is addressed by IPSAS.

For many governments, alignment with Government Finance Statistics (GFS) is important, and Figure 1 also indicates which transactions are within the GFS scope of social benefits.

**Figure 1: Scope of Exposure Draft 63**



## Definitions

ED 63 defines social benefits, social risks and universally accessible services.

### Definitions in ED 63

Social benefits are provided to:

- (a) Specific individuals and/or households who meet eligibility criteria;
- (b) Mitigate the effect of social risks; and
- (c) Address the needs of society as a whole; but
- (d) Are not universally accessible services.

Social risks are events or circumstances that:

- (a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and
- (b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

Universally accessible services are those that are made available by a government entity for all individuals and/or households to access, and where eligibility criteria (if any) are not related to social risk.

### Which Benefits are Social Benefits?

Retirement Benefits (Government Employees)

✗ *Does not address the needs of society as a whole.*

State Retirement Pensions

✓ *Paid to all those over a certain age as a means of ensuring those in need are covered.*

Universal Healthcare Services

✗ *Meet the definition of universally accessible services.*

Disability Pensions

✓ *Meets the definition of a social benefit – addresses social risk, paid when criteria met.*

Unemployment Benefits

✓ *Meets the definition of a social benefit – addresses social risk, paid when criteria met.*

Disaster Relief

✗ *Mitigates the effects of a geographical risk rather than a social risk.*

Defense Services

✗ *Services are not provided to specific individuals but are collective services.*

## Insurance Approach

The Consultation Paper proposed an insurance approach (based on the insurance accounting model being developed at that time by the IASB) as being appropriate for some or all contributory social benefit schemes.

ED 63 includes the insurance approach. Entities are permitted, *but not required*, to use this approach where a social benefit scheme meets certain criteria.

ED 63 does not include requirements for the insurance approach, but directs entities to apply relevant international or national accounting standards by analogy.

### Criteria for Using the Insurance Approach

ED 63 permits entities to use the insurance approach where:

- The social benefit scheme is intended to be fully funded from contributions; and
- There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

ED 63 includes guidance on how to determine whether a social benefit scheme is intended to be fully funded from contributions.

ED 63 also includes indicators to assist entities in determining whether they are managing a scheme in the same way as an issuer of insurance contracts.

### Which Insurance Standards?

Within ED 63, the term “the relevant international or national accounting standard dealing with insurance contracts” refers to IFRS 17, *Insurance Contracts*, and national standards that have adopted substantially the same principles as IFRS 17.

IFRS 17 has adopted principles for accounting for insurance contracts that, when applied by analogy to social benefit schemes, will provide information that meets users’ needs and satisfy the qualitative characteristics.

This may not be the case for other accounting standards dealing with insurance contracts. Consequently, ED 63 does not allow an entity to apply by analogy an insurance standard that has not adopted substantially the same principles as IFRS 17.

### Disclosures

Where an entity has elected to use the insurance approach, ED 63 requires the entity to make the following disclosures:

- The basis for determining that the insurance approach is appropriate;
- The information required by the international or national accounting standard dealing with insurance contracts;
- Information about the characteristics of its social benefit schemes; and
- A description of any significant amendments to the social benefit scheme made during the reporting period.

## Obligating Event Approach: Recognition and Measurement

ED 63 proposes a single recognition point for all social benefits.

Under ED 63, a liability for a social benefit is recognized when the eligibility criteria to receive the next social benefit have been satisfied.

ED 63 does not include requirements for social contributions (revenue received in relation to a social benefit scheme). Social contributions are accounted for in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

### Recognition

The IPSASB defines a liability as a present obligation for an outflow of resources that results from a past event.

The key factor in determining when a liability for a social benefit arises is identifying the past event.

ED 63 proposes that, for a social benefit scheme, the past event that gives rise to a liability is the satisfaction by the beneficiary of all eligibility criteria for the provision of the next social benefit.

ED 63 also proposes that, for a social benefit scheme, being alive at the point at which the eligibility criteria are required to be satisfied is an eligibility criterion, whether explicitly stated or implicit. This is the case even if formal validation of the eligibility criteria occurs less frequently.

### Recognition Examples

Examples of when a beneficiary will have first satisfied all the eligibility criteria for the provision of the next social benefit include:

- Reaching retirement age (in the case of a retirement pension);
- The death of a partner (in the case of a survivor benefit);
- Becoming unemployed (in the case of an unemployment benefit without a waiting period);
- Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period).

### Measurement

Under ED 63, the liability for a social benefit scheme is measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability.

Because a liability cannot extend beyond the point at which eligibility criteria are next required to be satisfied, liabilities in respect of social benefits will usually be short-term liabilities.

Consequently, an entity will often know the amounts involved without needing to make estimates.

Similarly, because liabilities in respect of social benefits will usually be short-term liabilities, discounting will not be required for most social benefits.

## Obligating Event Approach: Disclosures

ED 63 requires entities to disclose information that:

- (a) Explains the characteristics of its social benefit schemes;
- (b) Identifies and explains the amounts in its financial statements arising from its social benefit schemes; and
- (c) Quantifies and explains future cash flows that may arise from its social benefit schemes

### Characteristics of the social benefit scheme and explanation of the amount in the financial statements

*Characteristics of Social Benefit Schemes:*

- The nature of the social benefits provided
- Key features of the social benefit scheme
- A description of how the scheme is funded
- A description of any significant amendments to the social benefit scheme

*Explanation of Amounts in the Financial Statements:*

- The total expense recognized in the statement of financial performance
- A reconciliation from the opening balance to the closing balance of the liability for each social benefit scheme, showing (where applicable):
  - (a) Liabilities and expenses recognized in the reporting period, comprising:
    - (i) Amounts recognized in the period
    - (ii) Changes in accounting estimates
    - (iii) Interest expense
  - (b) Prepayments
  - (c) Liabilities settled in the period

### Explanation of Future Obligations that May Arise from an Entity's Social Benefit Schemes

- The best estimate of the undiscounted projected cash outflows that will arise from the scheme in each of the five reporting periods immediately following the reporting date
- The key assumptions that the entity has relied on in making its best estimate of the projected cash outflows.

The amounts to be disclosed include all projected cash outflows that will arise from the social benefit scheme in the five reporting periods immediately following the reporting date. The amounts are not limited to those relating to current beneficiaries.

The IPSASB considers that users will need more information about social benefits than is given in the financial statements. However, requiring entities to provide information about future obligations that could, for some social benefit schemes, extend many years into the future was considered to be onerous for preparers. The requirement to disclose future cash flows for a five year period was considered to be an appropriate compromise between the need for more information and the cost of providing that information.

## Alternative View

Not all IPSASB members agree with the requirements proposed in ED 63.

In an Alternative View, some members propose that the obligating event should be dependent on the economic substance of the social benefit scheme. For some social benefits, recognizing a liability when the eligibility criteria for the next benefit are satisfied will be appropriate. For others, a liability would be recognized at an earlier point. Preparers would determine which obligating event is most appropriate for their social benefit schemes, based on their economic substance.

### **ED 63 does not reflect the economic substance of different social benefits**

These members consider that since social benefit schemes vary, they can give rise to differing expectations throughout the population as a whole.

For example, a social benefit scheme designed to be funded by future beneficiaries (such as a pay-as-you-go scheme) may give rise to valid expectations that benefits will be paid amongst current beneficiaries and future recipients, based on the fact that individuals have contributed in the past.

A differently designed social benefit scheme may not give rise to equal expectations.

Consequently, these members consider that treating all social benefits in the same manner will not provide users with the information they need to assess social benefits.

### **ED 63 is not in accordance with the Conceptual Framework**

These members consider that the approach in ED 63 will not achieve the qualitative characteristics of relevance, faithful representation, understandability or comparability.

The Conceptual Framework defines comparability as “the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena.” These members consider that this can only be achieved by reflecting the economic substance of the specific social benefit.

Consequently, these members do not agree that determining when an obligating event has occurred on a case by case basis will result in inconsistent application of ED 63.

### **“Being alive” is a measurement criterion not a recognition criterion**

These members do not consider that being alive at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the recognition of a liability.

They note that, whilst it cannot be certain that a specific individual who meets the eligibility criteria at the reporting date will be alive when the next provision of social benefit is due, a measurable number of individual beneficiaries will be alive into the future. The entity can, therefore, have a present obligation at the reporting date in respect of provision of the next social benefit.

They do not believe that there is a social benefit-specific reason to treat “being alive” differently to other transactions.



## Next Steps

The deadline for comments is March 31, 2018.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.

### How can I comment on the proposals?

The ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

### Stay informed

The IPSASB's website will indicate the meetings at which feedback on ED 63 will be discussed. The dates and locations of 2018 meetings are available at:

<http://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<http://www.ipsasb.org/projects/social-benefits>