

Final Pronouncement  
January 2019

IPSAS®

*International Public Sector Accounting Standard®*

---

## IPSAS 42, *Social Benefits*

IPSASB

International Public  
Sector Accounting  
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

Copyright © January 2019 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page 70](#).

# IPSAS 42, SOCIAL BENEFITS

## CONTENTS

---

	Paragraph
Objective .....	1–2
Scope .....	3–4
Definitions.....	5
General Approach .....	6–25
Recognition of a Liability for a Social Benefit Scheme .....	6–9
Recognition of an Expense for a Social Benefit Scheme .....	10–11
Measurement of a Liability for a Social Benefit Scheme .....	12–20
Measurement of an Expense for a Social Benefit Scheme .....	21
Disclosure .....	22–25
Insurance Approach .....	26–31
Recognition and Measurement.....	26–28
Disclosure .....	29–31
Reporting on the Long-Term Sustainability of an Entity's Finances .....	32
Transitional Provisions .....	33–34
General Approach.....	33
Insurance Approach .....	34
Effective Date .....	35–36
Application Guidance	
Amendments to Other IPSAS	
Basis for Conclusions	
Implementation Guidance	
Illustrative Examples	
Comparison with GFS	

---

## Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits as defined in this Standard. The information provided should help users of the financial statements and general purpose financial reports assess:
  - (a) The nature of such social benefits provided by the entity;
  - (b) The key features of the operation of those social benefit schemes; and
  - (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.
2. To accomplish that, this IPSAS establishes principles and requirements for:
  - (a) Recognizing expenses and liabilities for social benefits;
  - (b) Measuring expenses and liabilities for social benefits;
  - (c) Presenting information about social benefits in the financial statements; and
  - (d) Determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

## Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for social benefits.**
4. **This Standard applies to a transaction that meets the definition of a social benefit. This Standard does not apply to cash transfers that are accounted for in accordance with other Standards:**
  - (a) **Financial instruments that are within the scope of IPSAS 41, *Financial Instruments* (or IPSAS 29, *Financial Instruments: Recognition and Measurement* prior to an entity adopting IPSAS 41);**
  - (b) **Employee benefits that are within the scope of IPSAS 39, *Employee Benefits*; and**
  - (c) **Insurance contracts that are within the scope of the relevant international or national accounting standard dealing with insurance contracts.**

**Paragraphs AG1–AG3 provide additional guidance on the scope of this Standard.**

## Definitions

5. **The following terms are used in this Standard with the meanings specified:**

**Social benefits are cash transfers 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.**

**Paragraphs AG4–AG8 provide additional guidance on this definition.**

**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.**

Paragraphs AG9–AG10 provide additional guidance on what is encompassed by social risks.

## General Approach

### Recognition of a Liability for a Social Benefit Scheme

- 6. **An entity shall recognize a liability for a social benefit scheme when:**
  - (a) **The entity has a present obligation for an outflow of resources that results from a past event; and**
  - (b) **The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports as set out in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.**

#### *Outflow of Resources*

- 7. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.
- 8. There may be uncertainty associated with the measurement of the liability. The use of estimates is an essential part of the accrual basis of accounting. Uncertainty regarding the outflow of resources does not prevent the recognition of a liability unless the level of uncertainty is so large that the qualitative characteristics of relevance and faithful representativeness cannot be met. Where the level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

#### *Past Event*

- 9. The past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. The satisfaction of eligibility criteria for each social benefit payment is a separate past event.

Paragraphs AG11–AG14 provide additional guidance on the recognition of a liability.

### Recognition of an Expense for a Social Benefit Scheme

- 10. **An entity shall recognize an expense for a social benefit scheme at the same point that it recognizes a liability.**
- 11. An entity shall not recognize an expense for a social benefit scheme where a social benefit payment is made prior to all eligibility criteria for the next payment being satisfied. Rather, an entity shall recognize a payment in advance as an asset in the statement of financial position, unless the amount becomes irrecoverable, in which case it shall recognize an expense.

## Measurement of a Liability for a Social Benefit Scheme

### *Initial Measurement of the Liability*

12. **An entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.**
13. An entity's best estimate of the costs (i.e., the social benefit payments) that the entity will make takes into account the possible effect of subsequent events on those social benefit payments.
14. When the liability in respect of a social benefit scheme is not expected to be settled before twelve months after the end of the reporting period in which the liability is recognized (i.e., the next social benefit payment will not be made for more than twelve months), the liability shall be discounted using the discount rate specified in paragraph 19.
15. Paragraphs AG15–AG18 provide additional guidance on measuring the liability.

### *Subsequent Measurement*

16. **The liability for a social benefit scheme shall be reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability in respect of the social benefit scheme is recognized in surplus or deficit in the period in which the liability is settled.**
17. **Where a liability is discounted in accordance with paragraph 14, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.**
18. **Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.**

### *Discount Rate*

19. **The rate used to discount a liability in respect of a social benefit scheme shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the social benefit liability.**
20. Paragraph AG18 provides additional guidance on the discount rate to be used.

## Measurement of an Expense for a Social Benefit Scheme

21. **An entity shall initially measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 12. Where the entity makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, it shall measure the payment in advance or expense recognized in accordance with paragraph 11 at the amount of the cash transferred.**

## Disclosure

22. **The objective of the disclosures under the general approach, together with the information provided in the statement of financial position, statement of financial performance, statement**

**of changes in net assets/equity and statement of cash flows, is for entities to give users of the financial statements a basis to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 23–25 specify requirements on how to meet this objective.**

23. **An entity shall disclose information that:**

- (a) **Explains the characteristics of its social benefit schemes; and**
- (b) **Explains the demographic, economic and other external factors that may affect its social benefit schemes.**

24. To meet the requirements of paragraph 23, an entity shall disclose:

- (a) Information about the characteristics of its social benefit schemes, including:
  - (i) The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits).
  - (ii) Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, a summary of the main eligibility criteria that must be satisfied to receive the social benefits, and a statement about how additional information about the scheme can be obtained.
  - (iii) A description of how the schemes are funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means. If a scheme is funded (whether in full or in part) by social contributions, the entity shall provide:
    - a. A cross reference to the location of information about those social contributions and any dedicated assets (where this information is included in the entity's financial statements); or
    - b. A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements and how that information can be obtained.
  - (iv) A description of the key demographic, economic and other external factors that influence the level of expenditure under the social benefit schemes. This description may be presented in aggregate where the same demographic, economic and other external factors impact a number of social benefit schemes in a similar manner.
- (b) The total expenditure on social benefits recognized in the statement of financial performance, analyzed by social benefit scheme.
- (c) A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:
  - (i) Changes to the level of social benefits provided; and
  - (ii) Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

In making the disclosures required by this paragraph, an entity shall have regard to the requirements of paragraphs 45–47 of IPSAS 1, *Presentation of Financial Statements*, which provide guidance on materiality and aggregation.

25. If a social benefit scheme satisfies the criteria in paragraph 28 to permit the use of the insurance approach, a statement to that effect.

## Insurance Approach

### Recognition and Measurement

26. **Where a social benefit scheme satisfies the criteria in paragraph 28, an entity is permitted, but not required, to recognize and measure the assets, liabilities, revenue and expenses associated with that social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts<sup>1</sup>.**

**Paragraph AG19 provides additional guidance on the accounting standards dealing with insurance contracts that may be applied, by analogy, in accounting for social benefits.**

27. Where an entity elects not to apply by analogy the requirements of the relevant international or national accounting standard dealing with insurance contracts, the entity shall recognize and measure the liabilities and expenses associated with that social benefit scheme, and include disclosures in the financial statements, in accordance with paragraphs 6–25 of this Standard.
28. An entity may recognize and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the relevant international or national accounting standard dealing with insurance contracts where:
- (a) The social benefit scheme is intended to be fully funded from contributions; and
  - (b) 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.

Paragraphs AG20–AG25 provide additional guidance on determining whether these criteria have been satisfied.

### Disclosure

29. **The objective of the disclosures under the insurance approach, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and statement of cash flows, is for entities to give users of the financial statements a basis to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 30 and 31 specify requirements on how to meet this objective.**
30. **Where an entity recognizes and measures the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of the**

---

<sup>1</sup> In the insurance approach section of this Standard, 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.

**relevant international or national accounting standard dealing with insurance contracts, the entity shall disclose:**

- (a) **The basis for determining that the insurance approach is appropriate;**
- (b) **The information required by the relevant international or national accounting standard dealing with insurance contracts; and**
- (c) **Any additional information required by paragraph 31 of this Standard.**

31. To meet the requirements of paragraph 30(c) of this Standard, an entity shall disclose:

- (a) Information about the characteristics of its social benefit schemes, including:
  - (i) The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits); and
  - (ii) Key features of the social benefit schemes, such as a description of the legislative framework governing the scheme, a summary of the main eligibility criteria that must be satisfied to receive the social benefit, and a statement about how additional information about the scheme can be obtained; and
- (b) A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:
  - (i) Changes to the level of social benefits provided; and
  - (ii) Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

In making the disclosures required by this paragraph, an entity shall have regard to the requirements of paragraphs 45–47 of IPSAS 1, which provide guidance on materiality and aggregation.

## **Reporting on the Long-Term Sustainability of an Entity's Finances**

32. Entities with social benefits are encouraged, but not required, to prepare general purpose financial reports that provide information on the long-term sustainability of the entity's finances. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, provides guidance on the preparation of such reports.

## **Transitional Provisions**

### **General Approach**

33. **In accounting for a social benefit scheme that is recognized and measured, and about which disclosures are made, in accordance with the general approach (see paragraphs 6–25), an entity shall apply this Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

### **Insurance Approach**

34. **An entity shall apply the transitional provisions in the relevant international or national accounting standard dealing with insurance contracts in accounting for a social benefit scheme that is recognized and measured, and about which disclosures are made, in accordance with the insurance approach (see paragraphs 26–31).**

## Effective Date

35. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2022. Earlier adoption is encouraged. If an entity applies this Standard for a period beginning before January 1, 2022, it shall disclose that fact.**
36. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

## Application Guidance

*This Appendix is an integral part of IPSAS 42*

### Scope (see paragraphs 3–4)

- AG1. This Standard is applied in accounting for transactions and obligations that meet the definition of a social benefit in paragraph 5 of this Standard. This Standard does not address transactions that are addressed in other IPSAS, such as employee pensions (which are accounted for in accordance with IPSAS 39, *Employee Benefits*) and concessionary loans such as student loans (which are accounted for in accordance with IPSAS 41, *Financial Instruments* (or IPSAS 29, *Financial Instruments: Recognition and Measurement* prior to an entity adopting IPSAS 41)).
- AG2. Similarly, this Standard does not apply to insurance contracts, even if the risk covered by the insurance contract is a social risk as defined in paragraph 5 of this Standard. Insurance contracts are accounted for in accordance with the relevant international or national accounting standard dealing with insurance contracts.
- AG3. This Standard does not apply to collective and individual services. The definition of social benefits only includes cash transfers, not the provision of services. This Standard does not apply to cash transfers to individuals and households that do not address social risks, for example emergency relief.

### Definitions (see paragraph 5)

*Guidance on the Definition of Social Benefits*

- AG4. Social benefits are cash transfers (including transfers in the form of cash equivalents, for example pre-paid debit cards) provided to individuals and/or households. Services provided by a public sector entity are not social benefits. In some jurisdictions, a public sector entity may provide vouchers that allow individuals and/or households to access services, or may reimburse individuals and/or households for costs incurred in accessing services. The economic substance of these transactions is that the public sector entity is paying for the provision of the services; such transactions do not, therefore, meet the definition of a social benefit. Where a public sector entity provides vouchers or reimbursements, the individual and/or household has no discretion over the use of the benefit. By contrast, social benefits provide cash transfers that may be used indistinguishably from income coming from other sources.
- AG5. Some jurisdictions may provide cash transfers in the form of cash equivalents that have limited restrictions on the use of the cash transfer. For example, a government may provide a pre-paid debit card that can be used to purchase any item except alcohol and tobacco products. Such limited restrictions do not contravene the principle that social benefits provide cash transfers that may be used indistinguishably from income coming from other sources. Pre-paid debit cards with limited restrictions are cash transfers, not the provision of services by a government.
- AG6. Social benefits are only provided when eligibility criteria to receive a social benefit payment when it is next paid are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be

insufficient are met. Although the unemployment benefit scheme potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria. In some cases, eligibility criteria may relate to citizenship or residence, for example where a public sector entity pays a universal basic income to all adult residents.

- AG7. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the definition criteria that they are provided to mitigate the effect of social risks.
- AG8. Social benefits are organized to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance contracts, which are organized for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each social benefit covers all members of society; in some jurisdictions, social benefits are provided through a range of similar benefits that cover different segments of society. A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole.

*Guidance on the Definition of Social Risks*

- AG9. Social risks relate to the characteristics of individuals and/or households—for example, age, health, poverty and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.
- AG10. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the unemployment benefit arises from characteristics of the individuals and/or households – in this case a change in an individual’s employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

**General Approach (see paragraphs 6–21)**

*Recognition of a Liability for a Social Benefit Scheme*

- AG11. In accordance with paragraph 9 of this Standard, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. Being alive at the point at which the eligibility criteria are required to be satisfied may be an eligibility criterion, whether explicitly stated or implicit. Other ongoing eligibility criteria may be relevant for some social benefit schemes. For example, many unemployment benefits are only payable while the individual remains resident in the jurisdiction; residence is an ongoing eligibility criterion. For a liability to be recognized, a beneficiary must satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date, even if formal validation of the eligibility criteria occurs less frequently.

AG12. Where a beneficiary has not previously satisfied the eligibility criteria for the next payment, or there has been a break in satisfying the eligibility criteria, a liability is recognized at the point that the eligibility criteria for the next payment are first satisfied or when all the eligibility criteria are satisfied again. Examples may include:

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

An entity will recognize a liability where beneficiaries satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date. Where a beneficiary satisfies the eligibility criteria for a social benefit payment prior to the point at which the next social benefit payment will be made, but after the reporting date, no liability is recognized, as there is no present obligation as at the reporting date.

AG13. Where a beneficiary has previously satisfied the eligibility criteria, and there has been no break in satisfying those criteria, a liability for social benefits is recognized each time the criteria are satisfied.

AG14. Whether being alive is a separate eligibility criterion will depend on the characteristics of each individual social benefit scheme. For some schemes, separate consideration of being alive is not required as it is indirectly addressed by another eligibility criterion. For example:

- (a) An unemployment benefit may only be payable to those who have become unemployed and are available for work (which implicitly includes being alive).
- (b) Being alive may not be an eligibility criterion for the recipient of the social benefit. A child benefit may be paid to the parents or guardian of the child; the payment of the benefit may be dependent on the child being alive, and not on the status of the parent or guardian.
- (c) Benefits may be transferred to a survivor following the death of the beneficiary.

An entity needs to consider how being alive affects the recognition of each particular social benefit scheme, taking all relevant factors into consideration.

*Measurement of a Liability for a Social Benefit Scheme*

AG15. In accordance with paragraph 12 of this Standard, an entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity expects to make in fulfilling the present obligation represented by the liability. Satisfaction of the eligibility criteria for each social benefit payment is a separate past event, and the liability for each payment is measured separately. The maximum amount to be recognized as a liability is the costs the entity expects to incur in making the next social benefit payment. This is because social benefit payments beyond this point are future events for which there is no present obligation.

AG16. In measuring the liability, an entity takes into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria for the next payment are required (implicitly or explicitly) to be satisfied. Examples include:

- (a) The death of the beneficiary (where no survivor benefits are payable);
- (b) Commencing employment (in the case of an unemployment benefit); and
- (c) Exceeding the maximum period for which a social benefit is provided (where an unemployment benefit is provided for a limited period).

The extent to which such events affect the measurement of the liability will depend on the terms of the scheme. For example, an unemployment benefit is payable on the 15<sup>th</sup> of each month, and the reporting date is December 31. If the payment to be made on January 15 relates to unemployment up to December 15, then at the time the eligibility criteria for the next social benefit payment are met, the amount due will be known and is recognized at the reporting date. No adjustment for beneficiaries subsequently ceasing to be eligible is required.

However, if the payment on January 15 relates to unemployment between December 16 and January 15, measurement of the liability to be recognized at the reporting date is based on an estimate of the extent to which eligibility criteria for a payment have been satisfied.

- AG17. Because a liability cannot extend beyond the point at which eligibility criteria for the next payment will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorized for issue, an entity may receive information regarding the eligibility of beneficiaries to receive the social benefit. IPSAS 14, *Events After the Reporting Date*, provides guidance on using this information.
- AG18. Because a liability for a social benefit scheme will usually be a short-term liability, the time value of money may not be material. Nevertheless, this Standard requires an entity to discount the liability in those cases where the liability is not expected to be settled within twelve months of the reporting date and the impact of discounting is material. IPSAS 39 provides additional guidance on the discount rate to be used.

### **Insurance Approach (see paragraphs 26–28)**

- AG19. In the insurance approach section of this Standard, 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 that satisfy the criteria to use the insurance approach, will provide information that meets users’ needs and satisfies the qualitative characteristics. This may not be the case for other accounting standards dealing with insurance contracts. For example, the IASB has described IFRS 4, *Insurance Contracts*, as an “interim Standard that permits a wide range of practices and includes a “temporary exemption”, which explicitly states that an entity does not need to ensure that its accounting policies are relevant to the economic decision-making needs of users of financial statements, or that those accounting policies are reliable.”<sup>2</sup> IFRS 4, and national standards that are consistent with the principles of IFRS 4, may not provide information that meets users’ needs and satisfies the qualitative characteristics. Consequently, an entity may not recognize and measure the assets, liabilities, revenue and expenses associated with a social benefit scheme by applying, by analogy, the requirements of standards that have not adopted substantially the same principles as IFRS 17.

---

<sup>2</sup> Exposure Draft ED/2013/7 *Insurance Contracts*

*Guidance on Determining Whether a Social Benefit Scheme is Intended to be Fully Funded from Contributions*

AG20. A social benefit scheme is intended to be fully funded from contributions when:

- (a) The legislation or other arrangement governing the social benefit scheme provides for the scheme to be funded by contributions or levies paid by or on behalf of either the potential beneficiaries or those whose activities create or exacerbate the social risks which are mitigated by the social benefit scheme, together with investment returns arising from the contributions or levies; and
- (b) One or both of the following indicators (individually or in combination) is satisfied:
  - (i) Contribution rates or levy rates are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the revenue from contributions or levies will be sufficient to fully fund the social benefit scheme; and/or
  - (ii) Social benefit levels are reviewed (and, where appropriate, adjusted in line with the scheme's funding policy), either on a regular basis or when specified criteria are met, with the aim of ensuring that the levels of social benefits provided will not exceed the level of funding available from contributions or levies.

In subparagraphs (i) and (ii) above, reviews are undertaken on a regular basis when they are performed at a frequency appropriate for the specific scheme. While annual reviews are common, less frequent—or more frequent—reviews will be appropriate for some schemes.

AG21. In some circumstances, a public sector entity may be required to make contributions to a social benefit scheme on behalf of those individuals and/or households who could not afford to do so. Such contributions may be made by the entity administering the scheme or some other entity. For example, a public sector entity may be required to make contributions to a retirement pension scheme for those individuals who are unemployed. Where the contributions relate to specified individuals and/or households (which in some cases will require the contributions to be credited against the individuals' contribution accounts), the contributions made by the public sector entity are to be considered as contributions for the purposes of determining whether a social benefit scheme is intended to be fully funded from contributions in accordance with paragraph 28(a). Where a public sector entity makes contributions to fund the deficit on a social benefit scheme, the contributions are not related to specified individuals and/or households, and are not considered as contributions for the purposes of determining whether a social benefit scheme is intended to be fully funded from contributions in accordance with paragraph 28(a).

AG22. In assessing whether a social benefit scheme is intended to be fully funded from contributions, an entity considers substance over form. For example, where a social benefit scheme is in deficit for a period but the scheme has an ability to adjust the future contribution rates and/or benefits payable such that the deficit is addressed, the scheme may still satisfy the criteria to be accounted for under the insurance approach.

AG23. The reference in paragraph AG20(a) to "those whose activities create or exacerbate the social risks which are mitigated by the social benefit scheme" is intended to cover those social benefit schemes such as an accident insurance scheme that:

- (a) Are funded by levies on, for example, motorists or employers in particular industries; and

- (b) Provide coverage against social risks to the wider population.

*Guidance on Determining Whether an Entity is Managing a Scheme in the Same Way as an Insurer*

- AG24. An entity is managing a social benefit scheme in the same way as an insurer would manage an insurance portfolio when the social benefit scheme has, with the exception of its legislative rather than contractual origins, the characteristics of an insurance contract. The social benefit scheme should confer the rights and obligations on parties similar to that of an insurance contract.
- AG25. In determining whether it is managing a social benefit scheme in the same way as an insurer would manage an insurance portfolio, an entity considers the following indicators:
- (a) Does the entity consider itself bound by the scheme in a similar manner to an insurer being bound by an insurance contract? For example, there may be evidence that the entity considers that it can amend the terms of the scheme for existing participants in a manner that an insurer could not (such as where the entity can make retrospective changes to the scheme). In such cases, the entity will not be bound in a similar manner to an insurer, and the social benefit scheme will not have the characteristics of an insurance contract. An entity will be bound by the scheme in a similar manner to an insurer where its ability to amend the scheme for existing participants is limited to:
    - (i) Circumstances prescribed by the legislation that establishes the scheme (equivalent to a contractual term permitting changes in specific circumstances); or
    - (ii) When a government is setting new contribution or levy rates (where a trade-off between the contributions and prospective benefits is part of the process of determining an appropriate rate).
  - (b) Are assets relating to the social benefit scheme held in a separate fund, or otherwise earmarked, and restricted to being used to provide social benefits to participants? If an entity does not separately identify amounts relating to social benefits, this will provide evidence that the entity considers the contributions as a form of taxation. The social benefit scheme will not have the characteristics of an insurance contract. There will also be practical difficulties with applying the measurement requirements of the relevant international or national accounting standard dealing with insurance contracts if the assets associated with a social benefit scheme are not separately identified.
  - (c) Does the legislation that establishes the social benefit give enforceable rights to participants in the event that the social risk occurs? Insurance contracts give such rights to policyholders. If the social benefit scheme does not also include such rights, then any social benefits provided by the entity will have a discretionary nature, meaning that the social benefit scheme will not have the characteristics of an insurance contract. For rights to be enforceable, a participant would need to have the right to challenge—in a court of law, via an arbitration or dispute resolution process or similar mechanism—decisions by the entity. The decisions that may be challenged include, but are not limited to, those regarding whether an event is covered by a scheme, the level of social benefits payable by a scheme, and the duration of any social benefits payable by a scheme.
  - (d) An entity assesses the financial performance and financial position of a social benefit scheme on a regular basis where it is required to report internally on the financial performance of the scheme, and, where necessary, to take action to address any under-performance by the scheme. The assessment is expected to involve the use of actuarial reviews, mathematical

modelling, or similar techniques to provide information for internal decision-making on the different possible outcomes that might occur.

- (e) Is there a separate entity established by the government, which is expected to act like an insurer in relation to a social benefit scheme? The existence of such an entity provides evidence that the entity is managing a scheme in the same way as an insurer would manage an insurance portfolio. However, it is not a requirement for applying the insurance approach that a separate entity has been established. Relevant international and national accounting standards dealing with insurance contracts apply to insurance contracts, not just to insurance companies.

## Amendments to Other IPSAS

### Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs 88, 94, and 112–115 are amended and paragraph 153M is added. New text is underlined and deleted text is struck through.

...

### Structure and Content

...

#### Statement of Financial Position

...

*Information to be Presented on the Face of the Statement of Financial Position*

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

(a) **Property, plant, and equipment;**

...

(j) **Taxes and transfers payable;**

(ja) **Social benefits liabilities;**

(k) **Payables under exchange transactions;**

...

...

*Information to be Presented either on the Face of the Statement of Financial Position or in the Notes*

...

94. The detail provided in subclassifications depends on the requirements of IPSASs and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) Items of property, plant and equipment are disaggregated into classes in accordance with IPSAS 17;

...

(d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(da) Social benefits liabilities are disaggregated into separate social benefit schemes where these are material;

(e) Provisions are disaggregated into provisions for employee benefits and other items; and

(f) Components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits, and any reserves.

...

**Statement of Financial Performance**

...

*Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes*

...

112. The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits, and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Employee benefits costs	X	
<u>Social benefits expenses</u>	<u>X</u>	
Depreciation and amortization expense	X	
Other expenses	<u>X</u>	
Total expenses		<u>(X)</u>
Surplus		<u><u>X</u></u>

113. The second form of analysis is the function of expense method and classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgment. An example of a classification using the function of expense method is as follows:

Revenue		X
Expenses:		
<u>Social benefits expenses</u>		<u>(X)</u>
Health expenses		(X)
Education expenses		(X)
Other expenses		<u>(X)</u>
Surplus		<u><u>X</u></u>

114. The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of social benefits, health and education services. The entity would present expense line items for each of these functions.

115. **Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expense, social benefits expense and employee benefits expense.**

...

**Effective Date**

...

153M. Paragraphs 88, 94 and 112–115 were amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply these amendments at the same time as it applies IPSAS 42.

...

**Implementation Guidance**

...

**Public Sector Entity—Statement of Financial Position**

**As at December 31, 20X2**

(in thousands of currency units)

	<b>20X2</b>	<b>20X1</b>
<b>ASSETS</b>		
...		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
<u>Social benefits</u>	<u>X</u>	<u>X</u>
Employee benefits	X	X
Superannuation	X	X
	<hr/>	<hr/>
	X	X
<b>Non-current liabilities</b>		
Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
<u>Social benefits</u>	<u>X</u>	<u>X</u>
Employee benefits	X	X
Superannuation	X	X
	<hr/>	<hr/>
	X	X
<b>Total liabilities</b>	<hr/>	<hr/>
	X	X
<b>Net assets</b>	<hr/>	<hr/>
	X	X

	20X2	20X1
<b>Net assets/equity</b>		
...		
Non-controlling interest	<u>X</u>	<u>X</u>
<b>Total net assets/equity</b>	<u>X</u>	<u>X</u>

**Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2**

**(Illustrating the Classification of Expenses by Function)**

(in thousands of currency units)

	20X2	20X1
<b>Revenue</b>		
...		
<b>Expenses</b>		
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
<u>Social benefits</u>	<u>(X)</u>	<u>(X)</u>
Other social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	<u>(X)</u>	<u>(X)</u>
<b>Total Expenses</b>	<u>(X)</u>	<u>(X)</u>

...

**Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2**

**(Illustrating the Classification of Expenses by Nature)**

(in thousands of currency units)

	20X2	20X1
<b>Revenue</b>		
...		
<b>Expenses</b>		
Wages, salaries, and employee benefits	(X)	(X)
<u>Social benefits</u>	<u>(X)</u>	<u>(X)</u>
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment*	(X)	(X)
Other expenses	(X)	(X)
Finance costs	<u>(X)</u>	<u>(X)</u>
<b>Total Expenses</b>	<u>(X)</u>	<u>(X)</u>

...

\* In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant, and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates.

**Amendments to IPSAS 2, *Cash Flow Statements***

Paragraph 22 is amended and paragraph 63G is added. New text is underlined and deleted text is struck through.

...

**Presentation of a Cash Flow Statement**

...

Operating Activities

...

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) Cash receipts from taxes, levies, and fines;

...

(d) Cash receipts from royalties, fees, commissions, and other revenue;

(da) Cash payments to beneficiaries of social benefit schemes;

(e) Cash payments to other public sector entities to finance their operations (not including loans);

....

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph 83A of IPSAS 17, *Property, Plant, and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

...

**Effective Date**

63G. Paragraph 22 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.

...

**Illustrative Examples**

*These examples accompany, but are not part of, IPSAS 2.*

**Cash Flow Statement (For an Entity Other Than a Financial Institution)**

**Direct Method Cash Flow Statement (paragraph 27(a))**

**Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2**

IPSAS 42—SOCIAL BENEFITS

	(in thousands of currency units)	<b>20X2</b>	<b>20X1</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
...			
<b>Payments</b>			
Employee costs		(X)	(X)
Superannuation		(X)	(X)
Suppliers		(X)	(X)
<u>Social benefits</u>		<u>(X)</u>	<u>(X)</u>
Interest paid		(X)	(X)
Other payments		(X)	(X)
<b>Net cash flows from operating activities</b>		<u>X</u>	<u>X</u>

...

**Notes to the Cash Flow Statement**

...

*(C) Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)*

	(in thousands of currency units)	<b>20X2</b>	<b>20X1</b>
<b>Surplus/(deficit)</b>		<b>X</b>	<b>X</b>
<b>Non-cash movements</b>			
Depreciation		X	X
...			
Increase in borrowings		X	X
<u>Increase in social benefits liabilities</u>		<u>X</u>	<u>X</u>
Increase in provisions relating to employee costs		X	X
...			
Increase in receivables		(X)	(X)
<b>Net cash flows from operating activities</b>		<u>X</u>	<u>X</u>

**Indirect Method Cash Flow Statement (paragraph 27(b))**

**Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2**

	(in thousands of currency units)	<b>20X2</b>	<b>20X1</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Surplus/(deficit)		X	X
<b>Non-cash movements</b>			
Depreciation		X	X
Amortization		X	X
Increase in provision for doubtful debts		X	X
Increase in payables		X	X
Increase in borrowings		X	X
<u>Increase in social benefits liabilities</u>		<u>X</u>	<u>X</u>
Increase in provisions relating to employee costs		X	X
(Gains)/losses on sale of property, plant and equipment		(X)	(X)
(Gains)/losses on sale of investments		(X)	(X)
Increase in other current assets		(X)	(X)
Increase in investments due to revaluation		(X)	(X)
Increase in receivables		(X)	(X)
<b>Net cash flows from operating activities</b>		<u>X</u>	<u>X</u>

**Amendments to IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets**

Paragraphs 1, 12, 19, and 77 are amended, paragraph 111I is added and paragraphs 7–11, 99 and 104 are deleted. New text is underlined and deleted text is struck through.

**Scope**

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities, and contingent assets, except:**
  - (a) ~~Those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits~~Social benefits within the scope of IPSAS 42;

...

**Social Benefits**

- ~~7. For the purposes of this Standard, “social benefits” refer to goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:
 
  - (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
  - (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.~~
- ~~8. In many cases, obligations to provide social benefits arise as a consequence of a government’s commitment to undertake particular activities on an ongoing basis over the long term in order to provide particular goods and services to the community. The need for, and nature and supply of, goods and services to meet social policy obligations will often depend on a range of demographic and social conditions, and are difficult to predict. These benefits generally fall within the social protection, education, and health classifications under the International Monetary Fund’s Government Finance Statistics framework, and often require an actuarial assessment to determine the amount of any liability arising in respect of them.~~
- ~~9. For a provision or contingency arising from a social benefit to be excluded from the scope of this Standard, the public sector entity providing the benefit will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of the benefit. This exclusion would encompass those circumstances where a charge is levied in respect of the benefit, but there is no direct relationship between the charge and the benefit received. The exclusion of these provisions and contingent liabilities from the scope of this Standard reflects the Committee’s view that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability require further consideration before proposed Standards are exposed. For example, the Committee is aware that there are differing views about whether the obligating event occurs when the individual meets the eligibility criteria for the benefit or at some~~

~~earlier stage. Similarly, there are differing views about whether the amount of any obligation reflects an estimate of the current period's entitlement, or the present value of all expected future benefits determined on an actuarial basis.~~

- ~~10. Where an entity elects to recognize a provision for such obligations, the entity discloses the basis on which the provisions have been recognized and the measurement basis adopted. The entity also makes other disclosures required by this Standard in respect of those provisions. IPSAS 1 provides guidance on dealing with matters not specifically dealt with by another IPSAS. IPSAS 1 also includes requirements relating to the selection and disclosure of accounting policies.~~
- ~~11. In some cases, social benefits may give rise to a liability for which there is:~~
- ~~(a) Little or no uncertainty as to amount; and~~
  - ~~(b) The timing of the obligation is not uncertain.~~

~~Accordingly, these are not likely to meet the definition of a provision in this Standard. Where such liabilities for social benefits exist, they are recognized where they satisfy the criteria for recognition as liabilities (refer also to paragraph 19). An example would be a period-end accrual for an amount owing to the existing beneficiaries in respect of aged or disability pensions that have been approved for payment consistent with the provisions of a contract or legislation.~~

### **Other Exclusions from the Scope of the Standard**

- ~~12. This Standard does not apply to executory contracts unless they are onerous. Contracts to provide social benefits entered into with the expectation that the entity will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, are excluded from the scope of this Standard.~~

...

### **Definitions**

...

### **Provisions and Other Liabilities**

- ~~19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:~~
- ~~(a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and~~

...

### **Application of the Recognition and Measurement Rules**

...

### **Onerous Contracts**

- ~~77. Paragraph 76 of this Standard applies only to contracts that are onerous. Contracts to provide social benefits entered into with the expectation that the entity does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, are excluded from the scope of this Standard.~~

...

## Disclosure

...

~~99. Where an entity elects to recognize in its financial statements provisions for social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, it shall make the disclosures required in paragraphs 97 and 98 in respect of those provisions.~~

...

~~104. The disclosure requirements in paragraph 100 do not apply to contingent liabilities that arise from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods or services provided, directly in return from the recipients of those benefits (see paragraphs 1(a) and 7–11 for a discussion of the exclusion of social benefits from this Standard).~~

...

## Effective Date

...

**111l. Paragraphs 1, 12, 19, and 77 were amended and paragraphs 7–11, 99 and 104 were deleted by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply these amendments at the same time as it applies IPSAS 42.**

...

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 19.*

...

### **Revision of IPSAS 19 as a result of IPSAS 42, *Social Benefits***

BC3. When issued, this Standard excluded provisions and contingent liabilities “arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits” from the scope of the Standard. This reflected the view at that time that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability required further consideration.

BC4. This Standard did not, however, prohibit the recognition of provisions relating to social benefits, and required disclosures where an entity elected to recognize a provision for such obligations.

BC5. Following the publication of IPSAS 42, all social benefits (as defined in that Standard) will be accounted for in accordance with that Standard. This Standard has therefore been revised to exclude all social benefits within the scope of IPSAS 42.

### Comparison with IAS 37

IPSAS 19 is drawn primarily from IAS 37 (1998). The main differences between IPSAS 19 and IAS 37 are as follows:

- IPSAS 19 includes commentary additional to that in IAS 37 to clarify the applicability of the standards to accounting by public sector entities. IPSAS 19 clarifies that it does not apply to social benefits within the scope of IPSAS 42, *Social Benefits*. ~~In particular, the scope of IPSAS 19 clarifies that it does not apply to provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of the goods and services provided directly in return from recipients of those benefits. However, if the entity elects to recognize provisions for social benefits, IPSAS 19 requires certain disclosures in this respect.~~

### Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Paragraph 2 is amended and paragraph 124G is added. New text is underlined and deleted text is struck through.

...

### Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to:
  - (a) A a public sector combination that is a non-exchange transaction; and
  - (b) Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26–31 of IPSAS 42, *Social Benefits* (the insurance approach).

...

### Effective Date

...

- 124G. Paragraph 2 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.

...

### Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 23.*

...

### Compulsory Contributions to Social Security Schemes

- BC26. This Standard does not exclude from its scope compulsory contributions to social security schemes that are non-exchange transactions. There are a variety of different arrangements for funding social security schemes in different jurisdictions. At the time that IPSAS 23 was developed, the IPSASB considered that ~~W~~ whether or not compulsory contributions to social security schemes give rise to

exchange or non-exchange transactions depends on the particular arrangements of a given scheme, and professional judgment is exercised to determine whether the contributions to a social security scheme are recognized in accordance with the principles established in this Standard, or in accordance with principles established in international or national standards addressing such schemes.

BC26A. The IPSASB reconsidered this issue in developing IPSAS 42, *Social Benefits*. The IPSASB concluded that such contributions are non-exchange transactions, and should be accounted for in accordance with this Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under this Standard.

### **Amendments to IPSAS 24, *Presentation of Budget Information in Financial Statements***

Paragraph 48 is amended and paragraph 54E is added. New text is underlined.

...

### **Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements**

...

48. Differences between the actual amounts identified consistent with the comparable basis, and the actual amounts recognized in the financial statements, can usefully be classified into the following:
- (a) Basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the cash basis or modified cash basis and the financial statements are prepared on the accrual basis;
  - (b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and
  - (c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget. For example, social benefits as defined in IPSAS 42, *Social Benefits*, are limited to cash transfers. The GFS classification of social benefits is wider, and includes some individual services provided by governments.

...

### **Effective Date**

...

54E. Paragraph 48 was amended by IPSAS 42 issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.

...

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 24.*

...

### Revision of IPSAS 24 as a result of IPSAS 42, *Social Benefits*

BC25. In developing IPSAS 42, *Social Benefits*, the IPSASB noted that its definition of social benefits did not include all the transactions classified as social benefits under GFS. As some public sector entities may prepare budgets using the GFS basis, the IPSASB considered that it would be helpful to preparers to include social benefits as an example of where there may be differences in the classification schemes adopted for presentation of financial statements and the budget.

## Illustrative Examples

*These examples accompany, but are not part of, IPSAS 24.*

### Statement of Comparison of Budget and Actual Amounts

For Government XX for the Year Ended December 31, 20XX

#### BUDGET ON CASH BASIS

#### (Classification of Payments by Functions)

Note: The budget and the accounting basis is different. This Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

(in currency units)	Budgeted Amounts		Actual Amounts on Comparable Basis	*Difference: Final Budget and Actual
	Original	Final		
<b>RECEIPTS</b>				
...				
<b>PAYMENTS</b>				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
<u>Social Benefits</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>
SOther social protection	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)
<b>Total payments</b>	<b>(X)</b>	<b>(X)</b>	<b>(X)</b>	<b>(X)</b>

...

\* The "Difference..." column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

**Encouraged Note Disclosure: Biennial Budget on Cash Basis—For Government B for the Year Ended December 31, 20XX**

(in currency units)	Original Biennial Budget Year	Target Budget for 1 <sup>st</sup> Year	Revised Budget in 1 <sup>st</sup> Year	1 <sup>st</sup> Year Actual on Comparable Basis	Balance Available for 2 <sup>nd</sup> Year	Target Budget for 2 <sup>nd</sup> Year	Revised Budget in 2 <sup>nd</sup> Year	2 <sup>nd</sup> Year Actual on Comparable Basis	<i>*Difference: Budget and Actual over Budget Period</i>
<b>RECEIPTS</b>									
...									
<b>PAYMENTS</b>									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Public order and safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
<u>Social Benefits</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>
<del>S</del> Other social protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Housing, community amenities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Recreational, cultural, religion	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
<b>Total payments</b>	<b>(X)</b>	<b>(X)</b>	<b>(X)</b>	<b>(X)</b>	<b>(X)</b>	<b>(X)</b>	<b>(X)</b>	<b>(X)</b>	<b>(X)</b>
<b>NET RECEIPTS/ (PAYMENTS)</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

\* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

### **Amendments to IPSAS 28, *Financial Instruments: Presentation***

Paragraph 60G is added and paragraph AG23 is amended. New text is underlined and deleted text is struck through.

...

### **Effective date**

**60G. Paragraph AG23 was amended by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment at the same time as it applies IPSAS 42.**

### **Application Guidance**

...

### **Definitions (paragraphs 9–12)**

#### *Financial Assets and Financial Liabilities*

...

AG23. Statutory obligations can be accounted for in a number of ways:

- Obligations to pay income taxes are accounted for in accordance with the relevant international or national accounting standard dealing with income taxes.
- Obligations to provide social benefits are accounted for in accordance with ~~IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*~~ and IPSAS 19~~IPSAS 42, *Social Benefits*~~.
- Other statutory obligations are accounted for in accordance with IPSAS 19.

### **Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)***

Paragraph 36 is amended and paragraphs 134A, 134B and 154G are added. New text is underlined and deleted text is struck through.

...

### **Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition**

...

### **Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities**

#### *Recognition and/or Measurement of Assets and/or Liabilities*

36. **Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or**

liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:

- (a) Inventories (see IPSAS 12, *Inventories*);
- (b) Investment property (see IPSAS 16, *Investment Property*);
- (c) Property, plant and equipment (see IPSAS 17, *Property, Plant and Equipment*);
- (d) Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);
- (e) Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);
- (f) Intangible assets (see IPSAS 31, *Intangible Assets*);
- (g) Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*); ~~and~~
- (h) Financial instruments (see IPSAS 41, *Financial Instruments*); ~~and~~
- (i) Social benefits (see IPSAS 42, *Social Benefits*).

...

## Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

...

### IPSAS 42, *Social Benefits*

134A. On the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for a social benefit scheme at that date in accordance with IPSAS 42.

134B. If the initial liability in accordance with paragraph 134A is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

...

### Effective Date

...

154G. Paragraph 36 was amended and paragraphs 134A and 134B were added by IPSAS 42, *Social Benefits*, issued in January 2019. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 42 at the same time.

...

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, IPSAS 33.*

...

## **Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS**

...

### IPSAS 42, Social Benefits

BC60A. The IPSASB issued IPSAS 42, Social Benefits, in January 2019. The IPSASB acknowledged that the recognition and/or measurement of liabilities related to social benefits may be challenging for some public sector entities. The IPSASB therefore agreed that a first-time adopter should be given a three year relief period for the recognition and/or measurement of liabilities related to social benefits.

...

## **Implementation Guidance**

*This guidance accompanies, but is not part of, IPSAS 33.*

...

## **Presentation and Disclosure**

...

## **Summary of Transitional Exemptions and Provisions Included in IPSAS 33 First-time Adoption of Accrual Basis IPSASs**

IG91. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

...

IPSAS 42—SOCIAL BENEFITS

	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
<u>IPSAS 42. Social Benefits</u>			✓ <u>liabilities for social benefits not recognized under previous basis of accounting</u>	✓ <u>liabilities for social benefits recognized under previous basis of accounting</u>				

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 42*

### Objective (paragraphs 1–2)

BC1. In the absence of an International Public Sector Accounting Standard (IPSAS) dealing with social benefits, public sector entities were required to develop their own accounting policies for recognizing, measuring and presenting social benefits. As a result, there may not have been consistent or appropriate reporting of transactions and obligations related to social benefits in general purpose financial statements (financial statements). Consequently, users may not have been able to obtain the information needed to identify the social benefits provided by an entity and evaluate their financial effect. The IPSASB believes that IPSAS 42 will promote consistency and comparability in how social benefits are reported by public sector entities.

### Scope and Definitions (paragraphs 3–5)

#### *History*

- BC2. In developing IPSAS 42, the IPSASB noted that existing IPSASs did not define social benefits. Instead, a broad description was given in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.
- BC3. IPSAS 19 described social benefits as “goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:
- (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
  - (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.”
- BC4. The IPSASB also had regard to its previous work in this area. The 2004 Invitation to Comment (ITC), *Accounting for Social Policies of Government*, sought views on how to account for a wide range of social benefits. The ITC noted that “Social benefits could also be provided under other categories of government activity (for example, Defense, Public Order and Safety and Community Amenities).” These are often referred to as “collective services” or “collective goods and services.”
- BC5. Responses to the ITC supported the development of an IPSAS on social benefits. However, the IPSASB failed to reach a consensus on when a present obligation arises especially for contributory cash transfer schemes. Consequently, in 2008 the IPSASB issued Exposure Draft (ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, and a Consultation Paper (CP), *Social Benefits: Issues in Recognition and Measurement*. At this time the IPSASB also issued a Project Brief, *Long-Term Fiscal Sustainability*.
- BC6. Respondents did not consider that the proposed disclosures in the financial statements could convey sufficient information about social benefits. Consequently, the IPSASB agreed not to proceed with ED 34.

- BC7. The CP, *Social Benefits: Issues in Recognition and Measurement*, proposed a narrower definition of social benefits than had been included in the 2004 ITC. The CP included the following definition of social benefits:
- “The IPSASB defines social benefits as;
- (a) Cash transfers; and
  - (b) Collective and individual goods and services
- that are provided by an entity to individuals or households in non-exchange transactions to protect the entire population, or a particular segment of the population, against certain social risks.”
- BC8. This definition introduced the idea of social benefits being related to social risks for the first time in the IPSASB’s literature. According to this definition, not all cash transfers or collective and individual goods and services are social benefits. Only those cash transfers or collective and individual goods and services that are provided to protect the entire population, or a particular segment of the population, against certain social risks meet the definition of social benefits. The CP did not, however, define social risks.
- BC9. Despite the narrower scope and the link with social risks, the IPSASB did not reach a consensus on when a present obligation arises for social benefits within the scope of the CP. The IPSASB recognized the linkages between its work in developing *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) and accounting for social benefits. The elements and recognition phase of the *Conceptual Framework* would define a liability. This definition and supporting analysis would influence the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic until after the completion of the *Conceptual Framework*.
- BC10. In the interim, the IPSASB initiated a project on the long-term sustainability of public finances in 2008, based on the project brief. Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity’s Finances* was published in 2013.
- BC11. RPG 1 provides guidance on preparing general purpose financial reports that can meet users’ needs for information about the long-term fiscal sustainability of an entity, including the social benefit schemes the entity provides.
- BC12. In the context of social benefits, general purpose financial reports prepared in accordance with RPG 1 will provide information about expected obligations to be settled in the future, including obligations to individuals who have not met the eligibility criteria for a scheme, or who are not currently contributing to a scheme that would entitle them to future social benefits. RPG 1 does not address the question of whether such obligations meet the definition of a present obligation, and so should be recognized in the financial statements.
- BC13. General purpose financial reports prepared in accordance with RPG 1 will also include information about the expected resources to be realized in the future that will be used to finance social benefits. In many jurisdictions this will include future taxation income. Because an entity does not currently control these resources, they are not recognized in the financial statements.
- BC14. The IPSASB restarted its work on social benefits in 2014. The IPSASB noted that the broad scope of social benefits included in previous projects had been a factor in the IPSASB failing to reach consensus. Consequently, the IPSASB decided to adopt a narrower definition of social benefits. At this time, the IPSASB had agreed to commence work on a non-exchange expenses project; the

IPSASB considered that adopting a narrower definition of social benefits would best meet the project management needs of both projects.

*Role of Government Finance Statistics (GFS)*

- BC15. The IPSASB considers it important to reduce differences with the statistical basis of reporting where appropriate. The IPSASB therefore considered the approach to social benefits taken in GFS.
- BC16. In developing the CP, *Recognition and Measurement of Social Benefits* (issued in 2015) the IPSASB considered that social benefits, other transfers in kind and collective services would be expected to raise similar issues regarding the recognition and measurement of liabilities and expenses. However, the IPSASB considered that different factors would arise in the recognition and measurement of transactions that address specific social risks (i.e., social benefits) and those transactions that do not. For example, the recognition and measurement of an obligation in respect of social benefits may be related to individuals satisfying eligibility criteria.
- BC17. Having reviewed the approach to social benefits taken in GFS, the IPSASB noted that the economic consequences described in GFS were likely to be similar to those in a future IPSAS. The IPSASB decided to align, as far as possible, its definition of social benefit with those in GFS. This was the approach taken in the CP, *Recognition and Measurement of Social Benefits*.
- BC18. The alignment with GFS was intended to provide clearer definitions that demarcate transactions and events which are, in substance dissimilar. It also maximized consistency between the two frameworks, in line with the IPSASB policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*.

*Responses to Consultation Paper, Recognition and Measurement of Social Benefits*

- BC19. A majority of respondents supported the scope of the project as set out in the 2015 CP, and the IPSASB's intention to align the scope of the project, and the definitions of social benefits and social risks, with GFS. These respondents considered that alignment with GFS would assist with interpreting an IPSAS and help ensure consistency in its application.
- BC20. However, a significant minority raised concerns. The main concerns were:
- (a) Definition of social risk. A number of respondents considered that the definition of social risk was difficult to apply in practice, and that it was therefore difficult to differentiate between social benefits and certain other non-exchange expenses of government.
  - (b) The boundary between social benefits and non-exchange expenses. Some respondents considered that social benefits in kind and other transfers in kind give rise to the same issues. These respondents considered that the scope of the 2015 CP creates an artificial boundary between social benefits and other non-exchange expenses.
- BC21. The IPSASB considered these concerns in developing ED 63, *Social Benefits*, as follows:
- (a) The definition of social risks was reframed to fit an accounting framework as opposed to an economic/statistical framework. Although the wording of the definition was amended in ED 63, the IPSASB's intention in so doing was to clarify the meaning of the definitions for preparers, rather than to modify the risks that are considered to be social risks. The definition of social benefits was also amended to improve the clarity of the definition.

- (b) ED 63 distinguished between social risks and other risks, for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring. The hazards or events that give rise to these risks are not related to the characteristics of individuals and/or households, which is a distinguishing feature of social risks. The IPSASB also noted that governments' responses to social risks are often different to their response to other risks. Governments usually plan for the occurrence of social risks, with schemes, backed by legislation, in place to address these risks. By contrast, governments' responses to other risks such as geographical risks are often reactive, and may be put in place following the occurrence of an event such as flooding or an earthquake. The IPSASB considered that the reactive nature of responses to other risks was more suited to its non-exchange expenses project than this Standard. The IPSASB also noted that this approach would be consistent with the approach taken in GFS.
- (c) ED 63 distinguished between those benefits that are provided to specific individuals and/or households and those that are universally accessible. This distinction was intended to provide a more principles based, less artificial boundary between social benefits and other non-exchange expenses. Liabilities and expenses associated with social risks can be measured by reference to an individual's eligibility to receive the social benefit, which does not apply to other non-exchange expenses. In developing this boundary, the IPSASB acknowledged that social benefits and other non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. However, the IPSASB's earlier experiences convinced the Board that a boundary would be required for a social benefits project to be manageable.

BC22. The effect of these decisions was to align the scope of ED 63, and its definitions of social benefits and social risks, with those in GFS, with the exception of universally accessible services. Universally accessible services such as a universal healthcare service are considered to be social benefits under GFS, but were outside the scope of ED 63. The IPSASB considered that outcome would satisfy the majority of respondents who supported alignment with GFS, whilst addressing the concerns of the significant minority of respondents who had concerns with the boundary between social benefits and other non-exchange expenses.

*Responses to ED 63, Social Benefits*

- BC23. ED 63 specifically excluded collective services and universally accessible services from the scope of social benefits, as proposed in the 2015 CP. Most respondents to ED 63 supported the proposed scope. In doing so, respondents who supported the proposed scope commented that it was important that the boundary between social benefits and universally accessible services was clearly defined. They also commented that accounting treatments for social benefits and universally accessible services should have the same conceptual basis, with any differences in treatment being related to the different nature of the transactions.
- BC24. The minority of respondents who did not support the proposed scope and definitions in ED 63 had similar concerns. These respondents considered that the scope and definitions needed to be further refined to avoid confusion and possible boundary issues or divergent accounting treatments. In particular, they considered that excluding universally accessible services from the scope of the proposed Standard could be difficult to apply, as the boundary between social benefits and universally accessible services was unclear.

- BC25. As a result of these concerns, the IPSASB decided to clarify the scope and definitions. The IPSASB noted that respondents had different understandings of the scope and definitions in ED 63. Some respondents appeared to consider that social benefits were limited to cash transfers, whereas other respondents considered that social benefits included the provision of some services.
- BC26. The IPSASB concluded that ED 63 was insufficiently clear about the definition of social benefits (and whether social benefits were limited to cash transfers), and therefore about the scope of the proposed Standard. The IPSASB also noted that in the Illustrative Examples provided in ED 63, all the transactions that satisfied the definition of a social benefit were cash transfers, whereas a number of the transactions that did not satisfy the definition of a social benefit involved the provision of services.
- BC27. The IPSASB noted that defining social benefits as cash transfers would remove much of the confusion regarding the boundary between social benefits and universally accessible services.
- BC28. The IPSASB also concluded that, when considering these transactions, there were conceptual differences between cash transfers and the provision of services. The provision of services would involve exchange transactions (for example, the expenses incurred in employing staff to provide these services or the expenses incurred in procuring goods and services from other entities). Cash transfers do not involve any additional transactions.
- BC29. For these reasons, the IPSASB concluded that the economic substance of cash transfers made to individuals and households was different to the economic substance of services provided to individuals and households. The IPSASB therefore agreed that the scope of this social benefits Standard should be limited to cash transfers.
- BC30. Following this decision, the IPSASB considered the nature of cash transfers. The IPSASB agreed that the form of the cash transfer was not important, and could include cash equivalents such as pre-paid debit cards. In this context, the IPSASB also agreed that cash transfers in the form of cash equivalents should impose no or limited restrictions on the use of the cash. The IPSASB noted that some jurisdictions using pre-paid debit cards imposed limited restrictions on the card, for example preventing its use to purchase alcohol or tobacco products. The IPSASB agreed that this type of limited restriction was not equivalent to a government directing how the cash should be used. Consequently, the IPSASB agreed that the provision of a pre-paid debit card with limited restrictions on its use was a cash transfer for the purposes of the social benefits definition.
- BC31. Some respondents to ED 63 did not see the rationale for distinguishing between social risks and other risks. These respondents proposed removing the reference to social risks in the definition of social benefits, and extending the scope of this Standard to include other benefits such as emergency relief.
- BC32. The IPSASB noted that respondents to both the CP, *Recognition and Measurement of Social Benefits* and ED 63 had generally supported the reference to social risks, which maintained consistency with GFS. The IPSASB also remained of the view that governments' responses to social risks are often different to their response to other risks (see paragraph BC21(b) above).
- BC33. For these reasons, the IPSASB decided to retain the reference to social risks in the definition of social benefits.

**Approaches to Accounting for Social Benefits**

- BC34. The IPSASB consulted on three approaches to accounting for social benefits in the CP, *Recognition and Measurement of Social Benefits*. These were the obligating event approach (now referred to as the general approach), the social contract approach and the insurance approach.
- BC35. The social contract approach viewed obligations to provide social benefits by governments as quasi-contractual in nature, and adopted executory contract accounting.
- BC36. In developing the CP, the IPSASB came to a preliminary view that the social contract approach was not consistent with the *Conceptual Framework*. Respondents to the CP supported this preliminary view. Respondents considered that the social contract approach would result in items that met the definition of a liability not being recognized. Consequently, respondents considered that the social contract approach would not provide information that is useful for accountability and decision-making purposes.
- BC37. The IPSASB noted the support for its preliminary view, and agreed not to proceed with the social contract approach.
- BC38. In developing the CP, the IPSASB came to a preliminary view that a combination of the general approach and (for some or all contributory schemes) the insurance approach might be required to reflect the different economic circumstances arising in respect of social benefits.
- BC39. Respondents to the CP supported this preliminary view. The IPSASB therefore agreed to develop both the general approach and the insurance approach in IPSAS 42.

*Non-Exchange Expenses Project*

- BC40. As noted in paragraph BC14, the IPSASB has adopted a narrower definition of social benefits, considering that this would best meet the project management needs of both the social benefits project and the non-exchange expenses project.
- BC41. The IPSASB issued a CP, *Accounting for Revenue and Non-Exchange Expenses*, in August 2017. In this CP, the IPSASB expressed a preliminary view that a performance obligation approach would be appropriate for recognizing and measuring some types of non-exchange expense transactions. Consequently, the IPSASB considered whether such an approach could be applied to social benefits.
- BC42. The IPSASB noted that social benefits are provided where a social risk has occurred, for example an individual has become unemployed or an individual has reached retirement age. The IPSASB concluded that social risks do not involve performance of an obligation by the individual and, consequently, the performance obligation approach would not be appropriate for recognizing and measuring social benefits. For similar reasons, the IPSASB is not proposing to adopt the performance obligation approach to non-exchange expenses for universally accessible services and collective services.

**General Approach (paragraphs 6–25)***Recognition*

- BC43. In developing the CP, *Recognition and Measurement of Social Benefits*, the IPSASB identified five distinct points at which a case could be made for recognizing a social benefit obligation in the financial statements. These were:
- (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; and
  - (e) A claim is enforceable.
- BC44. The CP sought respondents' views on these possible obligating events. The CP also asked respondents whether a future IPSAS should consider that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose.
- BC45. In reviewing the responses to the CP, the IPSASB noted that there was substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose. The IPSASB agreed to take this view into account in determining which obligating events should be included in ED 63.
- BC46. The IPSASB also noted, however, that there was no consensus as to the range of different points at which an obligating event could arise. The IPSASB therefore focused on analyzing the various obligating events by reference to the *Conceptual Framework*, noting respondents' comments where these provided evidence about a particular obligating event or raised other matters that required consideration.
- BC47. In developing the CP, the IPSASB had initially agreed that aligning the recognition and measurement of social benefits with GFS could only be considered once responses had been reviewed. Subsequently, the IPSASB noted that a range of recognition points might be appropriate under the general approach.
- BC48. If this were the case, this would implicitly reject alignment of the recognition and measurement of social benefits with GFS under the general approach. This is because, under GFS, an expense is recorded only when the payment of the social benefits is due (i.e., in line with the claim is enforceable obligating event only).
- BC49. The IPSASB also concluded that consistency with the *Conceptual Framework* should take priority over alignment with the GFS treatment. Any alignment that emerged from the IPSASB's deliberations would, therefore, be coincidental.

**Requirement to Satisfy Ongoing Eligibility Criteria (Including Revalidation) Affects Recognition**

- BC50. The IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement. This could be the case where a social benefit was intended to be provided on a "one-off" or short-term basis. The IPSASB therefore considered when it would be appropriate to recognize a liability that took account of the requirement to satisfy ongoing eligibility criteria.

- BC51. The first possible obligating event identified in the 2015 CP that took account of the requirement to satisfy ongoing eligibility criteria was that the eligibility criteria to receive the next benefit have been satisfied. Respondents to the CP gave significant support to the inclusion of this obligating event. Respondents noted that for some social benefits, the satisfaction of the eligibility criteria by a potential beneficiary would be sufficient to give rise to a legal obligation for an entity. Where this was not the case, respondents considered that this possible obligating event would give rise to a non-legally binding obligation. The IPSASB agreed with these comments.
- BC52. A small number of respondents did not support this possible obligating event, arguing that an entity still had discretion to avoid payment until a claim has been approved. These respondents commented that no government can bind its successor, and any social benefit obligation can be changed at the whim of the government in power.
- BC53. The IPSASB did not support this view. The IPSASB noted that paragraph 5.22 of the *Conceptual Framework* addressed the issue of sovereign power:
- “Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.”
- BC54. The IPSASB concluded that a beneficiary satisfying the eligibility criteria to receive the next social benefit would give rise to a present obligation that meets the definition of a liability. Consequently, the IPSASB agreed that the ‘eligibility criteria to receive the next social benefit have been satisfied’ obligating event should be included as an obligating event in ED 63.
- BC55. The IPSASB next considered the claim has been approved and claim is enforceable obligating events. The IPSASB noted that respondents generally did not support the use of these obligating events. In particular, a significant majority of respondents opposed the use of the claim is enforceable obligating event, arguing that it would limit the recognition of a liability to those cases where a legal obligation existed. Respondents argued that this was inconsistent with the *Conceptual Framework*, which recognizes that liabilities can arise from non-legally binding obligations.
- BC56. Respondents also argued that, once eligibility criteria have been satisfied, a present obligation that the entity would have little or no realistic alternative to avoid would usually arise. Consequently, a liability would arise prior to a claim being approved or becoming enforceable.
- BC57. The IPSASB concurred with respondents’ views, and decided that, for social benefits where there was a requirement to satisfy ongoing eligibility criteria only the ‘eligibility criteria to receive the next social benefit have been satisfied’ obligating event should be included in ED 63.
- BC58. In coming to this conclusion, the IPSASB noted that there may be social benefits where the eligibility criteria are not met until a claim has been approved or is enforceable. The IPSASB considered these obligating events to be effectively subsets of the ‘eligibility criteria to receive the next social benefit have been satisfied’ obligating event. Consequently, these obligating events did not need to be separately addressed.

#### Requirement to Satisfy Ongoing Eligibility Criteria (Including Revalidation) Affects Measurement Only

- BC59. As noted in paragraph BC50, the IPSASB accepted that, at least for some social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) affects recognition as well as measurement.

- BC60. In developing ED 63, the IPSASB considered whether, for some other social benefits, the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition.
- BC61. The IPSASB noted that for a liability to exist, there has to be a past event that gives rise to the liability. The IPSASB considered the nature of the past event for a social benefit and concluded that the past event is the satisfaction of all eligibility criteria, which may include being alive. Consequently, any liability that arises is only for the next social benefit. Additional liabilities only arise when all eligibility criteria are met for further social benefits.
- BC62. In coming to this conclusion, the IPSASB also had regard to a number of supporting points:
- (a) Accepting that the requirement to satisfy ongoing eligibility criteria (including revalidation) should only affect measurement, not recognition, could result in entities reporting present obligations for long-term social benefits for certain social benefit schemes (primarily old-age pensions). For other social benefit schemes, entities would recognize relatively short-term social benefits, even though for certain schemes, they may ultimately be paid to beneficiaries over a long-term horizon (e.g., income-based welfare benefits).
  - (b) Being alive is an explicit eligibility criterion for some social benefit programs, established through law or policy, and in these cases there is frequently active compliance monitoring and enforcement. Many public sector entities take active steps to periodically validate that a beneficiary is alive and actively monitor and enforce compliance with this eligibility criterion. For example, annual certifications that the beneficiary is alive may be required. Also, there may be requirements for hospitals, funeral homes, or others to report deaths. Further, many public sector entities retract social benefits improperly paid to beneficiaries who are not alive or prosecute fraudulent non-reporting of a beneficiary's death. For other social benefit programs, being alive is an implicit eligibility criterion. Similar recovery action is taken where social benefits were improperly paid to beneficiaries who are not alive.
  - (c) Meeting all eligibility requirements creates an obligation to provide a social benefit related to eligibility requirement(s) that are met, consistent with social benefit schemes where there are ongoing eligibility requirements. Typically, for an individual social benefit scheme, eligibility requirements and related social benefits are clearly established. For example, a social benefit may be paid monthly based on meeting eligibility criteria as of the end of the prior month. This would be true both for schemes that have ongoing eligibility criteria (other than being alive) and those where being alive is the only ongoing eligibility criteria.
  - (d) The requirement to satisfy ongoing eligibility criteria (including revalidation) is consistent with the approach the IPSASB proposed for universally accessible services and collective services in its CP, *Accounting for Revenue and Non-Exchange Expenses*.
- BC63. The IPSASB also considered paragraph 5.21 of the *Conceptual Framework*, which states (emphasis added):
- “Some obligations related to **exchange transactions** are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.”

- BC64. The IPSASB considered whether, although social benefits are not exchange transactions, a liability should be recognized for social benefit schemes such as retirement benefits when threshold eligibility criteria are met. This would be as a result of legal obligations arising with the passage of time without the beneficiary having to take any further action or meet further conditions.
- BC65. The IPSASB concluded this was not appropriate. Paragraph 5.21 of the *Conceptual Framework* relates solely to legal obligations in the context of exchange transactions, as indicated. Specifically, this paragraph would apply where the external party in the exchange transaction has met all of the conditions of the exchange transaction and it is unconditionally enforceable, but the public sector entity will not meet its conditions until after the reporting date.
- BC66. Consequently, the IPSASB considered that the only appropriate obligating event is that all eligibility criteria for the next social benefit have been met. The IPSASB concluded that this approach, combined with the insurance approach, would recognize the nature of the social benefit and the legal framework under which the social benefit arises.
- BC67. The IPSASB also considered that there would be practical difficulties with recognizing a liability prior to all eligibility criteria for the next payment (including being alive) being satisfied. The IPSASB noted that approaches such as ‘threshold eligibility criteria have been met’ are said to give rise to a non-legally binding obligation where there is a valid expectation that results in an entity having little or no realistic alternative to settling the obligation. The basis for including threshold eligibility is that a valid expectation will arise when there are no further eligibility criteria (excluding being alive) to be satisfied. The IPSASB was not convinced that this would be the case in all instances, and considered that there may be situations where:
- (a) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation did not arise, even though there were no further eligibility criteria to be satisfied; or
  - (b) A valid expectation that results in an entity having little or no realistic alternative to settling the obligation arose, even though there were further eligibility criteria to be satisfied.
- BC68. The IPSASB considered that similar difficulties would arise with other obligating events that occur prior to all eligibility criteria being satisfied, such as ‘key participatory events have occurred’.
- BC69. The IPSASB considered that, under these alternative obligating events, determining whether a valid expectation that results in an entity having little or no realistic alternative to settling the obligation has arisen could only be determined on a case by case basis. The IPSASB considered that this would result in inconsistent application of any IPSAS based on ED 63, and considered that this was a further reason for not including the ‘threshold eligibility criteria obligating event’ in ED 63.
- BC70. The IPSASB concluded that only the ‘eligibility criteria for the next social benefit have been met’ recognition point should be included in ED 63, and that the accounting treatment should reflect that being alive may be an eligibility criterion (whether explicitly stated or implicit) that affects recognition.

#### Approach to Developing Exposure Draft 63

- BC71. In coming to the conclusion that only the ‘eligibility criteria for the next social benefit have been met’ recognition point should be included in ED 63, the IPSASB did not reach consensus, with some members holding the view that other recognition points should also be included in ED 63.

BC72. These members were of the opinion that prescribing a single recognition point applicable to all social benefits is inappropriate, as this approach:

- (a) Does not reflect the economic substance of different social benefits;
- (b) Is not in accordance with the *Conceptual Framework*; and
- (c) Treats “being alive” as a recognition criterion instead of a measurement criterion.

BC73. These members therefore proposed, in an Alternative View, that the obligating event should be dependent on the economic substance of each social benefit scheme. The conceptual basis for these members’ Alternative View is set out in paragraphs BC74–BC93 below.

#### Conceptual Basis for Alternative View

BC74. In the view of those members, for some social benefits, recognizing a liability when the eligibility criteria for the next benefit are satisfied would be appropriate. For other social benefits, a liability should be recognized at an earlier point. For example, a liability for all remaining benefits might be recognized when an individual reaches retirement age, or a liability might be accrued over time as an individual makes contributions. Preparers would determine which obligating event is most appropriate for their individual social benefit schemes, based on their economic substance.

#### The Approach Set Forth in ED 63 did not Reflect the Economic Substance of Different Social Benefits and thus did not Result in Information that Meets the Needs of Financial Statement Users

BC75. The members who proposed the Alternative View noted that the IPSASB’s constituents who responded to the Consultation Paper, *Recognition and Measurement of Social Benefits*, expressed substantial support for the view that an obligating event could arise at different points, depending on the nature of the social benefit or the legal framework under which the social benefit arose. Therefore, these members did not dispute that in some cases a liability in respect of social benefits should be recognized only when the eligibility criteria for receipt of the next benefit (but not with the inclusion of being alive) have been satisfied, but they disputed this for other cases.

BC76. They considered 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 (i.e., operating on a pay-as-you-go basis) will give rise to expectations at the reporting date of entitlement amongst current recipients and potential future recipients, for example, based on the fact that individuals have contributed in the past. A differently designed social benefit scheme may not give rise to equal expectations.

BC77. These members accepted that the relative validity of these expectations may differ, for example expectations may be based on a legal right to receive a benefit notified to the scheme’s recipients and participants, on a long running precedent, or on other, less compelling grounds. Thus they contended that the nature of the expectations in any given case must be taken into account in the determination of whether an entity has a realistic alternative to avoid an outflow of resources when recognizing a liability in relation to social benefits.

BC78. These members therefore considered that treating all social benefits in the same manner, regardless of different economic substance, would not provide users with the information they needed to assess social benefits.

- BC79. These members believed that financial statement users need relevant, faithfully representative information as to the economic substance of social benefits for their different decision making purposes, including, where relevant, assessing the intergenerational impacts of social benefits.
- BC80. For example, in respect of a state pension scheme designed to be funded on an inter-generational basis, the amount of the entity’s present obligation at the reporting date (excluding being alive as an entitlement criterion) to both current beneficiaries and participants provides useful information as to the magnitude as at the reporting date of pension payments that will need to be funded by future contributions from current and future participants.
- BC81. Not recognizing a liability at the reporting date beyond the next payment would not facilitate, for example, the reflection of changes in policy for state pensions (for example, raising retirement age) in the amount of the liability at a subsequent reporting date. It will also give a false message to current beneficiaries and participants as well as to future contributions as to the entity’s acknowledgement of their respective entitlements.
- BC82. Furthermore, not recognizing an obligation at the reporting date beyond the next payment does not reflect the economic substance of contributory schemes. Contributions will be shown as revenue when paid by the participant, whereas the part of the benefit that is earned with this payment will not be shown at this point in time as an obligation, but only (probably years later) when the payment is made to the then beneficiary, respectively the former participant.

The Approach Set Forth in ED 63 was not in Accordance with the IPSASB’s *Conceptual Framework*

- BC83. In the view of the members who proposed an Alternative View, the approach in ED 63 would not achieve the qualitative characteristics: relevance, faithful representation, understandability or comparability.
- BC84. These members also considered that reflecting the economic substance of a social benefit is necessary to meet the qualitative characteristic of comparability, which the *Conceptual Framework* defines as “the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena.” Therefore, these members disagreed with the argument of inconsistent application, as explained in paragraph BC69. In contrast these members contended that if the economic substance of the social benefits differs amongst schemes and jurisdictions, those differences should be reflected in the financial statements’ accounting for social benefits. This would be a consistent application of accounting principles to different economic phenomena resulting in different accounting outcomes.
- BC85. Consequently, these members considered that, for some social benefits, it would be appropriate to recognize a liability that exceeds the amount of benefit until the next point at which eligibility criteria are required to be satisfied. They noted that paragraph 8.15 of the IPSASB’s *Conceptual Framework’s* explains that disclosure (in the notes accompanying the financial statements) is not a substitute for display (on the face of a financial statement).
- BC86. They pointed out that the IPSASB’s *Conceptual Framework* states the following (emphasis added):

5.14. A liability is: A present obligation of the entity for an outflow of resources that results from a past event.

5.15. Public sector entities can have a number of obligations. A present obligation is a **legally binding obligation** (legal obligation) or **non-legally binding obligation**, which an entity

has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.

- 5.20. ...For some types of non-exchange transactions, judgement will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law, there can be no doubt that an entity has no realistic alternative to avoid the obligation and a liability exists.
- 5.25. The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgements whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid an outflow of resources include:
- The nature of the past event or events that give rise to the obligation...
  - The ability of the entity to modify or change the obligation before it crystallizes...
  - There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation....
- 5.26. “Economic coercion”, “political necessity” or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur an outflow of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation.”

BC87. They contended that in accordance with the IPSASB’s *Conceptual Framework*, in some cases a liability may arise from a key participatory event that occurs prior to the eligibility criteria for the next benefit having been satisfied. This may be the case, for example, in respect of certain contributory social benefit schemes, or where there is a legally binding present obligation.

The Criterion “Being Alive” is not a Recognition Criterion, but a Measurement Criterion

BC88. These members did 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 an entity’s present obligation in respect of all social benefits.

BC89. They noted that whilst it cannot be certain that a specific individual who meets the eligibility criteria at the reporting date will be alive at the point in time the next provision of social benefit is due, it is reasonable to assume that a measurable number of individual beneficiaries will be alive into the future and therefore the entity can have a binding present obligation at the reporting date in respect of provision of the social benefit beyond the next due installment of the social benefit.

BC90. They did not believe that there is a social benefit-specific imperative to treat “being alive” differently in comparison to its treatment in regard to other economic phenomena such as a pension payable as a post-employment benefit to public sector employees pursuant to IPSAS 39. Where applicable, reference to, e.g., mortality statistics etc. could equally be made in measuring liabilities for social benefits.

BC91. These members considered that the inclusion of being alive as a recognition criterion, resulting in a present obligation for only the next due benefit for all social benefits, would distort the recognition of entity’s present obligation in relation to social benefits, for example pension schemes, since in

many cases it would result in recognition of a liability for only the provision of the next social benefit. Such an approach fails to recognize the valid expectation of longevity in a given recipient population and cannot provide relevant information about social benefit schemes.

- BC92. In their view, being alive was therefore a criterion to be taken into account in the measurement of social benefit liabilities. In this context, they also noted that the material in ED 63 in regard to measurement might need further consideration in order to include being alive as a measurement criterion.
- BC93. The definition of a liability in the *Conceptual Framework* requires that an item can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in general purpose financial reports. The members who proposed the Alternative View recognized that accounting estimates are subject to inherent estimation uncertainty; this requirement can usually be met when recognizing liabilities existing at the reporting date for future payments for appropriate social benefits. Uncertainties as to the actual amount likely to be settled at a future date or the ability of the entity to settle would be reflected in the measurement of the liability. Uncertainties such as how many recipients will reach which age before dying are dealt with by reference to mortality statistics etc.

#### Arguments for Stakeholders' Consideration in ED 63

- BC94. As a consequence of the lack of consensus, the IPSASB agreed to develop ED 63 in a manner that would allow stakeholders to consider the different arguments. The 'eligibility criteria for the next social benefit have been met' recognition point was included in ED 63 as all members agreed that this would be appropriate for at least some social benefits. Other recognition points were not included in ED 63 as some members considered that these recognition points would never be an appropriate recognition point for a social benefit. In agreeing to develop ED 63 in this manner, the IPSASB noted that members who supported the inclusion of other recognition points had set out their reasoning in an Alternative View. The IPSASB considered it important from a public interest perspective that this reasoning was exposed to stakeholders.
- BC95. In agreeing to develop ED 63 in this manner, the IPSASB confirmed its previously expressed view that the financial statements cannot satisfy all of a user's information needs on social benefits. Further information about the long-term fiscal sustainability of those social benefit schemes is required. The IPSASB considered that adoption of the guidance in RPG 1 would provide users with the information they need. Consequently, the IPSASB agreed to encourage entities to prepare general purpose financial reports that provide information on the long-term sustainability of the entity's finances. In so doing, the IPSASB also noted that such information would be equally helpful where an entity had adopted the insurance approach.

#### Responses to ED 63, *Social Benefits*

- BC96. The responses to ED 63 reflected the wide range of views that had surfaced during the IPSASB's deliberations in developing ED 63. While a number of respondents supported the proposals in ED 63, a similar number supported the approach outlined in the Alternative View (see paragraphs BC71–BC93 above).
- BC97. The reasons given by respondents for supporting either the proposals in ED 63, the Alternative View, or some variation on either of these approaches generally reflected the issues the IPSASB had debated in arriving at its proposed approach.

- BC98. Where new issues were raised by respondents, these generally reflected concerns that the information that would be presented under the Alternative View could be misunderstood. One respondent was concerned that the Alternative View, by recognizing liabilities at an earlier point, might provide perverse incentives to reduce the time span of social benefits and thus avoid recognition of bigger liabilities and bigger related expenses. Similarly, one respondent was concerned that the larger liabilities that would be recognized under the Alternative View could be misleading; in their view, a forward looking approach, taking account of future benefits and contributions, is required to assess the sustainability of social benefits such as state pensions.
- BC99. The IPSASB concluded that these issues reflected the Board's earlier debates about the users' information needs and the qualitative characteristics.
- BC100. The IPSASB noted that there was no consensus about whether recognizing a large liability for social benefits without also recognizing an asset for the future taxation or contribution revenue that would fund the settlement of that liability would provide useful information. There were different views as to whether the recognition or non-recognition of this liability would best satisfy the qualitative characteristics of relevance, faithful representation, understandability and comparability.
- BC101. However, because the consultation process had not generated any significant new conceptual issues, the IPSASB did not consider that undertaking further work in developing the conceptual approach to social benefits would be fruitful. The long history of the IPSASB's work on social benefits suggested that the strong views held by individuals on both sides of the argument were unlikely to be changed by any such further work at this stage.
- BC102. Consequently, the IPSASB agreed to proceed with an IPSAS based on the proposals in ED 63.
- BC103. In coming to this conclusion, the IPSASB noted that preparers' experiences of applying an IPSAS on social benefits along with users' experiences of using the information provided may suggest ways of better reconciling the different views that exist. The IPSASB therefore considered it likely that a post-implementation review of IPSAS 42 would be appropriate at some point in the future.
- BC104. In developing an IPSAS based on the proposals in ED 63, the IPSASB noted that many respondents, whether they supported the proposals in ED 63 or the Alternative View, were concerned that 'being alive' had been over-emphasized in the Exposure Draft. They considered that there were circumstances where reliance on being alive would be inappropriate. Some respondents also expressed concerns over the different treatment of 'being alive' in ED 63 and in IPSAS 39. However, a small minority of respondents considered that the reliance on being alive was necessary.
- BC105. The IPSASB considered these comments, and agreed to modify the requirements to reduce the emphasis on being alive. The IPSASB considered that in many cases, being alive would be an eligibility criterion, and that being alive would therefore affect recognition of a liability. The IPSASB acknowledged, however, that this might not always be the case, and that the IPSAS should reflect this.
- BC106. In making these changes, the IPSASB included additional guidance that the satisfaction of the eligibility criteria for each social benefit payment is a separate past event. Satisfaction of the eligibility criteria for a benefit beyond the next payment is a future event that does not give rise to a present obligation.
- BC107. In acknowledging that there had been significant support for the Alternative View, the IPSASB considered whether it would be appropriate to accommodate both accounting treatments in

IPSAS 42. This would permit preparers to use the Alternative View for social benefit schemes where they determine that a different past event to that proposed in ED 63 is appropriate. The IPSASB concluded that this would not satisfy the qualitative characteristic of consistency, and decided not to incorporate the accounting treatment set out in the Alternative View into IPSAS 42.

#### Use of Term “Resources”

BC108. In developing ED 63, the IPSASB included recognition requirements that referred to an entity having “a present obligation for an outflow of resources that results from a past event.” Following the decision to clarify that the definition of social benefits only includes cash transfers, the IPSASB debated whether the use of the term “resources” in the recognition requirements should be replaced with the term “cash transfers.” The IPSASB noted that the definition of a liability in the *Conceptual Framework* referred to “resources”, and as a consequence the Board agreed to retain that term in the recognition requirements.

#### Measurement

BC109. In developing the 2015 CP, the IPSASB came to a preliminary view that, “under the obligating event approach [general approach], liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits.” The *Conceptual Framework* defines the cost of fulfillment as “the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.”

BC110. The IPSASB came to this view because:

- (a) Many social benefits liabilities will arise from non-exchange transactions. There may be no consideration on which a historical cost value could be based. Historical cost can also be difficult to apply to liabilities that may vary in amount, which may be the case with some social benefits.
- (b) It is extremely unlikely that there will be a market value for social benefits.
- (c) In the context of social benefits, the cost of release is the amount that “a third party would charge to accept the transfer of the liability.” For social benefits, a transfer of the liability will rarely be practically possible.
- (d) Assumption price “is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.” This is not relevant to the measurement of social benefits under the general approach. Under this approach, the liability is viewed as arising as a result of the public sector entity’s own actions.

BC111. Respondents to the CP supported this view, as did respondents to ED 63. Consequently, the IPSASB agreed that liabilities in respect of social benefits should be measured using the cost of fulfillment (i.e., the social benefit payments to be made, discounted where the payment will not be made in the next year). In coming to this decision, the IPSASB agreed that the cost should refer to the cash transfer being made, and should not include other elements such as administrative costs and bank charges.

*Revenue*

BC112. At the time of developing IPSAS 42, the IPSASB had an ongoing project to review the requirements in all of its revenue standards. The IPSASB decided that social contributions (revenue in respect of a social benefit scheme) and similar compulsory contributions and levies would be best addressed in that project, to ensure that all revenue is accounted for on a consistent basis. However, as the IPSASB had concluded that social contributions are non-exchange transactions, the IPSASB agreed to amend IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* to clarify that social contributions are accounted for in accordance with that Standard. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit schemes accounted for under the insurance approach are not accounted for as revenue under IPSAS 23.

*Disclosure*

BC113. In developing ED 63, the IPSASB agreed that entities should disclose information that explains the characteristics of - its social benefit schemes; identifies and explains the amounts in its financial statements arising from its social benefit schemes; and quantifies and explains the future cash flows that may arise from its social benefit schemes.

BC114. The IPSASB considered whether to provide guidance on aggregating the disclosures for social benefit schemes that are not individually material. The IPSASB noted that IPSAS 1, *Presentation of Financial Statements*, contains guidance on materiality and aggregation, and concluded that no further guidance was required.

BC115. As part of the explanation of the characteristics of a social benefit scheme, the IPSASB agreed that an entity should explain how a social benefit scheme is funded. Where a scheme is funded, (whether in full or in part) by social contributions, an entity is required to provide a cross reference to the location of information on those social contributions. Although IPSAS 42 does not address social contributions (as explained in paragraph BC112 above), the IPSASB considers that users will need information about social contributions in order to make assessments of social benefit schemes. However, the IPSASB acknowledges that in some jurisdictions, social contributions for various social benefits may be collected by one entity, and the social benefits provided by another entity. In these circumstances, the entity that provides the social benefits would include a cross reference to the financial statements of the entity that collects the social contributions.

BC116. The IPSASB considered whether to require an entity to describe how its social benefit schemes may give rise to future obligations. The IPSASB decided not to require such disclosures. However, in developing ED 63 the IPSASB agreed that providing the entity's best estimate of the projected cash outflows for the next five reporting periods would provide useful information for users of the financial statements. The IPSASB considered that such information would assist users in assessing the liquidity and solvency of the entity.

*Responses to ED 63, Social Benefits*

BC117. Respondents to ED 63 generally supported the proposed disclosures about the characteristics of an entity's social benefit schemes, and the IPSASB agreed to retain these disclosures in IPSAS 42.

BC118. Most respondents also supported the proposed disclosures of the amounts in the financial statements. However, some respondents questioned the level of detail required when presenting

the amounts in the financial statements. Given the likely short-term nature of the liabilities that would be recognized in respect of social benefits, these respondents did not consider that the proposed reconciliation (of the opening and closing balances of the liability) would provide any information that would not be available elsewhere in the financial statements. They considered that the requirement to present the reconciliation could be removed without any loss of information. The IPSASB concurred with the view of these respondents that the reconciliation of the liability was not necessary. The IPSASB did consider, however, that users would need information about the expenditure on each material social benefit scheme, and agreed to require the disclosure of this information rather than the reconciliation.

BC119. With regards to the proposed disclosure of future cash outflows, there was no consensus among respondents. Respondents, regardless of whether they supported the proposed disclosure or not, raised a number of issues:

- (a) Future cash flows are not required for other transactions (such as tax revenue).
- (b) Financial statements report on the current position of an entity, whereas future cash outflows are part of an entity's budget forecast information, not information about the current position.
- (c) Projections of outflows are best considered together with projections of inflows and are most useful when they are comprehensive, rather than focusing on a single social benefit scheme. In many cases, it would not be possible to project cash inflows for a single social benefit scheme as a number of social benefit schemes will be funded from the general tax take.
- (d) Disclosing future cash outflows could imply that the future cash outflows represent a liability or obligation, which is inconsistent with the general approach.

BC120. The IPSASB accepted the concerns raised by respondents, in particular the concern that the disclosure would go beyond reporting on the current position of an entity. Consequently, the IPSASB agreed to remove the requirement to disclose future cash outflows.

BC121. The IPSASB considered, however, that users would need some information to help them assess how circumstances may impact social benefit schemes. The IPSASB therefore agreed to require preparers to provide a narrative disclosure explaining the demographic, economic and other external factors that affect its social benefit schemes.

BC122. A further suggestion from respondents was that an entity should disclose where a social benefit scheme met the criteria to be accounted for using the insurance approach. The IPSASB agreed that this is important information about the characteristics of a social benefit scheme, and that an entity should disclose where the criteria for using the insurance approach had been satisfied.

### **Insurance Approach (paragraphs 26–31)**

#### *Application of the Insurance Approach*

BC123. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed an approach based on insurance accounting for some or all contributory schemes. The IPSASB proposed that this approach should be based on the IASB's proposed IFRS Standard on insurance contracts, contained in Exposure Draft ED/2013/7, *Insurance Contracts* (June 2013). This ED has subsequently been further developed and issued as IFRS 17, *Insurance Contracts*.

BC124. Respondents to the CP generally supported the IPSASB's proposals regarding the insurance approach, although a number of concerns were raised. Respondents considered that the insurance

approach should only be applied in limited circumstances. These were that the social benefit scheme operated in a similar manner to an insurance contract, and that the scheme was funded from dedicated sources of revenue, not general taxation. Respondents considered that applying the insurance approach to other social benefit schemes would not faithfully represent the economic substance of those schemes.

BC125. The IPSASB concurred with this view. Consequently, the IPSASB agreed that the insurance approach should only be applied where:

- (a) The social benefit scheme is intended to be fully funded from contributions; and
- (b) 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.

BC126. In developing ED 63, the IPSASB then considered whether the insurance approach should be mandatory for social benefit schemes that meet the criteria, or optional.

BC127. The IPSASB considered that, for a social benefit scheme that meets the criteria to apply the insurance approach, that approach is expected to provide the information that best meets users' needs. In order to assess whether the entity is managing the financial performance of the social benefit scheme appropriately, users will need information as to whether the contributions are sufficient to meet the expected liabilities. Where a loss is recorded under the insurance approach, this will provide users with the information they need to question whether a scheme is sustainable without changes to contribution rates or benefits. Similarly, if a social benefit scheme has ongoing large surpluses, this will allow a debate as to whether that scheme is being used to subsidize other expenditure, and if so, whether this is appropriate. The IPSASB initially considered that the fact that users' needs are best met by the insurance approach was the main reason for making the insurance approach mandatory.

BC128. The insurance approach is, however, expected to be more costly and complex to implement than the general approach. Actuarial estimates may not be required under the general approach. The insurance approach will require estimates of cash inflows and cash outflows over the duration of the scheme. In addition, the IASB had only recently issued IFRS 17 and that Standard has significantly different requirements from many existing national standards dealing with insurance. Consequently, it may take some time for any practical issues to be fully identified and addressed. Applying these new requirements to social benefits would introduce a further level of complexity. The IPSASB considered that there may be cost/benefit reasons for not using the insurance approach, and that this was the main reason for making the insurance approach an optional approach.

BC129. The IPSASB did note that, if an entity is managing a social benefit scheme as if it were a portfolio of insurance contracts, the entity may already have the information required to implement the insurance approach. It may also need that information in order to be able to effectively manage the social benefit scheme. This suggested that, where a social benefit scheme meets the criteria to be accounted for under the insurance approach, the costs associated with so doing may not be as high as it would initially appear.

BC130. The IPSASB considered that a further advantage of making the insurance approach optional would arise where an entity is having difficulty determining whether the criteria for applying the insurance

approach have been met. The entity could avoid expending additional resources to make that determination by electing to apply the general approach.

BC131. However, the IPSASB accepted that making the insurance approach optional would carry the risk that very few entities adopt the approach, and that users would not be provided with the most appropriate information about some social benefit schemes. Social benefit schemes that could be accounted for under the insurance approach are likely to have a different economic substance to other social benefit schemes, which the general approach may not fully capture.

BC132. On balance, the IPSASB considered that the insurance approach should be optional, based on the cost/benefit reasons given above. The IPSASB noted that this could be revisited at a future date, once entities have experience with applying the new IFRS Standard, and the insurance approach proposed in ED 63.

#### Responses to ED 63, *Social Benefits*

BC133. As discussed above, ED 63 proposed that the insurance approach should be optional. Respondents to ED 63 had mixed views on the proposal, with some respondents agreeing that the insurance approach should be optional, and others proposing that the insurance approach should be mandatory where schemes satisfied the criteria.

BC134. The IPSASB noted that the reasons given by respondents reflected the Board's earlier discussions, with the key issue being whether the benefits of the better information that the insurance approach would provide would outweigh the cost of producing that information. Some respondents were also concerned that the existence of options within IPSAS may reduce the ability of users to make comparisons between entities.

BC135. On balance, the IPSASB considered that no new information had arisen from the responses to ED 63 that was sufficiently persuasive to lead to a modification of the proposals in ED 63. The IPSASB therefore agreed to retain the insurance approach as an optional approach in this Standard.

BC136. However, the IPSASB also considered that it would be appropriate to keep this issue under review, given the lack of consensus amongst respondents and the likelihood of practice developing as entities gained practical experience of implementing both this Standard and IFRS 17. This practical experience may cause the IPSASB to reconsider its view on the cost-benefit balance.

BC137. Most respondents to ED 63 agreed that the criteria for determining whether an entity was permitted to apply the insurance approach were appropriate. However, some respondents had doubts regarding the requirement that the social benefit scheme is intended to be fully funded from contributions.

BC138. These respondents considered that there would be cases where the requirements in IFRS 17 would be appropriate where a scheme was substantially funded from contributions rather than fully funded from contributions. A particular concern was that a scheme could be classed as fully funded by an individual entity, where another entity made contributions on behalf of those who could not afford to do so, but that the scheme would not be classed as fully funded in the consolidated financial statements. These respondents considered that the management of the scheme was more significant than the funding approach.

- BC139. The IPSASB noted these concerns. The IPSASB remained of the view that a scheme that was designed to be funded in part through general taxation was not being managed in the same way as an insurance portfolio.
- BC140. However, the IPSASB agreed that where an entity made contributions on behalf of those who could not afford to do so, these should be treated as contributions and the scheme classified as being fully funded from contributions. The IPSASB agreed to include Application Guidance to clarify this point.
- BC141. Some respondents also commented that the decision as to whether the criteria for applying the insurance approach have been satisfied should focus on substance over form. The IPSASB noted that substance over form is embedded in the *Conceptual Framework* notion of faithful representation. However, the IPSASB agreed that additional Application Guidance emphasizing the need to consider substance over form in assessing the criteria for applying the insurance approach would be helpful for preparers.

*Accounting Requirements*

- BC142. In the CP, *Recognition and Measurement of Social Benefits*, the IPSASB proposed that the insurance approach should be based on the IASB's Exposure Draft.
- BC143. The IPSASB identified three options for introducing the insurance approach in ED 63:
- (a) Develop the insurance approach in ED 63. The IPSASB noted that this option would be consistent with the proposals in the CP, and would be tailored to social benefits. However, this option would significantly increase the duration of the project, and would not have wider application.
  - (b) Develop a separate IPSAS on insurance. The IPSASB noted that this would fill a gap in the IPSASB's literature and could address social benefits as well as having wider application. However, the IPSASB noted that such an IPSAS was not included in the IPSASB's work plan, and that developing an additional Standard would delay the social benefits project.
  - (c) Direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to a social benefit scheme that meets the criteria for applying the insurance approach. The IPSASB noted that this would require less resources and would ensure consistency with IFRS. However, guidance on social benefit specific issues might be required.
- BC144. The IPSASB noted that the number of preparers to whom the insurance approach will be relevant is likely to be small. The IPSASB also noted that the criteria for applying the insurance approach meant that only those social benefit schemes that were very similar to insurance contracts would be affected.
- BC145. The IPSASB concluded, therefore, that the additional time and resources required to develop the insurance approach, either in ED 63 or as a separate IPSAS on insurance, could not be justified. The IPSASB agreed to direct preparers to apply IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to a social benefit scheme:
- (a) That meets the criteria for applying the insurance approach; and
  - (b) Which the entity elects to account for under the insurance approach.

- BC146. The IPSASB then considered whether any guidance on social benefit specific issues was required when applying IFRS 17 (or the relevant national accounting standard dealing with insurance) by analogy to a social benefit scheme. In particular, the IPSASB considered whether the arrangements in IFRS 17 in respect of the discount rate and the risk adjustment were appropriate for a social benefit scheme. In considering these questions, the IPSASB agreed to limit the application of the insurance approach to those cases where an entity would be referring to IFRS 17 or a national standard that has adopted substantially the same principles as IFRS 17. This is because other standards, for example IFRS 4, *Insurance Contracts* (and national standards based on IFRS 4) may not provide information that meets users' needs and satisfy the qualitative characteristics.
- BC147. The requirements in IFRS 17 specify that the selected discount rate should adjust the future cash flows to reflect the time value of money. Such rates should be consistent with observable market prices for instruments with cash flows that are consistent with the timing, currency and liquidity of the insurance contract. The IPSASB noted that these requirements differ from those in IPSAS 39, *Employee Benefits*, where no liquidity adjustment is included in the discount rate.
- BC148. The IPSASB noted that statistical reporting uses consistent discount rates for accounting for employee benefits and social benefits. Consistency with statistical reporting would suggest adopting the approach to discount rates specified in IPSAS 39.
- BC149. The IPSASB considered the nature of a liquidity adjustment. Where financial markets are illiquid, a seller of a financial instrument may have to accept a lower price for the instrument. This may lead them to demand a higher market yield. Longer duration insurance contracts may be seen as illiquid. In developing the CP, the IPSASB questioned whether the notion of a policy holder demanding a higher market yield is relevant where the terms of a social benefit are prescribed by government.
- BC150. For these reasons, the IPSASB came to the view, in developing the CP, that the discount rate used under the insurance approach should not include a liquidity adjustment. The IPSASB took the view at that time that the discount rate approach in IPSAS 39 was appropriate. Respondents to the CP generally concurred with this view.
- BC151. The IPSASB noted that IFRS 17 requires the use of a risk adjustment. In developing the CP, the IPSASB had noted that there were differing views on the appropriateness of a risk adjustment in the context of social benefits:

6.42 For some social security schemes, uncertainty regarding future cash flows will be relatively small. An example would be where past experience shows that the level of both contributions received and benefits provided is relatively stable. In these circumstances, information about the best estimate of the entity's liability related to the scheme may be most useful to users of the financial statements.

6.43 For other social security schemes, there may be significant uncertainty regarding future cash flows. In these circumstances, some consider that the use of the assumption price measurement basis may be more appropriate. They argue that information regarding the risk adjustment applied by the entity may enable users of the financial statements to better evaluate the risks borne by the entity in operating the scheme. Others consider that the use of the assumption price measurement basis is not appropriate for the public sector where there is no third party that might assume the liability. They argue that applying a risk adjustment results in an estimate other than the best estimate of the claims on the

entity's resources in regard to the scheme; such an estimate may not be neutral and may therefore not satisfy the qualitative characteristic of faithful representation.

- BC152. The IPSASB sought the views of respondents to the CP regarding a risk adjustment. Respondents generally considered that the cost of fulfillment measurement basis, which does not include a risk adjustment, was the most appropriate measurement basis for social benefits.
- BC153. In the light of these comments, the publication of IFRS 17 by the IASB, and the decision to direct preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy, the IPSASB revisited its conclusions in the CP.
- BC154. The IPSASB acknowledged that the views discussed in the CP were still valid. The IPSASB also accepted that adopting the discount rate included in IPSAS 39, and not including a risk adjustment, would produce greater consistency with social benefit schemes recognized and measured using the general approach. Conversely, retaining the discount rate included in IFRS 17, and retaining the risk adjustment, might result in significantly different amounts being included in the financial statements.
- BC155. In addition, the IPSASB considered that amending the requirements of IFRS 17 could only be achieved by undertaking significant due process on that standard, in order to ensure there were no unintended consequences. This would require a significant use of resources, which would defeat the IPSASB's intentions in directing preparers to apply IFRS 17 (or the relevant national accounting standard) by analogy (see paragraph BC145 above).
- BC156. The IPSASB also noted that inconsistencies in the application of discount rates was a wider issue, and that a number of standard setters, including the IASB, were undertaking work on this area.
- BC157. Finally, the IPSASB noted that the insurance approach was optional, not a requirement (although, as noted in paragraph BC132 above, this might be subject to review at a later date). An entity that considered the use of different discount rates problematic could elect to account for all its social benefit schemes using the general approach.
- BC158. For these reasons, the IPSASB agreed not to amend the requirements in IFRS 17 when applying that standard by analogy to social benefit schemes in ED 63.

Responses to ED 63, *Social Benefits*

- BC159. Respondents generally agreed with the IPSASB's proposal to direct preparers to IFRS 17 or national standards that have adopted substantially the same principles as IFRS 17:
- BC160. However, a minority of respondents considered that additional guidance on applying the insurance approach to social benefits would be helpful. In particular, these respondents considered that the IPSASB should provide guidance on discount rates and risk adjustments for social benefits, as these might be different than for commercial insurance contracts.
- BC161. The IPSASB accepted that providing guidance on discount rates and risk adjustments for social benefits might assist preparers to apply the insurance approach. However, for the reasons given in paragraphs BC154–BC158 above, the IPSASB agreed not to amend the requirements in IFRS 17 when applying that standard by analogy to social benefit schemes.
- BC162. The IPSASB noted that entities would need to consider the requirements relating to discount rates and risk adjustments carefully. In particular, the risk adjustment is an entity specific adjustment, and entities will need to consider their unique circumstances in determining the risk adjustment.

BC163. The IPSASB also noted that some national standard setters are considering how the requirements in IFRS 17 (or national standards on insurance) in respect of discount rates and risk adjustments can be applied to social benefits and similar public sector specific transactions. The IPSASB considered that it would be appropriate for entities to consider such guidance once it becomes available.

## **Implementation Guidance**

*This guidance accompanies, but is not part of, IPSAS 42*

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 42.

### **Scope of IPSAS 42**

IG2. The following diagram illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions.

IPSAS 42—SOCIAL BENEFITS

Category	Non-Exchange Expenses Project				Social Benefits	Other IPSAS/IFRS		
	Grants, Contributions and Other Transfers	Emergency Relief	Collective Services	Individual Services	Social Benefits	Employee Benefits	Contracts for Insurance	Contracts for Goods and Services
Examples	Grants to other public sector entities Grants to charities	Emergency relief Planning and preparation activities	Defense Street lighting	Education Healthcare	State pensions Unemployment benefits Income support	Employee pensions Healthcare Salaries	Vehicle insurance Private medical insurance	Purchase of goods Payment for services
Exchange or Non-Exchange Transaction?	Both	Non-Exchange	Non-Exchange	Non-Exchange	Non-Exchange	Exchange	Exchange	Exchange
Provided as cash transfers to specific individuals/households	Sometimes	Sometimes	No	No	Yes	Sometimes	No	No
Provided to specific individuals/households who meet eligibility criteria?	Sometimes	Sometimes	No	Sometimes	Yes	Yes	No	No
Mitigates effect of social risks?	No	No	No	Sometimes	Yes	Yes	No	No
Addresses needs of society as a whole?	Sometimes	No	Yes	Yes	Yes	No	No	No

Scope of Social Benefits in GFS

**Recognition and Measurement of Liabilities and Expenses in IPSAS 42**

- IG3. **Where a retirement pension is paid monthly in arrears, will the liability at the reporting date be the same as the amount paid in the following month?**
- IG4. The liability at the reporting date is unlikely to be exactly the same as the amount paid the following month. The extent of the difference will depend on the circumstances of the retirement benefit. Factors that will affect the extent of the difference include the following:
- (a) Timing differences. The payment in the month following the reporting date may include payments that do not form part of the liability at that reporting date. For example, an entity prepares its financial statements as at December 31. If retirement benefits are paid on the 15<sup>th</sup> of each month, the payment made on January 15 may include payments made to individuals who reached retirement age between January 1 and January 15. The payments to these individuals will not form part of the liability as at December 31, because, at that date, those individuals had not met the eligibility criteria for the retirement pension.
  - (b) Incomplete information. The information which is used to calculate payments may be incomplete, and consequently the payment in the following month may not exactly match the liability at the reporting date. For example, payments are usually calculated a number of days prior to the payment being made. Changes in circumstances notified after that date are not reflected in the payment, but are adjusted in subsequent periods.
- IG5. In considering the liability to be recognized as at the reporting date, entities may find it helpful to refer to the discussion of materiality in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.
- IG6. **How do breaks in meeting the eligibility criteria for a social benefit scheme affect the recognition and measurement of the liability?**
- IG7. For a social benefit scheme that has ongoing eligibility criteria (other than being alive, where this is an eligibility criterion) an individual may alternate between periods when they meet the eligibility criteria for the next social benefit payment, and periods when they do not meet those eligibility criteria. In these circumstances, each instance of an individual satisfying the eligibility criteria is recognized and measured separately.
- IG8. For example, an entity prepares its financial statements as at December 31. As at that date, an individual was unemployed, and eligible to receive unemployment benefits. Consequently, the entity has a present obligation to the individual at the reporting date. The individual finds temporary employment on January 10 and ceases to be eligible for the unemployment benefits. This employment ends on January 24, when the individual once more becomes eligible for unemployment benefits. Only the first period of unemployment might be included in the liability at the reporting date, as the eligibility criteria for the subsequent period were not satisfied until after that reporting date.

## Illustrative Examples

*These examples accompany, but are not part of, IPSAS 42*

### Scope and Definitions

*Illustrating the Consequences of Applying Paragraphs 3–5 and AG1–AG10 of IPSAS 42*

IE1. The following scenarios illustrate the process for determining whether a transaction is within the scope of IPSAS 42, *Social Benefits*. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 42.

#### *Example 1—Provision of Retirement Benefits to Government Employees*

IE2. Employees of Province A are entitled, under the terms of their employment contracts, to retirement benefits once they reach the age of 65. The employees are required to contribute a percentage of their salary while they are employed. The retirement benefits provided are based on the final salary of the employees, and their length of service.

IE3. The retirement benefits are cash transfers provided to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that the employees have sufficient income once they reach retirement age.

IE4. However, the retirement benefits do not address the needs of society as a whole, as they are only available to former employees of Province A. The retirement benefits are paid as compensation for employment services rendered. It follows that the retirement benefits do not meet all the elements of the definition of a social benefit. Consequently, the retirement benefits are outside the scope of IPSAS 42. The retirement benefits are employee benefits, and are accounted for in accordance with IPSAS 39, *Employee Benefits*.

#### *Example 2—Provision of State Retirement Pension*

IE5. Government B pays a minimum state retirement pension to all citizens and residents who have reached the retirement age of 65. The state retirement pension is governed by legislation. Individuals are required to make contributions during their working life, based on their salary. However, the state retirement pension pays the same amount to each retiree regardless of the contributions made.

IE6. The retirement benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income once they reach retirement age.

IE7. The retirement benefits address the needs of society as a whole. Paragraph AG7 of IPSAS 42 notes that the “assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met.”

IE8. Consequently, the state retirement pension is within the scope of IPSAS 42.

*Example 3—Provision of Universal Healthcare Services*

- IE9. Government C provides basic healthcare services to all its citizens, and to other individuals who meet residency requirements. The healthcare services are provided free at the point of delivery.
- IE10. The healthcare services are provided to specific individuals who meet eligibility criteria. The healthcare services are intended to mitigate social risks, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by ill health. In doing so, they address the needs of society as a whole.
- IE11. However, Government C is providing services rather than cash transfers. Consequently, the healthcare services are outside the scope of IPSAS 42.

*Example 4—Provision of Disability Pensions*

- IE12. State Government D pays disability pensions to individuals who have a permanent disability that prevents them from working, regardless of their age. A disability pension is only payable after a medical examiner certifies that the disability is permanent, and that the disability will prevent the individual affected from undertaking paid employment. The level of disability pension is dependent on the individual, and is intended to cover basic needs and to allow the individual to pay for an appropriate level of care.
- IE13. The disability pensions are provided as cash transfers to specific individuals who meet eligibility criteria. The disability pensions are intended to mitigate the social risk of ill health, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by disability. In doing so, they address the needs of society as a whole.
- IE14. Consequently, the disability pensions are within the scope of IPSAS 42.

*Example 5—Provision of Unemployment Benefits*

- IE15. Province E pays unemployment benefits to individuals who are resident in the province and who become unemployed. The unemployment benefits are payable for a maximum of one year, and there is a two week 'waiting period' before the unemployment benefits are payable.
- IE16. The unemployment benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The unemployment benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income during periods of unemployment. In doing so, they address the needs of society as a whole.
- IE17. Consequently, the unemployment benefits are within the scope of IPSAS 42.

*Example 6—Provision of Emergency Relief*

- IE18. Following an earthquake that has caused significant damage in a region, Government F provides emergency relief to assist with reconstruction and with providing services such as temporary housing to those affected by the earthquake.
- IE19. Some costs will relate to providing benefits as cash transfers to specific individuals who meet eligibility criteria. Other costs will relate to the provision of assets and services, for example the reconstruction of roads damaged by the earthquake.
- IE20. The provision of assets, such as the reconstruction of roads, or services to specific individuals is not a cash transfer and consequently is outside the scope of IPSAS 42.

- IE21. The emergency relief provided as cash transfers does not mitigate the effects of social risks, but instead mitigates the effects of a geographical risk – the risk of earthquake. Paragraph AG10 of IPSAS 42 explains that risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks. Consequently, the emergency relief is outside the scope of IPSAS 42.
- IE22. Following a natural disaster, individuals and/or households may subsequently become eligible for other benefits, for example unemployment benefits. These benefits may be social benefits if they satisfy the definition of a social benefit (including the requirements that they are cash transfers and they mitigate social risks).

*Example 7—Provision of Defense Services*

- IE23. Government G maintains an army, navy and air force to provide defense for the country.
- IE24. These defense services are not cash transfers provided to specific individuals who meet eligibility criteria, but instead are collective services, in that:
- (a) They are delivered simultaneously to each member of the community or section of the community; and
  - (b) Individuals cannot be excluded from the benefits of collective goods and services.
- IE25. Consequently, the provision of defense services is outside the scope of IPSAS 42.

**General Approach: Recognition and Measurement**

*Illustrating the Consequences of Applying Paragraphs 6–21 and AG11–AG18 of IPSAS 42*

*Example 8*

- IE26. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.
- IE27. Government H provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of CU250 per month to each individual who has reached the retirement age of 65. Amounts are paid in full to those individuals who satisfied the eligibility criteria in full at the end of the previous month.
- IE28. Government H prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.
- IE29. As at December 31, 20X1, Government H recognized a liability for retirement pensions of CU1,950,500. During 20X2, Government H paid retirement pensions as follows:

<b>Month(s)</b>	<b>Pensions Paid (CU)</b>
January 20X2	1,950,500
February–December 20X2	22,258,000
Total	24,208,500

- IE30. During January 20X3, Government H pays retirement pensions totaling CU2,095,750.

- IE31. As at December 31, 20X2, Government H recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Consequently, Government H recognizes a liability of CU2,095,750, the full amount of the retirement pensions paid in January.
- IE32. During 20X2, the total amount recognized as an expense is CU24,353,750. The breakdown of this amount is as follows:

	<b>CU</b>
Pensions paid in February 20X2 (recognized in January 20X2) to December 20X2 (recognized in November 20X2)	22,258,000
Pensions paid in January 20X3 (recognized in December 20X2)	2,095,750
<b>Total</b>	<u>24,353,750</u>

*Example 9*

- IE33. The following example illustrates the process for recognizing and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.
- IE34. Government I provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of CU100 per month (in arrears) to each individual who has reached the retirement age of 70. Amounts are pro-rated in the months in which an individual reaches the retirement age, and in the months in which an individual dies.
- IE35. Government I prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.
- IE36. As at December 31, 20X7, Government I recognized a liability for retirement pensions of CU2,990,656. During 20X8, Government I paid retirement pensions as follows:

<b>Month(s)</b>	<b>Pensions Paid (CU)</b>
January 20X8	3,024,997
February–December 20X8	33,435,183
<b>Total</b>	<u>36,460,180</u>

- IE37. In this example, it is assumed that Government I has complete information at the date it pays retirement pensions. Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the pro-rated retirement pensions paid to those who reached retirement age during January 20X8 (CU34,341).

- IE38. On January 31, 20X9, Government I pays retirement pensions totaling CU3,053,576. There are three elements to this payment:

	<b>CU</b>
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	37,556
<b>Total</b>	3,053,576

- IE39. As at December 31, 20X8, Government I recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 20X8 financial statements are issued after the January 20X9 retirement pensions have been paid, Government I uses the information available at that time to prepare its financial statements.

- IE40. Consequently, Government I recognizes a liability of CU3,016,020. This includes the full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions paid to those pensioners eligible at December 31 who died during January 20X9 (CU36,420). The liability does not include the pro-rated pensions paid to those who reached retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.

- IE41. During 20X8, the total amount recognized as an expense is CU36,485,544. The breakdown of this amount is as follows:

	<b>CU</b>
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid between February 20X8 and December 20X8 and recognized in the financial year January 1, 20X8 to December 31, 20X8	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9 (recognized in December 20X8)	36,420
<b>Total</b>	36,485,544

*Example 10*

- IE42. The following example illustrates the process for recognizing and measuring the liability and expense for an unemployment pension. This example is not based on actual transactions.

- IE43. State Government J provides unemployment benefits to its citizens and permanent residents. The unemployment benefit scheme pays monthly amounts of 50% of an individual's previous salary, to a maximum of CU500 per month (in arrears). Unemployment benefits are payable for a maximum of eighteen months. To be eligible to receive benefits, an individual must have been in paid

employment in the State for at least 100 days in the past twelve months. Eligibility commences fourteen days after the individual last worked. Amounts are pro-rated in the months in which an individual first meets the eligibility criteria, and in the months in which an individual's eligibility comes to an end (finding paid employment, becoming self-employed, expiry of the eighteen month maximum period, moving out of the State or dying).

- IE44. State Government J prepares its financial statements as at June 30. Unemployment benefits are paid on the 15<sup>th</sup> day of each month.
- IE45. As at June 30, 20X1, State Government J recognized a liability for unemployment benefits of CU125,067. During the financial year July 1, 20X1–June 30, 20X2, State Government J paid unemployment benefits as follows:

<b>Month</b>	<b>Unemployment Benefits Paid (CU)</b>
July 20X1	129,745
August 20X1–June 20X2	1,582,131
Total	<u>1,711,876</u>

- IE46. In this example, it is assumed that State Government J has complete information at the date it pays unemployment benefits. Consequently, the difference between the amount paid on July 15, 20X1 (CU129,745) and the liability recognized as at June 30 20X1 (CU125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between July 1, 20X1 and July 15, 20X1 (CU4,678).
- IE47. On July 15, 20X2, State Government J pays unemployment benefits totaling CU132,952. There are four elements to this payment:

	<b>CU</b>
Unemployment benefits paid to unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2	113,120
Pro-rated unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 whose eligibility had come to an end by July 15, 20X2	9,975
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2	5,045
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between July 1, 20X2 and July 15, 20X2	<u>4,812</u>
Total	<u>132,952</u>

- IE48. As at June 30, 20X2, State Government J recognizes a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. Because its July 20X1–June 20X2 financial statements are issued after the July 20X2 unemployment benefits have been paid, State Government J uses the information available at that time to prepare its financial statements.
- IE49. Consequently, State Government J recognizes a liability of CU128,140. This includes:
- (a) The unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 and remaining eligible at July 15, 20X2 (CU113,120);

- (b) The pro-rated unemployment benefits paid to those unemployed persons eligible at June 15, 20X2 whose eligibility had come to an end by July 15, 20X2 (CU9,975); and
  - (c) The pro-rated unemployment benefits paid to those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (CU5,045).
- IE50. The liability does not include the pro-rated unemployment benefits paid to those who became eligible between July 1, 20X2 and July 15, 20X2 because they had not satisfied the eligibility criteria as at June 30, 20X2.
- IE51. During the financial year July 1, 20X1–June 30, 20X2, the total amount recognized as an expense is CU1,714,949. The breakdown of this amount is as follows:

	<b>CU</b>
Pro-rated unemployment benefits paid in July 20X1 to those who became eligible between July 1, 20X1 and July 15, 20X1 (recognized in July 20X1)	4,678
Unemployment benefits paid in between August 20X1 and June 20X2 and recognized in the financial year July 1, 20X1–June 30, 20X2	1,582,131
Unemployment benefits paid in July 20X2 to unemployed persons eligible at June 15, 20X2, both those remaining eligible and those whose eligibility had come to an end by July 15, 20X2; and those unemployed persons who became eligible between June 15, 20X2 and June 30, 20X2 (recognized in June 20X2)	128,140
	1,714,949

### Comparison with GFS

In developing IPSAS 42, *Social Benefits*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- IPSAS 42 uses similar concepts as GFS. For example, the concept of “social risk” in GFS is a defined term in IPSAS 42 that underpins the definition of social benefits.
- IPSAS 42 adopts a narrower definition of social benefits than GFS. IPSAS 42 limits its definition of social benefits to cash transfers (including cash equivalents). Under GFS, social benefits can be provided in cash or in kind (for example, health services).
- Under IPSAS 42, an entity recognizes a liability for the cash transfers that the entity will make until the next point at which eligibility criteria are required to be satisfied. Generally, no such liability is recognized in GFS for social benefits although liabilities are recorded for funded social insurance schemes.
- IPSAS 42 permits relevant social benefits to be recognized and measured using the insurance approach. GFS does not include this option.
- IPSAS 42 includes disclosure requirements that are not present in GFS.

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, Recommended Practice Guidelines, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'International Public Sector Accounting Standards Board', 'International Public Sector Accounting Standards', 'Recommended Practice Guidelines', 'International Federation of Accountants', 'IPSASB', 'IPSAS', 'RPG', 'IFAC', the IPSASB logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Copyright © January 2019 by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store or transmit, or to make other similar uses of, this document. Contact [permissions@ifac.org](mailto:permissions@ifac.org).

Published by:



**IPSASB**

**International Public  
Sector Accounting  
Standards Board®**

529 Fifth Avenue, New York, NY 10017  
T + 1 (212) 286-9344 F +1 (212) 286-9570  
[www.ipsasb.org](http://www.ipsasb.org)