

Meeting: IPSASB Consultative Advisory Group

Meeting Location: Toronto, Canada

Meeting Date: June 18, 2018

Agenda Item 6

For:

☐ Approval

☒ Discussion

☒ Information

From: Paul Mason

SOCIAL BENEFITS

Project summary	To identify the circumstances and manner in which expenses and liabilities of certain social benefits of governments arise. The project will also consider how they should be recognized and measured in the financial statements.	
Meeting objectives	Topic	Agenda Item
Discussion items	Obligating Event Approach	6.1
	Disclosure of Forward Looking Information	6.2
Other supporting items	IPSASB Due Process Checklist Checklist (condensed to included portions relevant to the CAG)	Appendix A
	Useful Links	Appendix B

Obligating Event Approach

Background

1. Identifying the appropriate obligating event for recognizing a social benefit has been the most challenging aspect of the social benefits project. Exposure Draft (ED) 63, *Social Benefits*, proposed a single recognition point for all social benefits. ED 63 considered that the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions). ED 63 sought respondents' views on this issue.
2. In developing ED 63, the IPSASB was unable to reach unanimous agreement on this issue, and three members included an Alternative View in ED 63¹. These members proposed that the obligating event should be dependent on the economic substance of the social benefit scheme. For some social benefits, recognizing a liability when the eligibility criteria for the next benefit are satisfied would be appropriate. For other social benefits, a liability would 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 social benefit schemes (on a scheme by scheme basis), based on their economic substance.
3. The Board had also failed to reach consensus on this issue in its earlier work on social benefits in 2006 and 2008, and work on the earlier projects was paused when it seemed unlikely that the proposed recognition points would command the necessary two thirds majority for an IPSAS to be approved.

Issue for CAG discussion

4. Respondents to ED 63 were similarly divided on the issue of the appropriate obligating event:

Response	Number of Respondents
Agree	14
Partially Agree	
<i>Support Outcome but not Rationale</i>	5
<i>Support as Part of a Phased Approach</i>	2
<i>Other Reasons</i>	4
Disagree	
<i>Support Alternative View</i>	14
<i>Other Reasons</i>	1

¹ Fourteen members voted in favor of the ED, and one member was absent. The IPSASB due process requires at least twelve members to vote in favor for a document to be approved.

Response	Number of Respondents
No Clear Preference Expressed	1
No Comment	0
Total	41

5. Regionally, respondents from Australasia and North America were most likely to support the proposals in the ED, with respondents in Africa, Asia and Europe more likely to support the alternative view. Considering respondents by function, most groups expressed a wide range of views, with the exception of preparers (where there was no support amongst those who submitted individual responses for the alternative view) and accounting firms (where all who submitted individual responses supported the alternative view).
6. Most of the issues raised by respondents (whether agreeing or disagreeing with the proposals in ED 63) were issues that the IPSASB had already debated at length in developing the ED.
7. A limited number of new issues were identified by respondents (including proposals for alternative approaches to recognition). In staff's view, no new issues were raised by respondents that seem significant enough to lead to a modification of the proposals in ED 63 for recognition (and measurement).
8. A number of respondents who were not fully supportive of the proposals in ED 63 nevertheless emphasized the importance of IPSASB issuing a pronouncement on social benefits as soon as possible. Some caveated such a point by emphasizing the importance of a post implementation review. This could only be achieved by issuing a standard based on the proposals in ED 63, as a standard based on the alternative view would require additional work to fully develop the proposals, followed by a further exposure period.
9. Some respondents saw merit in a standard that was 'transitional' or 'not the final word' but which provided a basis for accounting for social benefits until a revised standard was issued. Staff notes that the IASB has taken this approach on a number of occasions.
10. Given the wide range of strongly held views, both within the IPSASB and amongst stakeholders more widely, a consensus view will not be achievable. Staff is, therefore, recommending the development of an IPSAS based on ED 63. Staff considers that this will be in the public interest.
11. Staff is also recommending that the IPSASB give a commitment to undertake a post implementation review once the new standard has been in effect for a specified number of years (expected to be between three and five years). This would be the first post implementation review undertaken by the IPSASB. To date, no decision has been made as to whether post implementation reviews will be undertaken for other projects.
12. The advantages and disadvantages of issuing an IPSAS based on ED 63 are as follows:

Advantages	Disadvantages
<p>Issuing an IPSAS based on ED 63 addresses the key issue of social benefits. This is a major gap in the IPSASB literature, and has been highlighted by important constituents. A number of respondents, including those who were not fully supportive of the proposals in ED 63 nevertheless emphasized the importance of IPSASB issuing a pronouncement on social benefits as soon as possible. There is a public interest in the IPSASB issuing requirements and guidance, so that governments include expenses and liabilities related to social benefits in their financial statements</p>	<p>Issuing an IPSAS based on ED 63 would require the IPSASB to issue a standard which would not have the support of a significant proportion of its stakeholders. These stakeholders did not consider that the proposed requirements in ED 63 would provide users with the full picture regarding social benefits.</p>
<p>Issuing an IPSAS based on ED 63, followed by a post implementation review, will enable users' and preparers' experiences of reporting social benefits to be considered, albeit at a later date.</p>	
<p>Staff considers it unlikely that there would be sufficient support amongst IPSASB members for an alternative approach. Not issuing an IPSAS based on ED 63 would require the project to be restarted, and given the history of the project, there is no guarantee that a new project would reach consensus.</p>	

13. The new Standard is expected to have an effective date of January 1, 2021. A post implementation review would, therefore, be expected to commence between 2024 and 2026. By this time, the major projects currently in progress, and proposed in the IPSASB's consultation on its *Strategy and Work Plan 2019-2023* are expected to have been completed. It is likely that the IPSASB's strategic focus will be moving from completing major projects to a maintenance phase, and this should allow sufficient resources to undertake the post implementation review.
14. The advantage of undertaking the post implementation review is that preparers' experiences of providing the information required by the standard, and users' experiences of using that information may provide further insights that could lead to a further development of the standard. It would be unusual, however, for the IPSASB to take decisions that bind a future Board. At this stage it is not possible to predict whether that further development would result in different recognition points, or a more robust understanding of why the current recognition point is appropriate.

Questions to the CAG

- Do you agree that it is in the public interest for the IPSASB to approve a standard based on ED 63, as this responds to constituents' needs at this time?
- If so, should the IPSASB commit to undertake a post implementation review once the new standard has been in effect for a number of years?

Disclosure of Forward Looking Information

Background

1. Exposure Draft (ED) 63, *Social Benefits*, proposed a single recognition point for all social benefits. This was the satisfaction by the beneficiary of all eligibility criteria for the next benefit. The IPSASB acknowledged that this would not provide users with all the information they need about social benefits. Consequently, ED 63 also proposed that an entity should disclose its best estimate of the undiscounted projected cash outflows to current and future beneficiaries that will arise from the schemes in each of the five reporting periods immediately following the reporting date.
2. The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.
3. In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. ED 63 sought respondents' views on this.

Issue for CAG discussion

Best estimate of projected cash outflows

4. ED 63 sought respondents' views on whether:
 - (a) It was appropriate to disclose projected future cash outflows; and
 - (b) Five years would be the appropriate period.
5. There was little consensus in the responses regarding future cash outflows (whether considering if it would be appropriate to disclose projected future cash flows or if five years is the appropriate period).

Response/ Number of Respondents	Appropriate to Disclose Projected Future Cash Flows
Agree	15
Partially Agree	9
Disagree	12
No Comment	5
Total	41

Response/ Number of Respondents	Five Years is the Appropriate Period
Agree	6
Partially Agree	5
Disagree	
<i>Longer than five years</i>	11
<i>Shorter than five years</i>	2
<i>Other reasons</i>	12
No Comment	5
Total	41

6. Some of the key points made in respect to the disclosure of projected future cash flows were:
- 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.
 - Projections of outflows are best considered together with projections of inflows and are most useful when they are comprehensive (i.e., in a financial sustainability report), rather than focusing on a single social benefit scheme.
 - The proposed disclosures do not provide sufficient information for decision making purposes on the intergenerational impact of social benefit schemes.
 - Respondents noted the inconsistency with reporting of projected cash inflows. Some respondents considered the fact that future cash flows are not disclosed for other transactions (such as tax revenue) to be a reason for not disclosing projected cash outflows. Other respondents considered that both should be disclosed.
 - Some social benefits extend well beyond five years. A longer disclosure period or separate sustainability reports would be preferable. Some respondents considered that a five year period would be an acceptable minimum, whereas other respondents suggested that the disclosure period should match the period over which it is expected that benefits will be provided.

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

7. ED 63 also sought respondents' views on whether the IPSASB should undertake further work on reporting on the long-term sustainability of an entity's finances, and if so whether any new requirements should be mandatory.
8. Respondents generally supported the IPSASB undertaking additional work in this area, although there were differing views as to what the outcome of that additional work should be:

Response/ Number of Respondents	Undertake Additional Work on Sustainability Reporting
Agree	
<i>Requirements should be mandatory</i>	8
<i>Requirements should not be mandatory</i>	8
<i>No view expressed about whether requirements should be mandatory</i>	8
Partially Agree	4
Disagree	7
No Comment	6
Total	41

9. Respondents who considered that sustainability reporting should be mandatory commented that this would allow social benefits to be considered in the wider context. This would include:
 - Taxation and other revenue;
 - Other obligations;
 - Intergenerational equity.
10. These respondents noted that such reporting would allow the long-term effect of policy decisions to be assessed.
11. Respondents who considered that sustainability reporting should not be mandatory commented that it was too early to mandate sustainability reporting. They also considered that some jurisdictions would struggle to comply with the requirements, which could be a disincentive to the adoption of IPSAS.

Way Forward

12. There is no consensus on whether future cash flows should be disclosed, and if so, how. In addition, few jurisdictions have currently produced financial sustainability reports, which means that there is limited information that could inform further work on sustainability reporting at this stage.
13. Given the lack of consensus on the recognition and measurement of social benefits, and the fact that staff is recommending a post-implementation of this, staff is also suggesting that this review also addresses the disclosure of future cash flows and sustainability reporting.
14. Staff considers that including some disclosures in the final pronouncement will be necessary to provide a benchmark for a post implementation review. If disclosures are included, the post implementation review will be able to consider whether these are sufficient, insufficient or excessive. If no disclosures are included, this assessment will not be possible.
15. Because of the lack of consensus on what disclosures on future cash flows should be included in the final pronouncement, staff is recommending that the IPSASB take into account how such disclosures could inform the post-implementation review. An entity's best estimate of the undiscounted projected

cash outflows to current and future beneficiaries that will arise from the schemes in each of the five reporting periods immediately following the reporting date, as proposed in the ED, would provide a suitable benchmark for a post implementation review. However, given the lack of consensus, the IPSASB may consider a different disclosure requirement would be more suitable.

Question to the CAG

- Given the wide variety of views expressed by respondents, staff is recommending that the IPSASB incorporate a review of disclosures and sustainability reporting into its post implementation review of an IPSAS based on ED 63. Do CAG members consider this approach would be in the public interest, and do they agree that the IPSASB take into account how such disclosures could inform the post-implementation review?

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Appendix A

IPSASB Due Process Checklist Checklist (condensed to included portions relevant to the CAG)

Project: Social Benefits

#	Due Process Requirement	Yes/No	Comments
A. Project Brief			
A1.	A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.	Yes	The IPSASB considered the project brief at its September 2013 meeting (see Agenda Item 6)
A2.	The IPSASB has approved the project in a public meeting.	Yes	See the minutes of the September 2013 IPSASB meeting (section 6)
A3.	The IPSASB CAG has been consulted on the project brief.	N/A	This step is not in effect for this project.
B. Development of Proposed International Standard			
B1.	The IPSASB has considered whether to issue a consultation paper, or undertake other outreach activities to solicit views on matters under consideration from constituents.	Yes	The IPSASB issued the Consultation Paper, Recognition and Measurement of Social Benefits , in July 2015. The consultation paper solicited views on options for accounting for social benefits. The minutes of the June 2015 IPSASB meeting (section 2) document the IPSASB review and approval of the consultation paper issued:
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	Yes	At its March 2016 meeting, the IPSASB discussed the responses to the Consultation Paper covering the scope of the project and the definitions (see Agenda Item 10 and section 10 of the minutes to the March 2016 IPSASB meeting). The IPSASB further discussed the responses received at its June 2016 and September 2016 meetings (see Agenda Item 6 and section 6 of the minutes of the June 2016 meeting ; and Agenda Item 7 and section 7 of the minutes of the September 2016 meeting). The IPSASB continued to discuss the project at its December 2016 and March 2017 meetings (see Agenda Item 8 and section 8 of the minutes of the December 2016 meeting ; and Agenda Item 8 and section 8 of the minutes of the March 2017 meeting).

Social Benefits (IPSASB Due Process Checklist)
IPSASB CAG Meeting (June 2018)

#	Due Process Requirement	Yes/No	Comments
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	Yes	<p>The CAG's views were sought at its June 2016 meeting (see Agenda Item 5 and section 5 of the minutes to the June 2016 CAG meeting). The IPSASB provided feedback to the CAG on how these views had been addressed at the December 2016 meeting of the CAG (see Agenda Item 3.2).</p> <p>The CAG's views were sought on further significant issues at its June 2017 meeting (see Agenda Item 7 and section 7 of the minutes to the June 2017 CAG meeting). The IPSASB provided feedback to the CAG on how these views had been addressed at the December 2017 meeting of the CAG (see Agenda Item 4.4).</p>
<i>D. Consideration of Respondents' Comments on an Exposure Draft</i>			
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.	Yes	<p>The IPSASB published ED 63, Social Benefits, in October 2017.</p> <p>The responses received to ED 63 are publicly posted on the IPSASB web site.</p> <p>This Agenda Item seeks the CAG's views on the significant issues arising from the responses to ED 63. The CAG's views will inform the IPSASB as it develops a final Standard.</p>
D5.	Significant comments received through consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.	Yes	<p>The IPSASB will consider the comments from the CAG discussions together with those from respondents to the ED at its June 2018 meeting (see IPSASB Agenda Item 6 and IPSASB Agenda Item 7).</p> <p>The results of the IPSASB's deliberations on those comments received from the CAG will be reported back to the CAG at its December 2018 meeting.</p>

Agenda Item 6 Appendix B

Useful Links

[Exposure Draft 63, *Social Benefits*](#)

[At a Glance: Exposure Draft \(ED\) 63 Summary—*Social Benefits*](#) (summary document)

[Social Benefits: An Introduction to Exposure Draft 63](#) (webinar)

[Social Benefits: An Introduction to the Insurance Approach in ED 63](#) (webinar)

[Consultation Paper, *Recognition and Measurement of Social Benefits*](#)

[At a Glance: *Recognition and Measurement of Social Benefits*](#) (summary document)

[Social Benefits: An Overview of the IPSASB Consultation Paper](#) (webinar)

Recommended Practice Guideline 1, [*Reporting on the Long-Term Sustainability of an Entity's Finances*](#)
(this document includes recommendations for reporting projections of future revenue and expenses,
including social benefits)

IPSASB Social Benefits [project page](#)