International
Public Sector
Accounting
Standards
Board

**Exposure Draft 34**
March 2008
Comments are requested by July 15, 2008

*Proposed International Public Sector Accounting Standard*

# Social Benefits: Disclosure of Cash Transfers to Individuals or Households

International Federation of Accountants

## REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, for publication in November 2007. This proposed International Public Sector Accounting Standard may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by July 31, 2008**.** All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto Ontario Canada M5V 3H2

Email responses should be sent to: edcomments@ifac.org

# INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard setters to engage in the development of its Standards by commenting on the proposals set out in Exposure Drafts (EDs).

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

## The IPSASB Strategy on Accounting for Social Benefits

*Purpose of this Exposure Draft*

1. The purpose of this ED is to provide requirements for the disclosure of amounts expected to be transferred to individuals or households that have met threshold eligibility criteria at the reporting date, under the current terms and conditions of programs providing social benefits in non-exchange transactions in the form of cash transfers. The requirements are a preliminary step in developing accounting requirements for social benefits.

*Background*

2. IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" was issued in October 2002. Social benefits provided in non-exchange transactions were excluded from the scope of IPSAS 19. An Invitation to Comment (ITC), "Accounting for Social Policy Obligations" was issued in January 2004. The ITC proposed that the principles in IPSASs were applicable to accounting for social benefits provided in non-exchange transactions. Comments from constituents generally supported this proposal and the IPSASB decided to use the principles of IPSAS 19 to develop recognition and measurement requirements for social benefits provided in non-exchange transactions.

3. The IPSASB commenced a further stage of its project in April 2005, intending to develop an ED of an IPSAS that proposed requirements for identifying present obligations related to all social benefits and recognizing and measuring these liabilities.

4. In developing an ED, the IPSASB considered:

   - The objectives of general purpose financial reports (GPFRs) in the public sector, in particular the GPFRs of governments responsible for providing social programs, and how best to meet the information needs of users;
   - Whether the financial position of governments would be faithfully represented by recognizing liabilities associated with expected future outflows for social programs, while at the same time not recognizing as an asset future inflows of tax revenue; and
   - The appropriateness of the current definitions of assets and liabilities in IPSASs, in particular those in IPSAS 19 associated with liabilities.

5. In considering these issues the IPSASB concluded that, within the constraints of the current conceptual framework for general purpose financial reporting, traditional approaches to liability recognition may not be suitable for conveying information to users about the future provision of social programs by governments. In doing so, the IPSASB acknowledged the limitations of the primary financial statements including the statement of financial position and notes thereto. These limitations exist because, although financial statements use

estimation techniques to measure liabilities by reference to settlement amounts in future reporting periods, they focus primarily on past events.

6. This view led the IPSASB to consider other ways of conveying relevant information about social benefit programs to users. The IPSASB saw merit in requiring disclosures within the GPFRs of governments about amounts expected to be transferred to individuals or households presently eligible for benefits under social programs. It therefore developed this ED. The IPSASB acknowledged that this is a preliminary step, of itself insufficient to completely satisfy user needs.

7. The IPSASB also began to explore the role that disclosures about long-term fiscal sustainability could play in helping to convey relevant information to users about the future of a government's social programs. Although the IPSASB accepts that there is uncertainty associated with such information, it considers that such information is highly relevant.

*Strategic Approach to Addressing Social Benefits Accounting Issues*

8. Therefore the IPSASB has concluded that:

   - The proposed disclosure requirements in ED 34 represent an important first step in signaling the importance of governments providing users with relevant information about their social programs,
   - Further consultation should be carried out on key issues relating to recognition and measurement of social benefits as a step in developing further guidance. For this reason the IPSASB has issued a Consultation Paper, "Social Benefits: Key Issues in Recognition and Measurement;" and
   - A project should be initiated to assess whether disclosures about long-term fiscal sustainability reporting might enhance the reporting of the impact of such programs by complementing the information reported in the GPFRs.

*Conceptual Framework and other Relevant Projects*

9. The IPSASB's Conceptual Framework project was initiated by the IPSASB in collaboration with a number of national standard setters in March 2006. The project has already considered broadening (a) the objectives of financial reporting to include *accountability* and (b) the scope of financial reporting to include *general purpose financial reporting*, not just *general purpose financial statements*. The project has also recognized the long-term fiscal sustainability of social benefit programs as an aspect of financial reporting that could be significant to discharging accountability in the public sector. The component of this project on the elements of financial statements will also be considering the existing definitions of assets and liabilities. This is particularly significant because many consider that applying the existing definitions of assets and liabilities used in IPSASs would not lead to a faithful presentation of governmental responsibility for delivering social benefits in the future.

10. The IASB is developing its own Conceptual Framework and is also conducting a fundamental review of its Standard IAS 37, “Provisions, Contingent Liabilities and Contingent Assets,” on which IPSAS 19 was based. Developments in thinking as a result of both projects and the development of IPSASB’s Conceptual Framework are likely to influence the development of further approaches to recognizing and measuring liabilities related to all social benefits.

*Long-Term Fiscal Sustainability Reporting*

11. In its 2007–2009 Strategy and Operational Plan, the IPSASB stated its intention to initiate a project on long-term fiscal sustainability reporting and has issued a project brief on the subject. It welcomes comments on that brief.

12. At a very high level, fiscal sustainability involves an assessment of the extent to which governmental obligations under existing legal frameworks can be met in the future. The analysis of fiscal sustainability therefore takes account of both current and future eligible individuals or households, regardless of whether present obligations to them exist at the reporting date. Fiscal sustainability is sometimes coupled with the concept of intergenerational equity, which evaluates the extent to which future generations of taxpayers will have to deal with the fiscal consequences of policies currently delivering social benefits in the form of goods and services.

13. Fiscal sustainability reporting may be a more versatile accountability tool than accrual–based financial statements, because such reporting involves the projection of inflows as well as outflows. Already a number of jurisdictions have made impressive progress in developing reports on long-term fiscal sustainability as key aspects of financial accountability, even though no universally agreed framework exists for preparing such reports.

*Conclusion*

14. This ED is one of three documents published together as an integrated package; the other two are the Consultation Paper, “Social Benefits: Issues in Recognition and Measurement” and a Project Brief on “Long-Term Fiscal Sustainability Reporting.”

15. The IPSASB looks forward to receiving comments from interested parties on ED 34, the long-term fiscal sustainability reporting project brief and the key issues relating to recognition and measurement of liabilities related to all social benefits identified in the Consultation Paper.

## Due Process

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in EDs from governments, public sector entities, auditors, standard setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an ED, inviting interested parties to provide their comments. EDs will usually have a comment period of four months, although longer periods may be used for certain EDs. Upon the closure of the comment period, the IPSASB will consider the comments received on the ED and may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

## Purpose of the Exposure Draft

This ED proposes requirements for the disclosure of transfers required to be made to eligible individuals or households under the current terms and conditions of cash transfer programs.

## Request for Comments

The IPSASB welcomes comments on all of the proposals in this ED. Comments are most useful when they include the reasons for agreeing or disagreeing. If you disagree please provide alternative proposals.

## Specific Matters for Comment

The IPSASB would particularly value comment on whether you agree that:

1. The scope of this ED is appropriate (paragraphs 2–8). If you do not think that the scope is appropriate please detail how you would modify the scope. Please state your reasons.
2. The new definitions in this ED at paragraph 10 are sufficiently clear and comprehensive. If you disagree, please indicate (a) how these definitions should be modified and (b) which new terms should be defined. Please state your reasons.
3. The requirements for the determination of amounts expected to be transferred to eligible individuals or households are appropriate (paragraphs 30–44). If you do not think that they are appropriate please indicate what those requirements should be. Please state your reasons.
4. The disclosure requirements in paragraph 45 are appropriate. If you think that they are unduly onerous, which disclosures should not be required? Conversely, if you think that the disclosures are inadequate, what further disclosures would you include? Please state your reasons.
5. The disclosure requirements in paragraph 45 are going to provide information that is verifiable. If you think that the disclosure requirements are not going to provide information that is verifiable, please identify the specific disclosures and state what those implications are.

6. The implementation arrangements are appropriate (paragraphs 50–53). If the implementation arrangements are inappropriate, please specify how you would change them. Please state your reasons.

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD [EXPOSURE DRAFT 34]

# SOCIAL BENEFITS: DISCLOSURE OF CASH TRANSFERS TO INDIVIDUALS OR HOUSEHOLDS

## CONTENTS

International Public Sector Accounting Standard (IPSAS) XX, “Social Benefits: Disclosure of Cash Transfers to Individuals or Households” is set out in paragraphs 1–53. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusions and the “Preface to the International Public Sector Accounting Standards.” IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# Introduction

### Reasons for Issuing the IPSAS

IN1. For many governments and public sector entities, programs for the provision of social benefits in non-exchange transactions comprise a highly significant part of their operations. As a preliminary measure the IPSASB considers that the provision of information on the amounts expected to be transferred to individuals or households that have met threshold eligibility criteria at the reporting date would be useful.

### Main Features of the IPSAS

IN2. The Standard prescribes minimum disclosure requirements for amounts expected to be transferred under cash transfer programs to individuals or households that have satisfied all threshold eligibility criteria at the reporting date (eligible individuals or households) and requirements for the disclosure of information about those cash transfer programs.

IN3. The Standard defines three categories of social benefits:

(a) Cash transfers;

(b) Collective goods and services; and

(c) Individual goods and services.

IN4. The Standard provides requirements for disclosures related to cash transfers to individuals or households. Collective goods and services and individual goods and services are outside the scope of the Standard. The Standard does not include requirements for the recognition or measurement of expenses and liabilities relating to cash transfers in the statement of financial performance and the statement of financial position.

IN5. The Standard does not deal with cash transfers to individuals or households that are provided as consideration in exchange for service rendered by employees, including where such cash transfers are provided through composite social security programs, which also operate to provide cash transfers in non-exchange transactions. Where an entity operates a composite social security program, it considers whether it can distinguish the component of the program providing benefits in non-exchange transactions from the component of the program providing benefits in exchange transactions. If it can make this distinction, the entity estimates amounts expected to be transferred to eligible individuals or households in respect of the component dealing with non-exchange transactions. The Standard also does not deal with contracts with employees and third parties for the delivery of social benefits to individuals or households, as these give rise to exchange transactions.

IN6. Entities are required to determine the present value of amounts expected to be transferred under cash transfer programs to eligible individuals or households, regardless of whether there is a formal legal obligation to transfer resources, for example, where a payment becomes due, under the terms of governing legislation or regulation, or after the date on which threshold eligibility criteria have been satisfied. The method by which a program making cash transfers is financed does not affect the approach to determining those amounts. Entities are encouraged to provide information on further amounts of cash transfers expected to be transferred that go beyond the minimal requirements of the Standard.

IN7. In determining the expected amounts to be disclosed, the entity estimates the variables that will determine the ultimate cost of providing those benefits. These estimates include both demographic and financial assumptions. Where a cash transfer program requires the revalidation of eligibility criteria, those assumptions will also include estimates of the proportion of eligible individuals or households that will revalidate their entitlement and the timescale over which revalidation will take place. Unless legislation has been enacted to discontinue a program, the amount disclosed is not limited to the amount of the next payment or a fixed number of payments. If such legislation has been enacted, the estimate reflects the remaining term of the program. As noted at IN6 entities are encouraged to provide information on further amounts of cash transfers expected to be transferred that go beyond the minimal requirements of the Standard.

IN8. Amounts expected to be transferred are discounted to present value using a discount rate that reflects the time value of money. This may be determined by reference to market yields at the reporting date on government bonds, high quality corporate bonds or another financial instrument.

IN9. In addition to the disclosure of amounts expected to be transferred under cash transfer programs to eligible individuals or households, ancillary disclosures are required for such programs. These include details of the principal legislation and regulations governing the programs, principal assumptions and changes to those assumptions since the previous reporting date, and the financial effect of those changes. Aggregated information is required for programs which are not individually material, but are material in aggregate. The Standard also requires the disclosure of the reporting entity’s accounting policy for recognizing expenses and liabilities relating to cash transfers to eligible individuals or households in non-exchange transactions on a program basis and the aggregate amount of any expenses recognized in the statement of financial performance and any liabilities recognized in the statement of financial position on a program basis.

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD

# IPSAS XX

## Social Benefits: Disclosure of Cash Transfers to Individuals or Households

## Objective

1. Public sector entities provide members of the community with social benefits in the form of cash transfers and goods and services in the pursuit of social policy objectives. The objective of this Standard is to provide requirements for the disclosure of amounts expected to be transferred to eligible individuals or households for cash transfer programs. The Standard also includes other requirements to disclose details of the assumptions used in determining the amounts expected to be transferred and the nature of those cash transfer programs.

## Scope

**2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in disclosing information about cash transfer programs transferring economic benefits in non-exchange transactions to eligible individuals or households.**

3. Social benefits are provided to eligible individuals or households in non-exchange transactions. The entity providing these benefits does not receive consideration that is approximately equal to the value of the cash transfers and goods and services provided, directly in return from the recipients of these benefits. Social benefits include health and educational services and cash transfers such as unemployment benefits. This Standard deals with the disclosure of amounts expected to be transferred to individuals or households that are eligible at the reporting date for cash transfers provided in non-exchange transactions. It does not include requirements for social benefits provided in the form of goods and services or for recognizing expenses and liabilities relating to cash transfers provided in non-exchange transactions.

4. This Standard applies to social security pension benefits provided in non-exchange transactions, as well as to other cash transfers provided by governments in non-exchange transactions to individuals where attainment of retirement age is an eligibility criterion. In some jurisdictions cash transfers to individuals who have reached retirement age and satisfied other eligibility criteria are made through composite social security programs. Composite social security programs operate to provide benefits in non-exchange transactions and also as post-employment benefit plans. Transactions of composite social security programs as consideration in exchange for service rendered by employees are not within the scope of this Standard (see also paragraph 6 and paragraphs 18–19).

5. Certain cash transfer programs may also require contributions by or on behalf of individuals. Such programs are within the scope of this Standard provided that the amount of the contributions is not approximately equal to the economic benefits transferred by the government or public sector entity. This Standard does not deal with the disclosure of such contributions. IPSAS 23, "Revenue from Non-Exchange Transactions (Taxes and Transfers)" provides guidance on distinguishing exchange and non-exchange transactions.

6 This Standard does not apply to employee benefits, including post-employment benefits, provided to government employees and other employees as consideration in exchange for their services or to other cash transfers that are exchange transactions. Requirements in respect of employee benefits should be accounted for in accordance with IPSAS 25, "Employee Benefits." This Standard also does not apply to exchange transactions for the provision of goods and services by third parties.

**Government Business Enterprises**

7. This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).

8. The "Preface to International Public Sector Accounting Standards" issued by the IPSASB explains that GBEs apply IFRS, which are issued by the IASB.

## Definitions

9. **The following terms are used in this Standard with the meanings specified. These terms have been defined in other IPSASs (or draft IPSASs) (they will be omitted from the finalized Standard):**

**<u>Composite social security programs</u> are established by legislation, and**

**(a) Operate as multiemployer plans to provide post-employment benefits; as well as to**

**(b) Provide benefits that are not consideration in exchange for services rendered by employees.**

**An <u>exchange transaction</u> is a transaction in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another entity in exchange.**

**<u>Expenses paid through the tax system</u> are amounts that are available to beneficiaries regardless of whether or not they pay taxes.**

**<u>Non-exchange transactions</u> are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in**

**exchange or gives value to another entity without directly receiving approximately equal value in exchange.**

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

**A cash transfer to an individual or household is a social benefit, which is either provided directly in cash, or is an expense paid through the tax system, to protect individuals or households against certain social risks where use of the resources transferred is at the discretion of the individual or household.**

**A cash transfer program is a program that operates to make cash transfers to an individual or household.**

**Collective goods and services are social benefits in the form of goods and services provided to the entire population or to a particular segment of the population in any jurisdiction in order to protect the population or segment of the population against certain social risks.**

**An eligibility criterion is a requirement that must be satisfied for entitlement to cash transfers.**

**An eligible individual or household is an individual or household that has satisfied threshold eligibility criteria at the reporting date.**

**Individual goods and services are social benefits in the form of goods and services provided for individual consumption to protect an individual or household against certain social risks.**

**Social benefits are cash transfers to individuals or households and collective and individual goods and services provided by an entity to individuals or households in a non-exchange transaction to protect the entire population, or a particular segment of the population, in any jurisdiction against certain social risks.**

**A social risk is an event or circumstance that may adversely affect the welfare of individuals or households either by imposing additional demands on their resources or by reducing their incomes.**

**Threshold eligibility criteria are all the criteria that an individual or household must satisfy when applying for a social benefit for the first time, or when reapplying for a social benefit after a period of ineligibility, in order to be entitled to individual goods and services or cash transfers.**

### Cash Transfers to Individuals or Households and Goods and Services Encompassed by Social Benefits

11. Goods and services provided by public sector entities in non-exchange transactions may be provided for collective consumption or for consumption by individuals or households. Government and public sector entities also provide

social benefits in the form of cash transfers. These goods and services and cash transfers are generally termed social benefits.

12. The definition of a cash transfer to an individual or household in this Standard requires resources to be transferred directly to individuals or households. Therefore, the definition does not include transfers from one level of government to another level such as shared tax revenues (for example, where the national government transfers a proportion of specified tax receipts to a provincial government), or from one national government to another national government (for example, resources for disaster relief).

**Cash Transfers to Individuals or Households**

13. In many instances, governments and public sector entities will provide social benefits in the form of cash transfers to individuals or households to address social risks facing individuals and/or their households. Such benefits include:

    (a) Social security pensions;

    (b) Child benefits;

    (c) Invalidity and sickness benefits;

    (d) Unemployment benefits;

    (e) Income supplements; and

    (f) Housing benefits (where paid to the applicant rather than directly to the landlord).

14. Access to cash transfers to individuals or households requires the satisfaction of eligibility criteria. The characteristic distinguishing cash transfers to individuals or households from individual goods and services is that the purposes for which the cash transferred may be used are at the discretion of the recipient (see also paragraph 23). If an individual or household has to validate that the cash has been used for a specified purpose, the transaction is a reimbursement rather than a cash transfer. Such a transaction is within the definition of individual goods and services and is therefore outside the scope of this Standard.

15. On occasions, cash transfers are made to individuals as reductions in the amount of income tax that they have to pay rather than as a direct cash payment. In such cases, for administrative efficiency, the taxation system is used to process a transfer, which would otherwise be made directly in cash. Such reductions in taxation are expenses paid through the tax system and are within the definition of cash transfers in this Standard. IPSAS 23 provides additional commentary on tax expenditures and expenses paid through the tax system. Tax expenditures are preferential provisions of the tax law that provide certain concessions to taxpayers that are not available to others. Tax expenditures are not within the definition of a cash transfer to an individual or household in this Standard.

16. There may be instances in which a particular program or arrangement providing social benefits includes both cash transfers and individual goods and services. An example is a housing support program in which rental allowances for the tenants of private landlords are paid to individuals in cash with no stipulation that they be used in a specified manner, whereas rental allowances to individuals who are tenants of social housing authorities are paid directly to the social housing authority. In such cases resource outflows under the program may be componentized into cash transfers and individual goods and services.

17. Cash transfers include social security programs which operate to provide benefits to individuals who have attained the retirement age laid down in governing legislation or regulations, as well as satisfying other eligibility criteria.

**Composite Social Security Programs**

18. Composite social security programs are complex types of cash transfer programs of particular significance in a number of jurisdictions. Such programs operate to provide cash transfers in non-exchange transactions to individuals who have satisfied the eligibility criteria laid down in governing legislation or regulations. Such eligibility criteria may include specification of a retirement age. They also operate as multiemployer plans to provide post-employment benefits in exchange transactions.

19. Where an entity operates such a program it considers whether it can identify as separate components non-exchange transactions and exchange transactions. If it is able to identify the transactions separately, the requirements of this Standard relate only to the non-exchange transactions. If it is not able to identify such transactions separately, it makes a judgment as to whether the program operates predominantly to provide benefits in the form of exchange or non-exchange transactions. If it operates mainly to provide economic benefits in non-exchange transactions, the disclosures in paragraph 45 are made.

**Collective Goods and Services**

20. Collective goods and services are made accessible simultaneously to all members of the community or to all members of a particular section of the community, such as all households living in a particular region. Such goods and services differ from individual goods and services and cash transfers to individuals or households in that they are automatically available and consumed by all members of the community, group of households in the community or section of the community. Access to collective goods and services does not normally require the satisfaction of eligibility criteria. By their nature, collective services cannot normally be sold to individuals or households in the market place. Goods and services provided for collective consumption vary in different jurisdictions. Examples include:

    (a) National defense; and

(b) Public order and safety (including police services, fire protection services, law courts and prisons).

21. This Standard does not require disclosures related to collective goods and services.

**Individual Goods and Services**

22. Governments and public sector entities provide a range of goods and services for consumption by individuals or households. Unlike collective goods and services, individual goods and services can generally be bought and sold in the market place. However, in many cases, programs providing goods and services do not require individuals or households to pay an amount equivalent to the fair value of the goods and services provided. Access to individual goods and services normally requires the satisfaction of eligibility criteria. Goods and services provided for individual consumption vary in different jurisdictions. Examples include:

(a) Health services;

(b) Education services;

(c) Housing services;

(d) Transport services; and

(e) Social services to the community.

23. Individual goods and services can be distinguished from cash transfers to individuals or households because it is specified that the resources transferred are intended to be used for the service potential embodied in the goods and services. Therefore they differ from cash transfers to individuals or households where the individual or household has a wider discretion over the purposes for which the economic benefits may be used (see above paragraphs 13–16). It may, of course, be possible for the individual or household receiving the goods to sell those goods rather than use them for the purposes intended by the transferor. Such a course of action, however, requires a positive further action by the recipient following receipt of the resources transferred.

24. Individual goods and services may be provided by reimbursements for certain types of expenditure. Under such arrangements, rather than providing free or subsidized goods or services, a government or public sector entity requires individuals or households to purchase the goods and services and then apply for reimbursement; for example, individuals attending a doctor's surgery may be required to pay a standard fee, which a government will reimburse in full or part for certain individuals, or a government may reimburse individuals with disabilities for the full cost or part cost of certain home services when proof of purchase of those services is provided. Such reimbursements are not within the definition of cash transfers to individuals or households in this Standard.

25. This Standard does not require disclosures related to individual goods and services.

### Eligibility Criteria and Threshold Eligibility Criteria

26. Programs for cash transfers require individuals or households to meet certain conditions. Such conditions are known as eligibility criteria. The eligibility criteria for entitlement to cash transfers are laid down in the legislation and regulations governing the program. Eligibility criteria can differ widely between types of benefits in their number and complexity.

27. Eligibility criteria may need to be revalidated at specified intervals in order for an individual or household to maintain entitlement to social benefits; for example, where unemployment benefit is only available to individuals with incomes below a specified level, individuals may be required to prove that their incomes are below this level on a regular basis.

28. The term threshold eligibility criteria refers to <u>all</u> the eligibility criteria that an individual or household must satisfy when applying for a cash transfer for the first time, or when reapplying for a cash transfer after a period of ineligibility, in order to be entitled to a transfer of resources. For example, an individual who has been making contributions to a program providing benefits to those aged 65 years and over cannot satisfy threshold eligibility criteria until he/she has reached the age of 65 years. At the reporting date, an individual below the age of 65 years may have already made sufficient contributions to qualify for benefits when, and if, they reach the age of 65 years. However, such an individual has not met threshold eligibility criteria.

29. The eligibility criteria for some programs may not all have to be satisfied at the same time. An example is a child benefit program, where the child must have reached a specified age, but further eligibility criteria related to the income and/or asset holdings of the child's parents must be satisfied before an entitlement to a cash transfer exists. In such cases, threshold eligibility criteria are not satisfied until those further eligibility criteria have been satisfied.

## Determination of Amounts Expected to be Transferred under Cash Transfer Programs to Eligible Individuals or Households

30. **An entity shall determine its best estimate of the present value of amounts expected to be transferred under cash transfer programs to eligible individuals or households.**

31. The estimate of amounts expected to be transferred is in accordance with the legislation and terms governing the program at the reporting date. The estimate is on a gross basis, i.e., the estimate is not offset by estimates of inflows such as contributions on or behalf of individuals or households, earmarked taxation, general taxation, appropriations or transfers from other levels of government. Further, the estimate is not offset by income tax or other deductions payable by an individual. The estimate does not include the costs of program administration.

32. The estimate is determined on the basis of continuous entitlement. This means that the estimate is based on an individual or household continuing to satisfy eligibility criteria for a benefit over a future period without a break in entitlement from the point at which threshold eligibility criteria are initially satisfied; for example, in making an estimate of the amounts expected to be transferred for a program delivering benefits to unemployed individuals, the assessment includes estimates of the number of those currently eligible who will revalidate their entitlement so that they are continuously eligible for benefits from the reporting date. The assessment does not make estimates of amounts expected to be transferred to individuals following reestablishment of their eligibility to entitlements after a period of future ineligibility; for example following a break in entitlement due to a period of paid employment.

33. The estimate is not limited to the next payment or a fixed number of payments following the satisfaction of threshold eligibility criteria, unless legislation has been enacted at the reporting date to discontinue a program. If such legislation has been enacted, the estimate reflects the remaining term of the program.

34. Termination benefits are one-off payments arising when an individual or household that has previously satisfied eligibility criteria for periodic payments ceases to satisfy those eligibility criteria. For example, a child benefit program providing cash transfers for children under the age of 16 years may have a provision whereby a child receives a final lump sum on his/her sixteenth birthday. If programs include provisions for such termination benefits, the estimate of the amounts expected to be transferred in accordance with paragraph 30 takes into account the probability of an eligible individual or household qualifying for a termination benefit in the future.

35. **Assumptions used in determining the present value of the amounts expected to be transferred under paragraph 30 shall be complete, unbiased and mutually compatible. Assumptions shall be consistent between cash transfer programs.**

36. In determining the amounts expected to be transferred, the reporting entity makes estimates of the material variables that will determine the ultimate cost of providing those benefits. These variables depend upon the nature of the cash transfer program. Such estimates involve both demographic and financial assumptions. Demographic factors may include life expectancy, morbidity, emigration and the extent of periods of unemployment. Financial factors include projections of future benefit levels. Where a cash transfer program requires the revalidation of eligibility criteria, assumptions also include estimates of the proportion of those eligible at the reporting date, who will revalidate their entitlement on a continuous basis and the period of time over which revalidation will continue.

37. Assumptions are unbiased if they are neither imprudent nor conservative. Assumptions are mutually compatible if they reflect the economic relationships

between variables; for example, the relationship between inflation and unemployment rates.

38. In determining the amounts expected to be transferred under paragraph 30, the assumptions are consistent between cash transfer programs; for example, it would be inappropriate to use different inflation assumptions covering the same period for two cash transfer programs, if transfers under those programs are based on the general rate of inflation.

39. For many programs, assumptions may require actuarial calculations. This Standard does not require such assumptions to be made by members of the actuarial profession. However, entities are required to disclose whether qualified actuaries have been used to advise on some or all of those assumptions and, if so, whether internal or external actuaries have been consulted.

40. **The rate used to discount amounts expected to be transferred under cash transfer programs to eligible individual or households shall reflect the time value of money.**

41. In making an assessment of the present value of expected future cash transfers, the entity discounts the projected amount of those expected future cash transfers to their present value. The discount rate selected can have a material effect on the expected amounts disclosed. The discount rate reflects the time value of money. The discount rate does not reflect actuarial risk, investment risk, entity specific credit risk or other risks such as the risk that future experience may differ from actuarial assumptions. Where existing legislation gives an entity options to reduce the amounts to be transferred, it reflects such options in its estimation of the cash flows rather than by adjusting the discount rate.

42. An entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds or by another financial instrument; for example, where there is no deep market in government bonds, the market yields (at the reporting date) on high quality corporate bonds in a deep and liquid market might be used. The currency and term of the government bonds, high quality corporate bonds or other instrument are consistent with the currency and estimated term of the obligation related to the cash transfer program.

43. The discount rate used reflects the estimated timing of benefit payments and will be related to the yield on the instrument that provides the best reflection of the time value of money. In practice, an entity may apply a single weighted average discount rate that reflects the estimated timing and amount of all benefit payments.

44. For some programs, such as social security pensions, there may be no market in the instrument selected with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates at the appropriate term to discount shorter term payments and estimates the

discount rate for longer maturities by extrapolating current market rates along the yield curve.

## Disclosures

45. **An entity shall disclose the following information for each cash transfer program for which amounts expected to be transferred are determined under paragraph 30:**

    (a) **A general description of the cash transfer program, including the principal legislation and regulations governing the program;**

    (b) **The present value of the amounts expected to be transferred, determined in accordance with paragraphs 30–44;**

    (c) **The number of eligible individuals or households for each cash transfer program at the reporting date;**

    (d) **The principal assumptions used at the reporting date, including the discount rate used to discount amounts expected to be transferred to individuals or households that are eligible at the reporting date to their present value, and a description of the source of the discount rate, where the source is not government bonds;**

    (e) **The basis on which benefits will be increased in the future;**

    (f) **Changes to the principal assumptions since the last reporting date and the financial effects of such changes, distinguishing the financial effects of changes in the discount rate and the financial effects of other changes in principal assumptions;**

    (g) **Whether a qualified actuary has been used in the determination of the principal assumptions and, if so, whether that actuary is an employee of the reporting entity or an external engagement;**

    (h) **Programs that have been discontinued after the reporting date; and**

    (i) **The entity's accounting policy for recognizing expenses and liabilities relating to cash transfers and the amount of any expenses recognized in the statement of financial performance and the amount of any liabilities recognized in the statement of financial position relating to cash transfers in the reporting period on a program basis.**

46. The disclosures required by this Standard are of the minimum amounts expected to be transferred. They exclude projections of cash transfers for future potentially eligible individuals or households that have not satisfied threshold eligibility criteria at the reporting date; for example, individuals who are likely to satisfy eligibility criteria in the next reporting period. They do not include projections of future cash transfers for individuals who have made contributions, or for whom contributions have been made by third parties, sufficient to entitle them to the

receipt of benefits at a future date, but who have not satisfied all threshold eligibility criteria at the reporting date. An entity is encouraged to further categorize the amounts expected to be transferred according to the timing of the payments; for example under one year, after one year but not later than five years, and after five years. An entity is also encouraged to disclose broader assessments of the projected inflows and outflows associated with particular programs, so as to enhance the ability of users to assess the sustainability of those programs in the future. Where an entity discloses projections of outflows and inflows in relation to programs providing social benefits that exceed the requirements in this Standard, the entity is required to identify separately the information required by this Standard.

47. This Standard requires disclosures to be made on a program basis. Many entities operate a large number of cash transfer programs and judgment is needed to assess which programs should be presented on an individual basis and which should be aggregated in applying the concept of materiality in paragraphs 45–47 of IPSAS 1, "Presentation of Financial Statements." In making this materiality assessment, preparers will consider both quantitative and qualitative factors. Quantitative factors include (but are not limited to) the proportion of the entity's operating costs that are attributable to a particular program, and recent growth in expenditure for particular programs. Qualitative factors include (but are not limited to) the extent to which voluminous disclosures might impair understandability, levels of interest in particular programs shown by users and the extent to which the information in the note disclosure is the primary source of financial information to users.

48. This Standard requires the disclosure of the principal assumptions used to determine amounts expected to be transferred, any changes to those assumptions since the previous reporting date and the financial effects of the changes in assumptions. Entities are encouraged but not required to provide information on the sensitivity of projections to particular variables; for example the effect of a percentage point change in the average period of eligibility for unemployment benefit.

49. In accordance with paragraphs 2 and 3, this Standard does not include requirements for the recognition of liabilities and expenses related to social benefits. However, paragraph 45(i) requires entities to disclose the accounting policies adopted for the recognition of expenses and liabilities related to cash transfers to individuals or households. Paragraph 45(i) also requires entities to disclose the amount of any expenses recognized in the statement of financial performance and liabilities recognized in the statement of financial position relating to cash transfers to individuals or households. This information is disclosed on a program basis. Paragraph 132(c) of IPSAS 1 requires an entity to disclose other accounting policies that are relevant to an understanding of the financial statements. This may include the accounting policies for the recognition

of expenses and liabilities related to collective goods and services and individual goods and services.

## Initial Adoption of this Standard

50. **In the first year of adoption of this Standard, an entity is not required to provide comparative information.**

51. Paragraph 50 provides relief to all entities from disclosing comparative information in the first year of adoption of this Standard. An entity is encouraged to include comparative information where this is available.

## Effective Date

52. **This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after MM DD 20IX (two years after issuance). Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD 20IX (two years after issuance) it shall disclose that fact.**

53. When an entity adopts the accrual basis of accounting as defined by 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.

## ILLUSTRATIVE DISCLOSURES OF MINIMUM ITEMS REQUIRED BY THIS STANDARD

*This guidance is for illustrative purposes only and is not meant to be prescriptive. The guidance accompanies, but is not part of IPSAS XX. In all the examples there is a reporting date of December 31.*

### Unemployment Benefit

1. Unemployment benefit is administered under the provisions of the Employment Act 1976, as amended by the Employment Acts of 1992 and 2003. Regulations laid under these Acts provide a number of detailed requirements. The main eligibility criteria are that individuals are:

    - Aged over 18, but under retirement age for a basic/welfare social security pension (currently 65 years);
    - Have not been in paid employment for a period of seven days;
    - Available for work; and
    - Actively seeking work — benefit may be terminated if an individual rejects more than three offers of work.

2. This disclosure provides an estimate of the amounts expected to be transferred to eligible individuals or households that have satisfied threshold eligibility criteria at the reporting date. The estimate is a gross figure and is not offset by inflows such as taxation, appropriations and transfers from other levels of government. It does not take account of possible income tax or other deductions payable by eligible individuals.

| ***Present Value of Amounts Expected to be Transferred to All Eligible Individuals or Households at Reporting Date*** | **December 31, 20X2** (millions of currency units) | **December 31, 20X1** (millions of currency units) |
|---|---|---|
| | **850** | **855** |

3. The number of eligible individuals at the reporting date was:

| **December 31, 20X2** (000s) | **December 31, 20X1** (000s) |
|---|---|
| **1,015** | **1,123** |

4. In making the projections, key assumptions in relation to those who receive benefits are that (where these assumptions have changed figures in brackets present the position at December 31, 20X1):

   - 40% of those in receipt of benefit as at December 31, 20x2 will return to work or otherwise cease to be eligible for benefit within one year of the reporting date (42% as at December 31, 20 X1);
   - A further 35% will return to work or otherwise cease to be eligible for benefit within three years of the reporting date (31% as at December 31, 20X1);
   - A further 10% will return to work or otherwise cease to be eligible for benefit within five years of the reporting date (12% as at December 31, 20X1);
   - The remaining 15% of individuals currently eligible will still be claiming benefit after 5 years from the reporting date.

5. It is assumed that benefits payable under the program will increase in line with Central Bank targets for inflation. Currently this target is 2% a year.

6. The time value of money recognizes that cash outflows in years immediately following the reporting date are more onerous than those arising in later years. For this reason, projections are discounted to their present value using a discount rate that is not adjusted for risk. The rates used in this reporting period and the previous reporting period were:

| December 31, 20X2 | December 31, 20X1 |
|---|---|
| **2.4%** | **2.1%** |

7. The financial effect of the changes in assumptions is (millions of currency units):

   Decrease in expense due to change in discount rate: 101

   Increase in expense due to changes in other assumptions: 58

8. An external actuary was consulted on the assumptions used in determining these projections.

9. Currently liabilities and expenses related to unemployment benefit are recognized on a due and payable basis. This means that the next payment following the satisfaction of the eligibility criteria, listed in paragraph 1 above, is expensed when eligibility criteria are satisfied. Any payments that have not been made at the reporting date are recognized as liabilities in the statement of financial position. During the financial year ended December 31, 20X2 an expense of 39.2 million currency units was incurred (38.9 million currency units for the financial year ended December 31 20X1). At the reporting date, a liability of 1.4 million currency units was recognized (1.37 million currency units as at December 31 20X1).

## Social Security Pension

1. The social security pension is a contributory program administered under the provisions of the Social Assistance Act 1962, as amended by the Social Assistance Acts of 1990 and 2002. Regulations laid under these Acts provide a number of detailed requirements. The social security pension is payable to all individuals over the age of 62 years who satisfy the following eligibility criteria:

   - Have a record of a minimum of 48 monthly contributions;
   - Have been residents within the jurisdiction for a minimum of three years;
   - Continue to be residents within the jurisdiction; and
   - Have annual incomes not higher than 20,000 currency units per annum and assets no greater than 50,000 currency units at September 30, 20X2.

2. This disclosure provides an estimate of the amounts expected to be transferred to individuals who have satisfied all eligibility criteria at the reporting date. The estimate is a gross figure and is not offset by inflows such as taxation, appropriations and transfers from other levels of government or by income tax or other deductions payable by eligible individuals.

| ***Present Value of Amounts Expected to be Transferred to Eligible Individuals or Households at Reporting Date*** | **December 31, 20X2**<br><br>**(millions of currency units)** | **December 31, 20X1**<br><br>**(millions of currency units)** |
|---|---|---|
| | **870** | **850** |

3. The number of eligible individuals at the reporting date was:

| **December 31, 20X2** | **December 31, 20X1** |
|---|---|
| **(000s)** | **(000s)** |
| **2,153** | **2,134** |

4. In making the projections, key assumptions in relation to individuals who receive the social security pension are that (where these assumptions have changed, figures in brackets present the position at 31, December 20X1):

   - The average life expectancy for individuals eligible and in receipt of the general/contributory pension is 83 years two months for women and 78 years five months for men (83 years one months for women and 78 years three months for men);

- 2.4% of those eligible and receiving the general/contributory pension will cease to satisfy eligibility requirements related to annual income and asset holdings over the four years following the reporting date (2.5%); and
- 1.1% of those eligible and receiving the general/contributory pension will cease to maintain resident status within ten years of the reporting date (1.0%).

5. It is assumed that the social security pension will increase in line with government targets for inflation plus one percentage point. Currently the inflation target is 2.5% a year.
6. Because of the time value of money, cash outflows in years immediately following the reporting date are more onerous than those arising in later years. For this reason, projected cash flows are discounted to their present value. A discount rate determined by reference to the yield on high quality bonds at the reporting date is used. Such a rate is considered to be the best reflection of the time value of money. The rates used in this reporting period and the previous reporting period were:

| **December 31, 20X2** | **December 31, 20X1** |
|---|---|
| **2.4%** | **2.2%** |

7. The financial effect of the changes in assumptions is (millions of currency units):

   Decrease in expense due to change in discount rate: 98

   Increase in expense due to changes in other assumptions: 45
8. A directly employed actuary was consulted on the assumptions used in determining these projections.
9. Currently liabilities and expenses related to the social security pension are recognized when all eligibility criteria have been satisfied. An expense is recognized for benefits relating to the period up to the reporting date. If a payment is outstanding at the reporting date, the proportion of that payment that relates to the reporting period is recognized as an expense in the statement of financial performance and a liability in the statement of financial position. During the financial year ended December 31, 20X2, an expense of 62.1 million currency units was incurred. At the reporting date, a liability of 3.2 million currency units was recognized.

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the Standard.*

### Introduction

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in ED 34, "Social Benefits: Disclosure of Cash Transfers to Individuals or Households." Individual members of the IPSASB gave greater weight to some factors than to others.

BC2. IPSAS 19 was issued in October 2002. Social benefits were scoped out of IPSAS 19 to allow further consideration to be given to the topic. The ITC, "Accounting for the Social Policies of Government" was published in January 2004. The ITC proposed that the conceptual approach and definitions in IPSASs could be applied in determining when obligations arise from social policies in a non-exchange context. Respondents to the ITC supported this approach.

BC3. The IPSASB's intention, when initiating this component of the project and throughout much of its development, was to develop a Standard with requirements for the identification of present obligations and the recognition and measurement of liabilities related to social benefits. The IPSASB's deliberations, together with global developments in accounting for social benefits after the project was initiated, led to a view that it should conduct a further and separate consultation on certain key issues related to recognition and measurement prior to finalizing its views on these issues. The IPSASB has therefore issued a Consultation Paper, "Social Benefits: Issues in Recognition and Measurement" at the same time as the ED in order to promote a debate on these key issues. The IPSASB also initiated a project on long-term fiscal sustainability reporting in late 2007 and is also examining the reporting of the long-term fiscal sustainability of social benefit programs in the context of general purpose financial reporting in its project on the conceptual framework.

BC4. For the above reasons, the Standard does not address the recognition and measurement or disclosure of expenses and liabilities related to social benefits. It deals only with the disclosure of amounts expected to be transferred under cash transfer programs to individuals or households that have met threshold eligibility criteria at the reporting date. Such individuals or households are defined as eligible individuals or households. The IPSASB acknowledges that the Standard is a preliminary pronouncement. However, it considers that the proposed requirements are highly useful staging posts in the adoption of approaches towards accounting for social benefits for both accrual reporting and long-term sustainability reporting and that the information provided will be worthwhile to the users of general purpose financial statements. The proposed requirements are also a bridge between accrual based reporting and long-term fiscal sustainability reporting.

### Scope

BC5. The IPSASB considered whether the Standard should have within its scope all cash transfers including social security pensions and other benefits to citizens who have reached a specified retirement age. The IPSASB recognized the views of those who argue that social security pensions are so significant to the operations and financial position of many governments and public sector entities that they should be addressed in a separate Standard.

BC6. The IPSASB concluded that, because the requirements for social security pensions do not differ from other cash transfer programs, social security pensions should be dealt with in the same Standard. The IPSASB saw little merit in developing a separate Standard, which would largely mirror the requirements and guidance for social benefits where attainment of retirement age is not an eligibility criterion. The IPSASB also acknowledged that, whilst they are of great fiscal significance in many jurisdictions, social security pensions are not the largest cash transfer program in many jurisdictions with developing economies.

BC7. The IPSASB also considered whether the Standard should have within its scope cash transfer programs financed by contributions and/or earmarked taxation as well as those financed by general taxation. In the context of recognition and measurement, the IPSASB acknowledges the view that the payment of contributions by, or on behalf of, an individual may give rise to requirements different from those for programs financed from general taxation. The IPSASB concluded that the financing or funding of a program should not have an impact on the requirements of the Standard and that, therefore, cash transfer programs financed by contributions and/or earmarked taxation, should be within the scope.

### Definitions

BC8. The IPSASB considered whether the term social benefits should be defined. It noted the view of the Steering Committee that what constitutes social benefits varies between jurisdictions and that this makes the adoption of an exhaustive definition problematic. At consultation on the ITC, responses were almost evenly split as to whether a definition is necessary.

BC9. There is an attraction in relying on a general notion of social benefits. However, on balance, it was decided that, in order to facilitate a full analysis of potential requirements, the term should be defined. As a starting point, the IPSASB took the definition used in the scope out in IPSAS 19. The IPSASB agreed that any definition should be generic rather than a detailed list of benefits and programs falling into particular categories.

BC10. The IPSASB also noted the current definition of social benefits in statistical reporting bases including the Government Finance Statistics Manual 2001 (GFSM 2001), which itself is consistent with the System of National Accounts (SNA 1993). The IPSASB agreed with the view of the Steering Committee that, while this proposed Standard should use terminology consistent with statistical reporting bases wherever possible, the definition of social benefits should be broader than that used in GFSM 2001. In this context, the IPSASB noted that GFSM 2001 explains that "there is no universally accepted definition of the scope of social benefits and the social risks covered are liable to vary from scheme to scheme and from government to government."

BC11. The IPSASB therefore adopted a three part definition of social benefits as:

- Cash transfers;
- Goods and services provided for collective consumption; and
- Goods and services provided for individual consumption.

BC12. In the Standard, the shorthand terms collective goods and services and individual goods and services are used. The distinction between collective goods and services and individual goods and services is so entrenched in statistical accounting literature that the IPSASB concluded that it should be retained. It is also useful for analytical purposes as programs and arrangements for individual goods and services have eligibility criteria, unlike collective goods and services. This characteristic is shared with cash transfers.

BC13. The IPSASB examined the nature of individual goods and services and cash transfers, and considered the differences between them. The IPSASB identified one significant distinction. Whereas for individual goods and services the transferor can stipulate the purposes to which the resources must be applied, for cash transfers the individual or household has full discretion how to use those transferred resources. The IPSASB acknowledged that in cases in which the transfer of economic benefits is in the form of goods, it may be possible for the recipient to sell those goods rather than use them for the purposes specified by the transferor. However, this requires a positive further action on the part of the recipient and is likely to be at a distressed value.

BC14. There may be cases in which individuals or households are provided with cash for the purchase of specific goods and services. The IPSASB is of the view that such transfers are reimbursements and meet the definition of individual goods and services. In common with other methods of providing individual goods and services, the recipient does not have full discretion as to how the resources are to be used. The expenditure relating to such reimbursements will often require prior authorization and normally reimbursements will only be made after documented proof that the expenditure for which reimbursement is sought has been for purposes specified by the transferor. Such transactions are therefore different in substance from cash transfers.

BC15. In some cases, cash transfers will be made to individuals as reductions in the amount of income tax for which they are liable. The IPSASB concluded that, if government uses the tax system as a convenient method of paying benefits to taxpayers which would otherwise be paid using another method, such reductions should be within the definition of a cash transfer in this proposed Standard.

However, if allowances are only available to individuals who incur tax liabilities, they are tax expenditures: that is, preferential provisions of the tax law that provide taxpayers with concessions that are not available to others and are not social benefits. Consistent with the approach adopted in IPSAS 23, tax expenditures are foregone revenue; consequently they are not expenses paid through the tax system. They are therefore outside the scope of the Standard. This treatment is also consistent with the requirements on offsetting in paragraphs 48 and 49 of IPSAS 1.

**Extent of Amounts to be Transferred**

BC16. Having decided that the ED should not deal with recognition and measurement and should not require disclosures for collective and individual goods and services, the IPSASB considered whether the determination of amounts expected to be transferred at the reporting date should be restricted to eligible individuals or households, or whether it should include other groups, such as those expected to become eligible over a predetermined timeframe, or, for contributory programs, those currently making contributions.

BC17. The IPSASB concluded that the determination of the best estimate of the amount expected to be transferred should be limited to eligible individuals or households at the reporting date and that it should be a gross amount not offset by inflows or by income tax or other deductions payable by beneficiaries. This is because the IPSASB wishes to facilitate adoption of the Standard by as many entities as possible and therefore considers that the requirements should be straightforward. The IPSASB acknowledges that the estimate is a minimum amount and that entities in some jurisdictions may wish to make a more extensive disclosure that goes beyond the requirements in the Standard. The Standard includes a strong encouragement for entities to make more extensive disclosures. Where an entity makes more extensive disclosures, the Standard specifies that the amounts it requires to be disclosed are identified separately from other amounts disclosed.

**Treatment of Revalidation Requirements**

BC18. A number of cash transfer programs require eligible individuals or households to revalidate their eligibility at a future date. Requirements for revalidation are normally laid down in the legislation or regulations governing the program. The IPSASB considered how revalidation requirements should be addressed in the ED.

BC19. The IPSASB explored 3 options:

(a) That the best estimate of the amount expected to be transferred should be limited to the next revalidation point;

(b) That the best estimate of the amount expected to be transferred should take into account the extent to which eligible individuals or households would revalidate eligibility requirements on a continuous basis; or

(c) That the best estimate of the amount expected to be transferred should take into account the extent to which eligible individuals or households would subsequently resatisfy threshold eligibility criteria in the future after a period of ineligibility.

BC20. The IPSASB considered that adoption of option (a) would provide limited information to users. This is because the amounts disclosed would depend completely upon the timing of eligibility revalidation requirements. Thus, different amounts would be disclosed for two programs with identical benefits and eligibility requirements, dependent upon the proximity of the date of revalidation to the reporting date. The IPSASB does not consider that this would enhance the comparability of reporting.

BC21. The IPSASB acknowledged the advantages of option (c), but concluded that, for a number of programs, entities might have the option to modify benefits after a period of ineligibility and that amounts disclosed on this basis might therefore be misleading. The IPSASB therefore concluded that option (b) is the best approach and that the amount to be transferred should take into account an estimate of the extent to which eligible individuals or households would revalidate eligibility requirements on a continuous basis. The IPSASB uses the term continuous eligibility to describe this approach.

**Discount Rate**

BC22. In considering the discount rate that should be used to discount amounts to be transferred under cash transfer programs to eligible individuals or households, the IPSASB considered whether it should explicitly require a rate based on yields on government bonds, high quality corporate bonds or another financial instrument. The IPSASB also acknowledged the view that the discount rate might be based on the expected long-term rate of return of the assets held to meet expected payments. The IPSASB acknowledges that there are jurisdictions where such an approach has been implemented. However, the IPSASB considered that such an approach is not feasible globally because, in most instances, there will not be assets held to meet the expected payments. The IPSASB concluded that the requirement should be principles based and that the discount rate should reflect the time value of money. In many jurisdictions government bonds will best reflect the time value of money. However, the IPSASB concluded that, globally, this will not always be the case and that it should be left to the professional judgment of preparers to determine which instrument provides a rate that best reflects the time value of money.

BC23. In extreme fiscal conditions, governments and other public sector entities may have the option to modify the terms of existing conditions for programs providing social benefits. The extent of this option will depend upon constitutional arrangements and other local circumstances. In practice, such discretion is likely to be highly limited in respect of individuals or households that have already satisfied threshold eligibility criteria. The IPSASB concluded that such options should be reflected in the forecasting of cash flows rather than by the inclusion of a premium for risk in the discount rate.

**Other Assumptions**

BC24. The IPSASB considered whether there should be a requirement for entities to consult qualified actuaries on the assumptions necessary to meet the requirements of the Standard. The IPSASB concluded that, in many cases, it will be necessary for an actuary to be consulted, but that this should be left to the judgment of preparers. Entities are required to disclose whether qualified actuaries have been consulted, and, if so, whether they are internal employees or external to the entity.

**Other Disclosures**

BC25. The IPSASB considered whether it should require trend information covering the current reporting period and the four previous reporting periods for certain disclosures. The IPSASB concluded that requirements for trend information may be onerous for preparers and of limited value to users. Disclosures of trend information are therefore not required.

BC26 The IPSASB considered whether there should be a disclosure requirement for the number of eligible individuals or households. The IPSASB acknowledged the view that many programs delivering cash transfers are complex and subject to regular modification and therefore that such a disclosure might not provide relevant information. On balance, the IPSASB concluded that information on the number of eligible individuals or households is useful in putting the financial disclosures into context and that it should be required.

BC27. Whilst the Standard does not deal with the recognition and measurement of expenses and obligations related to cash transfer programs, the IPSASB considers that information on the accounting policy for the recognition and measurement of expenses and liabilities related to cash transfer programs and the amounts of expenses and liabilities recognized is relevant for users. Paragraph 45(i) therefore includes such a disclosure requirement.

**Arrangements for Implementation**

BC28. The IPSASB considered how the requirements in the Standard should be implemented. The IPSASB acknowledged that some entities may not have the systems in place to provide the necessary information to meet the requirements. However, the Standard is a preliminary pronouncement and a very extensive implementation period is likely to delay further developments in accounting for social benefits. Therefore, the IPSASB decided that the Standard should take effect for reporting periods beginning on a date two years after its issuance. Because of the relatively short implementation period, the IPSASB concluded that it was appropriate to include relief from providing comparative information in the first year of adoption.

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