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Dear Ms Fox,

IPSASB CONSULTATIONS ON FINANCIAL REPORTING FOR SOCIAL BENEFITS

1. FEE (Fédération des Experts Comptables Européens - Federation of European Accountants) is pleased to submit its views on the linked consultations
 - Exposure Draft 34, Social Benefits: Disclosure of Cash Transfers to Individuals or Households
 - Consultation Paper, Social Benefits: Issues in Recognition and Measurement

We are also pleased to comment on the proposed Project Brief for a project exploring the related issues which might be addressed by Long-Term Fiscal Sustainability Reporting.

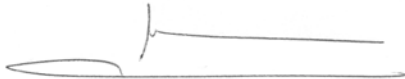
ED 34 and the Consultation Paper

2. Determining a consistent and conceptually sound basis for accounting for expenditure and liabilities which do not arise from contractual exchanges is one of the unresolved issues of public sector financial reporting, and we are pleased to see that the IPSASB is carrying out work in this area, both in its more general project to develop a conceptual framework for public sector financial reporting, and in specific work on the significant area of social benefits.
3. We note, of course, that the scope of the Exposure Draft is restricted to setting out proposals for specific disclosures outside the primary financial statements, and does not encompass the recognition and measurement of balance sheet liabilities. We appreciate that this was not the initial intention of the Board, and that this matter is being addressed (albeit on a slower timetable) through the Consultation Paper.
4. Our responses to the two requests for specific comments are presented in Appendices 1 and 2 attached to this letter.

Long-Term Fiscal Sustainability Reporting

5. We have also considered the proposed Project Brief for a project on Long-Term Fiscal Sustainability Reporting. We certainly agree that information on the long term 'affordability' of government programmes is interesting and important. Developing this kind of information would inevitably range more widely than current financial reporting, particularly that which is within the main financial statements. Appropriate reporting might need to reflect quite specific aspects of benefit programs, the specifics of taxation systems, and the nature of the dialogue between government and citizens. Audit and verifiability considerations for this type of information might be expected to be rather different to standard assurances on financial statements.
6. In the light of the above comments we observe that the Board has set itself a very ambitious task. While we understand that some jurisdictions have already made progress in developing fiscal sustainability reporting, it remains to be seen whether standards or other internationally applicable guidance can be developed, having regard to the estimation uncertainties, political issues and jurisdiction specific nature of taxation and expenditures.
7. We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,



Jacques Potdevin
President

Ref:

EXPOSURE DRAFT 34**SOCIAL BENEFITS: DISCLOSURE OF CASH TRANSFERS TO INDIVIDUALS OR HOUSEHOLDS****Specific Matters for Comment**

The IPSASB would particularly value comment on whether ...

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.

FEE notes that the guidance does not provide an answer to the question of what liabilities should be recognised on public sector balance sheets.

However, we recognise that the Board wishes to produce useful guidance as soon as possible, and has elected to develop a limited scope standard for early implementation, while continuing to explore wider issues with a view to developing more comprehensive guidance later.

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.

The definitions are sufficiently clear and comprehensive.

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.

The requirements appear to be workable and appropriate, as long as it is clearly understood that these represent a pragmatic disclosure, rather than representing a preliminary view of the 'liability' which might be recognised in financial statements.

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.

The disclosure requirements in paragraph 45 are appropriate, when taken in conjunction with the guidance in paragraph 47 which provides for materiality criteria to be used in determining the level of disclosure.

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.

In principle, the disclosure requirements should be verifiable, although there may be transitional difficulties.

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.

The implementation arrangements are appropriate.

CONSULTATION PAPER**SOCIAL BENEFITS: ISSUES IN RECOGNITION AND MEASUREMENT****Specific Matters for Comment**

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

1. Do you agree that, within the constraints of the current implied conceptual framework for general purpose financial reporting, current financial statements such as the statement of financial position and the statement of financial performance cannot convey sufficient information by themselves to users about the financial condition of governmental programs providing social benefits? Please state your reasons.

The current implied framework for financial statements uses a definition of liability which does not encompass substantial government commitments, for example in respect of state funded pensions and other long-term social benefits. These commitments are in principle avoidable by government, but in practice will often be unavoidable unless there are problems with affordability. Information on these commitments is important information for citizens and policy makers. It could be attached to financial statements in management commentary or other reports, although there is no established methodology for presenting this information.

Current conceptual frameworks also do not address long term affordability issues. Affordability information is important, and under current frameworks could be included in management commentary.

2. Do you think that a present obligation to individuals or households arises at any time for: a) Collective goods and services; and/or b) Individual goods and services? If you think a present obligation does arise for either (a) or (b) or both (a) and (b) please indicate when and indicate your reasons.

In our view it is very difficult to provide an objective answer for all jurisdictions to whether a government which represents and is funded by its citizenry has a present obligation to particular citizens in respect of non-contractual commitments which do not arise as a result of direct exchanges. We also consider that the nature of any such present obligation would be qualitatively different to the present obligations which arise in contractual arrangements in the for-profit sector.

We therefore consider that the key question is whether information on an imputed obligation would be useful to readers of the financial statements, would aid accountability, and would be understandable by reference to other types of financial statements.

(a) Collective goods and services. It is clear that citizens will often have a strong expectation that certain collective goods and services be provided and continue to be provided. Nevertheless, we do not consider that it is useful to view this as a present obligation giving rise to a liability which is recognised before it is discharged or settled.

(b) Individual goods and services. In our view it is useful to consider that a present obligation arises in respect of individual goods and services, primarily based on eligibility criteria being satisfied.

3. Do you think that a present obligation to individuals or households in respect of cash transfers arises when all eligibility criteria have been satisfied for:

a) Non-contributory programs; and/or

b) Contributory programs?

If you think that a present obligation arises at an earlier point for (a) or (b) or both (a) and (b), please indicate that point and give your reasons.

In our view it is useful to consider that a present obligation arises when all eligibility criteria have been satisfied.

For contributory programs, the primary question seems to be whether the contributory aspect has the effect of making the programme more like a contractual or quasi-contractual arrangement. If it does, then earlier or gradual recognition is probably appropriate, in line with current private sector treatment. Where the arrangement is more clearly a non-exchange transaction, then the issues appear to be the same as for non-contributory programs: the principal effect of the contribution is to increase the public expectation and appearance of 'unavoidability'.

4. Where a cash transfer program requires individuals or households to revalidate their entitlement to benefits, do you think that revalidation is an attribute that should be taken into account in the measurement of the liability or a recognition criterion? Please state your reasons.

Although revalidation may be required as part of fraud prevention measures, we consider that the primary concern of government is that the entitlement condition is continuing. Depending on the timing and purpose of such a control as operated by the government authorities, it could affect recognition, measurement or a mixture of the two.

5. Do you think that in developing requirements for recognition and measurement of social benefits the IPSASB should further explore the executory contract accounting model briefly outlined in Key Issue 6. Please state your reasons.

In our view it is worth exploring this model further. However, we would note that in response to consultations on similar approaches, for example in the United Kingdom, some stakeholders suggested that the executory contract model was counter-intuitive and that related guidance on liability and expenditure recognition was also considered difficult to apply. Any proposals for the use of this approach would need to be accompanied by very clear explanation.

[Respondents] are also asked to provide details of current policies for recognizing and measuring liabilities for programs that deliver social benefits in your jurisdictions

Responses on current policies in specific jurisdictions will be provided in the individual responses from those jurisdictions which send individual responses. In the main, accruals based accounting for social benefits reflects the 'due and payable' approach.