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 International Public Sector Accounting Standards
 Board (IPSASB)
 International Federation of Accountants
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Düsseldorf, 13 August 2008

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Dear Ms Fox,

IPSAS Exposure Draft 34 „Social Benefits: Disclosure of Cash Transfers to Individuals or Households“

We appreciate the opportunity to comment on the Exposure Draft mentioned above and would like to submit our comments as follows:

Overall opinion

We acknowledge that the IPSAS Board regards ED 34 as a preliminary step in accounting and financial reporting of social benefits. However, we would like to point out that disclosures cannot replace the recognition of social policy obligations in the long run.

Specific Matters for Comment

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.*

Against the background that ED 34, as a first step, requires minimum disclosures for cash transfers to individuals or households, the scope is appropriate. To our understanding, ED 34 does not preclude the entity from giving voluntarily more information, e.g. projections of outflows in relation to individual goods and services or of cash transfers for future potentially eligible individuals or house-

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holds. In this case the entity is, of course, required to identify separately the information required by ED 34 from the voluntarily given information.

ED 34 refers to entities that account on an accrual basis. It should be discussed whether entities which use the cash basis standard should at least also be encouraged to give the disclosures required by ED 34.

In Germany, several cash transfer programs are funded by contributions by or on behalf of individuals (e.g. unemployment programs or old age pensions). According to ED 34.5 such programs are within the scope of the standard when the amount of the contribution is not approximately equal to the economic benefits transferred by the government or public sector entity. Guidance would be helpful to clarify whether this approximation relates to total amounts of contributions in relation to the total cash transfers or, alternatively, whether this is to be considered at the level of each individual contributor.

In connection with the composite social security programs ED 34.19 requires the entity to identify the exchange and the non-exchange components of the transaction. Only the latter is within the scope of ED 34. In our view, it should be analyzed whether contributory cash transfer programs have also an exchange as well as a non-exchange component. Guidance on how to identify the different components would be helpful.

Finally, we would like to refer to an editorial mistake in ED 34.3. In our view, the last sentence should refer to exchange transactions and not to non-exchange transactions.

- 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.*

We agree with the definitions. However, the definition of social risks seems to be very broad. The definition refers to the welfare of individuals and households, which in our view, is difficult to determine and will vary from country to country.

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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.*

In general, we agree with the determination of the present value of amounts expected to be transferred under cash transfer programs to eligible individuals or households. Nevertheless, we miss an explanation or definition what the “best estimate” of the present value is (see e.g. IAS 37.36 et seqq.).

The regulation that the estimate is determined on the basis of continuous entitlement is a useful simplification and allows practice to make the necessary calculation. In accordance with IPSAS 25.91 et seqq., ED 34 proposes to use as discount rate the market yields at the reporting date on government bonds. In order to reduce volatility in the discount rate, we believe that it is appropriate to use an average long-term rate as discount rate instead.

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 are appropriate, especially because voluntarily disclosures are not prohibited. But to us, the disclosure requirement of ED 34.45 e) is not clear (“The basis on which benefits will be increased in the future.”). We assume that in case there is an automatic increase of the cash transfers the basis for the increase as stipulated in legislation should be given (e.g. rate of inflation). We would appreciate if the IPSASB clarifies this point.

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.*

We think that the disclosure requirements are going to provide information that is verifiable.



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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.*

We think that the implementation arrangements in ED 34.50 f. are appropriate.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

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Dear Ms Fox,

Consultation Paper „Social Benefits: Issues in Recognition and Measurement“ and Project Brief on Long-Term Fiscal Sustainability Reporting

We appreciate the opportunity to comment on the Consultation Paper and the Project Brief mentioned above and would like to submit our comments as follows:

Specific Matters for Comment to the Consultation Paper

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.*

We 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.

In our opinion, a more substantial discussion concerning the principles of fiscal sustainability and of “inter-generational equity” as accounting principles should be held; for instance, on whether these principles have to be followed in the fi-

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financial statements themselves and not merely in a document published separately. The financial statements address the needs of the users. Citizens as one user group are interested in the question of fiscal sustainability and “inter-generational equity”. The latter principle means the current generation is not allowed to burden future generations with its liabilities.

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.

to a) Collective goods and services

We support the view that governments do not have a present obligation in respect of collective goods and services: Individuals or households do not have a legally enforceable claim against a government to provide collective goods and services as defined in the consultation paper. In our view, it is not convincing to argue that a constructive obligation justifies a present obligation in this connection. Furthermore, we believe that providing collective goods and services can be regarded as an ongoing activity such as national defense, public order and safety, etc. In accordance with IPSAS 19.26, no provision is recognized for costs that will need to be incurred to continue an entity’s ongoing activities in the future.

to b) Individual goods and services

The situation is different, where the provision of individual goods and services is concerned. The provision of individual goods and services is more often based on laws and regulations than it is the case with provision of collective goods. An individual or a household might have a legally enforceable claim against the government. Furthermore, access to individual goods and services depends on whether eligibility criteria have been fulfilled or not. The fulfillment of these criteria increases expectations that an individual or a household is entitled to receive goods or services. Furthermore, eligibility criteria allow to identify the beneficiaries. In our view, the extent of present obligations should depend on whether a particular stipulation is deemed to operate as an eligibility criterion. This approach provides more accurate information about potential future obligations and fulfills the requirement of “inter-generational equity”.

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The European Union has defined the term “services of general interest”. It might be interesting to relate this concept of the EU to the approach followed by the IPSASB.

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.

First of all, we would like to point out that the question of non-contributory and contributory programs does not only relate to cash transfer programs but also to programs providing individual goods and services. For example, in Germany, employees have to pay a “health insurance contribution”. In case of sickness, health service provided by doctors or hospitals is free of charge. The costs of the health services are directly paid by the health insurance to the health service provider. We assume that the German health care system is therefore a contributory program of individual goods and services.

to a) Non-contributory programs

From our point of view, an obligating event for cash transfers for non-contributory events does not occur before all eligibility criteria have been satisfied. The determination of an obligating event creating a constructive obligation might be difficult to determine. The discussion in para. 37 et seqq. about the key participatory event shows the complexity of this approach. Moreover, the key participatory events might vary between different social programs and might differ from country to country. However, the recognition of cash transfers for non-contributory programs based on key participatory events will lead to a considerable amount of obligations for those kinds of benefits. As long as the right to levy tax is not allowed to be recognised as an asset the divergence of financing and obligation might disturb the balance of the statement of financial position and the statement of financial performance.

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to b) Contributory programs

In our view, the payment of a contribution does not only create “a valid expectation (or reinforces an existing one)”, sometimes the individual or the household will even have a legally enforceable claim against the government. It also might be argued, that a contributory program can be seen as a quasi-exchange transaction. Therefore, the payments of contributions should create a present obligation also with respect to constructive obligations. The reference to the satisfaction of all eligibility criteria is not appropriate. In case of contributory programs, there is a certain expectation by the beneficiaries that the benefits will be provided by government.

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.*

According to IPSAS Exposure Draft 34 „Social Benefits: Disclosure of Cash Transfers to Individuals or Households“ the revalidation of an eligibility criterion is taken into account in the measurement of the disclosed amount. In our opinion, the same approach should be taken here. Firstly, individuals who have already proved their eligibility and who have assumed to be still eligible at the revalidation date have a higher (valid) expectation to receive social benefits in the future than individuals who become eligible for the first time. Secondly, the reporting entity should have empirical data (e.g. based on past experience) on the number of individuals which continue to be eligible after a revalidation.

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.*

We welcome the proposal to explore the potential of the “Executory Contract Accounting Model”. To our understanding of this model, social benefits were to be treated like onerous contracts. This approach would also satisfy the principle of fiscal sustainability and of “inter-generational equity”. Reporting of social benefits is an essential part of financial reporting in the public sector. All possibilities to satisfy the information needs of the users should be explored.



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Comments to the Project Brief on Long-Term Fiscal Sustainability Reporting

The IDW welcomes a project on long-term fiscal sustainability reporting. In our view, the rather open and wide scope will be a good starting point for discussion.

The identified major problems and key issues related to the project are well chosen and cover major aspects of long-term fiscal sustainability related to social benefits. However, the views expressed by the IPSAS Board in item (vi) "Assumptions and Sensitivity of Assumptions" seem to contradict to item (vii) "Tensions with Current Legal Framework" which states that the preparers of financial statements should not predict governmental actions.

According to the project timetable, the project is scheduled to run from November 2007 until June 2011 including the approval of a possible IPSAS. Due to the narrow link of the project to the question of recognition and measurement of social benefits we think the specified timetable is too long.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

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Cathérine Viehweger
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