

5 April 2018

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA

Submitted online via ipsasb.org

Dear Mr Stanford

Submission on Exposure Draft 63 Social Benefits

Thank you for the opportunity to comment on Exposure Draft 63 Social Benefits (“the ED”). Chartered Accountants Australia and New Zealand (CA ANZ) supports strengthening public sector accounting standards. Many of our members are involved in government at the local, regional or federal government level as employees, auditors or advisors. We believe information reported on social benefits must be meaningful for stakeholders and we appreciate that social benefits impacts all citizens.

We are broadly supportive of a number of proposals in the ED, however we make the following key recommendations:

- The scope and definitions be further refined to avoid confusion and possible divergent accounting treatments.
- The insurance approach be mandatory for social benefit schemes that are managed in the same way as insurance schemes.
- The obligating event approach be further developed as an acceptable pragmatic approach to liability recognition.
- Long-term fiscal sustainability reporting be further encouraged, but not be made mandatory at this stage.

Our detailed comments and recommendations are enclosed in Appendix A. Appendix B contains more information about CA ANZ. Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Ceri-Ann Ross (Reporting Leader) via email; ceri-ann.ross@charteredaccountantsanz.com.

Yours sincerely



Liz Stamford
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Appendix A

Specific Matter for Comment 1 (SMC1)

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?

While we understand that the IPSASB may wish to focus on a narrow scope definition of social benefits at this stage and consider universally accessible services as part of its broader non-exchange expenses project, we disagree with the reason given in paragraph BC21(c) that social benefits are not a type of non-exchange expense. We consider that social benefits are a subset of non-exchange expenses.

Many social benefits and universally accessible services transactions are similar in nature and share many of the same characteristics. Where this is the case, we believe that a consistent accounting approach for liability and expense recognition would be appropriate. In seeking to develop separate standards for the spectrum of public sector expenses, there is a risk that similar transactions could be subject to inconsistent accounting treatments. In addition, entities could face difficulty in determining which standard applies, particularly in the case of schemes with multiple expense components.

We recommend that the IPSASB considers either expanding the scope to include universally accessible services, or redefining the scope in terms of the nature of the transaction and sector of the recipient. For example, social benefits paid directly to individuals/households.

Specific Matter for Comment 2 (SMC2)

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?

We consider that some of the definitions proposed in the ED may be difficult to apply in practice.

In particular we question the eligibility criteria distinction made in the definitions and scope paragraphs, as we believe this may lead to diverse outcomes. For example, tuition fee scholarships are unlikely to be social benefits, but receipt of funds can depend on the individual meeting eligibility criteria that affect both recognition and measurement of the liability. In addition, payments under Australia's universally accessible healthcare service, 'Medicare', are classified as a social benefit under Australian Government Finance Statistics (GFS), but under the proposals in the ED (AG7), would be treated as a universally accessible service.

As noted in our response to SMC1, we recommend that the IPSASB either expands the scope, which may remove some of the more problematic definition elements, or reconsiders the definitions in the context of the nature of the transaction and the sector of the recipient.

Specific Matter for Comment 3 (SMC3)

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;**
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;**

- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

- (a) We believe that the insurance approach should be mandatory for social benefit schemes that are managed in the same way as insurance schemes. We consider that the insurance approach better reflects the economic substance of such schemes, particularly in regards to liability recognition, and would promote greater consistency, transparency and more comparable accounting treatment.
- (b) We agree with criterion 9(b) that the insurance approach should be used when the entity manages the scheme in the same way as an issuer of insurance contracts and consider that this should be the primary criterion. We question the relevance and value of criterion 9(a). It appears inconsistent with the definition of a liability under the IPSASB Conceptual Framework, and practical application could be problematic where, for example, schemes have multiple funding components. We recommend that this criterion either be clarified further, or removed.
- (c) We are broadly supportive of preparers following international or national insurance contracts standards, although note that questions have been raised about the appropriateness of discount rates and risk adjustments to the public sector.
- (d) We consider that the disclosure requirements appear reasonable and appropriate.

Specific Matter for Comment 4 (SMC4)

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)? If not, what past event should give rise to a liability for a social benefit?

We acknowledge that recognition and measurement of social benefit liabilities is a uniquely complex area for the public sector.

The obligating event approach and Alternative View are at opposite ends of the spectrum. We consider that the obligating event approach as proposed is too narrow and is out of step with the recognition principles for other liabilities. We also consider that being alive is a measurement criterion, not a recognition criterion. However, while our views from a conceptual perspective are more aligned to the Alternative View, we have to acknowledge the practical concerns and question whether recognising such large liabilities without also recognising the right to tax provides useful information to users of financial statements. We also see practical concerns over reliable measurement.

Recognising that this consultation is now at ED stage and needs to reach a conclusion, we can support the proposed recognition approach as a reasonable and pragmatic outcome. However, we recommend that the rationale is further developed based on discussions around both views, and that recognition is supported by appropriate long-term fiscal sustainability information.

Specific Matter for Comment 5 (SMC5)

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
 - (i) It is appropriate to disclose the projected future cash flows; and
 - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

We believe that the proposed disclosure requirements around characteristics and amounts in financial statements are appropriate and provide important information for users on the sustainability of such schemes. We recommend that the IPSASB considers including provisions for cross-referencing to other documents to avoid adding unnecessary length and clutter to financial reports. We view long-term fiscal sustainability information as important. For governments that publish such information, we consider that additional cash flow disclosures would not be needed. However, for those governments that do not publish fiscal sustainability reports, we consider that a minimum five-year forecast is acceptable for the purposes of this ED, but encourage the IPSASB to consider how it can continue to bring about improvements in this area.

Specific Matter for Comment 6 (SMC6)

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

We believe the IPSASB has an important role in encouraging better quality financial reporting in the public sector, including long-term fiscal sustainability reporting. We consider that at the present time, RPG 1 is an appropriate vehicle for this and on balance, should continue to be optional.

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