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Chairman
IPSASB
IFAC
Subject: Exposure Draft 63 Social Benefits

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STR/majsk

Submitted via website
www.IPSASB.org

Dear IPSASB,

The Danish Agency for Modernisation is pleased to respond the Exposure Draft 63 Social Benefits (ED). We welcome and support the work ISPASB has presented in ED. The different arguments in ED illustrate the degree of difficulty by the subject.

We support the scope and definitions in ED, and so we have used the opportunity to highlight some potential issues in general and some specific for the social benefit schemes in Denmark.

The recognition criterion *all eligibility criteria for the next benefit are satisfied* induces an issue with identifying new beneficiaries. We also want to point out the fact that not all applicants who meet eligibility criteria for the next benefit would apply for it and this do not comply with the definition of a present obligation. By using a recognition point later in the application process the measurement of liabilities would also be more precise and this could e.g. be when a claim is approved.

The recognition criterion stated in ED would cause a difference between the [draft]standard and the recording for social benefit schemes in Government Finance Statistic (GFS). For GFS an expense is recorded when the payment is due. The difference requires an explanation and also the transparency and comparability would be affected. IPSASB has disused this[1] but the issues is not only relevant for social benefits but is a general discussion of accrual accounting. By using *being alive* as a recognition criteria for social benefits the term is used different than in the existing standard for employee benefits (IPSAS 39 Employee Benefits). We encourage IPSASB to use similar terms the same way through IPSAS.

If *being alive* is an eligibility criterion the maximum amount to recognized as a liability is the cost of the benefit schemes until the next point at which eligibility criteria are required to be satisfied. Almost all social benefit schemes in Denmark are payed for one month in advances or for the prior month. This would lead to a

[1] ED 63 paragraph BC63-BC65

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small effect of the accrual concept. Thereby we think the main advantages and purposes of the [draft]standard would not have a determining effect. In according to this the value for the stakeholder of the financial report has to be seen compared to the economic and administrative costs.

If *being alive* is not a recognition criterion the effect from ED would has a significant impact on the financial statement and balance sheet. Social benefit schemes are a considerable part of the government budget hence the amount to measure is very sensitive to variation in the elements in an actuary calculation. IPSASB could in advance describe the elements to include in measure specific social benefit schemes which are common for entities (e.g. State Retirement Pensions, Disability Pension and Unemployment Benefits).

In general the discussion of an IPSAS for social benefit and other public specific liabilities could distort the financial sustainability, even though the economic information increases, because the right to collect taxes (and cover the expenses of social benefit schemes) in the future is not recorded as assets.

ED[2] argues that because the entity does not currently control tax resources, they are not recognized in the financial statement. The same recognition criterion as the obligating event approach (all eligibility criteria for the next benefit/taxation) for taxes could be considered. This would be rather complex and defer the work with social benefits all though the interpretation of the financial statement would be more precise.

Sincerely
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[2] Exposure Draft 63 paragraph BC13

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Appendix 1

Specific Matter for Comment 1:
Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reason given in paragraph BC21(c) If not, what changes to the scope would you make?

We support the definition of the scope in the ED including the exclusion of universally accessible services from scope.

Specific Matter for Comment 2:
Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Drafts? If not, what changes to the scope would you make?

In general we support the definitions of social benefits, social risks and universally accessible services.

We would like to point out a specific social benefit scheme in Denmark that does not mitigate the effect of a social risk. The beneficiaries are all households with a child younger than 18 years. Instead of giving households with a child tax deduction it was decided years ago to give subsidies. The specific subsidies would be categorized as a social benefit scheme anyhow according to ED, but this could be wrong?

The opposite scenario could appear where households have tax deductions instead of receiving subsidies. These different types of social benefit schemes would in the future be treated different in the financial report in according to ED: The social benefit schemes are recognized when all eligibility criteria for the next benefit is satisfied but tax deductions are recorded at the same time as the tax related to the deduction.

Specific matter for Comment 3:
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?

It is supported that contributions to a specific social benefit scheme should be recognized after the Insurance Approach, when the scheme is fully funded by

MODERNISERINGSSTYRELSEN

contributions and the scheme can be managed in the same way as an insurance contract (IFRS 17). To avoid only the liability part for a specific scheme with contribution is recognized, we encourage IPSASB to make the Insurance Approach mandatory hence the Obligating Approach Event does not manage the contribution part of the schemes.

Very few Danish social benefit schemes involve contribution therefore the usability of the approach would be rather limited in Denmark.

Specific Matter for Comment 4:

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 understand the definition of one single common recognizing criterion for all social benefit schemes are difficult and we support the ongoing work.

It has been discussed if the definition[3] of a present obligation is meet by the recognition criterion *all eligibility criteria for the next benefit is satisfied*. For some social benefit schemes it would be more likely than not that the potential beneficiaries would send an application and it is approved. In this case the recognition criterion meets the definition of a present obligation.

Other scenarios are new beneficiaries who would be difficult to identify and the fact that not all applicants who meet all eligibility criteria for the next benefit would apply for benefit. In these two scenarios we do not see the recognition criterion *all eligibility criteria for the next benefit is satisfied* meets the definition of a present obligation. By using a recognition point later in the application process the definition of a present obligation would be more correct and the measurement of liabilities would be more precise eg. this could be a claim is approved or the payment is due.

Establish *being alive* as a recognition criterion for social benefits the term is used different than in the existing standard for employee benefits (IPSAS 39 Employee Benefits). We encourage IPSASB to use similar terms the same way through IPSAS.

For almost all social benefit schemes it is unexpected that beneficiaries die and therefore it would not be align with the definition of a present obligation to use *being alive* as a recognition criterion. For State Retirement Pensions the social benefits must be refunded for remaining days in the month within the beneficiary dies, hence even for this benefit scheme *being alive* could not be a recognition criterion.

[3] The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities 2014 (paragraph 5.15)

MODERNISERINGSSTYRELSEN

If *being alive* is an eligibility criterion the maximum amount to recognize as a liability is the expenses of the benefit schemes until the next point at which eligibility criteria are required to be satisfied. Almost all social benefit schemes in Denmark are payed for one month in advances or for the prior month. This would lead to a small effect of the accrual concept.

If *being alive* is not a recognition criterion the effect from ED would has a significant impact on the financial statement and balance sheet depending on the period the liability is measured. Social benefit schemes are a considerable part of the government budget hence the amount to measure is very sensitive to variation in the elements in an actuary calculation. IPSASB could in advance describe the elements to include in measure specific social benefit schemes which are common for entities (e.g. State Retirement Pensions, Disability Pension and Unemployment Benefits). The period to measure social benefit should depend on the specific social benefit scheme and cannot be defined in a general standard.

The recognition criterion presented in ED would cause a difference between the [draft]standard and the recognition for social benefits in Government Finance Statistic (GFS). For GFS an expense is recorded when the payment is due. This difference would require an explanation and also the transparency and comparability would be affected. IPSASB has disused this in ED[4] but the issues is not only relevant for social benefits the relevance is general for the discussion of accrual accounting.

Specific Matter for Comment 5:

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) *(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?

In Denmark the different characteristics of social benefit schemes are already described in the annual National Budget to explain the payments of the year. The difficult part would be to explain amounts which arise from an actuary calculation and all the required presumptions.

Specific Matter for Comment 6:

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

[4] ED 63 paragraph BC63-BC65

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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?

For social benefit schemes it could be valuable for stakeholders of the financial report to have a longer perspective than the next point at which eligibility criteria are required to be satisfied. The longer reporting period would give a more valuable knowledge of the fiscal sustainability than ED does currently. However, the value to the stakeholders of the financial report must be measured in relation to the cost of actuary calculations for a long-term sustainability.

How long the reporting period should be is depending on the specific benefit scheme. For some social benefit schemes it would be valuable and meaningful to report on long-term fiscal sustainability for e.g State Retirement Pensions. For other types of social benefit schemes it could be valuable to report on long-term perspective but it would not be meaningful, when the underlying law can be changed on a short-term and especially not if the history of the law includes frequently changes. ED refers to the Conceptual Framework[5] for the discussion about sovereign power of a state. It is relevant however if social benefit schemes should be a part of the financial report in a long-term fiscal sustainability.

Once again we would like to make the point, that reporting on long-term to strengthen the economic sustainability the whole picture should be represented and this include the right to collect taxes. The social benefit schemes could be significantly changed by law and this would impact the financial report but the same is relevant for the present taxation.

[5] The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities 2014 (paragraph 5.22)