CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

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To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

"Exposure Draft 63 Social Benefits"

The Institute of Certified Public Accountants in Ireland (CPA Ireland) welcomes the publication of this much-needed exposure draft on accounting for social benefits and supports the broad thrust of the recommendations.

There is a need to ensure consistency in how social benefits should be accounted for in terms of their recognition, measurement, presentation and disclosure. CPA Ireland also agrees with the objective of the ED to ensure that the proposed amendments should improve the relevance, faithful representation and comparability of the information that a reporting entity provides on social benefits in its financial statements in line with the objectives of the conceptual framework.

Comment 1

Do you agree with the scope of the Exposure Draft and specifically the exclusion of universally accessible services?

CPA Ireland agrees with the scope restriction of all four transactions specifically excluded in paragraph 5. Clearly the first three are governed by other standards – IPSAS 29, IPSAS 39 and IFRS 17.

The definition provided of universally accessible services seems reasonable as there are no eligibility criteria to be met to make them available to all households. An example would be the National Health Service (NHS) in the United Kingdom.

We note that there may be a knock-on effect in terms of reconciling the financial statements with GFS and it may be important for the IPSASB to look at IPSAS 22 (the *General Government Sector)* to include specific reference to this as this could potentially be a large and very material reconciling item.

Comment 2

Do you agree with the definitions of social benefits, social risks and universally accessible services (UASs) that are included in the Exposure Draft?

CPA Ireland agrees with the definition of social benefits and social risks and their three characteristics of being provided to specific households; mitigating social risks such as age, health, unemployment and poverty; and addressing the needs of society as a whole.

Application guidance notes 4-10 clarify these issues in more depth and makes it very clear how these two definitions can be interpreted.

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Comment 3

Do you agree 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 IFRS 17 is appropriate; and**
- **(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?**

CPA Ireland understands that whilst a number of social benefit schemes are intended to be funded by specific contributions and they appear to be similar to insurance contracts, the proposed approach is adding an extra layer of complication to the accounting. In our view, this is going to be far more difficult for some jurisdictions to apply than others; therefore, making its use optional appears a sensible compromise solution. We agree that the criteria proposed for its use appear sensible: as per our comments above, this is a complicating factor and should therefore only be applied if certain criteria are met, even where used on an optional basis.

The Application Guidance notes 11-15 and paragraph 9 collectively provide sound commentary about the circumstances in which it might be applied.

Certainly, CPA Ireland agrees the need not only to follow the disclosure requirements of IFRS 17 but also that it is vital to disclose additional information about the nature of the social benefits being provided as well as their key features and description of principal amendments, if any.

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?

CPA Ireland supports this approach as it does fit nicely with IAS 37 and IPSAS 19 *Provisions, contingent liabilities and contingent assets.* It also fits in well with the conceptual framework.

However, CPA Ireland has much sympathy with the approach adopted by the alternative view as to the point of recognition of a liability. Clearly 'being alive' could be the main criteria for state pension benefits but why is the obligation to be restricted to the next benefit to be received? This does not accord with private sector pensions nor the situation in IPSAS 25 as updated by IPSAS 39 (*Employee Benefits)* where actuaries are required to introduce a number of assumptions such as life expectancy, inflation, salary increases etc. into their calculation of the obligation to predict the total obligation likely to be paid out over the remaining life of the beneficiaries, albeit discounted to present value. We feel that this creates an unfortunate inconsistency. CPA Ireland therefore supports the economic substance approach adopted in the alternative view.

By the same token, CPA Ireland would also agree that in other cases such as unemployment benefit that there is only an obligation for the next benefit as the individual may well attain employment in the following period. CPA Ireland therefore would again support the economic substance approach adopted in the alternative view in this situation, noting that potentially short-term benefits are fundamentally different in concept from longer-term employee benefits such as pensions.

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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 are appropriate;**
- **(b) The disclosures of the amounts in the financial statements are appropriate?**
- **(c) For the future cash flows related to from an entity's social benefits schemes**
  - **(i) It is appropriate to disclose the projected cash flows; and**
  - **(ii) Five years is the appropriate period over which to disclose those future cash flows**

CPA Ireland agrees that the disclosures are appropriate except for the five-year limitation proposal. Some of the pension obligations will extend well beyond five years but if the IAS 37/IPSAS 19/IPSAS25/39 provisions were adopted they would be on the balance sheet/statement of financial position regardless of how far in the future their estimated related payouts were due to take place. Limiting the disclosure to five years seems to us to be inconsistent and in some cases could be materially understating the likely cost.

Comment 6

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

CPA Ireland agrees that further work should be undertaken on the topic before any decision on making reporting on long term sustainability mandatory. As the scope and challenges involved in the preparation of such information and related audit considerations are very onerous, we believe that it is not appropriate without further consideration and discussion.

However, there is no harm in including paragraph 35 on encouraging the disclosure of information on long term sustainability as recommended practice at this stage.

Conclusion

CPA Ireland welcomes the publication of ED 63 *Social Benefits* and, in particular, the very useful application guidance and illustrative examples. However, it has similar concerns with the members supporting the alternative view as to its consistency with the conceptual framework and also with similar standards such as IPSAS 19 and IPSAS 25/39.

If you have any questions on the above, please do not hesitate to contact me.

Yours sincerely,

Wayne Bartlett
Chair, CPA Ireland IPSAS Advisory Board