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# IPSASB EXPOSURE DRAFT 63: SOCIAL BENEFITS

RESPONSE

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Manj has over 20 years' experience working in public sector, focusing on implementation of accrual accounting across UK central Govt departments and the Whole of Government Accounts consolidation. She has advised a number of jurisdictions on implementing accrual accounting.

Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.



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Dear IPSASB secretariat

**ED 63: Social Benefits**

I am delighted to share my comments on social benefits.

The IPSASB and staff are to be commended for their efforts to develop well-considered approaches to defining, recognising, measuring and recording social benefits.

Given the significant potential impact of an accounting standard on social benefits on government financial statements it is understandable that there is an alternative view. I support the alternative view as this most aligns to the conceptual framework and the interpretation of other standards, in particular in relation to post-employment benefits.

I appreciate why the IPSASB would recommend a similar approach that aligns to the GFS but I do not think that this is sufficient reason when developing the accounting standard. The standard should follow the conceptual framework.

Specific responses to the IPSASB's six matters for comment are included in Annex A.

Thank you for the opportunity to comment on the Exposure Draft. If there are any questions, please do not hesitate to contact me.

Yours sincerely,

Manj Kalar

Principal consultant



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## Annex: Detailed response to the Exposure Draft

### 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 reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?

I agree with the scope of this Exposure Draft.

I appreciate the rationale to remain in alignment/consistent with the scope applied in the Government Financial Statistics (GFS) but employment benefits are already covered in IPSAS 39 (and is in alignment with IAS 19) – a key aim of the IPSASB strategy. Universally accessible services are covered non-exchange expenses –which, on balance, is a better fit as it is *more principles based*.

### 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 Draft? If not, what changes to the definitions would you make?

I agree with the definitions of social benefits, social risks and universally accessible services included in this Exposure Draft. These are comprehensive, addressing all scenarios. Therefore, I have no changes to make to these.



### 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?

I agree with proposal in particular that the insurance approach should be optional where government entities meet the criteria and are able to separate the social benefit. For example, if a social benefit is fully funded it would provide better (more complete) information to the user of the financial statements to see the direct link between the funding and the social benefit. This situation may not be the case for all social benefits so having the option is invaluable.

Also by following the requirements set out in IFRS 17 maintains the aim to remain consistent to international reporting standards applicable to the private sector.

### 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? This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.



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I do not agree with this approach. I favour the approach to recognition and measurement as set out in the Alternative View presented some IPSASB members.

The alternative view best fits with the conceptual framework. For example, where a state pension is given this should be based on the same principles as applied to public sector pensions (these are covered in IPSAS 39 which is based on IAS 19) – this would present the ‘true’ long term liability (economic substance) on the government balance sheet rather than an arbitrary one-month approach. The latter may be more relevant to other social benefits such as unemployment benefits. However, trend data could be used to support any estimations made in this area.

#### 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) 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?

I do not agree with this view and favour the Alternative View.

The Alternative View provides a more complete assessment of the economic substance of the impact of social benefits. By simply adding one month or 5 years seems arbitrary.



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### 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? 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?

I would strongly support IPSASB conducting further work on reporting on long term fiscal sustainability.

The sustainability of public finances is often discussed nationally and internationally in the media having been brought into sharper focus since the sovereign debt crisis. However, there is no authoritative (accounting) standard on what this means.

Some countries have developed their own definitions such as UK's independent [Office of Budget Responsibility](#)<sup>1</sup> who publishes, amongst other reports, the [Fiscal Sustainability Report](#). This draws on the [Whole of Government Accounts](#) information and makes an assessment of future funding commitments based on the impact of current policies. The UK, like many other jurisdictions, faces huge pressure on funding an ageing population. The OBR has clearly evidenced the impact of this.

It would be helpful to the reader to have a consistent view of long term sustainability to bring into focus the global picture, allow international comparisons, and opportunity to consider what is the new normal in terms of financial sustainability.

It is essential that we have consistent information to have this important debate.

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<sup>1</sup> January 2017 is the latest currently available