

27 March 2018



Mr Ian Carruthers  
Chairman  
International Public Sector Accounting Standards Board  
529 Fifth Avenue  
New York, NY 10014  
USA

**CPA Australia Ltd**  
ABN 64 008 392 452  
Level 20, 28 Freshwater Place  
Southbank VIC 3006  
Australia  
GPO Box 2820  
Melbourne VIC 3001  
Australia  
**Phone** 1300 737 373  
**Outside Aust** +613 9606 9677  
**Website** [cpaaustralia.com.au](http://cpaaustralia.com.au)

Via online submission: [www.ipsasb.org](http://www.ipsasb.org)

Dear Ian

### **Exposure Draft 63: Social Benefits**

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission in consultation with and on behalf of our members and in the broader public interest.

CPA Australia commends the International Public Sector Accounting Standards Board (IPSASB) for developing an ED that seeks to address the many challenges surrounding the definition, measurement and recognition of social benefits in General Purpose Financial Statements.

Our organisation broadly supports the proposals to require recognition of a liability for unavoidable social benefits under the obligating event approach, however we suggest the IPSASB gives further consideration to the scope and measurement criteria proposed in the ED.

We provide our general comments below.

### **The Obligating Event Approach**

We consider the recognition of liabilities for social benefits under the proposed obligating event approach as the method that is most likely to meet the needs of users of General Purpose Financial Statements.

There is a valid argument expressed in Alternative View paragraph AV2 that for some social benefits, recognising a liability for the next payment obligation would be appropriate (as currently proposed under the obligating event approach), whilst for other social benefits, recognising a liability for a longer period may be appropriate. However, it is our view that when assessed against the qualitative characteristics of relevance, understandability and faithful representation, it may not be viable or appropriate to recognise a liability for a period longer than that currently proposed under the obligating event approach.

The relevance to users of information about liabilities arising from social benefits included in financial statements should be compared against information available from reports such as long-term fiscal sustainability reports that include such information as well. We appreciate that there is a blurred boundary between what information relating to social benefits should be included in financial statements versus what information should be included in other reports such as long-term fiscal sustainability reports. The line however must be drawn somewhere, and we believe the proposed obligating event approach provides a practical solution.

Financial statements that include uncertain long-term liabilities could undermine their understandability, particularly to those who may not fully appreciate the limitations in estimates included in calculating liabilities over a very long time horizon. CPA Australia is concerned that the inclusion of uncertain long-term liabilities could be open to misinterpretation and misuse by users of such information.

It is arguable that recognising liabilities for social benefits based on their economic substance (the Alternative View) is more faithfully representative of the underlying obligations. However, it is equally arguable that an asset should be recognised for future taxes or levies that will fund the payment of future social benefits. It is unlikely that a government will be able to fulfil its long-term social benefit obligations without raising taxes, levies or other similar revenues in the future. An absence of information relating to this aspect is in our view, unlikely to faithfully represent the underlying economic substance.

In addition to the above points, CPA Australia believes that the proposed obligating event approach is a simple and practical approach that may be considered easier to implement in many jurisdictions that have adopted, or are considering adopting IPSAS. This could include many emerging economies, who may consider a more complex approach a deterrent to adopting a future standard on social benefits, and even the entire IPSAS framework.

Although we support the proposed obligating event approach, we do not agree that “being alive” should be an eligibility criterion. We support the Alternative View in paragraph AV20 that “being alive” is a measurement criterion rather than an eligibility criterion. We suggest the IPSASB reconsider the applicable eligibility criteria when determining the existence of a liability for social benefits under the obligating event approach.

### **The scope of social benefits**

CPA Australia agrees with the IPSASB’s acknowledgement in paragraph BC21(c) that social benefits and non-exchange expenses form a continuum, and that any boundary will, to some extent, be artificial. To ensure a comprehensive solution that addresses both social benefits and non-exchange expenses, we strongly suggest that this project is progressed simultaneously with the non-exchange expenses project. Although the accounting requirements may be set out in two or more standards, this approach will provide a seamless solution to the recognition, measurement, presentation and disclosure of social benefits and other non-exchange expenses.

### **Insurance approach**

There is a valid argument in paragraph BC37 that, for social benefit schemes that meet the criteria to apply the insurance approach, that approach is expected to provide the information that best meets users’ needs. However, we also note and accept the comments in paragraph BC37 that the IPSASB considered there may be cost/ benefit reasons for not using the insurance approach, and that this was the main reason for making the insurance approach an optional approach.

CPA Australia agrees with the proposed approach in paragraph BC41 that, on balance the insurance approach should be optional, based on cost/benefit reasons. As noted in the same paragraph, we support the suggestion that the IPSASB should revisit this at a later date, once entities have experience with the insurance approach and applying the new IFRS standard, IFRS 17 *Insurance Contracts*.

If you require further information on our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely



Stuart Dignam

General Manager, Policy & Corporate Affairs