International Public Sector Accounting Standards Board
Mr Ian Carruthers, IPSASB Chair
and Mr John Stanford, IPSASB Deputy Director
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Dear Mr Carruthers, dear Mr Stanford,

Exposure Draft on Social Benefits

We are pleased to respond to the invitation from the International Public Sector Accounting Standards Board (IPSASB) to comment on Exposure Draft 63 Social Benefits on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Exposure Draft. “PricewaterhouseCoopers” or ‘PwC’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency and transparency of public sector financial reporting worldwide.

The Exposure Draft (ED) on Social Benefits addresses a very important topic in public sector accounting. Social benefits represent a significant portion of expenses for many governments and it is therefore key that the consequences of such transactions be properly reflected in government financial statements.

We however disagree with the proposal to require a single recognition point for all social benefits resulting in a liability being recognised when the eligibility criteria to receive the next social benefit have been satisfied.

We agree with the arguments put forward by IPSASB members in favour of the alternative view, in particular:

- the economic substance of social benefit schemes are different and may require different recognition points;
- the proposed treatment is not in accordance with the Conceptual framework;
- 'being alive' should be treated as a measurement criterion rather than a recognition criterion.

The proposed approach requires all eligibility criteria for the next benefit, including being alive, to be met in order to recognise a social benefit liability.

We believe that only considering one single recognition point will not reflect the substance of the various schemes that may exist and therefore may in various situations conflict with the definition of a liability in the Conceptual framework. Such an approach would also not be consistent with the concepts underlying the accounting for employee benefits under IPSAS 39 (e.g. pension or other post-employment benefit obligations).

Instead we believe that the variety of the types of social benefits and the specific circumstances of the legal environments and jurisdictions in which they are granted should inevitably lead to different conclusions as to the most appropriate timing for recognition. In particular, there may be situations linked to certain types of social benefits in specific jurisdictions where the obligation is created over time and which should trigger recognition of the social benefit liability and of the related expense over time as well. For example, certain schemes that are currently in place may be funded by future beneficiaries and create valid expectations towards them that they will receive the benefits later.

In other circumstances (other types of benefits and/or other jurisdictions), the obligating event may be the occurrence of one specific event which then should lead to the recognition of the social benefit liability and the related expense at one point in time.

We also believe that application of the proposals under ED 63 would most often lead to a small amount of liability being recognised in the balance sheet. When payments of benefits are scheduled every month, including being alive as one of the eligibility criteria to receive the next benefit will lead to only a one-month social benefit liability being recognised in the balance sheet. This would have very little predictive value. Most importantly, the accounting treatment proposed in ED 63 would conflict with the accountability and decision-making objectives of financial statements as it would not reflect the long-term impact of political decisions in financial statements. Being alive when the next benefit and series of benefits will be paid should rather be considered in the measurement of the liability (considering a mortality factor, etc.).

Timely issuance of a standard on social benefits is however crucial as it will fill one of the most important remaining gaps in the suite of IPSAS standards. The IPSASB should consider whether a standard including the current proposals might therefore be acceptable as an interim minimal solution under the condition that the alternative view be reconsidered as part of a longer term project addressing again the issue of recognition of social benefits in order to achieve a more satisfactory treatment than the one currently proposed. The IPSASB should thereby clearly elaborate why the potential benefits of an interim minimal solution outweighs the compromise made with respect to issuing high-quality, conceptually sound standards for the public sector portraying the economic substance of social benefit schemes. We refer to the mission statement as laid out in the Proposed Strategy and Work Plan 2019-2023 document of the IPSASB.

The subject-matter is complex. We therefore recommend to provide sufficient practical guidance and illustrative examples in order to enhance consistency in application of the new rules.

Our responses to the specific questions in the ED can be found in the Appendix to this letter.

If you would like to discuss any of these points in more detail, please contact Henry Daubeney ((+44) 20 7804 2160), Patrice Schumesch ((+32) 2 710 40 28) or Sebastian Heintges ((+49) 69 9585 3220).

Yours sincerely,

PricewaterhouseCoopers

Appendix: Responses to the questions in IPSASB's Exposure Draft on Social Benefits

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 reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

We agree with the scope as delineated in the Exposure Draft. We concur with the view that universally accessible services should be left out of the scope of the standard on social benefits since they are accessible without any eligibility criteria to be met in relation to social risk.

We would however recommend that the IPSASB provides more borderline examples illustrating the principles that govern whether some benefits are in scope or not in order to achieve greater consistency in application.

2. 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?

We agree with the definitions of social benefits, social risks and universally accessible services.

3. 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?

Our response to each of the sub-questions is provided below:

(a) We agree that the insurance approach should be optional. Implementing IFRS 17 'Insurance contracts' is a challenge for private sector entities issuing insurance contracts, not only in terms of accounting complexity, but also in terms of the processes, actuarial models and systems that need to be implemented to produce the data and information needed for IFRS 17 reporting purposes. Mandating it under IPSAS may involve undue costs or efforts for public sector entities.

    In addition, it should be noted that application of the insurance approach and the obligating event approach will produce very different pattern of revenue recognition. Public sector entities may prefer applying the obligating event approach for all their social benefits for consistency reasons.

(b) We believe that the criteria to determine whether the insurance approach may be applied are adequate. If the social benefit scheme is fully funded from contributions and there is evidence that it is managed in the same way as private insurers manage their insurance contracts, it has the characteristics of an insurance contract. Therefore accounting for those schemes using the insurance approach seems appropriate.

(c) Referring to IFRS 17 is appropriate as it represents best international practices in terms of insurance accounting in the private sector. However we believe that the standard should not refer to national standards that are substantially the same as IFRS 17 as this may create divergence in practice depending on how preparers interpret 'substantially the same'.

(d) In our view, additional disclosures required by paragraph 12 of this Exposure Draft are appropriate.

We have the following additional comments:

(e) We invite the IPSASB to clarify what is meant by 'fully funded from contributions' under paragraph 9 (a). Does it mean 'fully funded from contributions by the individual who will benefit from the scheme'? Making then the analogy with an insurance contract where an individual pays insurance premiums to get a coverage for himself/herself. Or does it mean something else (for example all contributions of one fiscal year cover the benefits paid in respect of that year, with possibly the current contributors (partly) belonging to a younger generation than the current beneficiaries)?

(f) We note that the IPSASB estimates that the number of preparers to whom the insurance approach will be relevant is likely to be small and that this justifies not to engage additional efforts and resources to develop guidance in addition to the one included in IFRS 17. We would however welcome that some additional guidance be provided that addresses the specific characteristics of the public sector (for example, most of the schemes eligible for the insurance approach are likely to aim at cost recovery rather than at making a profit; if the intention is to be fully funded from contributions, does it imply that no onerous scheme can exist?; etc.).

4. 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.

We disagree with the proposal to require a single recognition point for all social benefits resulting in a liability being recognised when the eligibility criteria to receive the next social benefit have been satisfied.

We agree with the arguments put forward by IPSASB members in favour of the alternative view, in particular:

- the economic substance of social benefit schemes are different and may require different recognition points;
- the proposed treatment is not in accordance with the Conceptual framework;
- 'being alive' should be treated as a measurement criterion rather than a recognition criterion.

The proposed approach requires all eligibility criteria for the next benefit, including being alive, to be met in order to recognise a social benefit liability.

We believe that only considering one single recognition point will not reflect the substance of the various schemes that may exist and therefore may in various situations conflict with the definition of a liability in the Conceptual framework. Such an approach would also not be consistent with the concepts underlying the accounting for employee benefits under IPSAS 39 (e.g. pension or other post-employment benefit obligations).

Instead we believe that the variety of the types of social benefits and the specific circumstances of the legal environments and jurisdictions in which they are granted should inevitably lead to different conclusions as to the most appropriate timing for recognition. In particular, there may be situations linked to certain types of social benefits in specific jurisdictions where the obligation is created over time and which should trigger recognition of the social benefit liability and of the related expense over time as well. For example, certain schemes that are currently in place may be funded by future beneficiaries and create valid expectations towards them that they will receive the benefits later.

In other circumstances (other types of benefits and/or other jurisdictions), the obligating event may be the occurrence of one specific event which then should lead to the recognition of the social benefit liability and the related expense at one point in time.

We also believe that application of the proposals under ED 63 would most often lead to a small amount of liability being recognised in the balance sheet. When payments of benefits are scheduled every month, including being alive as one of the eligibility criteria to receive the next benefit will lead to only a one-month social benefit liability being recognised in the balance sheet. This would have very little predictive value. Most importantly, the accounting treatment proposed in ED 63 would conflict with the accountability and decision-making objectives of financial statements as it would not reflect the long-term impact of political decisions in financial statements. Being alive when the next benefit and series of benefits will be paid should rather be considered in the measurement of the liability (considering a mortality factor, etc.).

Timely issuance of a standard on social benefits is however crucial as it will fill one of the most important remaining gaps in the suite of IPSAS standards. The IPSASB should consider whether a standard including the current proposals might therefore be acceptable as an interim minimal solution under the condition that the alternative view be reconsidered as part of a longer term project addressing again the issue of recognition of social benefits in order to achieve a more satisfactory treatment than the one currently proposed. The IPSASB should thereby clearly elaborate why the potential benefits of an interim minimal solution outweighs the compromise made with respect to issuing high-quality, conceptually sound standards for the public sector portraying the economic substance of social benefit schemes. We refer to the mission statement as laid out in the Proposed Strategy and Work Plan 2019-2023 document of the IPSASB.

Finally we question the usefulness of paragraph 13 (b). We believe that specifically insisting on the need to have a measurement that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports is both not useful (these guidelines are already provided in the Conceptual framework) and not desirable as it might be misinterpreted and lead some preparers to give excessive weight to the cost of preparation of financial information when assessing the costs and benefits of such information.

5. 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?

As mentioned under Specific matter for comment 4, we do not 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.

Should the ED 63 proposals be retained, we believe that the proposed disclosures are overall adequate.

However, disclosures about the nature and estimated amounts of the future cash flows in respect of social benefit schemes should in our opinion not be limited to five years but cover the longest possible horizon of time. When uncertainties arise about the numbers disclosed, appropriate information (including sensitivity analysis) should be given about such uncertainties.

6. Specific Matter for Comment 5

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.

In finalising ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

Advantages	**Disadvantages**
Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing. This especially applies to information about the sustainability of the funding of social benefits given the limited	**The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.**

predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.	**The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements. Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.**
Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.	**RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.**

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 that reporting on the long-term sustainability of public finances is key in the public sector. It complements information included in financial statements which should reflect the impact of political decisions, including the long-term impact of such decisions.

Therefore we would welcome that the IPSASB undertakes further work on reporting on long-term fiscal sustainability.

It should however be highlighted that enhanced disclosure about long-term fiscal sustainability is not a substitute for proper recognition of social liabilities in the balance sheet, including long-term social benefit liabilities under the alternative view developed in ED 63.