

Consultation Paper
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Recognition and Measurement of Social Benefits

IPSASB

International Public
Sector Accounting
Standards Board®

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Executive Summary

The objective of this Consultation Paper (CP) is to advance the discussion on the possible accounting treatments for social benefits. It considers matters such as the scope of a future IPSAS on social benefits and related definitions, the extent to which liabilities in respect of social benefits arise, and the recognition and measurement of any such liabilities.

The delivery of social benefits to the public is the primary objective of most governments and accounts for a sizeable proportion of their expenditure. However, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* excludes provisions related to social benefits in non-exchange transactions from its scope. The IPSASB is, therefore, taking this opportunity to further improve its suite of standards.

This CP builds on the IPSASB's previous work in this area, but also develops new ideas. Since the last Consultation Paper was issued in 2008, the IPSASB has published both Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. Both documents have influenced the IPSASB's thinking in developing the options in this CP.

In addition, the IPSASB has taken the opportunity to develop new thinking in a number of areas. The IPSASB is proposing to adopt the approach to defining and classifying social benefits used in Government Finance Statistics (GFS). The IPSASB has also developed a new approach to recognizing and measuring some social benefits, based on insurance accounting.

This CP proposes the following objective for a future IPSAS on social benefits (which will include presentation and disclosure, as well as recognition and measurement):

IPSASs shall require an entity to provide information that helps users of its financial statements and general purpose financial reports assess:

- (a) The nature of social benefits provided by the entity, and the key features of the operation of the scheme; and
- (b) The impact of social benefits provided on the entity's financial performance and financial position.

This CP defines social benefits as “benefits payable to individuals and households, in cash or in kind, to mitigate the effect of social risks.” Social risks are defined as “events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income.” These definitions are based on the approach adopted in statistical reporting. As such, the scope of this project is significantly narrower than the IPSASB's previous work in this area. This CP identifies different types of social benefits – social security and social assistance, both in cash and in kind – each of which may raise specific accounting issues.

The CP identifies three broad approaches to accounting for social benefits. The approaches are summarized below:

- **Option 1: The obligating event approach.** This approach updates the model originally outlined in the 2004 Invitation to Comment, *Accounting for Social Policies of Governments*, further developing the approach in the light of the new Conceptual Framework. This approach considers social benefits by reference to the definition of a liability in the Conceptual Framework. Under this approach, obligations to pay social benefits are seen as no different (in principle) than other obligations. Under this approach, the key issue is when a present obligation arises.

The IPSASB has come to a preliminary view that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB has come to the preliminary view that option 2 (social contract approach) is unlikely to meet the objectives of financial reporting.

REQUEST FOR COMMENTS

This Consultation Paper, *Recognition and Measurement of Social Benefits*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

Comments are requested by January 31, 2016.

Respondents are asked to submit their comments electronically through the IPSASB website, using the “Submit a Comment” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will be posted on the IPSASB website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this Consultation Paper. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The Preliminary Views and Specific Matters for Comment in this Consultation Paper are provided below. Paragraph numbers identify the location of the Preliminary View or Specific Matter for Comment in the text.

Chapter 2 – Scope and Definitions

Preliminary View 1 (following paragraph 2.50)

Social Benefits are benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks.

The other key definitions are as follows:

- (a) **Social risks** are events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income.

Social benefits are provided to mitigate social risks in the following circumstances:

- Households could receive benefits when they meet certain eligibility criteria that originate from a social risk without making any contributions;
 - Households could make contributions and receive benefits in the event of the occurrence of the specified social risks; and
 - Households could make contributions to a scheme to accumulate entitlements to future benefits, with the benefits being provided following the occurrence of the specified social risk.
- (b) **Social Benefits in Cash** are social benefits paid in cash, by or on behalf of a public sector entity, that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.
- (c) **Social Benefits in Kind** are goods and services provided as social benefits to individuals and households by or on behalf of a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.
- (d) **Reimbursements** are cash payments made as a social benefit by or on behalf of a public sector entity to compensate a service provider or an individual or household for all or part of the expense incurred or to be incurred by that individual or household in accessing specific services.

- (e) **Social Insurance** is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).
- (f) **Social Security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.
- (g) **Social Assistance** is the provision of social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.

Specific Matter for Comment 1 (following paragraph 2.50)

In your view:

- (a) Is the scope of this CP (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) appropriate?
- (b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

Please explain the reasons for your views.

Chapter 3 – Identification of Approaches

Specific Matter for Comment 2 (following paragraph 3.4)

- (a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?
 - (i) The obligating event approach;
 - (ii) The social contract approach; and
 - (iii) The insurance approach.

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

- (b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.

Specific Matter for Comment 3 (following paragraph 3.4)

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?

If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

Preliminary View 2 (following paragraph 3.4)

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

Chapter 4 – Option 1: Obligating Event Approach

Specific Matter for Comment 4 (following paragraph 4.69)

In your view, at what point should a future IPSAS specify that an obligating event arises under the obligating event approach? Is this when:

- (a) Key participatory events have occurred ;
- (b) Threshold eligibility criteria have been satisfied ;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; or
- (f) At some other point.

In coming to this conclusion, please explain what you consider to be the relative strengths and weaknesses of each view discussed in this chapter.

If, in your view, a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises, please provide details.

Please explain the reasons for your views.

Specific Matter for Comment 5 (following paragraph 4.76)

In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach?

Please explain the reasons for your views.

Specific Matter for Comment 6 (following paragraph 4.80)

In your view, should a social benefit provided through an exchange transaction be accounted for:

- (a) In accordance with a future IPSAS on social benefits; or
- (b) In accordance with other IPSASs?

Please provide any examples you may have of social benefits arising from exchange transactions.

Please explain the reasons for your views.

Preliminary View 3 (following paragraph 4.91)

Under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits.

Specific Matter for Comment 7 (following paragraph 4.91)

In your view, under the obligating event approach, when should scheme assets be included in the presentation of a social benefit scheme:

- (a) In all cases;
- (b) For contributory schemes;
- (c) Never; or
- (d) Another approach (please specify)?

Please explain the reasons for your views.

Chapter 5 – Option 2: Social Contract Approach

Specific Matter for Comment 8 (following paragraph 5.38)

In your view, under the social contract approach, should a public sector entity:

- (a) Recognize an obligation in respect of social benefits at the point at which:
 - (i) A claim becomes enforceable; or
 - (ii) A claim is approved?
- (b) Measure this liability at the cost of fulfillment?

Please explain the reasons for your views.

Chapter 6 – Option 3: Insurance Approach

Specific Matter for Comment 9 (following paragraph 6.24)

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?

Please explain the reasons for your views.

Specific Matter for Comment 10 (following paragraph 6.35)

Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:

- (a) Any expected surplus should be recognized over the coverage period of the benefit; and
- (b) Any expected deficit should be recognized as an expense on initial recognition?

Please explain the reasons for your views.

Specific Matter for Comment 11 (following paragraph 6.37)

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions:

- (a) Recognize an expense on initial recognition;
- (b) Recognize the deficit as an expense over the coverage period of the benefit;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and the liability irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation; or

(e) Another approach?

Please explain the reasons for your views.

Specific Matter for Comment 12 (following paragraph 6.43)

In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities?

Please explain the reasons for your views.

Specific Matter for Comment 13 (following paragraph 6.63)

Do you agree that, in those cases where the link between contributions and benefits is not straightforward, the criteria for determining whether the insurance approach is appropriate are:

- The substance of the scheme is that of a social insurance scheme; and
- There is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.

If you disagree, please specify the criteria that you consider should be used.

Please explain the reasons for your views.

Specific Matter for Comment 14 (following paragraph 6.72)

Do you support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25?

Please explain the reasons for your views.

Specific Matter for Comment 15 (following paragraph 6.76)

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?

Please explain the reasons for your views.

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

CONTENTS

	Page
1 Introduction.....	12
History of the Project	13
Conceptual Framework	14
RPG 1, Reporting on the Long Term Sustainability of an Entity's Finances	16
Project Objective.....	17
Approach taken in this CP	18
2 Scope and Definitions.....	19
Social Benefits in Existing IPSASB Literature	19
Government Finance Statistics.....	20
IPSASB Review of GFS Approach	23
Scope.....	25
Definitions	26
3 Identification of Approaches.....	30
4 Option 1: Obligating Event Approach	32
Introduction	32
Definitions relating to Liabilities	32
Factors to be Considered	33
When does an Obligating Event arise?	35
Measurement of the Liability.....	45
5 Option 2: Social Contract Approach.....	48
Introduction	48
Executory Contracts	49
Application of the Social Contract Approach	52
Potential Accounting Implications.....	53
6 Option 3: Insurance Approach.....	54
Introduction	54
Insurance Accounting	54
Accounting for Social Security under the Insurance Approach	57
Appendix A: Examples of Social Benefits	
Appendix B: Evaluation of Options against the Objectives of Financial Reporting and the QCs	

1 Introduction

- 1.1 The delivery of social benefits to the public is one of the primary objectives of many governments and often accounts for a sizeable proportion of their expenditure. *The Preface to The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) identifies the provision of social benefits as a distinguishing feature of the public sector¹.
- 1.2 Existing IPSASs do not provide requirements and guidance on how to account for social benefits in general. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* excludes provisions related to social benefits in non-exchange transactions from its scope². Some social benefits provided through exchange transactions (such as employee benefits and concessionary loans) are addressed in other IPSASs. This is discussed in Chapter 2.
- 1.3 The IPSASB considers that there is an opportunity to improve its suite of standards by developing a new IPSAS on how to account for social benefits. An IPSAS on social benefits will enhance accountability and transparency, thereby improving decision making, which is in the public interest.
- 1.4 As well as building on the previous work of the IPSASB in relation to social benefits, this CP has been influenced by more recent developments in the IPSASB's literature. These include:
- The publication of the Conceptual Framework, which provides an updated definition of a liability and related terminology, and sets out the objectives of financial reporting, the qualitative characteristics and the pervasive constraints, thereby providing a framework against which options can be assessed;
 - The publication of Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, which provides information on the effect of current policies and decisions on future inflows and outflows and supplements information in the financial statements; and
 - The publication of the Policy Paper on the *Process for Considering GFS Reporting Guidelines during Development of IPSASs*.
- 1.5 This Consultation Paper (CP) is an important step in determining the appropriate reporting of social benefits. The CP builds on the previous work of the IPSASB in this area. In addition, the IPSASB has taken the opportunity to develop new thinking in a number of areas. New developments that appear in this CP are as follows:
- The IPSASB is proposing an approach to defining and classifying social benefits based on the approach used in Government Finance Statistics (GFS). This is discussed in more detail in Chapter 2.
 - The IPSASB is proposing a possible new approach to recognizing and measuring some social benefits that are similar to insurance contracts. This CP refers to this approach as the insurance approach. This approach is discussed in more detail in Chapter 6.
- 1.6 The CP considers the approaches to, and issues arising in, accounting for social benefits. Its objective is to initiate a debate about matters such as:

¹ See, for example, paragraph 17 of the *Preface to the Conceptual Framework*

² Further details can be found in Chapter 2

- The definition and classification of social benefits; and
- Approaches to the recognition and measurement of social benefits.

1.7 In developing this CP, the IPSASB agreed that the CP should address recognition and measurement issues; other issues, including presentation and disclosure matters, will be addressed after the IPSASB has reviewed responses to this CP on the recognition and measurement of social benefits. The IPSASB made this decision because presentation and disclosure issues will be intrinsically linked to the approach or approaches to recognition and measurement that the IPSASB decides to adopt.

History of the Project

1.8 Between 2002 and 2008 the IPSASB and its predecessor (the Public Sector Committee (the PSC)) carried out extensive work on accounting for social benefits. In March 2002, the PSC initiated one of its first major public sector specific projects on this subject.

1.9 The PSC established a Steering Committee to oversee development of the project. The Steering Committee included non-PSC members from national and local governments, international organizations and regional bodies to provide experience and expertise. The Steering Committee developed an Invitation to Comment (ITC), *Accounting for Social Policies of Government*. This was published in January 2004.

1.10 Responses to the ITC supported the development of an IPSAS on social benefits. The preferred approach was based on IPSAS 19. The model outlined in the ITC governed the IPSASB's approach to social benefits over the next few years. However, in November 2006 the IPSASB changed course. This was primarily because:

- There was no consensus on when a present obligation arises especially for contributory cash transfer schemes; and
- Other standard setters were researching alternative approaches to accounting for social benefits at this time.

1.11 The IPSASB also came to a view that the financial statements cannot satisfy all a user's information needs on social benefits. Further information about the long-term fiscal sustainability of those schemes is required.

1.12 The IPSASB then developed an Exposure Draft (ED) dealing solely with disclosure. Issues relating to recognition and measurement were addressed in a Consultation Paper.

1.13 In March 2008 the IPSASB issued:

- Exposure Draft (ED) 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*;
- Consultation Paper, (CP) *Social Benefits: Issues in Recognition and Measurement*; and
- Project Brief, *Long-Term Fiscal Sustainability*.

1.14 The responses to ED 34, the 2008 CP and the project brief provided valuable insights into the information that users would find useful for accountability and decision-making purposes. The key insights of relevance to this project were:

- Providing actuarially-based information on liabilities arising from prospective outflows (i.e., social benefit expenses) without providing similar information on assets arising from

prospective inflows (such as tax receipts and contributions received) is of limited relevance and does not faithfully represent an entity's financial position.

- Providing prospective information that only includes current recipients (those currently in receipt of a social benefit) rather than future recipients (those who will receive a social benefit in future) may be misleading. Prospective information provided only on current recipients does not provide useful information about the future sustainability of social benefit schemes.
 - There can be a significant overlap between cash transfers and individual goods and services³; providing information about cash transfers, but not individual goods and services does not provide useful information about the future sustainability of social benefit schemes.
- 1.15 The majority of respondents opposed the approach in ED 34. They did not consider that the proposed disclosures in the financial statements could convey sufficient information about social benefits. Some also expressed reservations that the approach to determining the amount of disclosures would pre-judge subsequent approaches to recognition and measurement. The majority of respondents supported a project on long-term fiscal sustainability in line with the project brief.
- 1.16 The IPSASB decided not to develop ED 34 into an IPSAS. The IPSASB also recognized the linkages between the Conceptual Framework and accounting for social benefits. The Elements and Recognition phase of the Conceptual Framework would define a liability. This definition and supporting analysis would influence the accounting for social benefits. The IPSASB therefore decided to defer further work on this topic until after the completion of the Conceptual Framework. The IPSASB initiated a project on the long-term sustainability of the public finances in 2008, based on the project brief. RPG 1 was published in July 2013.
- 1.17 In September 2013, following the publication of RPG 1, and with the Conceptual Framework project well advanced, the IPSASB agreed to restart its work on social benefits.

Conceptual Framework

- 1.18 The Conceptual Framework was published in October 2014 and influences this project in three ways:
- The updated definition of a liability and related terminology will influence the discussion as to whether social benefit obligations meet the definition of a liability, and if so, when these should be recognized;
 - The measurement bases for liabilities will influence the discussion as to how a liability should be measured; and
 - The objectives of financial reporting, the qualitative characteristics and the pervasive constraints provide a framework against which the options identified in this CP can be assessed.

Definition of a liability and related terminology

- 1.19 The Conceptual Framework defines a liability as “a present obligation of the entity for an outflow of resources that results from a past event.”⁴

³ These terms are discussed further in Chapter 2

⁴ Conceptual Framework, paragraph 5.14

- 1.20 The Conceptual Framework defines a present obligation as “a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid.”⁵ Until the publication of the Conceptual Framework, this term was not defined in the IPSASB’s literature.
- 1.21 There are two key factors to be considered in determining when a liability arises for a social benefit:
- What is the past event (or events) that gives rise to a present obligation?
 - When does an entity have little or no realistic alternative to avoid settling the obligation?
- 1.22 IPSAS 19 brings these two factors together in its definition of an obligating event as “an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.”⁶
- 1.23 In line with the Conceptual Framework, this CP adopts an updated definition of an obligating event as “an event that creates a present obligation.” This updated definition indirectly refers to “a legally binding obligation (legal obligation) or non-legally binding obligation” rather than a “legal or constructive obligation.” The updated definition also considers whether an entity has “little or no realistic alternative to avoid” an outflow of resources.
- 1.24 These updated definitions are used to revise the IPSASB’s previous discussions as to whether an obligating event in respect of social benefits arises, and if so when.

Measurement bases

- 1.25 The Conceptual Framework identifies and discusses the following measurement bases for liabilities; this discussion will inform the IPSASB’s future deliberations about the measurement of social benefits.
- Historical cost;
 - Cost of fulfillment;
 - Market value;
 - Cost of release; and
 - Assumption price.

Objectives of financial reporting and qualitative characteristics

- 1.26 The objectives of financial reporting are set out in paragraph 2.1 of the Conceptual Framework.

“The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).”

⁵ Conceptual Framework, paragraph 5.15

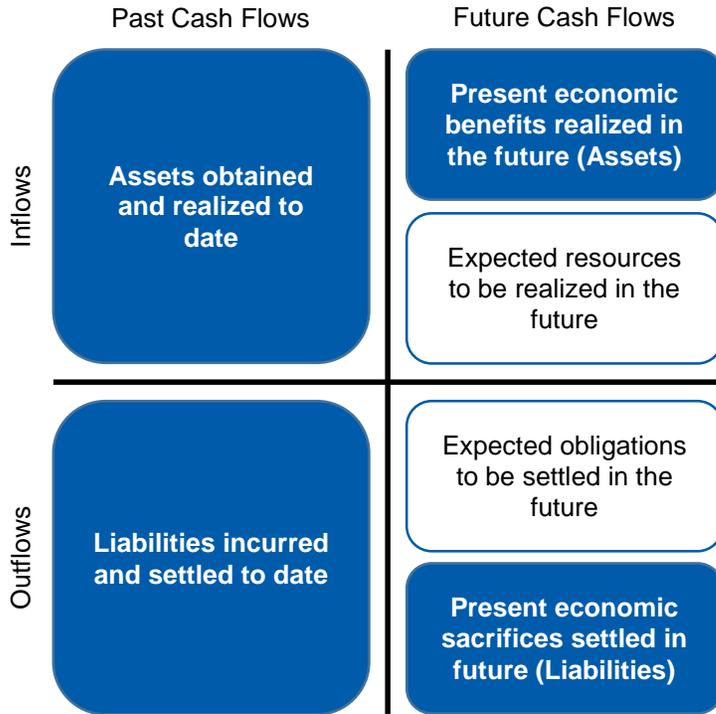
⁶ IPSAS 19, paragraph 18

- 1.27 For accountability and decision-making purposes, service recipients and resource providers need information that supports the assessments of such matters as:
- The performance of the entity during the reporting period in:
 - Meeting its service delivery and other operating and financial objectives;
 - Managing the resources it is responsible for; and
 - Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources;
 - The liquidity (ability to meet current obligations) and solvency (ability to meet obligations over the long term) of the entity;
 - The sustainability of the entity’s service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period; and
 - The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.

RPG 1, Reporting on the Long Term Sustainability of an Entity’s Finances

- 1.28 As noted in paragraph 1.11, the IPSASB has come to a view that the financial statements cannot satisfy all users’ information needs on social benefits. Users also need information about the long-term fiscal sustainability of those schemes.
- 1.29 It was for this reason that the IPSASB developed RPG 1. This RPG provides guidance on preparing general purpose financial reports that can meet users’ needs for information about the long-term fiscal sustainability of an entity, including the social benefit schemes the entity provides.
- 1.30 In the context of social benefits, general purpose financial reports prepared in accordance with RPG 1 will provide information about expected obligations to be settled in the future, including obligations to individuals who have not met the eligibility criteria for a scheme, or who are not currently contributing to a scheme that would entitle them to future benefits. Such obligations do not meet the definition of a present obligation, and so are not recognized in the financial statements.
- 1.31 The general purpose financial report will also include information about the expected resources to be realized in the future that will be used to finance social benefits. In many jurisdictions this will include future taxation income. Because an entity does not currently control these resources, they are not recognized in the financial statements.
- 1.32 The following diagram illustrates the additional information that is provided in general purpose financial reports prepared in accordance with RPG 1. The shaded areas indicate information reported in the financial statements whereas the unshaded areas indicate information only reported in more comprehensive reports such as those prepared in accordance with RPG 1.

Figure 1: How RPG 1 supplements information provided in the statement of financial position⁷



1.33 The IPSASB considers RPG 1 has already addressed the need for information about the long-term fiscal sustainability of social benefits provided by an entity. Consequently this CP does not address the reporting of social benefits in general purpose financial reports. Instead, the CP considers the recognition and measurement of social benefits in the financial statements.

Project Objective

1.34 Taking into account the Conceptual Framework and RPG 1, the IPSASB proposes the following objective for a future IPSAS on Social Benefits (which will include presentation and disclosure, as well as recognition and measurement):

IPSASs shall require an entity to provide information that helps users of its general purpose financial reports to assess:

- (a) The nature of social benefits provided by the entity, and the key features of the operation of the scheme; and
- (b) The impact of social benefits provided on the entity’s financial performance and financial position⁸.

⁷ Figure 1 is taken from RPG 1, *Reporting on the Long-Term Sustainability of an Entity’s Finances*

⁸ The IPSASB will consider whether information about cash flows in respect of social benefits is required to meet the objectives of financial reporting when developing an Exposure Draft.

- 1.35 This CP identifies three options for accounting for social benefits provided by public sector entities (these are summarized in Chapter 3 and discussed in detail in Chapters 4–6). In assessing those options, the IPSASB will consider how well they satisfy the objective of this project, the objectives of financial reporting, and users' information needs.
- 1.36 The IPSASB will also consider how well the three options identified satisfy the qualitative characteristics (QCs) set out in the Conceptual Framework. Appendix B provides descriptions of the QCs.

Approach taken in this CP

- 1.37 This CP draws on the Conceptual Framework to update the IPSASB's previous work on this subject. The CP also considers other developments since 2008, and incorporates new ideas.
- 1.38 This CP adopts a definition of social benefits that is based on GFS. This excludes collective goods and services such as defense and public order. The CP also adopts a classification of social benefit arrangements that is based on GFS. The reasons underlying this approach are set out in Chapter 2.
- 1.39 The CP identifies three options for accounting for social benefits. These options are:
- Obligating event approach (an update of the approach used in the 2004 ITC); this option is discussed in Chapter 4.
 - Social contract approach (a further development of the alternative approach outlined in the 2008 CP); this option is discussed in Chapter 5.
 - Insurance approach (a new approach in this CP, based on insurance accounting); this option is discussed in Chapter 6.
- 1.40 Appendix B evaluates these options against the objectives of financial reporting and the QCs set out in the Conceptual Framework.

2 Scope and Definitions

2.1 This Chapter of the CP summarizes how social benefits have been described in previous IPSASB publications. It also considers how social benefits are addressed in Government Finance Statistics. Based on these discussions, the chapter proposes a scope for the project as well as definitions.

Social Benefits in Existing IPSASB Literature

- 2.2 As noted in paragraph 1.2, existing IPSASs do not address accounting for social benefits provided in non-exchange transactions. IPSAS 19 excludes from its scope “those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits.”⁹
- 2.3 Existing IPSASs do not define social benefits. Instead, a description is given in IPSAS 19. This description is broad, and consequently the 2004 ITC covered a wide range of non-exchange social benefits. The ITC noted that what constitutes social benefits may vary between jurisdictions and that what constitutes social benefits in any jurisdiction will be generally understood.
- 2.4 IPSAS 19 describes social benefits as “goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:
- (a) The delivery of health, education, housing, transport, and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and
 - (b) Payment of benefits to families, the aged, the disabled, the unemployed, veterans, and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.”¹⁰
- 2.5 The examples of social benefits included in IPSAS 19 are often referred to as “cash transfers” and “individual goods and services.” The ITC noted that “Social benefits could also be provided under other categories of government activity (for example, Defense, Public Order and Safety and Community Amenities).” These are often referred to as “collective goods and services.”
- 2.6 Social benefits may also be provided through exchange transactions. The most common examples are employer schemes such as occupational pensions. IPSAS 25, *Employee Benefits* provides guidance on accounting for employer schemes. Some social benefits may be covered in other IPSASs. For example, guidance on accounting for concessionary loans (such as some student loans, where the concessionary elements may meet the definition of a social benefit if they address social risks) is provided in IPSAS 29, *Financial Instruments: Recognition and Measurement*.
- 2.7 IPSAS 25 also introduces the concept of composite social security programs. Composite social security programs provide both employee benefits and non-employment related benefits in a single program.
- 2.8 As discussed above, the ITC did not define the term “social benefits”. At that time, the term was considered to be sufficiently well understood in each jurisdiction so that no definition was required.

⁹ IPSAS 19, paragraph 1 (a)

¹⁰ IPSAS 19, paragraph 7

By 2008 this view had changed, and the following definition of social benefits was included in the 2008 CP:

“The IPSASB defines social benefits as;

- (a) Cash transfers; and
- (b) Collective and individual goods and services

that are provided by an entity to individuals or households in non-exchange transactions to protect the entire population, or a particular segment of the population, against certain social risks.”

- 2.9 The definition in the 2008 CP introduced the idea of social benefits being related to social risks for the first time in the IPSASB’s literature. According to this definition, not all cash transfers or collective and individual goods and services are social benefits. Only those cash transfers or collective and individual goods and services that are provided to protect the entire population, or a particular segment of the population, against certain social risks meet the definition of social benefits. The 2008 CP did not define social risks.
- 2.10 By linking social benefits to social risks, the definition of social benefits in the 2008 CP had a narrower scope of social benefits compared to the description in IPSAS 19.

Government Finance Statistics

- 2.11 The IPSASB considers it important to reduce differences with the statistical basis of reporting where appropriate.¹¹ Social risks also form the basis of the definition of social benefits in Government Finance Statistics (GFS). The IPSASB therefore considered the approach to social benefits taken in GFS, noting that GFS included an approach to classifying social benefits that the IPSASB had not considered to that point. It should be noted, however, that the definition of social risks in GFS is considerably narrower than that implied by the definition of social benefits in the 2008 CP. The impact of this narrower definition can be seen in paragraphs 2.23–2.26 which discuss expenditure that does not meet the definition of social benefits.
- 2.12 The GFS framework is based on the *System of National Accounts 2008* (SNA). The discussion of the GFS approach to social benefits that follows is based on the SNA.
- 2.13 According to GFS, social protection is the systematic intervention intended to relieve households and individuals of the burden of a defined set of social risks. Social risks are defined as events or circumstances that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their income. These social needs may occur due to sickness, unemployment, retirement, housing, education or other family circumstances. Households may benefit from social protection in different ways, including:
- Households could receive benefits when they meet certain eligibility criteria that originate from a social risk without making any contributions;
 - Households could make contributions and receive benefits as transfers receivable in the event of the occurrence of the specified social risks. Such social protection arrangements are essentially a process of redistribution across a wide section of the population, with many individuals contributing resources so that those in need may benefit;

¹¹ See the IPSASB policy paper, [Process for Considering GFS Reporting Guidelines during Development of IPSASs](#), published in February 2014.

- Households could make contributions to a scheme to accumulate entitlements to benefits from which they withdraw in the event of the occurrence of the specified social risk—therefore there is relatively little redistribution among the various contributors, but rather redistribution over time for the contributor.

2.14 The SNA describes social benefits using the following high level categories¹²:

- Social assistance; and
- Social insurance, comprising:
 - Social security schemes (covering the community as a whole or large segments of the community); and
 - Employment related schemes.

In all of these cases, benefits can be provided in cash or in kind.

2.15 The SNA also includes an alternative analysis of social benefits. In the case of social insurance, some schemes are akin to non-life insurance schemes¹³, spreading risks among all the participants in the scheme (for example unemployment schemes). Other social insurance schemes are akin to life insurance schemes¹⁴, spreading the risk of one particular participant to the scheme over time (for example, employment-related pension schemes), with only limited redistribution between participants. Under some of the options discussed later in this CP, these differences may affect the recognition and measurement of liabilities for social insurance.

Social Assistance

2.16 The SNA states that social assistance provides similar benefits to social insurance schemes. However, these benefits are provided without any formal requirement to participate as evidenced by the payment of contributions. Access to benefits under social assistance is determined by eligibility criteria (including a risk materializing) being met. For example, social assistance often includes an assessment of income (sometimes referred to as a “means test”) in which case benefits are only payable where the income of the household is below a threshold. Social assistance payments are therefore funded from the general resources of government.

2.17 The SNA notes that the extent of household income provided by social assistance varies significantly from country to country. A few countries provide all social benefits to meet social needs without contributions. However, this is rarely the case.

Social Insurance

2.18 Social insurance requires formal participation by the beneficiaries, evidenced by the payment of contributions (actual or imputed¹⁵) to secure entitlement to benefits. As mentioned in paragraph 2.13

¹² See Chapter 8 of SNA 2008 for further details.

¹³ SNA 2008 describes non-life insurance as “an activity similar to life insurance except that it covers all other risks, accidents, sickness, fire, etc.”

¹⁴ SNA 2008 describes life insurance as “an activity whereby a policy holder makes regular payments to an insurer in return for which the insurer guarantees to provide the policy holder (or in some cases another nominated person) with an agreed sum, or an annuity, at a given date or earlier if the policy holder dies beforehand.”

¹⁵ Imputed contributions are treated in an individual’s record as having been made, even though the individual has not made the contribution. Imputed contributions may be recorded on a nominal basis, or may involve a cash transfer by a public sector entity.

above, benefits may be accumulated over time, or based on the redistribution principle. In almost all cases, recipients either contribute to the scheme or have contributions made on their behalf. Contributions may be paid on behalf of the recipient by their employer or a family member. Therefore, social insurance is treated in the SNA as similar to a contractual insurance scheme (whether similar to life insurance or non-life insurance) where the policyholder insures against certain contingencies. The SNA identifies two categories of social insurance schemes, namely social security schemes and employment-related schemes. Employment-related schemes arise out of an employer-employee relationship; where a government provides employment related schemes, these only cover its own employees. Social security schemes operate outside an employer-employee relationship; these schemes will usually cover wider groups than employment-related schemes.

Social Security Schemes

- 2.19 Social security schemes are social insurance schemes covering the community as a whole, or large sections of the community and are operated by a government. These schemes provide benefits such as pensions and unemployment benefits. As social insurance schemes, social security schemes are contributory schemes. In some cases, the government itself will make or impute contributions to the social security scheme on behalf of a recipient. This may happen, for example, during a period of unemployment. The legal form varies from country to country. In some countries, retrospective changes to entitlements are permissible; in other countries this is not the case. Social security schemes operate outside any employer-employee relationship.

Employment-related social insurance schemes

- 2.20 The second category of social insurance is employment-related social insurance schemes. The terms of these schemes are determined by the employer, sometimes in conjunction with the employees and forms part of the contractual agreement of the employer-employee relationship. These schemes provide benefits such as employment-related pensions and health benefits. Governments and other public sector entities may operate employment-related social insurance schemes in addition to any social security schemes they operate.

Social Benefits in Cash and in Kind

- 2.21 Social assistance and social insurance schemes may provide social benefits to households in the form of cash payments. This income can be used indistinguishably from income from other sources. This is not the case for social benefits in kind, where the public sector provides services directly, reimburses a service provider for services delivered to the households, or reimburses the households for costs associated with acquiring those services. Vouchers that allow individuals and households to access specified goods and services are a form of reimbursement, and hence are treated as social benefits in kind.
- 2.22 When social benefits are payable in kind, the household generally has no discretion over the use of the benefit. The benefits simply relieve the household from having to meet these expenses out of income from other sources. In some cases, the government provides the benefits directly. In other cases, the government may pay cash to the household to reimburse them for expenditure incurred. An example is where a household that is unable to afford medical insurance pays a private hospital for medical services, and the government reimburses the household for some or all of the expenditure. Alternatively the private hospital could claim reimbursement in respect of uninsured persons directly from the government. Under the SNA, reimbursements are classified as social benefits in kind, not social benefits in cash.

Expenditure not meeting the definition of Social Benefits

- 2.23 As discussed above, the SNA definition of social benefits refers to protecting the entire population, or a particular segment of the population, against certain social risks. In the SNA, social risks are events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income. In other words, a social risk is an event or circumstance that could adversely affect a household's budget. The term social risk does not cover other risks that would not impact on a household's budget. For this reason, certain significant government expenditures for goods and services provided to individuals and households fall outside of the SNA definition of social benefits. Within the SNA, these transfers are treated as "social transfers in kind". As the term "social transfers in kind" also encompasses social insurance and social assistance, this CP refers to goods and services provided to individuals and households other than to protect against a social risk as "other transfers in kind".
- 2.24 A major example of government expenditure that would not be included in the SNA definition of a social benefit is the provision of universal health and education services. Services are provided on a universal basis where they are provided to "all members of the community without requiring participation in a scheme or qualifying requirements." Government expenditure on such services that does not meet the definition of social benefits is recorded in the respective category of expense incurred in producing the goods and services in the SNA, which is a different classification to social benefits in kind.
- 2.25 The SNA definition of social benefits also excludes collective goods and services. The SNA describes these collective goods and services as "public" goods whereas social benefits are described as "private" goods. Collective goods and services (such as defense and public order) have the following characteristics:
- They are delivered simultaneously to each member of the community or section of the community;
 - Individuals cannot be excluded from the benefits of collective goods and services;
 - The use of the collective service is usually passive, that is, it does not require the explicit agreement or active participation of all the individuals concerned; and
 - The provision of a collective service to one individual does not reduce the amount available to others.
- 2.26 As with other transfers in kind, collective goods and services do not relate to protecting a particular household against social risks, because they do not impact on that household's budget. They therefore do not meet the SNA definition of a social benefit.

IPSASB Review of GFS Approach

- 2.27 The SNA approach identifies different categories of social benefits with potentially different economic consequences for a public sector entity. These differing consequences result in different treatment within the SNA, and might justify different accounting requirements within a future IPSAS.

2.28 The different economic consequences that might arise, and which have different classifications in the SNA are:

- The universal provision of services such as education and health are considered as ongoing activities of government. In the SNA, providing these services does not give rise to an obligation prior to the delivery of services.
- Households could receive benefits when they meet certain eligibility criteria related to a social risk without making any contributions (known as social assistance in the SNA). This will give rise to a consumption of resources. Within the SNA, these benefits are classified as an expense that leads to a redistribution of income through transfers. In developing a future IPSAS, the IPSASB would need to consider whether an obligation arises when the social risk materializes, the eligibility criteria are met, or the benefits are paid. The fact that no contributions are paid by the households is a factor that may be taken into account in making this determination.
- Households could make contributions and receive benefits in the event of the occurrence of the specified social risks (known as social insurance in the SNA). The finances of these arrangements function similarly to non-life insurance schemes. Such arrangements are essentially a process of redistribution across a wide section of the population with many individuals contributing resources so that those in need may benefit. These arrangements will give rise to a consumption of resources. Within the SNA, these social benefits are classified as an expense. In developing a future IPSAS, the IPSASB would need to consider whether an obligation arises when contributions are made, the social risk materializes, or benefits are paid. The fact that contributions are paid by the households is a factor that may be taken into account in making this determination.
- Households (including employees, self-employed, and unemployed) could make contributions (actual and imputed) to a scheme to accumulate assets (also known as social insurance in the SNA). They can withdraw from these accumulated assets in the event of the occurrence of the specified social risk. Examples are employment-related pensions and other retirement benefits, compulsory saving schemes, and various types of annuities. The finances of these arrangements function similarly to life insurance schemes. There is relatively little redistribution among the various households holding similar policies and members of households are able to predict with a reasonable degree of certainty what they will receive and when. Within the SNA, contributions and payments of these benefits are treated as transactions in financial assets and liabilities. It is generally assumed that these arrangements will give rise to an obligation, and in developing a future IPSAS, the IPSASB will need to consider the point at which a liability should be recognized.

2.29 Social benefits, other transfers in kind and collective goods and services are expected to raise similar issues regarding the recognition and measurement of liabilities and expenses. However, the IPSASB considers it possible that different factors may arise in the recognition and measurement of transactions that address specific social risks (i.e., social benefits) and those transactions that do not. For example, the recognition and measurement of an obligation in respect of social benefits may be related to individuals satisfying eligibility criteria. This relationship does not apply in respect of other transfers in kind and collective goods and services. For example, the costs associated with providing defense do not vary as individuals become entitled to benefit from the service (i.e., when they are born, or enter the jurisdiction).

2.30 Having reviewed the approach to social benefits taken in GFS, the IPSASB noted that the economic consequences described above may be similar in the SNA and in a future IPSAS. The IPSASB decided to align, as far as possible, the definitions in this CP with those in GFS. This is intended to provide clearer definitions that demarcate transactions and events which are, in substance dissimilar. It will also maximize consistency between the two frameworks, in line with the IPSASB policy paper *Process for Considering GFS Reporting Guidelines during Development of IPSASs*.

Scope

2.31 Following the IPSASB's decision to align (as far as possible) the definition of social benefits with the definition used in GFS, the scope of this project is limited to those benefits that are provided to protect the entire population, or a particular segment of the population, against social risks. The scope of this project includes any benefits that meet the definition of a social benefit, whatever the administrative arrangements and funding arrangements for those benefits.

2.32 Adopting this definition means that other transfers in kind and collective goods and services are outside the scope of this project. This is a significant change from the approaches taken in the ITC and the 2008 CP.

2.33 Other transfers in kind and collective goods and services will be addressed in a project on non-exchange expenses. This narrows the scope of this project compared to the IPSASB's previous work on this topic. The IPSASB published its Strategy and Work Plan Consultation in March 2014¹⁶. The Consultation included non-exchange expenses as a possible project. Following the consultation process, the IPSASB has agreed that this project should be added to the IPSASB's work program, and the project has now started.

Social Benefits addressed in other IPSASs

2.34 This CP also excludes from its scope those social benefits that are already addressed by other IPSASs. One example is employment-related social insurance schemes¹⁷. Such schemes are provided by the employer, and provide benefits such as occupational pensions and medical benefits. Governments may provide employment-related social insurance schemes in their role as an employer. These schemes are outside the scope of this project, as they are dealt with by IPSAS 25.

2.35 This project also excludes transactions such as some concessionary student loans, which may include concessionary elements, related to social risks that are considered to be social benefits in some jurisdictions. These transactions are financial instruments. Guidance on accounting for these transactions is provided in IPSAS 29.

Issues related to social benefits dealt with in other IPSASs

2.36 Some public sector entities may provide guarantees to other entities, such as social security funds, in respect of social benefits. Such guarantees are outside the scope of this project as these transactions are already addressed in other IPSASs. Typically, such guarantees cover any shortfall in funding experienced by the social security fund. However, guarantees could be given for other

¹⁶ http://www.ifac.org/sites/default/files/publications/files/IPSASB-Strategy-Consultation-2015-2019_0.pdf

¹⁷ SNA 2008 notes that the terms of employment-related social insurance programs are determined by employers, sometimes in conjunction with their employees. They may be administered by the employers themselves, by an insurance corporation on behalf of the employer or the funds may form an autonomous pension fund.

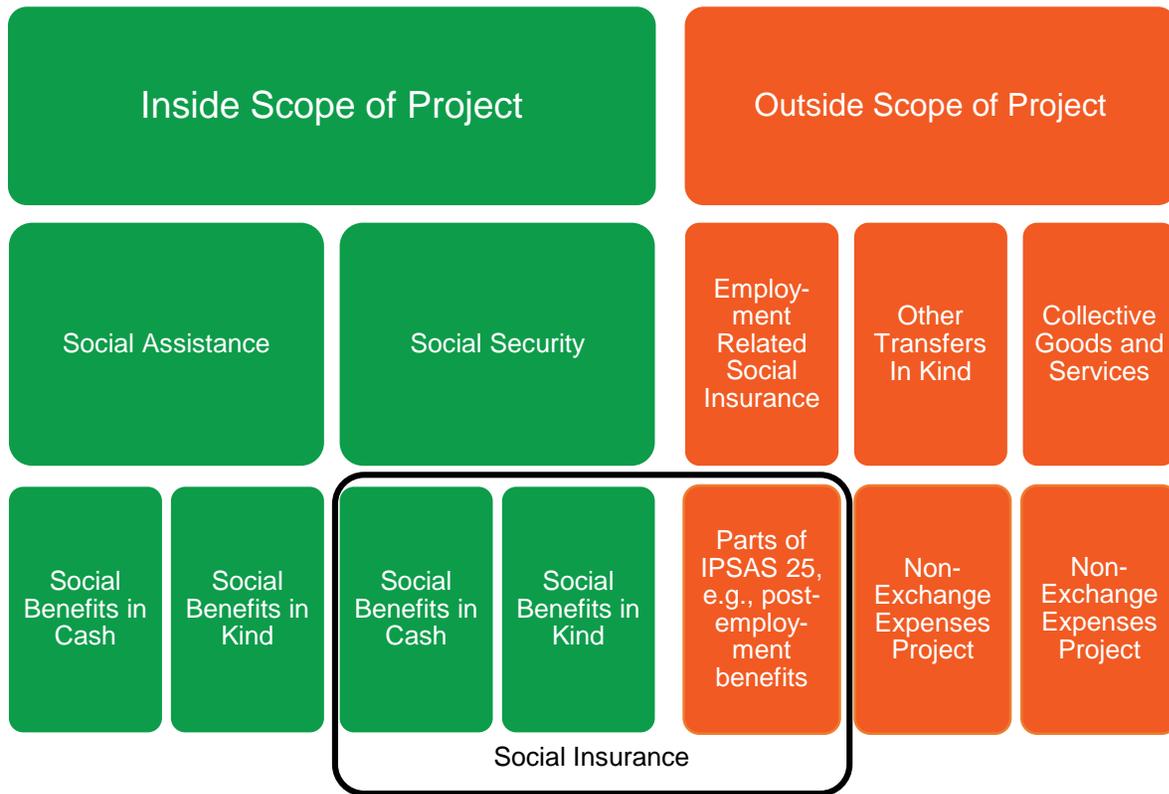
purposes. For example, a social security fund may borrow to enable it to pay social benefits. A public sector entity may provide a guarantee in respect of the debt.

2.37 Financial guarantees are defined in IPSAS 29, which also specifies the appropriate accounting requirements. The accounting requirements for other guarantees are specified in IPSAS 19 unless the guarantee is an insurance contract within the scope of the relevant international or national accounting standard dealing with insurance contracts.

2.38 Questions regarding the control of, joint control of, or significant influence over an entity providing social benefits are also outside the scope of this project. Requirements and guidance on these issues is provided in IPSASs 34–38. The IPSASB noted that some entities that provide social benefits may be outside the public sector. Social benefits provided by such entities will be outside the scope of this CP.

2.39 The following diagram illustrates the scope of this CP:

Figure 2: Scope of Project on the Recognition and Measurement of Social Benefits



Definitions

2.40 As a result of the decisions referred to above, specifically the decision to exclude other transfers in kind and collective goods and services from the scope of the project, this CP proposes the definitions below. These definitions are intended to be consistent with the descriptions given in the SNA as far as possible.

2.41 For the purposes of this CP, **Social Benefits** are defined as follows:

“Benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks.”

2.42 **Social risks** are defined as follows:

“Events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income.

2.43 Social benefits are provided to mitigate social risks in the following circumstances:

- Households could receive benefits when they meet certain eligibility criteria that originate from a social risk without making any contributions;
- Households could make contributions and receive benefits in the event of the occurrence of the specified social risks; and
- Households could make contributions to a scheme to accumulate future entitlements to benefits, with the benefits being provided following the occurrence of the specified social risk.”

2.44 **Social Benefits in Cash** are defined as follows:

“Social benefits paid in cash, by or on behalf of a public sector entity, that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.”

2.45 **Social Benefits in Kind** are defined as follows:

“Goods and services provided as social benefits to individuals and households by or on behalf of a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.”

2.46 **Reimbursements** are defined as follows:

“Cash payments made as a social benefit by or on behalf of a public sector entity to compensate a service provider or an individual or household for all or part of the expense incurred or to be incurred by that individual or household in accessing specific services.”

2.47 **Social Insurance** is defined as follows:

“The provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).”

2.48 **Social Security** is defined as follows:

“Social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.”

2.49 **Social Assistance** is defined as follows:

“The provision of social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.”

- 2.50 This CP does not propose a definition of employment related social insurance schemes. Such schemes are outside the scope of the social benefits project. The CP considers that excluding employee benefits, as defined in IPSAS 25¹⁸, from the scope of this project will be sufficient to exclude all employment related social insurance schemes as defined in the SNA.

Preliminary View 1

Social Benefits are benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks.

The other key definitions are as follows:

- (a) **Social risks** are events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income.

Social benefits are provided to mitigate social risks in the following circumstances:

- Households could receive benefits when they meet certain eligibility criteria that originate from a social risk without making any contributions;
- Households could make contributions and receive benefits in the event of the occurrence of the specified social risks; and
- Households could make contributions to a scheme to accumulate future entitlements to benefits, with the benefits being provided following the occurrence of the specified social risk.”

- (b) **Social Benefits in Cash** are social benefits paid in cash, by or on behalf of a public sector entity, that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.

- (c) **Social Benefits in Kind** are goods and services provided as social benefits to individuals and households by or on behalf of a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.

- (d) **Reimbursements** are cash payments made as a social benefit by or on behalf of a public sector entity to compensate a service provider or an individual or household for all or part of the expense incurred or to be incurred by that individual or household in accessing specific services.

- (e) **Social Insurance** is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).

- (f) **Social Security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.

- (g) **Social Assistance** is the provision of social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.

¹⁸ IPSAS 25, paragraph 10 provides the following definition: Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Specific Matter for Comment 1

In your view:

- (a) Is the scope of this CP (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) appropriate?
- (b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

Please explain the reasons for your views.

3 Identification of Approaches

3.1 Following the considerations outlined in Chapter 2, the IPSASB identified three broad approaches to accounting for social benefits. These approaches are developed in detail in Chapters 4–6 of the CP. Chapters 4–6 should be read before answering Specific Matters for Comment 2 and 3. The approaches can be summarized as follows:

- **Option 1: The obligating event approach.** This approach considers social benefits by reference to the definitions of a liability in the Conceptual Framework. The obligating event approach updates the model originally outlined in the 2004 ITC, which informed the IPSASB’s approach to social benefits until 2006. The publication of the Conceptual Framework has enabled the IPSASB to update this model to take account of the revised definition of a liability and to reflect the objectives of financial reporting and the qualitative characteristics. Under this approach, obligations to pay social benefits are seen as no different (in principle) than other obligations. The key issue is when a present obligation arises. The CP identifies five distinct points at which a case can be made for recognizing an obligation in the financial statements:
 - (a) Key participatory events have occurred;
 - (b) Threshold eligibility criteria have been satisfied;
 - (c) The eligibility criteria to receive the next benefit have been satisfied;
 - (d) A claim has been approved; or
 - (e) A claim is enforceable.
- **Option 2: The social contract approach.** This approach was briefly outlined in the 2008 Consultation Paper where it was referred to as the executory contract accounting model. The model has been further developed in this CP in order to address the concerns raised by respondents to the 2008 Consultation Paper. This approach acknowledges, as commitments, both:
 - (a) Public sector obligations to provide goods, services and cash transfers to individuals or households; and
 - (b) The rights of individuals or households to receive those benefits.

The approach is underpinned by a view that the ongoing duty of individuals and households to contribute taxes and other sources of finance effectively offsets such obligations. There is an imputed social contract between the state and the citizens under which citizens agree to pay taxes to enable the state to provide social benefits. This is analogous to an executory contract, where an entity would not recognize a liability until the counterparty to a contract had performed their obligations. Under this approach, present obligations only arise once claims for social benefits become enforceable (or, under an alternative approach, claims for social benefits are approved). Using the executory contract analogy, this can be viewed as the state recognizing present obligations when entitlements are established, while citizens’ performance is achieved through acknowledging their obligations to contribute taxes and other sources of finance as taxable and other obligating events occur.

- **Option 3: The insurance approach.** This approach is a new approach to recognizing and measuring some social benefits (based on insurance accounting) that the IPSASB has developed specifically for this CP. This approach considers that some social benefits are similar in practice to insurance contracts. Therefore, it may be appropriate to use an insurance

accounting model when accounting for such schemes. The insurance approach recognizes a present obligation to pay benefits at the point that coverage begins. The approach also recognizes a right to future receipts resulting from the provision of that coverage. The insurance approach is most suited to contributory schemes, where future contributions are compared to future payments to recipients and the net present value of the scheme is presented in the statement of financial position. Because of this, it may be appropriate to adopt the insurance approach for contributory benefits, and another approach for non-contributory benefits (i.e., some benefits are accounted for using one approach and other benefits are accounted for using a different approach, depending on the nature of the individual benefits).

- 3.2 The CP considers the options in this order because options 1 and 2 could be applicable to all social benefits, whereas option 3 is limited to contributory social benefits.
- 3.3 The IPSASB has not identified any other approaches to accounting for social benefits.
- 3.4 Appendix A includes examples of social benefit programs, and discusses the accounting implications that might arise in respect of some types of social benefit.

Specific Matter for Comment 2

- (a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?
 - (i) The obligating event approach;
 - (ii) The social contract approach;
 - (iii) The insurance approach

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

- (b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.

Specific Matter for Comment 3

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?

If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

Preliminary View 2

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

4 Option 1: Obligating Event Approach

Introduction

- 4.1 This option is based on the theoretical model outlined in the 2004 ITC. It also formed the main option discussed in the 2008 CP.
- 4.2 The ITC considered the definitions relating to liabilities, and in particular the definition of a constructive obligation, in IPSAS 19. The ITC sought to apply these definitions to social benefits. Since the publication of the ITC and the 2008 CP, the IPSASB has finalized its Conceptual Framework. This includes updated definitions relating to liabilities. This chapter of the current CP uses these updated definitions to refine the model used in the ITC and 2008 CP.

Definitions relating to Liabilities

- 4.3 Chapter Five of the Conceptual Framework includes the following definitions:

“Definition

5.14 A liability is:

A present obligation of the entity for an outflow of resources that results from a past event.

A Present Obligation

5.15 Public sector entities can have a number of obligations. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.”

- 4.4 There are two key factors to be considered in determining when a liability arises for a social benefit:
- What is the past event (or events) that gives rise to a present obligation?
 - When does an entity have little or no realistic alternative to avoid an outflow of resources?
- 4.5 These two factors are brought together in the revised definition of an obligating event proposed in paragraph 1.23 of this CP:

“An obligating event is an event that creates a present obligation.”

- 4.6 In other words, an obligating event is an event that creates a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid.
- 4.7 The IPSASB’s previous work on social benefits has shown that the difficulty in applying this approach has been the identification of an obligating event. The point at which an obligating event arises will determine the recognition of a liability. It may also affect the measurement of that liability. For obligations that accumulate over time, the earlier the obligating event the greater the liability will be. Views on what constitutes an obligating event differ. This chapter of the CP will explore those different views.

- 4.8 This chapter discusses both cash transfers and social benefits in kind. In many cases the issues that arise in identifying when an obligating event takes place will be the same for cash transfers and social benefits in kind.

Factors to be Considered

- 4.9 For legally binding obligations, the obligating event is the event that gives rise to the obligation. When considering social benefits, this is the point at which an individual or household could take legal action to enforce their entitlement to a benefit. An obligating event that gives rise to a legally binding obligation can usually be clearly identified.
- 4.10 Identifying the obligating event that may give rise to a non-legally binding obligation is generally more difficult than for legally binding obligations. In order for a non-legally binding obligation to give rise to a liability there must be:
- An indication to others that the entity will accept certain responsibilities;
 - The creation of a valid expectation; and
 - Little or no realistic alternative to avoid an outflow of resources.

These are discussed below.

- 4.11 The following example illustrates how a legally binding obligation can arise at a later point than a non-legally binding obligation.

The only eligibility criterion for an accident compensation benefit is that an individual has suffered a loss as a result of an accident. Accident compensation benefit payments are made on the fifteenth day of the month following the approval of the claim. Until that time, individuals are unable to enforce their entitlement. Beyond that time, they can enforce payment for amounts due. Some may consider that the obligating event for a non-legally binding obligation may be when the individual has the accident or when the claim is approved. The obligating event for the legally binding obligation will be the payment falling due on the fifteenth day of the following month after the individual's claim was approved¹⁹.

Indication to others that the entity will accept certain responsibilities

- 4.12 The definition of a non-legally binding obligation requires that an entity indicate acceptance of certain responsibilities to others. The Conceptual Framework²⁰ considers what actions might provide such an indication. It gives the examples of past practice, published policies and sufficiently specific current statements. In the public sector environment, published policies and specific statements could refer to:
- Making a political promise such as an electoral pledge;
 - Announcement of a policy;
 - Introduction (and approval) of the budget (which may be two distinct points); and
 - The budget becoming effective (in some jurisdictions the budget will not be effective until an appropriation has been effected).

¹⁹ In other circumstances, a legal obligation may occur at an earlier point where this is specified in the legislation

²⁰ Conceptual Framework, paragraph 5.23.

- 4.13 The Conceptual Framework notes that announcements made in the early stages of implementing a policy are unlikely to give rise to non-legally binding obligations. This includes a number of the examples in the previous paragraph. This is because of the other criteria that need to be satisfied for a non-legally binding obligation to exist.
- 4.14 In some circumstances, governments may assume liabilities without legislation being passed. An example would be benefits provided to individuals following a natural disaster such as an earthquake. The assumption of a liability in these circumstances is likely to require an official announcement to be made in a Parliament or equivalent body, and for there to be past practice demonstrating that the Government will act on the announcement.

Creation of a valid expectation

- 4.15 The definition of a non-legally binding obligation not only requires an entity to have engaged in various actions. It also requires those actions to have created a valid expectation in the other parties that it will discharge the responsibilities accepted.
- 4.16 For a valid expectation to be created, announcements that an entity will accept certain responsibilities need to be sufficiently precise and certain. Policies included in election manifestos are unlikely to create a valid expectation as they are rarely sufficiently precise. Policies that are enshrined in legislation are more likely to create a valid expectation prior to an individual satisfying the entitlement requirements.
- 4.17 A non-legally binding obligation does not exist solely because an individual has a valid expectation that the entity will accept certain responsibilities and has relied on that expectation. The entity must also have little or no realistic alternative to avoid an outflow of resources.

Little or no realistic alternative to avoid an outflow of resources

- 4.18 To satisfy the definition of an obligating event, an entity also must have little or no realistic alternative to avoid an outflow of resources. Interpreting this requirement in the context of non-legally binding obligations is difficult.
- 4.19 A government's ability to change legislation could mean that it has a realistic alternative to settling non-legally binding obligations. Governments frequently change the nature and amount of benefits. Governments rarely provide categorical assurances that current benefits will continue to be provided in future periods. In many jurisdictions governments are frequently in power for limited periods. As such, they are unable to give such assurances even if they want to.
- 4.20 However, governments generally operate on the basis that they will meet their outstanding obligations as they fall due. Financial statements should reflect this. Financial statements should also reflect the legal framework at the reporting date. In addition, governments frequently have difficulty in changing policies that "promise" benefits to individuals or households. This applies particularly where past practice has created the valid expectation that those benefits will be provided. In this context, the "little or no realistic alternative to avoid an outflow of resources" criterion may not apply in the same way in the public sector as it does in the private sector. It may need to be interpreted having regard to the circumstances in each jurisdiction. Financial statements should, therefore reflect not only the legal framework at the reporting date, but a government's past practice regarding the acceptance of non-legally binding obligations.
- 4.21 The IPSASB supports the approach in paragraph 4.20. It considers that reporting obligations in the financial statements in accordance with the legal framework in place and in accordance with past

practice at the reporting date is more likely to provide useful information to users of the financial statements and meet the objectives of financial reporting²¹. The IPSASB has identified a number of factors that it considers should be taken into account in determining whether an entity has little or no realistic alternative to avoid an outflow of resources. These factors are:

- (a) The extent to which households are dependent on a particular benefit. If households are heavily dependent on a benefit it is less likely that the entity will cancel or decrease the benefit.
- (b) The entity's past practice in:
 - Removing or reducing particular benefits;
 - Changing the method of providing benefits; or
 - Changing eligibility criteria.

The ability to remove or reduce benefits may differ depending on the type of benefit and the groups of recipients.

- (c) The likely political impact of changing benefits.

4.22 Whether an entity has little or no realistic alternative to avoid an outflow of resources needs to be considered for all non-legally binding obligations. If an obligation exists, but the entity has a realistic alternative to avoid an outflow of resources, a liability is not recognized.

Summary of factors to be considered

4.23 The three factors should not be considered in isolation. They act cumulatively. An entity must have given a sufficiently precise indication to others that the entity will accept certain responsibilities. It must be this indication that gives rise to a valid expectation that the entity will discharge those responsibilities. It must be as a result of creating that valid expectation that the entity has little or no realistic alternative to avoid an outflow of resources.

4.24 Assessing these factors requires the exercise of professional judgment. This applies particularly to social benefits, where the circumstances of individual schemes can be complex. Consequently, there are a number of views as to when an obligating event occurs. The remainder of this chapter discusses these views.

When does an Obligating Event arise?

Background

4.25 The ITC identified three views as to when, in the absence of a legally binding obligation, an obligating event might give rise to a non-legally binding obligation:

- When all eligibility criteria have been met;
- When threshold eligibility criteria have been satisfied; and
- When key participatory events have occurred.

²¹ See the Basis for Conclusions to Chapter 5 of the Conceptual Framework, paragraphs BC5.32 and BC5.33.

4.26 Other issues considered in the ITC and the 2008 CP are:

- Whether a requirement to satisfy ongoing eligibility criteria (including revalidation) should be treated as a recognition criterion or a measurement attribute; and
- Whether a present obligation arises at an earlier stage for contributory benefits compared to non-contributory benefits.

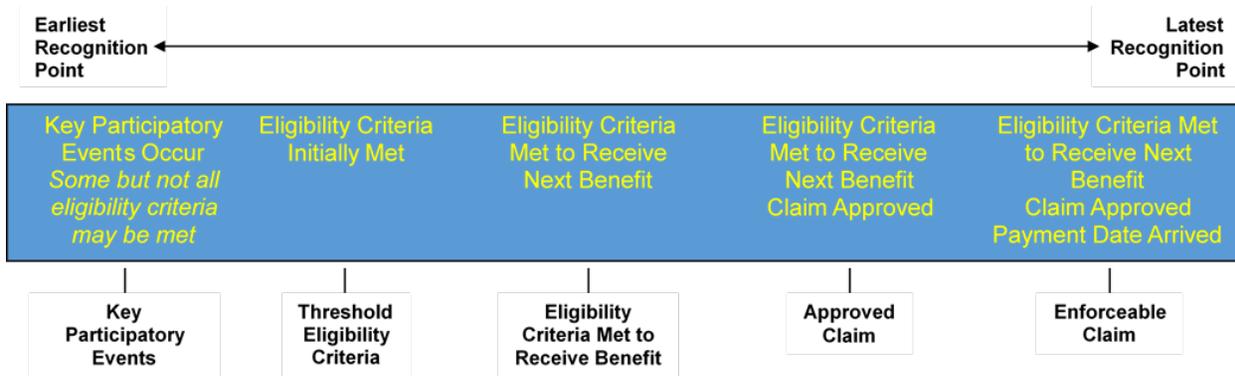
4.27 Some consider that an obligating event in respect of social benefits can only arise from a legal obligation. This view is also discussed below.

4.28 The IPSASB has identified five distinct points at which a case can be made for recognizing an obligation in the financial statements.

- (a) Key participatory events have occurred;
- (b) Threshold eligibility criteria have been satisfied;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved; and
- (e) A claim is enforceable

These sub-options are illustrated in Figure 3 below, and discussed in the following paragraphs.

Figure 3: The five points at which an obligating event may give rise to amounts being recognized in the financial statements



4.29 Figure 3 starts with the earliest recognition point. To satisfy each additional recognition point, additional criteria need to be satisfied.

(a) *An obligating event arises when key participatory events have occurred sub-option*

4.30 The ITC summarized this approach as follows:

“In the absence of a legal obligation, a past event, or series of past events, giving rise to a present obligation occurs prior to the point at which an individual meets threshold eligibility criteria (where threshold criteria are applicable).

The present obligation arises when key participatory events have occurred that lead an individual to have a reasonable expectation of eventually satisfying eligibility criteria for a benefit and, as a result, the individual has relied on that expectation over a period of time leaving the government with no realistic alternative but to settle the obligation in the future.

The present obligation is for all benefits to be provided to the individual in future periods regardless of whether the individual is required to satisfy eligibility criteria again in future periods.”

- 4.31 In certain circumstances an entity communicates its intention to provide certain benefits in the future. It confirms this intention by providing those benefits to current eligible recipients. The provision of old age pensions by a government is a case in point for many jurisdictions. Potential recipients respond to the government’s communication of intent by making economic decisions in reliance on the receipt of those future benefits. This in turn is likely to mean that the government has little or no realistic alternative to providing those benefits.
- 4.32 Those that support this sub-option note that governments sometimes accept that individuals have a valid expectation that they would receive future benefits before they are eligible to do so. They may compensate individuals where benefits are withdrawn or modified. They argue that in these cases, meeting the eligibility criteria is not the critical event that gives rise to a present obligation. A liability should be recognized at an earlier point.
- 4.33 The sub-option may be more difficult to apply than others. What constitutes an obligating event, and the point at which it occurs, is less clear than under other sub-options. It may be possible to assert that individuals have relied on the expectation of receiving future benefits. There may be evidence that such reliance has occurred. However, it is difficult to identify the point at which the government has little or no realistic alternative to providing those benefits. In some cases, there may have been a series of points at which expectations arose, leading to an increasing expectation over time (which may mean that there are intergenerational differences in expectations). This may be the case with contributory benefits, with each contribution made increasing the expectation that benefits will be paid in the future.
- 4.34 Identifying which key participatory events may contribute to an expectation being created can also be difficult. In some cases, a key participatory event will be one of the eligibility criteria that needs to be satisfied before a benefit ultimately becomes payable. In other cases, a key participatory event will not be one of the eligibility criteria that need to be satisfied, but will nevertheless contribute to the creation of an expectation that a benefit will ultimately be paid.

(b) An obligating event arises when threshold eligibility criteria have been satisfied sub-option

- 4.35 The ITC summarized this approach as follows:

“In the absence of a legal obligation, a past event giving rise to a present obligation occurs when an individual meets the eligibility criteria for the first time (the threshold criteria). The present obligation is for all benefits to be provided to the individual in future periods regardless of whether the individual is required to satisfy eligibility criteria again in future periods.”

- 4.36 This sub-option views an obligating event as occurring when threshold eligibility criteria are first met, which occurs subsequent to key participatory events in the key participatory events sub-option. Examples could be when an individual:
- Reaches pensionable age;
 - Becomes unemployed; or
 - Is first diagnosed with a complaint for which medical care is provided to those who are unable to afford medical insurance.

- 4.37 Those who support this sub-option consider that individuals or households may have expectations that benefits will be provided in the future. They also consider that past practice may indicate that the government has accepted a responsibility to provide benefits. In these circumstances, they consider that once the threshold eligibility criteria have been satisfied (i.e., once an individual becomes eligible to receive benefits for the first time), a government no longer has a realistic alternative to avoid an outflow of resources.
- 4.38 Under this sub-option, the likelihood of an individual continuing to meet the eligibility criteria is a factor that affects measurement. This includes an assessment of a recipient's expected longevity. This is the difference between this sub-option and the eligibility criteria to receive the next benefit sub-option below. Under the eligibility criteria to receive the next benefit sub-option, continuing eligibility requirements (including revalidation) affect the recognition of a liability. Under the threshold eligibility criteria sub-option, these only affect the measurement of the liability.
- 4.39 Measurement is discussed later in this chapter.

(c) An obligating event arises when the eligibility criteria to receive the next benefit have been satisfied sub-option

- 4.40 This sub-option was raised in the ITC (where it is referred to as the "satisfy all eligibility criteria" option). It can be summarized as follows:

In the absence of a legal obligation, a past event giving rise to a present obligation occurs when an individual satisfies all applicable eligibility criteria.

In the case of ongoing benefits which are subject to regular satisfaction of eligibility criteria, the maximum amount of the present obligation is the benefit that the individual is entitled to from the current point in time until the next point in time at which eligibility criteria must be satisfied.

- 4.41 The ITC refers to an individual. It notes, however, that an entity may have an obligation to an individual, a group of individuals or an entity. This CP takes the term individual to refer to individuals and households.
- 4.42 This sub-option considers that all eligibility criteria must have been met for an obligating event to have occurred. Until an individual or household has satisfied all the eligibility criteria, there is no claim on an entity's resources.
- 4.43 Under this sub-option, a requirement that a recipient meet eligibility criteria at a future date affects the recognition of a liability as well as its measurement. An entity does not recognize a liability for future benefits at a single point in time. Instead, a liability is recognized over time, as the eligibility criteria (including revalidation) are met. Revalidation is discussed later in this chapter. Under this sub-option, the present obligation is for future benefits to be provided until the next point in time at which eligibility criteria are required to be met. Typically, this will be at the time that the next social benefit will be provided and the beneficiary must meet the eligibility criteria in order to receive the benefit. Recognition of future benefits is based on continuing to meet the eligibility requirements, whereas for the threshold eligibility criteria sub-option, all future benefits are recognized once the eligibility criteria are initially met.
- 4.44 Validation is the process performed by the entity to determine whether the beneficiary is eligible to receive the social benefit, based on information provided by or on behalf of the beneficiary to support the beneficiary's eligibility. Such validation procedures range from merely administrative to complex

determinations. For schemes that may provide a series of periodic social benefits (for example, monthly or biweekly unemployment benefits), the entity may also require periodic revalidations as a condition for continuing the benefits. An example of these periodic revalidations would be monthly visits to the unemployment office, where the beneficiary is required to provide the entity with evidence supporting continuing eligibility on a biweekly or monthly basis. Typically, if the beneficiary does not comply with the revalidation requirements, the beneficiary is not eligible for further benefits.

- 4.45 Eligibility criteria specify the criteria for determining whether a beneficiary is entitled to a particular social benefit. This may include eligibility criteria related to the beneficiary, a third party providing goods or services to the beneficiary, and the specific goods and services provided to the beneficiary. Eligibility criteria relate to validations and revalidations, as well as eligibility criteria that must continue to be satisfied after initial validation and any subsequent revalidations in order for the beneficiary to be eligible to receive continuing benefits. For example, to be eligible to receive a periodic benefit, the beneficiary may need to meet a financial needs test, remain unemployed, or remain alive.
- 4.46 This sub-option also includes the recognition of an expense and a liability for benefits applied for but not yet approved. This view is more likely to be supported where approval is essentially an administrative process that does not require the exercise of judgment by the entity.
- 4.47 Those who support this sub-option accept that some individuals or households may have expectations that benefits would be paid in the future. They also accept that past practice may indicate that the government has accepted a responsibility to provide benefits. However, they consider that until all eligibility criteria have been satisfied, a government has a realistic alternative to avoid an outflow of resources, for example by modifying legislation. Some also believe that, for such non-exchange transactions, a valid expectation does not occur until the beneficiary has met all eligibility criteria.

(d) An obligating event arises when a claim has been approved sub-option

- 4.48 Under the “approved claim” sub-option, benefits relating to the period for which a claim has been approved are recognized as an expense. Unpaid amounts are recognized as a liability. In addition to meeting eligibility criteria as in the “eligibility criteria to receive the next benefit” sub-option, a liability is not recognized under this sub-option until a claim is received and approved.
- 4.49 This sub-option considers that an obligating event does not arise until a recipient has satisfied all of the eligibility criteria and the claim has been approved. This sub-option also considers that eligibility criteria need to be satisfied on an ongoing basis. Staying alive is considered to be an implicit eligibility criterion. Meeting the criteria at a point in time only generates a liability until the next benefit due date. Eligibility criteria need to be met anew (and a new claim may need to be approved) before a liability is recognized for future benefits.
- 4.50 The “approved claim” sub-option differs from the following “enforceable claim” sub-option. A liability would be recognized if a claim in respect of the benefits relating to the period has been approved, even if the recipient could not enforce the provision of the benefits at the reporting date because the due date has not arrived.
- 4.51 The “approved claim” sub-option also differs from the “eligibility criteria to receive the next benefit” sub-option. The “approved claim” sub-option would not recognize an expense and a liability for benefits applied for but not yet approved.
- 4.52 For the same reasons given under the eligibility criteria to receive the next benefit sub-option above, those who support this sub-option consider that until a claim has been approved, a government has

a realistic alternative to avoid an outflow of resources, for example by modifying legislation. Some also believe that, for such non-exchange transactions, a valid expectation does not occur until the beneficiary has met all eligibility criteria.

(e) An obligating event arises when a claim is enforceable sub-option

- 4.53 Those who support the “enforceable claim” sub-option argue that public sector entities should only recognize legal obligations in respect of social benefits. According to this argument, until a legal obligation exists and the due date has arrived, a claim is unenforceable. A government always has the ability to avoid settling such an obligation, for example by modifying eligibility criteria or amending legislation. In addition to the claim being approved as in the “approved claim” sub-option, this sub-option does not recognize a liability until the due date has arrived and the claim is enforceable.
- 4.54 As a result, the entity does have a realistic alternative to an outflow of resources. The fact that, in the absence of an enforceable claim, the entity is able to avoid an outflow of resources may also negate the creation of a valid expectation of benefits being paid in the future. Consequently, an obligating event only occurs when the obligation becomes a legal obligation and the due date has arrived.
- 4.55 Under the “enforceable claim” sub-option, identifying the point at which a liability should be recognized is relatively straightforward.

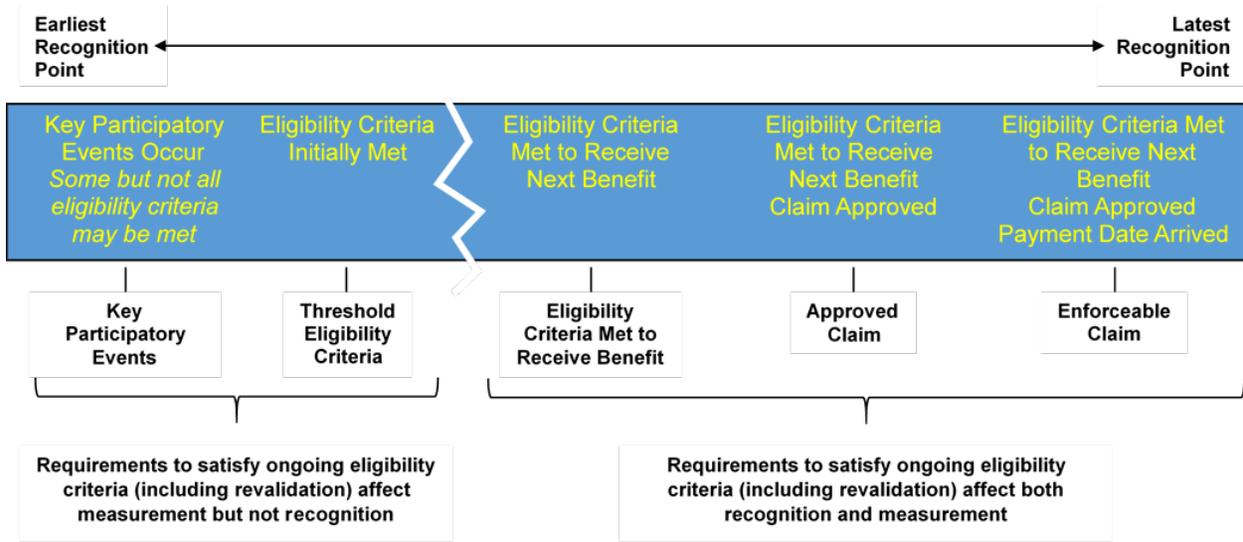
Other terms

- 4.56 The term “due and payable” has been used in several jurisdictions to describe accounting policies for social benefits. The term was also used by the IPSASB in the development of the ITC and 2008 CP. The IPSASB decided not to use this term in this CP for two reasons. First, the term has slightly different meanings in different jurisdictions. Second, it can be easily confused with a legally enforceable obligation. Where a recipient of a social benefit has satisfied all eligibility criteria and the claim has been approved, but the transferring entity is not yet legally obliged to provide the benefits the term “approved claim” is used.
- 4.57 The term “pay as you go” is used as a short hand to describe funding arrangements for both employee benefits and social benefits. Under a “pay as you go” scheme, contributions from those who expect to receive benefits in the future finance the provision of benefits to current recipients. The IPSASB takes the view that the term “pay as you go” does not relate to the point at which a liability or expense should be recognized. Consequently, the term is not used in this CP.

How should a requirement to satisfy ongoing eligibility criteria (including revalidation) be taken into account?

- 4.58 Different views of when an obligating event occurs have been described above. These sub-options treat requirements to satisfy ongoing eligibility criteria (including revalidation) in one of two ways, as summarized in Figure 4.

Figure 4: How requirements to satisfy ongoing eligibility criteria (including revalidation) affect the five points at which an obligating event may give rise to amounts being recognized in the financial statements



- 4.59 Many schemes delivering social benefits require recipients who have satisfied threshold eligibility criteria to revalidate their eligibility at a future date in order to maintain their entitlement to benefits. Requirements to satisfy eligibility criteria (including revalidation) are normally laid down in the legislation or regulations governing the scheme. Some approaches consider that a requirement to satisfy ongoing eligibility criteria (including revalidation) is only taken into account when considering the measurement of a liability. Other approaches consider that a requirement to satisfy ongoing eligibility criteria (including revalidation) is taken into account when considering the recognition of a liability, as well as when measuring that liability. This distinction influences the extent of the present obligation and, if recognition criteria are met, the measurement of the resultant liability.
- 4.60 In all the sub-options discussed above, a liability is initially recognized when the relevant obligating event (which varies from sub-option to sub-option) occurs. The nature of the liability recognized depends on whether any requirement to satisfy ongoing eligibility criteria (including revalidation) in the future is considered to affect the recognition of the liability.
- 4.61 A requirement to satisfy ongoing eligibility criteria (including revalidation) is not considered to affect the recognition of the liability under the key participatory events and threshold eligibility criteria sub-options. The liability at initial recognition is for all future benefits. The likelihood of an individual continuing to meet eligibility criteria at a future date is taken into account when measuring the liability, but does not affect the recognition of the liability.
- 4.62 For some benefits, eligibility will be re-asserted at intervals after a period of ineligibility. Should measurement include all periods of eligibility or just the period until the beneficiary becomes ineligible? This decision affects the measurement of a liability under both the key participatory event and threshold eligibility criteria sub-options. An example of this scenario is unemployment benefits, where individuals may have alternating periods of employment and unemployment.
- 4.63 A requirement to satisfy ongoing eligibility criteria (including revalidation) is considered to affect both the recognition and measurement of the liability under the eligibility criteria met to receive the next benefit, approved claim and enforceable claim sub-options. The liability at initial recognition is for benefits receivable only until the next point in time at which eligibility criteria are to be met. When a

recipient meets the eligibility criteria and validates their entitlement at future dates, further amounts are recognized as the criteria are met. The likelihood of an individual continuing to meet eligibility criteria up to the next validation point is still taken into account when measuring the liability in these circumstances.

- 4.64 It follows that, for these sub-options, the extent of a present obligation cannot exceed the maximum amount that an individual is entitled to receive from one validation point to the next. An entity can avoid providing further benefits beyond the next validation date. Liabilities may be lower than this maximum. This could occur where an individual's eligibility ceases prior to the next validation point, for example when an individual claiming unemployment benefit starts a new job.
- 4.65 Some argue that “staying alive” is an implicit eligibility criterion for all schemes as an entity will not have to provide further benefits if an individual were to die. For some schemes, this may be an explicit criterion.

Presentational considerations and measurement consequences

- 4.66 Some who have reservations about recognizing expenses and liabilities before all eligibility criteria have been satisfied also question whether such an approach faithfully represents an entity's financial performance and financial position. Those who hold this view would consider all eligibility criteria to have been satisfied under the eligibility criteria met to receive the next benefit sub-option, the approved claim sub-option, and the enforceable claim sub-option, but not the key participatory events sub-option or threshold eligibility criteria sub-option. They believe that recognizing expenses and liabilities related to social benefits on the face of the statement of financial performance and the statement of financial position is inappropriate for what they consider are commitments, but not present obligations. They consider that presenting the financial statements on this basis does not faithfully represent the overall financial position of an entity, and does not provide relevant information to users of those financial statements. They also consider that recognition would present a misleading view of financial health²² by showing a government in an unsound financial light when that may not be the case.
- 4.67 In this context, most standard setters that have considered the issue currently take the view that a government's right to tax does not give rise to an intangible asset that would counter-balance the amount reported as a liability for social benefits recognized before all eligibility criteria have been satisfied. The IPSASB explicitly formed such a view in the Conceptual Framework.
- 4.68 Some who have reservations about recognizing expenses and liabilities before all eligibility criteria have been satisfied consider that the potential impact of the volatility of actuarial assumptions may distort the financial statements. They consider it possible that the actuarial adjustments recognized in a reporting period may exceed other transactions. They do not consider that financial statements prepared on this basis would provide information that is useful for accountability purposes.
- 4.69 Those who support recognizing expenses and liabilities before all eligibility criteria have been satisfied do not accept the above arguments and consider that such transactions and other events meet currently accepted recognition and measurement criteria and should be recognized. According to this view it is not acceptable to exclude items because of their magnitude or volatility, and because

²² Financial health is a broader term than financial position that takes into account obligations that do not meet the definition of a liability and future resources that do not meet the definition of an asset.

recognition might not show a government in a sound financial light. They may also consider that recognition provides useful information about intergenerational equity.

Specific Matter for Comment 4

In your view, at what point should a future IPSAS specify that an obligating event arises under the obligating event approach? Is this when:

- (a) Key participatory events have occurred;
- (b) Threshold eligibility criteria have been satisfied;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; or
- (f) At some other point.

In coming to this conclusion, please explain what you consider to be the relative strengths and weaknesses of each view.

If, in your view, a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises, please provide details.

Please explain the reasons for your views.

Are there different obligating events for contributory and non-contributory schemes?

- 4.70 Some argue that whether a scheme is contributory affects the point at which an obligating event occurs. According to this view, contributory schemes should be considered separately from non-contributory schemes. Under this view, the payment of a specified number, or amount, of contributions creates a valid expectation that an individual or household will receive benefits based on those contributions. These expectations may be strengthened by communications regarding personal details of estimated future benefits. Such expectations are stronger than for non-contributory schemes that are primarily funded from general taxation. It is also argued that it is unrealistic for the government to avoid paying such benefits. This is the case even if benefits will only be provided many years in the future.
- 4.71 A valid expectation that benefits will be paid may also be stronger where recipients know that contributions are paid into a specific fund.
- 4.72 Some argue that contributory scheme give rise to quasi-exchange transactions. In this view, obligations under such schemes should be recognized and measured in a similar manner to post-employment benefit obligations under IPSAS 25. The question of whether contributory schemes give rise to exchange transactions is discussed further below.
- 4.73 Some do not consider that whether a scheme is contributory affects the point at which an obligating event occurs. They argue that the existence of an obligation is not affected by the funding of that obligation. They also challenge the view that making contributions has an impact on whether a government has little or no realistic alternative to paying benefits. They emphasize that governments have the ability to amend or repeal legislation, an attribute that distinguishes them from private sector entities. They may acknowledge that individuals receive personal information on the benefits that they are likely to receive, but note that such communications are often accompanied by caveats or

other qualifications, for example, that the provision of projected benefits depends on the future viability of the fund from which those benefits are paid. In some jurisdictions, contributions may in substance be a form of taxation. Therefore they argue that the validity of individuals' expectations is doubtful.

- 4.74 Contributory schemes vary widely in nature and often depend partially on general taxation for their funding. Some therefore challenge whether citizens' expectations of receiving benefits in the future for contributory schemes are more valid than for non-contributory schemes.
- 4.75 Fiscal projections may suggest that existing benefit levels are unsustainable, and that the government will have little choice but to take action such as raising participants' contributions, reducing benefit levels or deferring the age at which benefits are first received. This again challenges the view that individuals will have a valid expectation of benefits being paid in the future.
- 4.76 Some argue that there is little difference between a scheme that is wholly dependent on government financing (and which may therefore vary with government policy) and a scheme that is substantially dependent on government financing. Contributions may partially finance the scheme, but if substantial government financing is required, participants will be aware that changes to government policy could affect the benefits provided by the scheme. Once more this challenges the view that individuals will have a valid expectation of benefits being paid in the future. This scenario does, however, raise the question of whether individuals are more likely to have a valid expectation of benefits being paid in the future where a scheme is wholly financed by contributions.

Specific Matter for Comment 5

In your view, does an obligating event occur earlier for contributory schemes than non-contributory schemes under the obligating event approach?

Please explain the reasons for your views.

Social benefits arising from exchange transactions

- 4.77 IPSAS 19 excludes from its scope social benefits arising from non-exchange transactions. Social benefits arising from exchange transactions are covered by specific requirements in other standards, for example IPSAS 25.
- 4.78 Within the SNA, social benefits include exchange transactions. The main example is employment related social insurance. The definition of social benefits in this CP also includes social benefits arising from exchange transactions, although employee benefits are excluded from the scope of this project, as they are addressed by IPSAS 25.
- 4.79 This raises the question as to whether there are other social benefits arising from exchange transactions. For example, some social benefits are contributory in nature. Compulsory accident insurance may be provided by a government and may involve contributions. Education and medical services may also be provided on a contributory basis. Often these services will be subsidized by government, and will be provided in non-exchange transactions as there is no direct relationship between the financing and the benefits.
- 4.80 If these services are being provided on an exchange basis, the IPSASB will consider whether there is any reason to account for them in a different manner than other exchange transactions.

Specific Matter for Comment 6

In your view, should a social benefit provided through an exchange transaction be accounted for:

- (a) In accordance with a future IPSAS on social benefits; or
- (b) In accordance with other IPSASs?

Please provide any examples you may have of social benefits arising from exchange transactions.

Please explain the reasons for your views.

Measurement of the Liability

4.81 So far the discussion of Option 1 has considered when a liability arises under the obligating event approach. It has also considered whether that liability covers future provision of benefits, and if so, how many. This section considers how the liability should be measured.

4.82 Chapter Seven of the Conceptual Framework discusses a number of measurement bases for liabilities. This CP proposes a preliminary view that, under the obligating event approach, the most appropriate basis for measuring liabilities in respect of social benefits under the obligating event approach is the cost of fulfillment. This is because:

- Many social benefits liabilities will arise from non-exchange transactions. There may be no consideration on which a historical cost value could be based. Historical cost can also be difficult to apply to liabilities that may vary in amount, which may be the case with some social benefits.
- It is extremely unlikely that there will be a market value for social benefits.
- In the context of social benefits, the cost of release is the amount that “a third party would charge to accept the transfer of the liability.” For social benefits, a transfer of the liability will rarely be practically possible. Where a public sector entity uses reinsurance in respect of a social insurance scheme, the cost of release may be an appropriate measure of the liability.
- Assumption price “is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.” This is not relevant to the measurement of social benefits under the obligating event approach. Under this approach, the liability is viewed as arising as a result of the public sector entity’s own actions.

4.83 The cost of fulfillment is defined in the Conceptual Framework:

“Cost of fulfillment is:

The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.”²³

4.84 If the measurement of the liability requires an estimate of benefits to be provided in future periods, this may affect the cost of fulfillment. This is because there will be a degree of uncertainty regarding the cost of the future benefits. The expected costs will also need to be discounted to reflect their current value where fulfillment will not take place for an extended period. The Conceptual Framework notes the following:

²³ Conceptual Framework, paragraph 7.74

“Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.”²⁴

“Where fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the reporting date.”²⁵

- 4.85 Guidance as to how these factors could be taken into account can be found in existing IPSASs. IPSAS 19 notes that if the provision being measured involves a large population of items, the estimated value is used.²⁶ Estimated value is a probability-weighted approach that considers all possible outcomes. This CP considers that the cost of fulfillment of a social benefit liability should reflect the estimated value.
- 4.86 IPSAS 19 also notes that the evidence considered when assessing a provision may include reports from independent experts.²⁷ IPSAS 25 provides an example, in that the measurement requirements for a defined benefit post-employment benefit plan are based on actuarial reviews. There are similarities between some social benefits and post-employment benefits. Actuarial reviews may provide an appropriate basis for measuring some or all social benefit liabilities.
- 4.87 IPSAS 19 and IPSAS 25 provide guidance on the discount rates that should be applied.
- 4.88 IPSAS 25 has requirements and guidance on the valuation that also considers the value of plan assets for funded post-employment benefit plans. Where post-employment benefit plans are unfunded (for example, where they are settled on a “pay as you go” basis), IPSAS 25 requires the liability to be recognized. The future resources that will finance the payments when they are made are not recognized.
- 4.89 Many social benefit schemes are unfunded. However, in some cases a separate fund exists or there are earmarked assets. In accounting for social benefits, it may be appropriate to adopt a similar approach to IPSAS 25, and to consider the scheme assets as well as liabilities when such assets exist.
- 4.90 Including scheme assets in the presentation of social benefit schemes may provide useful information, particularly for contributory schemes. Where a scheme is financed by contributions, including scheme assets in the presentation of the scheme may provide useful information regarding the financial health of the scheme. This is likely to have predictive value regarding future benefits or contributions. Where no scheme assets exist, which will often be the case for non-contributory schemes, recognizing the obligation alone may provide useful information about the level of funding that will be required from other sources in future.
- 4.91 Post-employment benefits are often related to service. The greater the period of service, the greater the future benefits. IPSAS 25 provides guidance on measuring these benefits. Some social benefits have similar characteristics. For example, an old age pension scheme awards a full pension after contributions have been made for 40 years. A deduction of 2.5 per cent of the pension is made for

²⁴ Conceptual Framework, paragraph 7.75

²⁵ Conceptual Framework, paragraph 7.78

²⁶ See IPSAS 19, paragraph 47

²⁷ See IPSAS 19, paragraph 46

each year contributions are not made. The measurement approach in IPSAS 25 may be an appropriate method of measuring the liability for schemes that reflect service or contributions.

Preliminary View 3

Under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfillment. The cost of fulfillment should reflect the estimated value of the required benefits.

Specific Matter for Comment 7

In your view, under the obligating event approach, when should scheme assets be included in the presentation of a social benefit scheme:

- (a) In all cases;
- (b) For contributory schemes;
- (c) Never; or
- (d) Another approach (please specify)?

Please explain the reasons for your views.

5 Option 2: Social Contract Approach

Introduction

- 5.1 The approach was raised in the 2008 CP as a possible alternative to the obligating event approach. The 2008 CP described the approach as follows:

“One alternative model is to view obligations to provide social benefits by governments as quasi-contractual in nature, and adopt executory contract accounting. Executory contracts are contracts in which neither party has performed any of its obligations, or where both parties have partially performed their obligations to an equal extent. Under this model, (a) governmental obligations to provide goods, services and cash transfers to individuals or households and (b) the rights of individuals or households to receive those benefits, are acknowledged as commitments. However, those governmental obligations are effectively offset by the ongoing duty of individuals or households to contribute taxes and other sources of finance. Under this model, liabilities would not arise until legal entitlements have been established. The advantage of recognizing only legal obligations is that the point at which they arise is more objectively identifiable, and therefore subject to less ambiguity than the point at which constructive obligations arise. Long-term fiscal sustainability reporting would complement executory contract accounting by providing a fuller picture of a scheme’s future viability.”²⁸

- 5.2 The 2008 CP acknowledged that some aspects of this approach may prove problematic and that more development was required before the approach could be fully assessed.
- 5.3 Respondents to the CP supported further development of the approach. Respondents identified a number of issues to be taken into account in further developing the approach, as summarized below.
- Executory contracts involve an exchange transaction. Some recipients of social benefits will not pay taxes, so identifying the obligations they perform will be problematic.
 - Recognizing non-legally binding obligations for post-employment benefits (as required by IPSAS 25) but not social benefits would be inconsistent.
 - Courts in some jurisdictions have rejected the argument that government services only need be provided to the extent that appropriate funding is obtained. If a government is required to provide services even if citizens fail to contribute taxes and other sources of funding, it may be difficult to sustain the executory contract analogy.
- 5.4 This Chapter further develops this option, taking into account the comments made by respondents to the 2008 CP. It seeks respondents’ views on whether this approach provides useful information for some or all social benefits.
- 5.5 The IPSASB is also considering an alternative approach to that outlined in the 2008 CP, whereby liabilities are recognized when all eligibility criteria are met and claims are approved (i.e., an “approved claim” exists, using the terminology developed in Chapter 4). The alternative approach may lead to the earlier recognition of a liability in some cases. This may be consistent with the recognition of taxation income, which IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* requires to be recognized when the taxable event occurs rather than on the legal date for receipt. This alternative approach is intended to minimize any concerns that some may have that

²⁸ Consultation Paper, *Social Benefits: Issues in Recognition and Measurement (2008)*, paragraph 57

the social contract approach may not be consistent with the Conceptual Framework. This concern might arise if the approach, as a matter of principle, limited the recognition of obligations to legally binding obligations (“enforceable claims” using the terminology developed in Chapter 4) whereas the Conceptual Framework acknowledges that obligations may sometimes arise from non-legally binding obligations.

Executory Contracts

5.6 IPSAS 19 defines executory contracts as follows:

“Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.”²⁹

5.7 General global practice does not usually recognize the rights and obligations that arise from executory contracts as separate assets and liabilities³⁰. Instead, a net asset or liability is recognized. Unless the contract has become onerous, this will normally be measured at zero as, in an arm’s length transaction, the value of the right and the value of the obligation will usually be the same. In addition, it is often possible to cancel an executory contract at no cost, neither side having performed any of its obligations (or both sides having performed equally).

5.8 Most social benefits are provided through non-exchange transactions. The concept of the executory contract is not directly applicable to these transactions. However, some argue that the concept can be applied to social benefits by analogy.

5.9 In considering how to apply the concept of executory contracts by analogy, two distinct (but related) factors need to be considered:

- Is the counterparty to the transaction defined on an individual or collective basis?
- What obligations are to be performed by each of the parties?

Identifying the Counterparty (or Counterparties)

5.10 One party to the arrangement is straightforward to determine. The public sector entity is one party, and has an obligation to provide one or more social benefits. The other party (or parties) to the arrangement is more difficult to identify. In the absence of a contract that specifies these factors, a number of scenarios can be identified.

5.11 The description of this approach in the 2008 CP refers to the “ongoing duty of individuals or households to contribute taxes and other sources of finance.” This duty could be considered to be an individual duty or a collective duty. If the duty is considered to be a collective duty, this could be a duty of the recipients of a particular social benefit, or of society as a whole.

Are the counterparties individuals and households?

5.12 Respondents to the 2008 CP identified some difficulties that arise from considering the duty to contribute taxes and other sources of finance to be an individual duty:

²⁹ IPSAS 19, paragraph 18

³⁰ The Basis of Conclusions to the Conceptual Framework (paragraph BC5.6) notes that within IPSASs, the recognition and presentation of assets and liabilities resulting from executory contracts will be determined at standards level.

- Recipients of social benefits may not contribute direct taxes.
- Recipients of social benefits may reside outside the jurisdiction of the public sector entity that provides the benefit.

5.13 Therefore, for the executory contract analogy to be operational, the duty to contribute taxes and other sources of finance cannot be considered an individual duty.

Is the counterparty individuals and households collectively?

5.14 Some argue that, although the duty to contribute taxes and other sources of finance is not an individual duty, it is a collective duty of individuals and households. They argue that the social benefit system as a whole reflects the notion of intergenerational solidarity, with individuals and households being both net recipients and net contributors at different stages of their life:

- Children will be net recipients of social benefits, as they will contribute little (if anything) by way of taxes and other sources of finance. Receipt of these benefits would impose a duty on the individuals concerned to contribute to the social benefits system later in life.
- Those of working age (with some exceptions, such as those who are unemployed for a period of time) will generally be net contributors to the social benefits system, contributing more in taxes and other sources of finance than they receive in social benefits during that stage of their life. These contributions can be seen as repayments for earlier benefits as well as giving rise to an entitlement to future benefits.
- In many jurisdictions, those of retirement age will (with some exceptions, such as those with a relatively high level of assets or alternative sources of income such as a private pension) once more be net recipients of social benefits. The value of the benefits they receive will be greater than the taxes and other sources of finance that they contribute during that stage of their life. This can be seen as the individuals consuming the benefits to which they are entitled as a result of their earlier contributions.

Is the Government acting as an agent?

5.15 Some who support this “collective” view consider that a government’s role is to facilitate intergenerational solidarity. The IPSASB therefore considered whether acceptance of this view would require a government to consider itself as an agent of the individuals and households who are either net recipients of, or net contributors to, the social benefit system.

5.16 The IPSASB notes that agents may be responsible for receiving and transferring resources, but that they do not control those resources. Applying this principle to the social contract scenario would suggest that a government does not control the receipts of taxation and other sources of finance that are used to finance the social benefits system.

5.17 The IPSASB does not consider that treating the government as an agent reflects the economic substance of the situation. In particular, the IPSASB notes that, in accordance with IPSAS 23, a government recognizes revenue when a taxable event occurs.

5.18 The IPSASB also considers that applying the agency principle would not meet the objective of financial reporting. The IPSASB considers that information regarding expense and revenue, which would not be reported if the agency basis were to be applied, is required for accountability and decision-making purposes.

Implications of considering the counterparty to be individuals and households collectively

- 5.19 The IPSASB then considered the implications of treating individuals and households collectively as the counterparty to the social contract.
- 5.20 The IPSASB notes that, as explained in paragraph 5.14 above, individuals and households may be net recipients of, or net contributors to, the social benefits system. Treating all individuals and households collectively allows for the reporting of the net position, rather than reporting duties and entitlements individually.
- 5.21 Under this collective view, there is an ongoing obligation on a government to provide social benefits, and an ongoing obligation on individuals and households to contribute taxes and other sources of finance. This can explain why a non-legally binding obligation can arise for post-employment benefits but not (under the social contract approach) for social benefits. In the case of post-employment benefits, there is no ongoing obligation on the employee; the benefit has been earned as a result of past service (along with any past contributions). In the case of social benefits, there is an ongoing obligation on individuals and households collectively.
- 5.22 The social contract approach also considers that reporting a large liability without reporting the corresponding right to future revenues does not provide useful information for users of the financial statements. Under the collective view, this issue does not arise. Collectively, individuals and households contribute taxes and other sources of finance to enable a government to provide social benefits. Each party performs their obligation to the same extent each financial period. Therefore, applying the executory contract model, the net asset or liability will continue to be measured at zero unless there is evidence that individuals and households will no longer be able to finance the social benefits.
- 5.23 If there is evidence that individuals and households will no longer be able to finance the social benefits, the social contract could be considered as onerous. In these circumstances, applying the executory accounting model, a liability would be recognized immediately. The IPSASB acknowledges that making this assessment and determining any resulting liability is likely to be difficult.
- 5.24 Some would suggest that because of uncertainty about the recognition and measurement of the liability, the financial statements should be required to disclose indicators that assist users to make judgments about whether the obligation is onerous and therefore whether the scheme is sustainable. Such indicators could be drawn from long term fiscal sustainability reports where available.
- 5.25 Some have expressed concern that the social contract approach appears to recognize a liability dependent on its financing, which is contrary to how IPSASs usually address recognition. The IPSASB notes that, under the social contract approach, a liability is recognized when performance is required in response to the performance of the other party.
- 5.26 The IPSASB notes that in some jurisdictions, a significant proportion of taxes and other sources of finance is provided by corporate entities that do not directly receive social benefits, although they benefit from, for example, a healthy and trained workforce. As such, these entities may not form part of the same social contract. Corporate entities may also be domiciled in another jurisdiction. It is therefore possible that the level of taxes and other resources provided by individuals and households collectively may be lower than that required to finance social benefits. In these circumstances, it may not be possible to apply the executory contract model to the social contract where the counterparty is individuals and households collectively.

Conclusion

5.27 As a result of the analysis above, the IPSASB has taken the view that executory contract analogy can only be applied by analogy to society as a whole.

Obligations to be performed

5.28 The description of this approach in the 2008 CP assumes that the obligations to be performed by the other party are to contribute taxes and other sources of finance.

5.29 It may be possible to identify other obligations. Where individuals, or society as a whole, perform activities that enable a public sector entity to achieve its objectives, this could be viewed as fulfilling an obligation. However, when discussing social benefits it is often difficult to identify the obligations that individuals, or society as a whole, need to perform to enable an entity to achieve its objectives.

5.30 For example, an objective of a health service may be to increase the longevity of the population. The health service may provide medication that prevents conditions deteriorating and becoming fatal. The provision of the medication will allow the health service to achieve its objective. However, there is no independent performance by the individuals affected; any performance by the individuals affected is dependent on the health service first providing the medication.

5.31 Under the social contract approach, any performance obligation on society as a whole cannot relate to the carrying out of activities that enable an entity to achieve its objectives. It follows that the performance obligation on society as a whole relates to the contribution of taxes and other sources of funding, as proposed in the 2008 CP. The contribution of taxes and other sources of funding is independent of the provision of social benefits by a public sector entity. The two transactions, therefore, can be considered to be analogous to an executory exchange contract.

Application of the Social Contract Approach

5.32 Under the social contract approach, social benefits can be accounted for by applying the analogy of an executory contract. A public sector entity provides social benefits to society as a whole. Society as a whole provides taxes and other sources of finance to the public sector entity.

5.33 Unless an executory contract is considered onerous, the net asset or liability is usually measured at zero. The public sector entity would therefore recognize no liability for social benefits, except where an enforceable claim in respect of the benefits exists (or, in the alternative approach, an approved claim exists). The acceptance of the enforceable claim (or the approved claim) forms part of the entity's performance of its obligation in the reporting period. It follows that the public sector entity should recognize an expense and a liability in respect of any enforceable (or approved) claims at the reporting date.

5.34 In many jurisdictions, the entities that provide social benefits will be different to the entities that receive taxes and other sources of funding. At the whole of government level, the fact that different entities are involved does not affect the assessment of the social contract. However, at individual entity level (and assuming the entities are not under common control), this raises the question as to whether there is any obligation owed to the entity providing social benefits. Some question whether the social contract approach can be applied at entity level if no obligation is owed to the entity.

5.35 In such cases, the entity providing the social benefits will be funded by another public sector entity. For the purposes of the social contract approach only, the IPSASB considers that it is appropriate to consider this arrangement to be analogous to the funding entity acting as the agent of the entity

providing the social benefits. The contribution of taxes and other sources of funding can be seen as an obligation to the entity providing the social benefits. In the same way that the social contract applies to society as a whole, it applies to government as a whole.

Potential Accounting Implications

- 5.36 Under the executory contract analogy, the public sector entity performs its obligations when a claim for social benefits becomes enforceable (or, in the alternative approach, is approved). The performance of society as a whole is recognized by a public sector entity recognizing the right to receive taxes and other sources of funding.
- 5.37 Under the social contract approach, a public sector entity would recognize a liability in respect of social benefits at the point at which a claim becomes enforceable (or, in the alternative approach, a claim is approved). This liability should be measured at the cost of fulfillment. The cost of fulfillment is discussed in more detail above, beginning at paragraph 4.83.
- 5.38 The recognition and measurement of taxes and other sources of funding provided in non-exchange transactions is specified in IPSAS 23 and is outside the scope of this project.

Specific Matter for Comment 8

In your view, under the social contract approach, should a public sector entity:

- (a) Recognize an obligation in respect of social benefits at the point at which:
 - (i) A claim becomes enforceable; or
 - (ii) A claim is approved?
- (b) Measure this liability at the cost of fulfillment?

Please explain the reasons for your views.

6 Option 3: Insurance Approach

Introduction

- 6.1 This CP defines social insurance as “the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient.” Social security is defined as “social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.”
- 6.2 Social security may be considered to be a type of insurance. Many social security schemes operate in a similar manner to insurance contracts. Individuals and households make contributions (which can be seen as analogous to premiums) and receive benefits when specified risks occur. Insurance accounting, therefore, may provide insights into how best to account for some or all social security schemes.

Insurance Accounting

- 6.3 There is currently no IPSAS on insurance accounting. Entities that issue insurance contracts are directed to national or international accounting standards on insurance accounting when determining their accounting policies.
- 6.4 IFRS 4, *Insurance Contracts*, was published in 2004. The International Accounting Standards Board (IASB) describes IFRS 4 as an “interim Standard that permits a wide range of practices and includes a “temporary exemption”, which explicitly states that an entity does not need to ensure that its accounting policies are relevant to the economic decision-making needs of users of financial statements, or that those accounting policies are reliable.”³¹
- 6.5 As such, IFRS 4 does not provide an appropriate basis for accounting for social benefits. The IASB is developing a replacement for IFRS 4, and has issued Exposure Draft ED/2013/7, *Insurance Contracts* (June 2013). The IPSASB considers that the proposals in this ED are a suitable starting point for the development of accounting for social benefits under the insurance approach.

IASB Exposure Draft ED/2013/7 Insurance Contracts

- 6.6 The following paragraphs describe the principles set out in the IASB’s ED. This description summarizes the key features that will be relevant to accounting for social benefits; it does not include all of the detailed requirements. Readers seeking further information regarding the IASB’s proposals should refer to the ED directly.
- 6.7 Under the ED, the statement of financial position reports liabilities for the obligations arising as a result of insurance contracts. These liabilities are recognized at the earlier of the beginning of the coverage period (i.e., the period during which the entity provides coverage for insured events) or the date on which the first payment from the policyholder becomes due.
- 6.8 The liability is measured using a current estimate of future cash flows associated with the contract and includes the expected contract profit. These cash flows include premiums receivable by the entity and claims and benefits payable by the entity. The liability is discounted to reflect the timing of the cash flows, and risk adjusted to reflect the uncertainty associated with the cash flows. Unwinding the discounting in later periods leads to the recognition of interest revenue and/or expense.

³¹ Exposure Draft ED/2013/7 *Insurance Contracts*

- 6.9 The expected contract profit is recognized as revenue over the period of the contract on a systematic basis that reflects the transfer of services provided under the contract. Revenue is adjusted for underwriting experience³², and the remaining expected contract profit (or “contract margin”) is adjusted for changes to the estimated future cash flows. Where these changes result in an expected loss, contracts are considered onerous, and the loss is recognized as an expense immediately.

Social assistance

- 6.10 The IPSASB is proposing in this CP that it is not appropriate to apply insurance accounting to unfunded social assistance schemes. Such schemes do not require participation, evidenced by contributions. The absence of contributions means that the only future cash flows would be the provision of social benefits. Estimating the present value of the future benefits would be equivalent to determining the best estimate of a liability under some variants of Option 1, for example the threshold eligibility criteria sub-option.

Contributions other than direct contributions

- 6.11 The IPSASB noted that contributions may take different forms, including:

- (a) Contributions in kind;
- (b) Imputed contributions; and
- (c) Contributions treated as general taxation.

These are discussed below.

Contributions in kind

- 6.12 In some cases, contributions may be made in kind rather than in cash. For these schemes, participants are required to provide services on behalf of a government in exchange for an entitlement to receive similar services in the future. The IPSASB does not consider that it would be appropriate to apply the insurance approach to such schemes. Although such schemes require participation, evidenced by contributions, the fact that the contributions are in kind not in cash means that an approach based on net cash flows is unlikely to provide useful information about such schemes. Rather, another approach that provided information on a government’s liabilities in respect of such schemes is likely to provide more useful information. A government’s liabilities could include, for example, administration costs and any costs of providing services in excess of the services provided by participants.

Imputed contributions

- 6.13 In some cases, contributions may be imputed, for example when an individual is unemployed or when a parent stays at home to care for the children.
- 6.14 Where imputed contributions involve a cash transfer from a public sector entity to (for example) the social security fund providing the scheme, the insurance approach may provide useful information regarding any surplus or deficit on the scheme. From the perspective of the social security fund (and

³² Underwriting experience refers to the actual cash flows from premiums, claims and benefits, which are likely to differ from the estimated amounts.

the individual scheme), there is no difference between contributions received directly from participants and those received from a public sector entity in respect of imputed contributions.

- 6.15 Where imputed contributions do not involve a cash transfer, the insurance approach may provide useful information regarding any surplus or deficit on the scheme and the extent to which the imputed contributions are being financed by other contributors or subsidized by taxation. However, it is possible that the value of this information would decrease as the proportion of imputed contributions increased. Taking an extreme example, if all contributions were imputed, the insurance approach would not be appropriate as there would be no contributions received. The insurance approach may therefore only provide useful information where, in addition to the imputed contributions, there are significant cash contributions.

Contributions treated as general taxation

- 6.16 In some cases, contributions received may be treated by governments as general taxation. Accounting for such schemes using the insurance approach may still provide useful information. Where contributions relate to a single scheme, applying the insurance approach will inform users as to whether the scheme is subsidized by general taxation; whether the scheme is fully funded by the contributions; or whether the scheme is generating a surplus that is being used to finance other government expenditure. Such information is likely to be useful to users.
- 6.17 Where contributions relate to more than one scheme, the insurance approach may provide useful information where an appropriate basis for allocating the contributions to individual schemes exists (for example, a specific percentage). Where no such basis exists, and any allocation would be arbitrary, the IPSASB considers that the use of the insurance approach would not be appropriate. The insurance approach highlights whether contributions are sufficient to finance a scheme's liabilities. Where the allocation of those contributions is arbitrary, this information is unlikely to be relevant or reliable. There may also be opportunities for a government to manipulate the allocations to achieve a desired outcome in respect of a specific scheme. Further complications may arise where contributions are collected by one public sector entity (for example, a revenues service) and schemes are provided by one or more other public sector entities.

Presentational considerations and measurement consequences

- 6.18 When discussing the obligating event approach, the CP notes (in paragraph 4.66) that some question whether recognizing expenses and liabilities related to social benefits on the face of the statement of financial performance and the statement of financial position faithfully represents the overall financial position of an entity.
- 6.19 Those who hold this view may have similar concerns regarding the appropriateness of the insurance approach for subsidized schemes. The insurance approach reflects both cash inflows and cash outflows. For subsidized schemes, the insurance approach will present a deficit to be met through future taxation. Those who hold the view described above may consider that recognizing the net liability (subsidy) for a scheme without recognizing as an offsetting asset the right to future tax revenue that will finance that liability does not faithfully represent the overall financial position of an entity.
- 6.20 No such concerns arise in respect of unsubsidized schemes. By measuring a scheme at the present value of future cash flows, all future revenues that will finance the scheme are included in the measurement of that scheme. For some, this may suggest that the insurance approach may be appropriate for unsubsidized schemes only.

Application of the Insurance Approach

- 6.21 The IPSASB has currently taken the view that the insurance approach may be appropriate where there are significant cash contributions in respect of a scheme, and these can be reliably measured.
- 6.22 The insurance approach may provide useful information in respect of:
- Schemes where imputed contributions involve a cash transfer;
 - Schemes where there is a low level of imputed contributions not involving a cash transfer; and
 - Schemes involving contributions treated as general taxation where there is a reliable basis for allocating the contributions to individual schemes.
- 6.23 The insurance approach will not provide useful information in respect of:
- Schemes involving contributions in kind;
 - Schemes where there is a high level of imputed contributions not involving a cash transfer; and
 - Schemes involving contributions (including those treated as general taxation) where there is no reliable basis for allocating the contributions to individual schemes.
- 6.24 The IPSASB notes that, unlike the other approaches considered in this CP, the insurance approach is not appropriate for all social benefits and must be used in conjunction with another approach. Some schemes would be accounted for using the insurance approach. Other schemes would be accounted for using a different approach. The IPSASB considers in PV 2 that as schemes have different characteristics and operate in different ways, using different approaches for different schemes is likely to be appropriate.

Specific Matter for Comment 9

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?

Please explain the reasons for your views.

Accounting for Social Security under the Insurance Approach

- 6.25 This section of the CP describes how the insurance approach would be applied to the recognition and measurement of social security. It then discusses individual issues that will arise under such an approach and seeks respondents' views as to how these should be addressed.
- 6.26 Two different scenarios may arise. In the first scenario, the social security scheme is designed to be fully financed through contributions. In this scenario, the scheme is designed to operate without any subsidy from general taxation.
- 6.27 In the second scenario, the social security scheme is designed to operate with a subsidy from general taxation. The scheme is designed to be partially financed through contributions and partly through the tax subsidy.
- 6.28 These two scenarios give rise to different accounting issues, and are discussed separately in the following paragraphs. For some social security schemes, it may be difficult to establish whether the scheme is designed to operate with a tax subsidy or without a tax subsidy unless this is specified in legislation.

Initial recognition – general requirements

- 6.29 This CP proposes that, in line with the IASB's proposals for insurance contracts, social security schemes would be recognized at the earlier of the beginning of the coverage period or the date on which the first contribution from or on behalf of the participant becomes due.
- 6.30 Coverage is not the same as eligibility. An individual may be covered by an unemployment insurance scheme to which they contribute, but will not be eligible to receive benefits until they become unemployed (and satisfy any further eligibility criteria).
- 6.31 Where the number of participants in a social security scheme is sufficiently small, recognition could be on an individual basis. Where the number of participants is large, recognition may need to be based on aggregated groups of individuals, for example those joining a social security scheme in a particular period. This CP proposes that under the insurance approach, a future IPSAS should not specify the level at which such amounts are aggregated (this is sometimes referred to as the "unit of account"). Where an aggregated approach is taken, estimation techniques will be necessary. Actuarial reports are typically required to provide the information to enable this process.

Initial recognition – unsubsidized schemes

- 6.32 For social security schemes designed to operate without a tax subsidy, at initial recognition the statement of financial position would show the expected surplus (if any) from the scheme, and a current estimate of the amount of future net cash flows from the scheme, discounted to reflect the timing of those net cash flows.
- 6.33 This CP proposes that in those circumstances where the contributions are designed to exceed the expected benefits paid, the expected surplus should be recognized in surplus or deficit over the coverage period of the scheme.
- 6.34 A current estimate of the future cash flows, discounted to reflect the timing of those cash flows, may indicate that there is an expected deficit for a social security scheme. This CP proposes that, where the scheme is designed to be fully funded from contributions (i.e., designed to operate without a tax subsidy), the expected deficit should be recognized as an expense on initial recognition. This would provide useful information about the performance of the scheme and the level of additional contributions (or reductions to the benefits offered) required to balance the scheme. It would also be consistent with the approach being considered by the IASB. This CP does not consider it appropriate to recognize the expected deficit as it emerges over the coverage period where the scheme is designed to be fully funded from contributions.
- 6.35 In some cases, a scheme may operate without the need of a subsidy from taxation over the life of the scheme, but with periods where there are net negative cash flows. During these periods, the social security fund or other public sector entity providing the scheme may borrow from a government, and make repayments during periods where there are net positive cash flows on the scheme. Any such borrowing will be reflected in the present value calculations.

Specific Matter for Comment 10

Under the insurance approach, do you agree that where a social security scheme is designed to be fully funded from contributions:

- (a) Any expected surplus should be recognized over the coverage period of the scheme; and
- (b) Any expected deficit should be recognized as an expense on initial recognition?

Please explain the reasons for your views.

Initial recognition – subsidized schemes

6.36 Where the scheme is not designed to be fully funded from contributions (i.e., where the scheme is designed to operate with a tax subsidy), the CP is seeking the views of respondents as to how the expected deficit under the insurance approach should be treated. Over the life of a scheme, the deficit recognized as an expense will be the same. However, the points at which an expense is recognized will be different. The IPSASB has identified the following approaches:

- The entity should recognize a liability and an expense on initial recognition. This is the same treatment that this CP proposes for a deficit where a scheme is intended to be fully financed from contributions. This would ensure the consistent accounting treatment for all deficits, whether they resulted from the design of the scheme or not, and would provide useful information on the liability of the entity to subsidize the scheme. This treatment reflects an assets and liabilities-led approach to accounting for social benefits.
- The entity should recognize the expected deficit as the scheme deficit³³ on initial recognition, and subsequently recognize the deficit as an expense over the coverage period (i.e., the accounting treatment for a deficit would mirror the treatment for a surplus). This would recognize the obligation that the entity has to subsidize the scheme, whilst recognizing the deficit as an expense in the periods in which the subsidy is provided. This treatment reflects a revenue and expenses-led approach to accounting for social benefits.
- The entity should adjust the obligation determined from the future cash flows to reflect the planned subsidy. This treatment considers the planned subsidy to be a form of contribution and adjusts the cash flows accordingly. There are two variations to this approach.
 - Adjust the obligation for the planned subsidy only where this is to be received as a transfer from another public sector entity. This mirrors the approach taken for expected reimbursements for provisions under IPSAS 19. The subsidy can be seen as a form of indirect contribution. However, if both entities are consolidated into the same financial statements (for example, at whole of government level) the transfer would be eliminated. At this consolidated level, the accounting treatment would be the same as for the variation below.
 - Adjust the obligation for the planned subsidy irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation. This would treat future tax revenues as an asset offsetting the obligation, albeit future inflows earmarked to support a social security scheme. This would be a departure

³³ This is equivalent to the IASB's contract margin.

from current practice, and some question whether this would be consistent with the Conceptual Framework.

6.37 The effect of these different treatments is considered in the following example:

Example: Unemployment Insurance Benefit

The following example considers the accounting for a new unemployment insurance benefit being introduced by a government. The legislation permits the government to revise the contribution rates every five years. The surplus or deficit on the scheme is therefore considered by forecasting cash flows over five years. The following simplifications have been made in preparing the example:

- The time value of money and any risk adjustment (see discussion below) are considered to be immaterial; and
- All benefit claims are paid when they are incurred and all contributions are received when they fall due.

The government estimates that contributions of CU1,000 per annum will be received. Benefit claims payable are estimated to be as follows

Year 1	Year 2	Year 3	Year 4	Year 5
CU1,000	CU1,050	CU1,100	CU1,100	CU1,000

Over the five year period, there will be a planned deficit of CU250.

Assuming no variation from the estimated amounts, the three options for accounting for a planned deficit would result in the following accounting treatments:

1 – Expense on initial recognition. Under this option, the government would recognize a liability and an expense of CU250 when it initially recognized the scheme. Subsequent to initial recognition, the government would recognize scheme expenses equal to the scheme revenue recognized in the year.

2 – Recognize the deficit over the coverage period. Under this option, the government would not recognize an expense when it initially recognized the scheme. Instead, a scheme deficit of CU250 would be recognized. The deficit would be recognized as an expense on a systematic basis over the coverage period, and the scheme deficit reduced by a corresponding amount. Assuming a straight line basis reflects the delivery of services, scheme expenses would exceed scheme revenue by CU50 each year, and the scheme liability would reduce by CU50 each year, reaching zero at the end of Year 5.

3 – Treat the subsidy as part of the cash flows. Under this option, the subsidy is treated as an expense when it is required. No liability is recognized in the statement of financial position. However, a right to future taxation revenue (or, if the subsidy is to be received from another entity, a receivable) of CU250 is recognized in the statement of financial position. The government will recognize the deficit on the scheme (i.e., the subsidy) of CU50 in year 2 and CU100 in each of years 3 and 4 as an expense. This is matched by a corresponding reduction in the right to future taxation revenue (or the receivable if the subsidy is to be received from another entity) in those years.

Variations to the expected cash flows would be reflected in the statement of financial performance.

Specific Matter for Comment 11

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security scheme that is not designed to be fully funded from contributions:

- (a) Recognize the deficit as an expense on initial recognition;
- (b) Recognize the deficit as an expense over the coverage period of the scheme;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and the liability irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation; or
- (e) Another approach?

Please explain the reasons for your views.

Risk adjustment

- 6.38 The IASB's proposals for insurance accounting require a risk adjustment to be made to the estimate of the future cash flows. The risk adjustment reflects the compensation that the entity would require for bearing the uncertainty about the amount and timing of the cash flows that arise as the entity fulfils the contract.
- 6.39 If a risk adjustment is applied when estimating the future cash flows, the resulting measurement basis will be the assumption price, i.e., "the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability."³⁴ If a risk adjustment is not applied when estimating the future cash flows, the measurement basis will be the cost of fulfillment.
- 6.40 The main advantage of using the assumption price measurement basis is that there may be significant risks associated with the estimated cash flows. It may be appropriate, therefore, to make a prudential adjustment to increase the likelihood that the reported liability will be adequate. Such an adjustment may be a factor in assessing the contribution rate funding the liability and hence more useful for decision-making purposes.
- 6.41 The main advantage of using the cost of fulfillment measurement basis is that this represents the best estimate of the cost that is expected to be incurred. A differentiation can be made between the public and private sector in this instance as going concern or solvency concerns differ between the sectors³⁵.
- 6.42 For some social security schemes, uncertainty regarding future cash flows will be relatively small. An example would be where past experience shows that the level of both contributions received and benefits provided is relatively stable. In these circumstances, information about the best estimate of the entity's liability related to the scheme may be most useful to users of the financial statements.
- 6.43 For other social security schemes, there may be significant uncertainty regarding future cash flows. In these circumstances, some consider that the use of the assumption price measurement basis may be more appropriate. They argue that information regarding the risk adjustment applied by the entity may enable users of the financial statements to better evaluate the risks borne by the entity in

³⁴ Conceptual Framework, paragraph 7.87

³⁵ Going concern in the public sector is discussed in the Preface to the Conceptual Framework.

operating the scheme. Others consider that the use of the assumption price measurement basis is not appropriate for the public sector where there is no third party that might assume the liability. They argue that applying a risk adjustment results in an estimate other than the best estimate of the claims on the entity's resources in regard to the scheme; such an estimate may not be neutral and may therefore not satisfy the qualitative characteristic of faithful representation.

Specific Matter for Comment 12

In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities?

Please explain the reasons for your views.

Coverage Period

- 6.44 The IASB's proposals for insurance accounting require an entity to recognize the future cash flows relating to the coverage period of an insurance contract. The coverage period ends at the point where the entity can assess the risks associated with a policy holder or group of policy holders, and can set a price that reflects those risks. The policy holder will have the ability to seek an alternative insurer at this point, and so coverage beyond this point amounts to a new agreement.
- 6.45 For many social benefits, participation is mandatory under legislation. Contributions may not reflect individual risks, and may be influenced by factors other than the risks covered, for example government policy. This applies especially to those social security schemes that are not designed to be fully funded from contributions. In these circumstances, the coverage period may be difficult to determine. The entity will need to identify the point at which the coverage period should be considered to have ended. Actuarial assumptions may be helpful in determining this point.
- 6.46 A social security scheme providing retirement benefits may have a very long coverage period. Benefits will be paid until the death of a participant. A typical pattern of cash flows for such schemes may be almost 50 years of contributions followed by an average of 20 years of benefit payments.
- 6.47 Where a retirement benefits scheme also provides survivor benefits and/or dependent benefits³⁶, benefits may be paid after the death of the participant. Survivor and dependent benefits may also be payable where a participant dies before reaching retirement age. The scheme may therefore pay benefits for a much longer period of time. Such issues are also faced by providers of annuities in the private sector.
- 6.48 For other social security schemes, the coverage period may be less straightforward to identify. Taking the example of an unemployment benefit scheme, contributions may be mandatory during periods of employment, with benefits paid during periods of unemployment. In some cases, the period over which the benefits are paid, and the amount of those benefits, are dependent (at least in part) on the amount of contributions during a qualifying period.

³⁶ Survivor benefits are benefits payable to the surviving spouse or partner of a beneficiary upon the death of that beneficiary. An example of a survivor benefit would be a reduced pension, which may be payable for a specified period or until the death of the surviving spouse or partner. Dependent benefits are similar benefits payable to the dependents (usually dependent children) of a deceased beneficiary. Benefits are often payable until a child reaches a specified age.

- 6.49 For example, an employment insurance scheme pays benefits where the level of benefits and the period for which those benefits are paid is based (at least in part) on the contributions in the previous 52 weeks.
- 6.50 Under the insurance approach, the estimate of future contributions would be based on the qualifying period (if any) of the social security scheme. The estimate of future benefit payments should be based on the qualifying period plus the period (if any) after the qualifying period during which benefits resulting from that qualifying period can be payable. Where the qualifying period is not specified, estimates should be made based on experience combined with assessments of the impact of recent policy changes.
- 6.51 In the example of the employment insurance scheme, the qualifying period is 52 weeks. The estimate of future contributions would consist of the contributions to be received during that year. Those contributions provide eligibility for benefits that may be paid for up to 45 weeks after a participant becomes unemployed. If a participant became unemployed at the end of the qualifying period, the coverage period would be 52 weeks (qualifying period) + 45 weeks (claim period), giving a total of 97 weeks. For participants who became unemployed part way through the qualifying period, the coverage period would be less. In estimating the future payments, estimates of when a participant may become unemployed, and when he or she would return to the workforce, would need to be taken into account.
- 6.52 In the example of a retirement benefit, the qualifying period will normally run until the participant retires. The claim period will be from the date at which the participant retires to the day he or she dies. The estimate of future contributions would take into account contributions that would be received from the date a participant enters the workforce to the date he or she retires. The estimate of future payments would take into account payments from the date a participant retires to the date he or she dies. The estimates would also take into account the possibility of the participant dying before retirement, and the possibility of survivor or dependent benefits being paid.

Relationship between contributions and benefits

- 6.53 So far, this chapter has considered those social security schemes where the contributions payable relate directly to the benefits. In some cases, the relationship is more complex, and determining whether a scheme is a social security scheme requires the exercise of judgment. Some examples are given below:
- A scheme may be funded through a levy;
 - Contributions may be payable by those who create the risk, rather than potential beneficiaries; and
 - A scheme may provide benefits to non-participants as well as participants.
- 6.54 The insurance approach may provide useful information to users by assessing future cash flows to determine whether a scheme will produce a surplus or a deficit.
- 6.55 Where a scheme is intended to operate without being subsidized by taxation, the insurance approach can provide information as to operation of the scheme and whether changes to contribution rates or benefits are likely to be required to enable the scheme to continue to operate without a subsidy.
- 6.56 Where a scheme is intended to operate with a subsidy through taxation, the insurance approach can provide information as to the operation of the scheme and the level of subsidy required.

- 6.57 The information provided by the insurance approach will only be relevant and faithfully representative where there is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme. Where there is no clear link, the information provided by the insurance approach may be misleading rather than useful.
- 6.58 In the example of an accident insurance benefit funded through a levy on fuel sales, the information provided by the insurance approach will be useful if the levy relates only to the accident insurance. In such circumstances, the insurance approach will provide useful information regarding the adequacy of the levy to meet the financial objectives of the scheme (whether that is to be self-funding or to operate with a specific level of subsidy). In this case, the levy can be seen as analogous to contributions.
- 6.59 If the levy relates partly to the accident insurance and partly to other schemes or to general taxation, the insurance approach will only provide useful information where there is a reliable basis (such as a specific percentage) for allocating levy revenues to the accident insurance scheme and other schemes or general taxation. Without a reliable basis of allocating the levy revenues, it will not be possible to assess the adequacy of the levy, and the insurance approach will not provide useful information. This mirrors the position where contributions finance a number of schemes and it may be difficult to determine a basis of allocation.
- 6.60 In the example of an accident insurance benefit funded by contributions made by those who create the risks (for example, employers) the insurance approach will usually provide useful information. In such circumstances, the financing of the scheme and the payment of benefits is linked by the risk covered by the scheme, rather than through individuals or households. The operation of the scheme is likely to be similar to that of an insurance contract that indemnifies the policy holder against claims by third parties. This type of social benefit may be provided to enable injured parties to be compensated on a “no-fault” basis.
- 6.61 Where a scheme provides benefits to non-participants, the insurance approach will provide useful information only where the substance of the scheme is that of a social insurance scheme. As the proportion of benefits provided to non-participants increases, the less likely it is that the substance of the scheme is that of a social insurance scheme, and the more likely it is that the substance of the scheme is a social assistance scheme financed by a specific tax. An entity will need to assess the substance of the scheme to determine whether the insurance approach will provide useful information.
- 6.62 The IPSASB has currently taken the view that, in those cases where the link between contributions and benefits is not straightforward, the insurance approach will only provide useful information where:
- The substance of the scheme is that of a social insurance scheme; and
 - There is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.
- 6.63 Respondents’ views are sought as to whether they consider these criteria to be appropriate for determining when the insurance approach would be appropriate.

Specific Matter for Comment 13

Do you agree that, in those cases where the link between contributions and benefits is not straightforward, the criteria for determining whether the insurance approach is appropriate are:

- The substance of the scheme is that of a social insurance scheme; and
- There is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.

If you disagree, please specify the criteria that you consider should be used.

Please explain the reasons for your views.

Discount rate

- 6.64 The IASB's proposals for insurance contracts specify that that discount rate should adjust the future cash flows to reflect the time value of money. Such rates should be consistent with observable market prices for instruments with cash flows that are consistent with the timing, currency and liquidity of the insurance contract.
- 6.65 IPSAS 25, in setting the requirements for defined benefit post-employment plans, also states the principle that the discount rate should reflect the time value of money. It clarifies that the discount rate does not reflect the actuarial or investment risk, nor the entity-specific credit risk born by participants in the scheme. IPSAS 25 also includes guidance on estimating the discount rate where there is no deep market in government bonds or high quality corporate bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. This approach does not include a liquidity adjustment.
- 6.66 The IPSASB considered whether the discount rate approach in the IASB's proposals for insurance contracts or the discount rate approach in IPSAS 25 would be more appropriate when accounting for social benefits using the insurance approach.
- 6.67 The IPSASB noted that statistical reporting uses consistent discount rates for accounting for employee benefits and social benefits. Consistency with statistical reporting would suggest adopting the approach to discount rates specified in IPSAS 25.
- 6.68 The IPSASB considered the nature of a liquidity adjustment. Where financial markets are illiquid, a seller of a financial instrument may have to accept a lower price for the instrument. This may lead them to demand a higher market yield. Longer duration insurance contracts may be seen as illiquid.
- 6.69 The IPSASB noted that the notion of a policy holder demanding a higher market yield is irrelevant where the terms of a social benefit are prescribed by government. The IPSASB also noted that a higher market yield is unlikely to be required where a social benefit scheme is partially subsidized through taxation. For these reasons, the IPSASB is currently of the view that the discount rate used in measuring a social insurance obligation should not include a liquidity adjustment. The IPSASB is currently of the view that the discount rate approach in IPSAS 25 is appropriate for a social benefits IPSAS.
- 6.70 In some jurisdictions, the yield on government bonds is negative, at least for short term instruments. This could lead to negative discount rates being applied to social benefits of shorter durations. Some question whether negative discount rates reflect the time value of money.
- 6.71 The IPSASB noted that negative discount rates may reflect the time value of money in some circumstances. In periods of deflation, falling prices and salaries may result in reduced taxation

income for a government. Negative discount rates would reflect the government's reducing ability to finance payments. The IPSASB also noted that the provisions in IPSAS 25 include guidance on determining the discount rate in circumstances in which market yields at the reporting date on government bonds do not reflect the time value of money. The IPSASB is therefore currently of the view that the possibility of negative discount rates does not require an alternative approach to discount rates to that adopted in IPSAS 25

- 6.72 This CP proposes to adopt the approach that a social insurance obligation should reflect the time value of money, excluding actuarial, investment, entity-specific credit or liquidity risk, as specified in IPSAS 25, in any future IPSAS that incorporates the insurance approach.

Specific Matter for Comment 14

Do you support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25?

Please explain the reasons for your views.

Subsequent measurement

- 6.73 This CP proposes requirements for subsequent measurement that are based on the IASB's proposals for insurance contracts, with adjustments for relevant decisions on initial measurement. The CP's proposals, which will depend on decisions made regarding initial recognition, are summarized below:

- At the end of the reporting period, the carrying amount of a social insurance scheme would reflect the future cash flows, measured at that date, and the remaining expected surplus (or, if the deficit relating to a scheme not designed to be fully funded by contributions is recognized over the period of the scheme, the remaining expected deficit).
- The remaining expected surplus (or expected deficit) would be adjusted for changes to future cash flows arising from future coverage.
- The expected surplus (or expected deficit) would be recognized as revenue (or expense) in the statement of financial performance using a systematic basis that reflects the transfer of benefits provided under the scheme. Benefits payable during the period would be recognized as an expense.
- The statement of financial performance would also reflect any changes to the discount rate, and the unwinding of the discounted cash flows.

- 6.74 Governments and other public sector entities may from time to time modify the terms of a social insurance scheme. This CP proposes requirements for significant modifications to the terms of a scheme that are based on the IASB's proposals for insurance contracts.

- 6.75 In some cases, new terms may be put in place for new entrants to a scheme, while existing participants retain their existing terms. In such cases, an entity shall account for these arrangements as two separate schemes.

- 6.76 Where the terms of a scheme are modified significantly for all participants, this CP proposes the following treatments:

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

- A significant modification that gives rise to an obligation to provide additional benefits shall be accounted for as a new scheme. The surplus or deficit on this new scheme shall be assessed by reference to any increase in contributions imposed as a result of the modification.
- A significant modification that gives rise to a reduction in benefits shall be accounted for by derecognizing that part of the scheme that is related to the reduction in benefits.
- A significant modification that does not give rise to a change in benefits provided is accounted for as a change in the estimated cash flows.

Specific Matter for Comment 15

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?

Please explain the reasons for your views.

Appendix A: Examples of Social Benefits

- A.1 This CP has discussed the principles of how to account for social benefits. In practice, there are a wide variety of benefits and schemes, which the principles will need to be able to accommodate. This Appendix gives individual examples of the schemes and considers, in general terms, the accounting implications that might arise for each group of benefits discussed. This Appendix does not address all possible benefits. Instead, it discusses a small number of examples, showing how the principles can be applied to each.
- A.2 This CP is seeking comments on three approaches to accounting for social benefits rather than proposing a specific approach. The IPSASB will decide which approach or approaches should be included in an ED after reviewing the comments received.
- A.3 Of the approaches being considered, the obligating event approach and the social contract approach take a “one size fits all” view of social benefits. These approaches (including all of the sub-options under the obligating event approach) can be applied to all social benefit schemes. The insurance approach considers that different approaches may be required to reflect the economic substance of different social benefits. The insurance approach can be applied only to those social benefit schemes that are financed, at least in part, by contributions. Non-contributory social benefit schemes would be accounted for using one of the other approaches.
- A.4 In discussing the examples below, this CP does not come to a view as to which approach would be used for each example; the IPSASB will decide when developing an ED which approach or approaches to permit. This CP comments on whether the insurance approach could be applied to each group of examples, based on the nature of their financing. It also comments on any accounting implications that might arise in respect if each group of examples, but otherwise assumes that any of the identified approaches could be applied to any of the examples.

Retirement Benefits

- A.5 This Appendix describes examples of how retirement benefits are provided, and discusses the accounting implications for retirement benefits in general. Occupational pension schemes also exist. These are not part of the state systems, and are outside the scope of this CP.

Denmark

- A.6 State retirement benefits in Denmark are provided through two schemes. The first scheme is a universal scheme, the second a social insurance scheme.
- A.7 The universal scheme provides an annual basic amount to citizens and to non-citizens who meet the minimum residency requirements (or who are covered by reciprocal agreements). The amount assumes 40 years residence, with the amount being reduced for shorter periods. The minimum residency requirements are three years for Danish nationals and 10 years (to include the last five years before retirement age) for foreign nationals. Individuals become eligible to receive a pension at age 65 (increasing to 67 between 2024 and 2027). A means-tested supplementary pension benefit is paid to the financially most disadvantaged pensioners.
- A.8 The universal scheme is managed by the Ministry of Social Affairs and the Interior, with all the costs of the scheme being met through general taxation.
- A.9 The social insurance scheme (the Danish Labor Market Supplementary Pension) is known as the ATP. Contributions are fixed, and vary only with the number of hours worked rather than with income.

- A.10 The ATP provides a guaranteed deferred annuity. The pensions paid are based on an individual's contribution record. A full, continuous contribution record (from age 16) is required for a full pension, with a reduced pension being payable for shorter contribution periods. Individuals become eligible to receive a pension at age 65 (increasing to 67 between 2024 and 2027).
- A.11 The ATP is administered by the Labor Market Supplementary Pension Institution, an independent institution headed by a bipartite board of directors representing employers (including the public sector) and employees. The ATP is funded through contributions from employers and employees. In recent years, the ATP has set aside substantial additional funds to cover the current increase in life expectancy.

France

- A.12 The provision of retirement benefits in France is complex. The overarching principles of "redistribution" and of solidarity drive the provision of social benefits in France. "Redistribution" means that at any time inflows of contributions finance outflows of pensions: pensions are not paid on the basis of secured pension funds resulting from earlier savings and contributions, but, if they exist, previous surpluses may be used to compensate deficits. The solidarity principle means, for example, that compensation mechanisms are in place to take account of demographic disparities. Schemes with small numbers of current contributors that otherwise would not be able to finance all their payments receive a transfer from schemes with large numbers of current contributors. The Government may also provide cash to allow the schemes to meet their payment commitments for the period.
- A.13 The French pension system covers private sector employees through different schemes. This Appendix describes the general scheme (régime général) that covers most private sector employees. However, the approach applies (with variations in some cases such as agriculture) to other schemes in the private sector. Pensions of civil servants are regulated by other mechanisms and paid by the Government.
- A.14 There are two tiers to the private sector pension system. The first tier is the basic pension scheme, the second tier is the additional or supplementary pension scheme. Participation in both schemes is mandatory.
- A.15 The basic pension scheme provides pensions where the amount receivable is based on the number of periods of contribution (rather than the amount of contributions made). A full (flat rate) pension is payable when contributions have been made for the minimum number of years. Retirement ages and contribution periods are currently being increased.
- A.16 The additional or supplementary pension scheme provides pensions where the amount payable is based on pension points. Annual contributions are related to a participant's earnings; the higher the earnings, the higher the contributions and the greater the number of pension points allocated. When the participant retires, the pension payable is based on the number of pension points the participant has accumulated over their working life.
- A.17 The different schemes are managed by separate entities established by law. The basic pension schemes are managed by public entities that are under a strict supervision from the relevant Ministry of the French Government. Supplementary schemes are managed by private entities, through governance bodies ruled by employers and workers representatives according to professional agreements.

- A.18 The basic pension schemes are financed on a “pay as you go” basis, with the contributions received in a year being used to make pension payments in the year. The application of the “redistribution” and “solidarity” principles means that some schemes may receive transfers (from other schemes or from the Government) to supplement the contributions. Outflows (pensions) being more important than inflows (contributions, transfers and public subsidies), deficits have generated public debt.
- A.19 Entities that operate supplementary schemes are not allowed to use debt. They were able, in past decades, to generate surpluses and reserves that are now used to fill the gap between expenses and contributions.

Japan

- A.20 In Japan, the public pension system has two tiers: a basic, flat-rate scheme and an earnings-related scheme (employees’ pension scheme). The public pension system is being reformed following the introduction of new legislation in 2012. This Appendix describes the new system but does not address all the transitional provisions that are currently in place. Instead, it describes how the system will operate once the transition period is complete.
- A.21 The public pension system is operated as an insurance system. There are three categories of insured person within the system. Category 1 comprises self-employed individuals. Individuals within this category pay a fixed insurance premium each month. Category 2 comprises individuals employed in public and private sectors. Individuals within this category pay a premium that is proportional to their salary. Employers match this contribution. Category 3 comprises dependent spouses of individuals in Category 2. Those individuals in Category 3 do not pay any insurance premiums.
- A.22 The basic pension is paid from age 65. A full pension is paid with 40 years contributions, with payments being adjusted proportionately for shorter periods. The minimum requirement for receiving the basic pension is that the payment period for the insurance premium and any exemption period for the insurance premium together must cover more than 10 years.
- A.23 The earnings-related employees’ pension is also paid from age 65. The eligibility criteria require a minimum of one contribution to have been paid. The amount of the pension is dependent on an individual’s contribution record (both the number and the amount of contributions paid).
- A.24 The pensions payable are index-linked. During the transition period, this level of index-linking is being deflated to ensure the scheme is able to meet its future obligations. Deflation of the index-linking will cease when an actuarial review indicates that the financial equilibrium of the pension system is sustainable. Actuarial reviews are undertaken every five years.
- A.25 The scheme primarily operates on a “pay as you go” basis, although a reserve is also being maintained.
- A.26 In its financial statements, the Japanese Government currently presents the difference between the assets of the pension system (net of an allowance for doubtful amounts) and the accounts payable (recorded on a “due and payable” basis) as the “deposit reserved for public pension”.

Switzerland

- A.27 State retirement benefits in Switzerland are provided through a social insurance scheme (Old-Age and Survivors’ Insurance, OASI). OASI is a legally independent entity. It grants pensions of two basic types: old age pensions to people of retirement age, and in addition survivors’ pensions to spouses or dependent children of a deceased insured person.

- A.28 Both schemes - old-age and survivors' insurance - are administered by compensation funds, which collect contributions and pay benefits. There are about 100 such funds, which operate under the auspices of various professional associations, of the cantons, and of the federal administration.
- A.29 Employers are legally bound to deduct the employees' contributions from all salaries or salary-like benefits and to pay these, along with their own contributions, to the compensation fund to which they are affiliated. The contributions are a fixed percentage of the insured person's income, equally divided between employees and employers.
- A.30 The pensions paid are based on an individual's contribution record. A full, continuous contribution record is required for a full pension, with a reduced pension being payable for shorter contribution periods. Errors in the contribution record can be corrected within 5 years, however errors further back and years with less than minimal contribution cannot be rectified.
- A.31 Men are entitled to old-age pensions from the age of 65. Since 1 January 2005 the age limit for entitlement for women is 64.
- A.32 The Swiss Central Compensation Office in Geneva, technically a part of the federal administration, acts as an intermediary between the various funds, booking the contributions paid by all compensation funds and providing them with the means to pay the pensions. Compensation funds transfer any surpluses to the Central Compensation Office.
- A.33 The Swiss government and in particular the Federal Social Insurance Office supervise the old-age, survivors' and invalidity insurance system.
- A.34 Since the Swiss old-age and survivors' insurance is funded on a "pay-as-you-go" basis by the contributions of the working population, the balance between the two is increasingly out of kilter. To face up to such difficulties, the Swiss Confederation also contributes 19.55 % of outgoings. It acquires this sum through direct federal and value-added taxes (VAT) as well as the taxes on tobacco products, alcohol and gambling casinos. This amount is specified in legislation, as are the contributions from employees/employers, as well as the benefits. In addition, a fixed proportion of VAT is directly allocated to the scheme.
- A.35 Therefore, in case of a deficit of the scheme, there is no automatic adjustment of any funding source and parliament needs to determine which sources are adjusted or whether they change benefits. No guarantee is provided, and there is no default option.

Accounting implications – retirement benefits

Accounting implications – obligating event approach

- A.36 Under the obligating event approach, the key issue will be determining the obligating event that leads to the recognition of a liability. For the key participatory events sub-option, there are a number of possible obligating events, including birth and entering the workforce. For the other sub-options, the obligating event will be the recipient reaching retirement age.
- A.37 Under the key participatory events sub-option and the threshold eligibility criteria sub-option, when a liability is recognized, it is for all future retirement benefits. Actuarial reports may be required to estimate the liability; for the key participatory sub-option, the estimate would need to take account of the probability that a potential recipient would not reach retirement age. Where a scheme allows a government to amend the benefits payable to ensure the scheme remains able to meet its future obligations, or where the government's obligation to the scheme cannot exceed a specified limit, this

will need to be taken into account in the estimates of future benefits. If legislation requires a government to make specific contributions, its liability will be limited to making those contributions.

- A.38 Under the eligibility criteria to receive the next benefit sub-option, the approved claim sub-option and the enforceable claim sub-option, the liability would extend no further than the next point in time at which eligibility criteria are required to be met.

Accounting implications – social contract approach

- A.39 Under the social contract approach, a liability would only be recognized where there is an enforceable claim that has yet to be paid (or, under the alternative approach, there is an approved claim that has yet to be paid).

Accounting implications – insurance approach

- A.40 Retirement benefits could be accounted for under the insurance approach where the schemes are contributory. Universal, tax-funded schemes could not be accounted for using the insurance approach.

- A.41 Under the insurance approach, estimates of future cash flows in respect of both benefits payable and contributions receivable will be required. These estimates will need to reflect those situations where a government's contributions are set out in legislation, those situations where a government's overall liability is capped, and those situations where the scheme allows the government to reduce benefits to ensure the scheme is able to meet its future commitments.

- A.42 In some countries, retirement schemes are partly funded by taxation. Where a fixed percentage of a particular tax revenue is transferred to a retirement scheme, estimates of the future tax receipts will be required.

Accounting implications – general

- A.43 Retirement benefits may be payable by an entity such as a social security fund. Governments will need to consider whether they control that entity, jointly control that entity or have significant influence over that entity. If a government concludes that it has an interest in the entity, it would account for that interest in accordance with IPSAS 35 *Consolidated Financial Statements* (where the entity is a controlled entity) or IPSAS 36 *Investments in Associates and Joint Ventures* (where the entity is an associate or joint venture).

- A.44 Governments may give guarantees to entities providing retirement benefits, or the schemes may operate under the principles of solidarity and redistribution. Governments will need to assess whether these arrangements give rise to a liability that needs to be recognized in the statement of financial position.

Unemployment Benefits

- A.45 This Appendix describes examples of how unemployment benefits are provided and discusses how the approach outlined in the CP could be applied to each example.

Canada

- A.46 In Canada, unemployment benefits are payable through the federal Employment Insurance scheme. The scheme provides a number of benefits. This Appendix considers regular benefits. Although the arrangements for other benefits are different, the accounting issues will be the same.

- A.47 Employment Insurance regular benefits are paid to individuals who become unemployed through no fault of their own, and who have worked at least the minimum number of hours required in the previous 52 weeks. The minimum number of hours required varies depending on the level of unemployment in the region, with a higher number of hours required for eligibility in regions with lower unemployment.
- A.48 The basic rate for calculating benefits is 55% of the average weekly insurable earnings. Insurable earnings includes all earnings from employment up to a maximum level. The average is calculated using the “best weeks” (i.e., those weeks with the highest earnings) in the qualifying period. The number of weeks used to calculate the average varies from 14 to 22 weeks, depending on the regional unemployment level. Fewer weeks are taken into account in regions of higher unemployment. Weeks where the individual earned no income will be included in the average if the individual worked for fewer weeks than the number of weeks over which the average is calculated. The benefit rate can be higher for low income families.
- A.49 There is a two week “waiting period” before benefits are paid. After the waiting period, the maximum number of weeks during which the regular benefit will be paid depends on two factors. The first factor is the number of hours worked during the qualifying period. The higher the number of hours, the longer the benefit period. The second factor is regional unemployment. The higher the regional unemployment, the longer the benefit period.
- A.50 Employment Insurance is provided by the federal Government, and is financed through mandatory contributions from employers and employees. Contributions are proportionate to earnings up to the maximum insurable amount. Although Employment Insurance appears to operate as a social insurance scheme, income from Employment Insurance is treated as general taxation by the Government. In most years, income from contributions matches or exceeds the benefits paid.

Switzerland

- A.51 Unemployment insurance provides benefits in the case of loss of employment, shortened working hours, lack of employment due to weather conditions and insolvency on the part of the employer. This insurance also pays for re-integration measures.
- A.52 All persons in employment are obliged to contribute to the unemployment insurance scheme with the exception of some family members of persons working in the agricultural sector and persons who have reached retirement age.
- A.53 The unemployment insurance is financed through mandatory contributions from employers and employees. Contributions are proportionate to earnings, with a reduced percentage applied to earnings above CHF 10,500 per month.
- A.54 Unemployment insurance regular benefits are paid to individuals who become unemployed and who have paid contributions for at least 12 month in the previous 2 years and earned a minimum average amount of salary (currently CHF 500 per month). There is a 120 days “waiting period” before benefits are paid in the case of an individual being exempt from contributions (e.g. studying at university, other educational measures).
- A.55 The maximum number of days during which the regular benefit will be paid depends on the number of days worked during the qualifying period, the age of the insured person and any obligation to maintain a third person. The benefits will be paid for a maximum of 2 years of unemployment.

- A.56 The basic rate for calculating benefits is 70% or 80% of the weekly average insurable previous earnings. The 80% benefit applies to those with dependents (e.g. children in education), the 70% to all others.
- A.57 The unemployment insurance is administered by local employment offices (Arbeitslosenkassen), which collect contributions and pay benefits. Some offices are operated by state or local government, others by trade unions. Both are compensated out of the premium for the services provided (Service Level Agreement). A compensation body acts as an intermediary between the various offices, booking the contributions paid by all local employment offices and providing them with the means to pay the benefits.
- A.58 There are no contributions financed through tax revenues. However, federal and state governments have provided loans to the compensation bodies during periods of high unemployment. These loans have to be paid back, if necessary through a temporary increase in the contributions for the employers and employees. Over time, the scheme is therefore fully financed by contributions.
- A.59 The State Secretariat for Economic Affairs, an agency of the Swiss Confederation is responsible for the employment insurance.

United Kingdom

- A.60 In the United Kingdom, unemployment benefits are provided through the Jobseeker's Allowance scheme. There are two types of Jobseeker's Allowance (JSA), income-based JSA and contribution-based JSA. JSA is payable to those individuals who are unemployed or work a limited number of hours per week and who are available for and actively seeking work.
- A.61 Income-based JSA is payable to those individuals who have not made sufficient Class 1 National Insurance contributions. Income-based JSA is means-tested, with income and savings taken into account. The maximum amounts payable vary depending on the individual's age and family circumstances. Reductions are made when an individual's income and / or savings exceed set levels.
- A.62 Contribution-based JSA is payable to those individuals who have made sufficient Class 1 National Insurance contributions. Class 1 National Insurance contributions are paid on all earnings from employment above a threshold. Contributions are proportionate to earnings, with a reduced amount payable above an upper limit. Contributions are made by employers and employees. Contribution-based JSA is payable for a maximum of 182 days. The amounts payable vary depending on the individual's age. No deduction is made for income or savings, unless the income is from part-time work or a pension.
- A.63 JSA is managed by the Department for Work and Pensions, and is funded through general taxation. This applies equally to contribution-based JSA and income-based JSA. National Insurance is collected by HM Revenue and Customs, a non-ministerial department. Whilst payment of National Insurance contributions is a requirement for eligibility to a number of benefits, receipts of National Insurance contributions are treated as general taxation by the Government.

Accounting implications – unemployment benefits

Accounting implications – obligating event approach

- A.64 Under the obligating event approach, the key issue will be determining the obligating event that leads to the recognition of a liability. For the key participatory events sub-option, there are a number of possible obligating events; entering the workforce may be the most directly related prior event, taking

into account any eligibility criteria that may need to be satisfied before a participant would have a valid expectation of receiving a benefit. For the other sub-options, the obligating event will occur after an individual becomes unemployed, either on meeting the threshold criteria to apply for the benefit, or at a later point when a claim is submitted, approved or enforceable, as applicable to the sub-option.

- A.65 Under the key participatory events sub-option and the threshold eligibility criteria sub-option, when a liability is recognized, it is for all future unemployment benefits. A key consideration in determining amount of the liability will be whether those future unemployment benefits relate to this instance of unemployment, or all future unemployment benefits even if there are intervening periods of employment.
- A.66 Under the eligibility criteria met to receive the next benefit sub-option, the approved claim sub-option and the enforceable claim sub-option, the liability would extend no further than the next point in time at which eligibility criteria are required to be met.

Accounting implications – social contract approach

- A.67 Under the social contract approach, a liability would only be recognized where there is an enforceable claim that has yet to be paid (or, under the alternative approach, there is an approved claim that has yet to be paid).

Accounting implications – insurance approach

- A.68 Unemployment benefits could be accounted for under the insurance approach where the schemes are contributory. Where contributions made relate to more than one benefits scheme, there will need to be a reliable method of allocating the contributions to each benefit scheme for the insurance approach to be applicable.
- A.69 Under the insurance approach, estimates of future cash flows in respect of both benefits payable and contributions receivable will be required. A key consideration will be to determine the coverage period (the period over which cash flows are assessed).

Accounting implications – general

- A.70 Unemployment benefits may be payable by an entity such as a social security fund. Governments will need to consider whether they control that entity, jointly control that entity or have significant influence over that entity. If a government concludes that it has an interest in the entity, it would account for that interest accordingly.

Injury Benefits

- A.71 This Appendix describes examples of how personal injury compensation benefits are provided and discusses how the approach outlined in the CP could be applied.

New Zealand

- A.72 In New Zealand, comprehensive, no-fault personal injury cover is provided as a social benefit. Benefits are provided by the Accident Compensation Corporation (ACC), a public sector entity established by legislation.
- A.73 The ACC works with businesses and the community to reduce accidents. When an accident does occur, the ACC helps to provide treatment, care and services for anyone who is injured. These are provided on a no-fault basis.

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

- A.74 Claims are managed through five separate accounts. The accounts are mainly funded through levies. The levy rates are regularly updated on the basis of actuarial advice to achieve this objective. The ACC operates a “fully funded” model whereby it seeks to collect enough money during each year to cover the full lifetime costs of every claim that occurs in that year.
- A.75 The operation of each account is described in the following paragraphs.
- A.76 The Work Account provides cover for all work-related injuries. The Work Account is funded by a levy. There are two portions to the levy. The current portion is based on payroll or liable earnings, and the levies are adjusted to reflect the level of risk and cost of injuries associated with the particular industry. The levies shown in the ACC’s annual report (see the table below) are the average levies charged in respect of the Account. This provides cover for injuries in the period. The residual portion of the Work Account levies covers claims for work injuries that happened before 1 July 1999, when the ACC operated a “pay as you go” model.
- A.77 The Earners’ Account covers claims for people in paid employment who are injured outside of work. The Account is funded by a levy on employment.
- A.78 The Non-Earners’ Account covers claims for injuries to people who are not in the paid workforce, such as students, beneficiaries, retired people and children. This account is funded through general taxation.
- A.79 The Motor Vehicle Account covers claims for all injuries involving motor vehicles on public roads. It is funded by a levy included in the price of fuel and the motor vehicle licensing fee. The actual levies charged in the Motor Vehicle Account are adjusted to reflect risk. The levies shown in the ACC’s annual report (see the table below) are the average levies charged in respect of the Account.
- A.80 The Treatment Injury Account covers claims for treatment injuries, i.e., injuries connected with the medical treatment received. This Account is funded by transfers from the Earners’ Account and the Non-Earners’ Account.
- A.81 The schemes operated by the ACC provide benefits to everyone who is injured in New Zealand, irrespective of whether they have contributed to an account. This includes those who are visiting New Zealand.

A.82 The ACC's annual report includes the following information:

The account and who funds it	What's covered	2011/12	2012/13	2013/14	2014/15
Work Account Employers: Based on wages paid to staff Self-employed: Based on income earned	WORK-RELATED INJURIES 	\$1.47 per \$100 liable earnings	\$1.15 per \$100 liable earnings	\$1.15 per \$100 liable earnings	\$0.95 per \$100 liable earnings
Earners' Account Employees: Based on income earned Self-employed: Based on income earned	NON-WORK INJURIES TO PEOPLE IN EMPLOYMENT 	\$1.78 per \$100 liable earnings	\$1.48 per \$100 liable earnings	\$1.48 per \$100 liable earnings	\$1.26 per \$100 liable earnings
Motor Vehicle Account Vehicle owners: Funded through petrol use and the motor vehicle licensing fees	INJURIES THAT INVOLVE MOVING MOTOR VEHICLES ON PUBLIC ROADS 	\$334.52 per motor vehicle	\$334.52 per motor vehicle	\$334.52 per motor vehicle	\$330.68 per motor vehicle
Non-Earners' Account The Government: Funded by general taxation	INJURIES THAT HAPPEN TO PEOPLE NOT IN THE PAID WORKFORCE 				
Treatment Injury Account All New Zealanders: Funded by the Earners' and Non-Earners' Accounts	INJURIES CAUSED BY MEDICAL TREATMENT 				

Switzerland

- A.83 Switzerland operates a compulsory accident insurance scheme. The compulsory accident insurance scheme is a personal insurance, which covers the economic consequences of work and non-work accidents and occupational diseases. Benefits available under this type of insurance represent compensation for injury to health and incapacity to work as a result of an accident or an occupational disease.
- A.84 Everyone who is employed in Switzerland is covered by accident insurance. Accident insurance does not cover unemployed persons. Self-employed persons and members of their family who work with them in the same business are also not covered by compulsory insurance. These persons must arrange cover against accidents as part of their compulsory sickness insurance.
- A.85 The employer pays premiums for insurance against work accidents and occupational diseases. The employee premiums provide for insurance against non-work accidents. The employer pays the total amount to the insurance company and deducts the employee's contribution from his or her salary. A premium is calculated in advance and paid by the employer. The premium payable is calculated according to the annual income for the past year.
- A.86 Premiums are expressed in amounts per CHF1,000 of income subject to compulsory insurance. They are composed of a net premium corresponding to the risk involved and various supplementary

amounts. The employer's business is categorized according to type and conditions and the premium is set according to a premium tariff based on these elements.

- A.87 The benefits consist of benefits in kind (reimbursements for medical costs) as well as cash payments based on the insured income.
- A.88 Both compulsory and voluntary insurance is provided by the Swiss National Accident Insurance Agency (SUVA³⁷) or by other approved private accident insurance companies, depending on the industry or category of cover. The SUVA is an independent, non-profit company established under public law. Both the SUVA and the private accident insurance companies are fully financed by the insurance premium and investment income. They receive no subsidies from any level of government. They do not borrow from government. Some insurance companies invest (voluntarily) in government bonds as part of their asset management activities.

Accounting implications – injury benefits

Accounting implications – obligating event approach

- A.89 Under the obligating event approach, the key issue will be determining the obligating event that leads to the recognition of a liability. For the key participatory events sub-option, there are a number of possible obligating events. For the other sub-options, the obligating event will occur either when the injury is sustained, or at a later point when a claim is submitted, approved or enforceable, as applicable to the sub-option.
- A.90 Under the key participatory events sub-option and the threshold eligibility criteria sub-option, when a liability is recognized, it is for all future injury benefits. A key consideration in determining the amount of the liability will be whether those future injury benefits relate to this injury, or also allow for the possibility of future injuries.
- A.91 Under the eligibility criteria met to receive the next benefit sub-option, the approved claim sub-option and the enforceable claim sub-option, the liability would relate only to the current injury.

Accounting implications – social contract approach

- A.92 Under the social contract approach, a liability would only be recognized where there is an enforceable claim that has yet to be paid (or, under the alternative approach, there is an approved claim that has yet to be paid).

Accounting implications – insurance approach

- A.93 Injury benefits could be accounted for under the insurance approach where the schemes are contributory (including where they are funded by a levy).
- A.94 Under the insurance approach, estimates of future cash flows in respect of both benefits payable and contributions receivable will be required. A key consideration will be to determine the coverage period of the injury benefit scheme (the period over which cash flows are assessed).

³⁷ Referred to on the Swiss Federal Social Insurance Office web site as CNA (French abbreviation)

Accounting implications – general

A.95 Injury benefits may be payable by an entity such as a social security fund. Governments will need to consider whether they control that entity, jointly control that entity or have significant influence over that entity. If a government concludes that it has an interest in the entity, it would account for that interest accordingly.

Sources of Information

A.96 Information for the case studies in this Appendix was drawn from the sources listed below. In addition, IPSASB Members, Technical Advisors and Observers provided additional information.

Case Study	Source of Information
<i>Retirement Benefits</i>	
All	OECD (2013), Pensions at a Glance 2013: OECD and G20 Indicators, OECD Publishing. http://dx.doi.org/10.1787/pension_glance-2013-en
Denmark	ATP web site: http://www.atp.dk/en/about-atp United States Social Security Administration web site: http://www.ssa.gov/policy/docs/progdesc/ssptw/2014-2015/europe/denmark.html
France	Centre des Liaisons Européennes et Internationales de Sécurité Sociale (CLEISS) web site: http://www.cleiss.fr/docs/regimes/regime_france/an_3.html Embassy of France in Washington web site: http://www.ambafrance-us.org/spip.php?article643
Japan	Japanese Ministry of Health, Labour and Welfare web site: http://www.mhlw.go.jp/english/policy/pension/pension/index.html
<i>Unemployment Benefits</i>	
Canada	Service Canada web site: http://www.servicecanada.gc.ca/eng/sc/ei/index.shtml
United Kingdom	United Kingdom Government web site: https://www.gov.uk/jobseekers-allowance
<i>Injury Benefits</i>	
New Zealand	Accident Compensation Corporation (ACC) web site: http://www.acc.co.nz/about-acc/overview-of-acc/introduction-to-acc/index.htm

Case Study

Switzerland

Source of Information

Federal Social Insurance Office web site:

<http://www.bsv.admin.ch/themen/ueberblick/00003/index.html?lang=en>

Appendix B: Evaluation of Options against the Objectives of Financial Reporting and the QCs

B.1 This Appendix evaluates each of the recognition and measurement options identified in this CP against the objectives of financial reporting and the QCs. In preparing an Exposure Draft on social benefits, the IPSASB will use the information provided by respondents to update this evaluation. Presentation and disclosure will be addressed at the ED stage. While this Appendix provides some examples of disclosures that, in combination with recognition, could achieve the objectives of financial reporting and the QCs, it is not meant to imply that other disclosures might not also be relevant and necessary in achieving the objectives and QCs.

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<p>2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).</p> <p>...</p> <p>2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:</p>	<p>The obligating event approach provides information on the performance of each scheme by reporting the expenses and the liabilities arising from both legally binding and non-legally binding obligations recognized in the reporting period. This provides information about the cost of services.</p> <p>Information about expenses recognized in the period and any liabilities that exist at the reporting date will relate to the entity’s financial capacity.</p>	<p>The social contract approach provides information on the performance of each scheme by reporting the expenses and the liabilities arising from enforceable claims (or, under the alternative approach, approved claims) recognized in the reporting period. This provides information about the cost of services.</p> <p>Information about expenses recognized in the period and any liabilities that exist at the reporting date will relate to the entity’s financial capacity.</p>	<p>The insurance approach provides information regarding the performance of each scheme by determining expected levels of benefits to be paid and contributions to be received, and reporting variations from those levels. In considering future cash flows, the insurance approach considers both legally binding and non-legally binding obligations. This provides information about the cost of services.</p> <p>Information about any surplus generated by the scheme or any subsidy required to finance the scheme relates to the entity’s financial capacity.</p>

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<ul style="list-style-type: none"> • The performance of the entity during the reporting period in, for example: <ul style="list-style-type: none"> ○ Meeting its service delivery and other operating and financial objectives; ○ Managing the resources it is responsible for; and ○ Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources; • The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity; 	<p>The obligating event approach provides information on the performance of each scheme by reporting the expenses and the liabilities arising from both legally binding and non-legally binding obligations recognized in the reporting period. This provides information about the cost of services.</p> <p>In combination with other information, either in the notes or in another GPFR, this will contribute to assessments of whether an entity is meeting its objectives, managing its resources and complying with relevant regulations.</p> <p>Some obligating event approach sub-options will provide information regarding current and long-term liabilities that may contribute to assessments of liquidity and solvency.</p>	<p>The social contract approach provides information on the performance of each scheme by reporting the expenses and the liabilities arising from enforceable claims (or, under the alternative approach, approved claims) recognized in the reporting period. This provides information about the cost of services.</p> <p>In combination with other information, either in the notes or in another GPFR, this will contribute to assessments of whether an entity is meeting its objectives, managing its resources and complying with relevant regulations.</p> <p>The social contract approach provides information regarding current enforceable claims (or, under the alternative approach, approved claims) that may contribute to assessments of liquidity.</p>	<p>The insurance approach provides information regarding the performance of each scheme by determining expected levels of benefits to be paid and contributions to be received, and reporting variations from those levels. This provides information about the cost of services.</p> <p>In combination with other information, either in the notes or in another GPFR, this will contribute to assessments of whether an entity is meeting its objectives, managing its resources and complying with relevant regulations.</p> <p>The insurance approach will provide information regarding cash flows (both inflows and outflows) over the coverage period of a social benefit scheme that will be relevant to assessments of liquidity and, to varying degrees, solvency. The extent to which the insurance approach provides information that is relevant to an assessment</p>

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<ul style="list-style-type: none"> The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period ...; 	<p>The obligating event approach does not provide information about the sustainability of the entity's service delivery over the long term.</p> <p>Under some sub-options, the statement of financial position will include liabilities that are to be settled in future periods. However, this information relates only to current liabilities and does not provide information on how these will be financed.</p> <p>Sustainability information could be made available in the notes or in a separate GPFR, for example a report on long-term sustainability of an entity's finances prepared in accordance with RPG 1.</p>	<p>The social contract approach does not provide information about the sustainability of the entity's service delivery over the long term.</p> <p>Such information could be made available in the notes or in a separate GPFR, for example a report on long-term sustainability of an entity's finances prepared in accordance with RPG 1.</p>	<p>of solvency will depend on the nature of the schemes, for example the coverage period included in the assessment and the extent to which the scheme is funded from general revenue sources such as taxation.</p> <p>The insurance approach provides information on expected future cash flows (both inflows and outflows) and hence provides a degree of information regarding the sustainability of the entity's service delivery over the long term. This information relates to current participants in a scheme, and so does not include participants who will join a scheme in future periods. The coverage period for some schemes may be short, limiting the sustainability information provided.</p> <p>Further information could be made available in the notes or in a separate GPFR, for example a report on long-term sustainability of an entity's finances prepared in accordance with RPG 1.</p>

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<ul style="list-style-type: none"> The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides. 	<p>The obligating event approach provides limited information about the capacity of the entity to adapt to changing circumstances.</p> <p>Information regarding costs (and under some sub-options, liabilities) is provided.</p> <p>Notes may include trend information.</p> <p>The obligating event approach does not provide information as to how future costs and liabilities (which may be a constraint on the entity's ability to adapt to changing circumstances) are to be financed.</p>	<p>The social contract approach provides limited information about the capacity of the entity to adapt to changing circumstances.</p> <p>Information regarding costs is provided.</p> <p>Notes may include trend information.</p> <p>The social contract approach does not provide information as to how future costs (which may be a constraint on the entity's ability to adapt to changing circumstances) are to be financed.</p>	<p>The insurance approach provides some information about the capacity of the entity to adapt to changing circumstances.</p> <p>Information about any surplus generated by a scheme or any subsidy required to finance a scheme is relevant to an assessment of the capacity of the entity to adapt to change.</p> <p>Notes may provide further information about a scheme such as the coverage period and whether the entity has the opportunity to amend contribution rates to reflect revised assessments of risks.</p>
<p>3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take</p>	<p>The obligating event approach provides relevant information. Information will have confirmatory value on the cost of services in the period.</p> <p>Information in respect of some of the sub-options will relate to future periods. To differing degrees, this information has predictive value.</p> <p>For the sub-options which recognize a liability before all eligibility criteria have been</p>	<p>The social contract approach provides relevant information. Information will have confirmatory value on the cost of services in the period.</p>	<p>The insurance approach provides relevant information. Information will have confirmatory value on the cost of services in the period.</p> <p>If information regarding estimated future cash flows is provided, the information will also have predictive value.</p> <p>For subsidized schemes, some question whether the recognition of the deficit, without recognizing the future tax revenues that will</p>

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<p>advantage of it or are already aware of it.</p>	<p>satisfied, some question whether the recognition of liabilities and expenses, without the recognition of the future tax revenues that will finance those transactions, provides relevant information. Others consider that recognition of liabilities and expenses provides relevant information about intergenerational equity.</p>		<p>finance that deficit, provides relevant information. Others consider that relevant information about intergenerational equity is provided.</p>
<p>3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.</p>	<p>The obligating event approach faithfully represents those liabilities recognized by the approach.</p> <p>Some sub-options (for example, the “approved claim” sub-option) consider a requirement to satisfy ongoing eligibility criteria (including revalidation) as a recognition criterion rather than a factor affecting measurement. There are differing views as to whether these sub-options provide a complete depiction of the claims on the resources of the entity and therefore meet the QC of faithful representation.</p> <p>For the sub-options which recognize a liability before all</p>	<p>The social contract approach faithfully represents those liabilities recognized by the approach.</p> <p>There are differing views as to whether the social contract approach provides a complete depiction of the claims on the resources of the entity and therefore meets the QC of faithful representation.</p>	<p>Under the insurance approach, information is based on all expected future cash flows during the coverage period. With appropriate controls to ensure the information is neutral and free from material error, the information will meet the QC of faithful representation.</p> <p>For subsidized schemes, some question whether the recognition of the deficit, without recognizing the future tax revenues that will finance that deficit, faithfully represents the financial position of the entity.</p>

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
	<p>eligibility criteria have been satisfied, some question whether the recognition of liabilities and expenses, without the recognition of the future tax revenues that will finance those transactions, faithfully represents the financial position of the entity.</p>		
<p>3.17 & 3.18 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented.</p> <p>...</p> <p>However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.</p>	<p>Some sub-options of the obligating event approach (for example, the “approved claim” sub-option) provide information that is straightforward to understand. Information provided by such approaches will meet the QC of understandability.</p> <p>Other sub-approaches that consider a requirement to satisfy ongoing eligibility criteria (including revalidation) to be a factor that affects measurement but not recognition may rely on more complex calculations. Such information may be difficult for non-experts to understand. Sufficient explanation of the information will be required for the QC of understandability to be met.</p>	<p>Under the social contract approach, information is provided in respect of enforceable claims (or, under the alternative approach, approved claims). Such information meets the QC of understandability. Information provided under this approach may be more understandable than under the other approaches.</p>	<p>The calculations that underpin the information provided by the insurance approach are complex. Such information may be difficult for non-experts to understand. Sufficient explanation of the information will be required for the QC of understandability to be met.</p>

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<p>3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.</p>	<p>Some sub-options of the obligating event approach (for example, the “approved claim” sub-option) provide information that is simple to calculate and can be provided in a timely manner. For other sub-options that rely on more complex calculations, the timeliness of the information provided will depend on the quality of the entity’s financial and management information systems.</p>	<p>Because only enforceable claims (or, under the alternative approach, approved claims) are recognized, the social contract approach provides information that is simple to calculate and can be provided in a timely manner.</p>	<p>The insurance approach relies on complex calculations. The timeliness of the information provided under this approach will depend on the quality of the entity’s financial and management information systems.</p>
<p>3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.</p>	<p>Generally, the obligating event approach will provide information that enables users to identify similarities in, and differences between, the liabilities arising from different social benefit schemes.</p>	<p>The social contract approach will provide information that enables users to identify similarities in, and differences between, the enforceable claims (or, under the alternative approach, approved claims) arising from different social benefit schemes.</p>	<p>The insurance approach will provide information that enables users to identify similarities in, and differences between, different social security schemes. Considerable information on the assumptions and accounting conventions used is necessary to achieve the QC of comparability.</p>

RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS

Extract from Conceptual Framework	Option 1: Obligating Event Approach	Option 2: Social Contract Approach	Option 3: Insurance Approach (contributory schemes only)
<p>3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent....</p>	<p>Some sub-options of the obligating event approach (for example, the “approved claim” sub-option) provide information that is simple to calculate and which will meet the QC of verifiability.</p> <p>For other sub-approaches that rely on more complex calculations, information may only be verifiable indirectly, by checking the inputs and recalculating the outputs using the same accounting convention or methodology (for example, the actuarial models used).</p>	<p>The social contract approach provides information that is simple to calculate and which will therefore meet the QC of verifiability.</p>	<p>The insurance approach provides information that may only be verifiable indirectly, by checking the inputs and recalculating the outputs using the same accounting convention or methodology (for example, the actuarial models used).</p>

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