



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

31 March 2018

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

Dear John,

EXPOSURE DRAFT 63 SOCIAL BENEFITS

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft 63 *Social Benefits* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2722 9277 or by email at rasmimi@mia.org.my.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR NURMAZILAH DATO' MAHZAN
Chief Executive Officer

Specific Matter for Comment**Specific Matter for Comment 1**

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

We agree with the scope of the Exposure Draft (ED).

Specific Matter for Comment 2

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

We agree with the proposed definitions of social risks and universally accessible services. In relation to the definition of social benefits, paragraph 6 of the ED defines social benefits as being provided to address the needs of society as a whole. Paragraph AG6 of the ED states that "social benefits are organized to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance contracts, which are organised for the benefit of individual, or groups of individuals".

In Malaysia, a social security entity was formed by legislation. It is entrusted with the administration of social security schemes with the objective to guarantee cash payment and benefits in kinds to employees and their dependents in the event of a contingency.

The schemes are only available for the following:

- employees who are employed under a contract of service or apprenticeship in the private sector; and
- contractual or temporary staff of Federal or State Government as well as Federal or State Statutory Bodies.

In light of paragraphs 6 and AG6 of the ED as stated above, we wish to clarify whether such schemes are provided to address the needs of society as a whole (and accordingly, satisfy the definition of social benefits) if the schemes are only available to the employees who have contributed to the schemes.

We note that in Example 1 of the ED, it was concluded that the retirement benefits mentioned in that example do not address the needs of society as a whole, as they are only available to former employees of Province A. If we apply this to the schemes above, it seems that such schemes would not be considered social benefits as they are only available to a limited group of employees.

Specific Matter for Comment 3

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are

appropriate;

- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

Our comments are as follows:

1. Given the nature of social benefit schemes in Malaysia which can be either not funded or funded by current beneficiaries and future contributors (i.e. inter-generational effect), we believe we are not able to apply the insurance approach. Due to this inter-generational element, applying the insurance approach may not be beneficial to users of financial statements.
2. We wish to clarify whether an entity would be able to account for a social benefit scheme using the obligating event approach without first assessing whether such a scheme satisfies the criteria in paragraph 9 of the ED.
3. If entities are allowed to do (2) above, we foresee that very few entities will adopt the approach as highlighted in BC40 of the ED. Given the expected adoption rate, it is questionable whether this will achieve consistency in the accounting for such social benefits among entities and jurisdictions.

Specific Matter for Comment 4

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

Paragraph AG16 states that “the past event that gives rise to a liability for a social benefit is the satisfaction by the beneficiary of all eligibility criteria for the provision of the next social benefit. Being alive at the point at which the eligibility criteria are required to be satisfied is an eligibility criterion, whether explicitly stated or implicit. For a liability to be recognized, a beneficiary must satisfy the eligibility criteria for the provision of the next social benefit, even if formal validation of the eligibility criteria occurs less frequently”. In relation to this, we wish to highlight the following:

1. Eligibility criteria

Paragraph AG17 provided examples of eligibility criteria such as reaching retirement age, the death of a partner or becoming unemployed. However, in practice, the beneficiaries would normally be required to confirm that they have satisfied the eligibility

criteria, for instance, by making a declaration. This can be illustrated by looking at a permanent disability benefit provided in Malaysia.

Illustration - permanent disability

Employees who suffer from permanent disability due to employment injury can apply for such benefit where claims have to be made within twelve months from the last date of the temporary disablement (there is another social benefit for temporary disablement). The application will be referred to a medical board for permanent disability assessment. The payment will depend on the assessment which are as follows:

- If the assessment does not exceed 20%, a lump sum payment can be made.
- If the assessment exceeds 20%, the employee is given an option to convert one-fifth of the daily rate of the benefit into a lump sum payment while the balance will be paid for the remaining life of the employee.

We believe the resulting accounting treatment for the assessment that does not exceed 20% would be straightforward.

However, for assessment that exceeds 20% and where the balance will be paid monthly for the remaining life, the amount to be recognised will depend on what constitutes the eligibility criteria which can be illustrated as follows:

	Category A – only 1 criterion	Category B – must satisfy both criteria
Eligibility criteria	<ul style="list-style-type: none"> • Assessment exceeds 20% 	<ul style="list-style-type: none"> • Assessment exceeds 20% • Annual declaration is required before they receive the benefits
Amount to be recognised as a liability	Current year liability and future liabilities for the estimated life of the beneficiary.	As annual declaration is a criterion that must be satisfied, then only current year liability should be provided for.

Accordingly, we wish to recommend that the IPSASB provide clear guidance on the application of eligibility criteria.

2. Being alive as a recognition criteria

There are 2 views in relation to the above which are as follows:

- View 1 – liability should be recognised only when the beneficiary has confirmed that he/she is alive to receive the benefits for the current year. Accordingly, only current year liability is recognised at the reporting date.
- View 2 – liability should be recognised taking into account the estimated number of years that the beneficiary will be alive. Accordingly, current year liability as well as future liabilities based on the estimated life of the beneficiary need to be recognised at the reporting date.

We wish to clarify which of the two views above is taken by the IPSASB in the ED.

Specific Matter for Comment 5

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
 - (i) It is appropriate to disclose the projected future cash flows; and
 - (ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

We are not able to comment the disclosure requirements following our comments on Specific Matter for Comment 4 above.

Specific Matter for Comment 6

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

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

Advantages

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.

This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful

information for users, in particular for evaluations of intergenerational equity.

Disadvantages

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

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

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

We support the IPSASB's undertaking of further work on reporting on long-term fiscal sustainability. We suggest that IPSASB consider the following:

- Given such further work may be based on the work that have been done on RPG 1, based on due process, whether there is a plan to perform post-implementation review on RPG 1 where a study can be undertaken on the application of RPG 1 by various jurisdictions as well as the usefulness of such information to users of general purpose financial reports; and
- The assessment of implications (i.e. cost-benefit analysis) of any future proposal in relation to reporting on long-term fiscal sustainability.