

Ian Carruthers  
Chairman  
International Public Sector Accounting Standards  
Board  
International Federation of Accountants

Submitted via website

12 April 2018

## Comments to IPSASB's Exposure Draft 63, Social Benefits

Dear Mr. Carruthers,

We are pleased to respond to the IPSASB's Exposure Draft 63, *Social Benefits*.

We have supported the development of accounting guidance for social benefits for many years. Against this background, we are pleased to note that with this ED the IPSASB intends to close the gap on accounting for social benefits within its suite of standards.

The main issue of our comment letter relates to the proposed recognition point under the obligating event approach. In our view, this recognition point does not seem to be appropriate for all social benefit schemes. As brought forward in the Alternative View, we support the view that the proposed recognition model does not reflect the economic substance of certain social benefits.

In our view, 'being alive' at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the liability recognition. Within EY, we still have difficulties understanding the reasons to treat 'being alive' differently to other transactions (e.g. post-employment benefits plans in the scope of IPSAS 39, *Employment Benefits*). In our view, and in line with other standards, 'being alive' should rather impact the measurement of the benefit through the actuarial calculation.

In EY's view, some consideration should be given to historical experience providing evidence of likelihood of future payment of obligations relating to existing claims to estimate the total obligation that arises.

In case that the IPSASB continues to favor that the eligibility criteria "staying alive" should be a recognition rather than a measurement criteria we would strongly be in favor of having a standard on reporting of the long-term sustainability of an entity's finance.

For our detailed responses, please see the Annex.

Please do not hesitate to contact Thomas Müller-Marqués Berger or Dr. Jens Heiling in case of any additional questions or remarks.

Sincerely,



Thomas Müller-Marqués Berger  
Partner



ppa. Dr. Jens Heiling  
Senior Manager

## *Annex - detailed responses*

### **SMC 1:**

*Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?  
If not, what changes to the scope would you make?*

In our view, the Application Guidance on the scope of ED 63 could be extended. We see for example some practical issues in applying the proposed scope of the standard. We found that the exclusion of universally accessible services from the scope of the proposed Standard could be difficult to apply. For example, the question could be asked why a vaccine provided to children under 6 years should be included but a vaccine available for all should be out of the scope of ED 63. A further question in this context is whether the vaccine being available to all children under 6 makes it universally accessible or if age could be considered an eligibility criterion. We also would like to encourage the IPSASB to ensure that the respective scope sections of IPSAS 19, a future standard on social benefits and a future standard on non-exchange expenses are all consistent and preparers find sufficient guidance in the standards to apply the requirements.

### **SMC 2:**

*Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?  
If not, what changes to the definitions would you make?*

We generally agree with the definitions of social benefits, social risks and universally accessible services. In our view, it could be questionable why a future standard should only cover social risks and not other risks such as risks from disasters, such as earthquakes or fire (not solely related to an individual). In our view, such risks could also be considered as a social risk affecting the welfare of citizens. As a consequence of the proposed requirements someone who requires a housing benefit due to poverty would be treated differently to someone who needs a house due to an earthquake. As it might not be the intention of the IPSASB to treat these two scenarios differently, we suggest to add Application Guidance to the Standard that explains the concept of universally accessible services and the definition of social risks in more detail. In our view, social risks can differ between different jurisdictions. Therefore, social risks would need to be considered in light of the general norms and living standards of the respective jurisdiction. In our view, such clarification is important if the standard should be applicable in more impoverished countries, for example, where the majority of citizens live in circumstances that might be considered abnormal social risks in other parts of the world.

**SMC 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?*

In our view, including an option in the proposed IPSAS will reduce comparability. The two models, obligating event approach and insurance model, would create significantly different outcomes given the fact that the insurance model will recognise the liability arising from an individual over the lifetime of the injury. Alternatively, the obligating event will only give rise to a liability up to the point of the individuals next validation point, i.e. fulfilling the eligibility criterion of staying alive. In our view, when an entity meets the requirements under the insurance model, the use of the insurance model will provide the most appropriate outcome. Therefore it should be a requirement not a choice.

IFRS 17 has not been incorporated in the suite of IPSAS and the IPSASB has not yet considered a project on this. However, assuming the social benefits are managed in a similar manner to an insurance contract then users are inclined to expect that the accounting outcome under IFRS 17 is appropriate. It could therefore be argued that IFRS 17 is an appropriate reference point. Given the proposed criteria that must be met in order to apply the insurance approach it would appear in our view reasonable that if social benefit arrangements are meeting these requirements that IFRS 17 is an appropriate standard and should be consistently applied by all. In our view, the cost for a mandatory requirement to apply the insurance approach is not too high for governments as information often seems to be available for financial reporting purposes.

In EY's view, the disclosures do not seem too onerous and are likely to already be applied by many entities. Where an entity has elected to use the insurance approach, it would be appropriate to provide information about the characteristics of the social benefit scheme, as well as a description of any significant scheme amendments during the reporting period.

**SMC 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?*

Using the trigger point proposed by the obligating event approach will significantly limit the liability recognised. Often the approval of the next benefit is a 'tick box exercise' and the obligation does effectively exist for periods past the re-validation point. In EY's view, the proposed recognition point (i.e. when an individual becomes eligible for social benefits) is not appropriate for all social benefit

schemes. As suggested in the Alternative View, the proposed recognition model does indeed not reflect the economic substance of certain social benefits (e.g. pay-as-you-go schemes).

'Being alive' at the point at which the eligibility criteria are satisfied ahead of each payment cycle is an implicit eligibility criterion impacting the liability recognition. Within EY, we still have difficulties understanding the reasons to treat 'being alive' differently to other transactions (e.g. post-employment benefits plans in the scope of IPSAS 39, Employment Benefits). In our view, and in line with other standards, 'being alive' should rather impact the measurement of the benefit through the actuarial calculation (i.e. use of mortality table rates). Limiting the social benefit liability in such a way basically has the effect of reducing this standard to gradually widening the cash basis and which is presumably already being accounted for by many entities within the scope of the standard. In EY's view, some consideration should be given to historical experience providing evidence of likelihood of future payment of obligations relating to existing claims to estimate the total obligation that arises.

**SMC 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?*

In EY's view, the disclosures seem reasonable as they require a clear description of the benefits, the scheme and the amounts recognised in the accounts. With regards to the requirement for 5 years future cash flows, it remains in our view unclear whether this relates to only recognised obligations or those that have not yet been recognized. We would also suggest to disclose all projected future cash outflows linked to a social benefit in the following time frames: due in less than 1 year, due between 1 and 5 years, due in more than 5 years. This would correspond to the maturity of items at the asset side of the balance sheet (cash and cash equivalents, receivables).

Finally, we agree not to limit the disclosure of the undiscounted projected cash outflows to current beneficiaries, i.e. also including future beneficiaries.

**SMC 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.*

*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?*

In case that the IPSASB continues to favor that the eligibility criteria "staying alive" should be a recognition rather than a measurement criteria we consider that treating "staying alive" as a recognition criteria significantly reduces the long-term view of the obligation (and hence the value in terms of a reliable projection) for financial reporting purposes. Consequently, additional information on the long-term sustainability would become more important and we would therefore be in favor of having a standard on reporting of the long-term sustainability of an entity's finance. In any case, we agree that the work on long term sustainability would be useful given the mismatch between recognising obligations and non-recognition of the right to tax.