ACT Government

Chief Minister and Treasury

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

Dear Mr Stanford

Consultation Paper - Recognition and Measurement of Social Benefits.

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board on Consultation Paper "*Recognition and Measurement of Social Benefits*".

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC acknowledges the efforts of the International Public Sector Accounting Standards Board (IPSASB) in seeking to enhance measurement and reporting of long term social benefit liabilities. However is of the view that the proposed options involving recognising social benefit liabilities are still not the optimal solution for addressing the objectives.

HoTARAC is unequivocally of the view that, long term fiscal sustainability reporting is a more appropriate mechanism for assessing the implications of long term obligations to provide social benefits, as it requires consideration of social benefits outside the scope of the Consultation Paper (CP), and future taxation revenues, even if these items are not regarded as assets or liabilities.

The attachment to this letter sets out general comments and specific responses to the questions in the CP. If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance on +61 2 6215 3551 or by email peter.gibson@finance.gov.au.

Yours sincerely

fo David Nicol
Chair
Heads of Treasuries Accounting and Reporting Advisory Committee
February 2016

General Comments

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) acknowledges the efforts of the International Public Sector Accounting Standards Board (IPSASB) in seeking to enhance measurement and reporting of long term social benefit liabilities but is of the view that:

- The proposed options involving recognising social benefit liabilities are not the optimal solution for addressing the objectives.
- Importantly, not all social benefits long term liabilities can be measured reliably. While age pensions could be forecasted, other social benefits such as unemployment benefits may be more complex and difficult to reliably determine over the long term. Forecasting a future outflow is different from reliably measuring a liability.
- HoTARAC is unequivocally of the view that, long term fiscal sustainability reporting is a more appropriate mechanism for assessing the implications of long term obligations to provide social benefits as it requires consideration of social benefits outside the scope of the Consultation Paper (CP), and future taxation revenues, even if these items are not regarded as assets or liabilities.

- **Objectives CP "Recognition and Measurement of Social Benefits"**

The CP "Recognition and Measurement of Social Benefits" provides 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."**

Objective (a)
HoTARAC's view is that objective (a), while promoting an understanding of the drivers underlying social benefits, is not traditional financial statement information. HoTARAC is particularly concerned that in some countries, the extent and complexity of social benefits would mean that such disclosures will result in information which is too voluminous and or/too complex for the vast majority of users to be able to use effectively.

HoTARAC is also concerned that the proposed expansive collection information on social benefits could impose significant costs on governments particularly in an environment where public sector agencies are required to become more efficient and are operating in fiscally constrained environments.

Objective (b)
HoTARAC's view is that objective (b) is imprecise as to its intent, and that even if read narrowly to mean the impact on operating statement and balance sheet, is unachievable from the proposal.

Strategic Objectives Clarity
Firstly, the CP could benefit from providing clearer strategic objectives as well identification of the key problem that would be addressed as a result of this body of work and what may constitute a vision for success. In the current proposal, it is unclear as to which strategic

objective is being targeted. Is it that the reporting and inclusion of long term social benefit liabilities in financial statements would provide improved information about:

- fiscal sustainability issues of social benefit commitments of governments, or
- would enable better international comparison of social benefit commitments of governments, or
- is it intended to enable improved assessment of specific social benefits schemes in jurisdictions through efforts to standardise recording of liabilities?

As the means of addressing each of these implies different accounting and/or disclosure, the objectives need to be better defined.

There is no doubt information about long term social benefit obligations would help governments to better understand fiscal risks including their capacity to fund social benefits in the future as well changes they may need to consider to ensure the programs are sustainable. However, any long term social benefits liabilities that is disclosed would need to meet qualitative tests of reliability, comparability, verifiability and be provided on a timely basis to support accountability and decision making objectives of financial reporting.

Secondly, the objectives proposed in the CP will only partially provide users information about social benefits obligations due to adoption of a narrower scope in this project than previous works, the scope being limited to benefits paid only to individuals or households in cash and in-kind to mitigate effect of social risks. Furthermore, it should be recognised that there are different structures through-which social benefits are provided. The scope of this project includes social assistance and social insurance, but excludes employment-related social insurance, other transfers in kind and collective goods and services. Consequently, partial disclosure of social benefit obligations could present an unjustifiably positive fiscal outlook, resulting in users making incorrect social policy choices and resources allocation decisions.

- **Adoption of GFS classifiacation and definition social benefits**

IPSASB's adoption of the GFS classification and definitions for social benefits, which is essentially intervention or social protection provided to relieve households and individuals of the burden of a defined set of social risks, is a positive step in achieving alignment between reporting frameworks. However, in practice this results in a significant number of government expenditures such as in health and education not being included as they are deemed to not address social risks, i.e. they do not affect the household budget. The inclusion of part of social assistance obligations could present a more positive financial position of a government that is an unfaithful representation of information, and may mislead users into committing to new policy priorities or amending policies.

Additionally, the exclusion of future taxation revenues and only the inclusion of long term liabilities for some social benefits would present a misleading view of the financial health of a government. This is a direct contravention of objective (b) proposed in the CP. It could be argued that governments have inherent sovereign right to raise taxes and to not include the right to raise taxes as an asset would seem to be an inconsistency in the accounting policy being proposed. However, the inclusion of both social benefit liabilities and the taxation revenue may also render the financial information rather meaningless due to the resulting almost zero net result.

- **3 Options - Recognition Long Term Social Benefits**

The three options proposed for recognising long term social benefit liabilities include: Obligating Event; Social Contract; and Insurance respectively suit specific social benefit regimes.

Obligation Event Option:
Under the Obligating Event option, a number of sub options could be deemed as obligating events that could result in a present obligation for recognising social benefit liabilities. The earlier the obligating event, the greater the liability will be. In the Australian context only in very limited circumstances are income-support social benefits provided on a "set and forget" basis. Consequently, the most appropriate obligating event that results in social benefit liabilities for most social benefits in Australia would be the "Eligibility Criteria Met to Receive Next Benefit". Application of this sub option would result in recognition of future benefits based on citizens continuing to meet the eligibility criteria requirements for social benefit payments. However, application of the liability definition to other benefits, other contexts and other countries may result in a different outcome.

Social Contract Option
Under the social contract option, there is an imputed social contract between state and citizens under which citizens agree to pay taxes to enable the state to provide social benefits and it is analogous with executory contracts under which the net position is recognized (possibly nil). It would be complex and difficult to determine legally binding obligations for the broad demographics even with actuarial analysis. Therefore any liabilities could only be recognised when claims are enforceable and have to be paid or claims are approved and yet to be paid. In the Australian context while there is a broad societal principle of a "safety net" support for all citizens, it would be difficult to impute that this would constitute formal binding obligations for social benefits under the social contract option.

Insurance Approach Option
Under the Insurance Approach option, this may be suited to contributory and exchange-based social benefits schemes. Even so, HoTARAC is concerned that mandatory application of these principles will be costly - the application of insurance accounting will require complex accounting calculations including Net Present Value (NPV) of future cash flows for benefits payments as well as for contributions received, determination of discount rates for calculation of NPV and accounting treatment of potential deficits over coverage periods. Further complexities associated with subsidised and unsubsidised schemes are also to be considered. In the Australian context, a very limited number of social benefits are provided on a contributory basis. For these schemes, often the insurance approach or a quasi-insurance approach for accounting for liabilities is already applied.

Given that each option has a better fit to a particular type of social benefit scheme, it would be logical to suggest that the application of options would depend on the type of social benefit scheme in the jurisdiction. As already noted, different countries have different schemes so any efforts to standardise calculation and disclosure of social benefit liabilities will be complex and costly particularly as different countries have different systems for administering and reporting social benefits.

- **CP paragraph 2.19 - Revalidation**

HoTARAC would like to make a particular point in respect of revalidation. The CP in paragraph 2.19 suggests that the legal form varies between countries and retrospective changes to entitlements are permissible in some countries. However, to HoTARAC, the CP seems to imply that revalidation of eligibility would result in *prospective* recalculation of obligations for social benefits, and this is used to justify the existence of a liability until the next revalidation point.

In practice in Australia for most income-support social benefits, when an individual's circumstances change, social benefits have to be recalculated *retrospectively*. For example, a change in an individual's income (or a policy change) may result in the family benefits paid being recalculated for the full year, and they may be required to repay all or part of the benefit actually received. This in effect can mean that the individual's entitlement to benefits could be retrospectively removed and this would then put the individual in a position where they were never entitled to the benefits. This potential outcome is fundamental to understanding HoTARAC's view, that in such cases the maximum liability that could be recorded is the entitlement to the next payment through meeting all the substantive eligibility criteria.

- **Recognition of Liablity**

Related to the discussion on paragraph 2.19 above is that HoTARAC notes that it is important to record as liabilities only obligations that have a present (legal or constructive) obligation and that are expected to result in an outflow of resources. All these elements must be present to recognise a liability. Some of the methods discussed under the obligating event approach and the views expressed in support of them appear to lack all of these elements and in extreme cases, propose recognition of a liability purely on the basis that it is possible to actuarially calculate some future (but not present) obligation.

Recognition of a liability based on a constructive obligation is problematic. The practical application of the definition in both public and private sector has led to inconsistencies that do not provide a clear practical guide to when a constructive obligation exists. There is some discussion in the CP that a constructive obligation might exist for social benefits because there is some general expectation within the community that benefits will be paid. HoTARAC is of the view that this expectation is more akin to some overall political or societal expectation, that in many cases does not result in an unavoidable obligation necessary for recognition of a liability, in the way that the term constructive obligation is intended to operate in the for-profit sector. It is particularly difficult to impute a constructive obligation in circumstances where the government retains and exercises the right to alter social benefit schemes through legislation, since the government certainly does not view the obligation as unavoidable[1].

In conclusion, on the basis of the points made above and if the objective is the need for governments to be cognisant of long term fiscal sustainability, the inclusion of long term social benefit liabilities and commensurate right to taxation revenues should be retained within long term sustainability reporting. In the Australian context the Intergenerational Report (Long Term Fiscal Sustainability Report) produced periodically has provided government with useful insights into fiscal sustainability issues around social benefits with a number of policy changes ensuing to address the issues such as increased workforce participation for the working age population and increasing pension eligibility age for older citizens.

[1] In Australia there have been over 200 amending pieces of legislation passed by the Australian (national) parliament to Social Security legislation alone since 1945. This legislation deals with only a sub-set of the social benefits provided by the Australian Government.

Response to Specific Questions in the Consultation Paper on Recognition and Measurement of Social Benefits

Questions (a) and (b) - Information
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.

Question
Chapter 2 – Scope and Definitions Preliminary View 1 Specific Matter for Comment 1 (following paragraph 2.50)

(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?

HoTARAC considers the proposed scope is problematic. HoTARAC describes this issue as "problematic" as it does not believe recognition of liabilities in financial statements is appropriate for non-cash social benefits (refer our above general comments about long-term fiscal sustainability).

The adoption of a narrow definition of Social Benefits as "Benefits provided to individuals and households, in cash or kind, to mitigate the effect of social risks" results in exclusion of some key social assistance provided to citizens by governments such as health and education. The CP posits that a large number of government expenditures such as universal health care and education services do not address social risks, i.e. they do not affect the household budget. In practice expenses incurred for health care and education can significantly affect household budgets.

In Australia, health care is available to all citizens. Citizens are reimbursed through the health care system set amounts for particular medical conditions covered under scheme. Under the CP, these costs for health care would be excluded. However, sickness allowance payments made as social assistance would be included. Two scenarios are provided below to explain the complexities that may arise in implementation of this proposal.

Scenario 1- A person may be ill and unable to work for a period but the person is employed and so his/her house budget is essentially not affected. The individual would receive health care reimbursements (Medicare rebate) through the health care system but this form of social assistance in kind would be deemed out of scope under the scope and definitions proposed in the CP.

Scenario 2 - In another scenario, a person who is medically unwell and receives social assistance such as sickness allowance payment would be considered to be within scope because the sickness allowance is a form of social assistance provided to an individual to meet medical costs. However, medical bills incurred on the person's behalf by government as well as the Medicare rebate to the individual would be deemed out of scope under the proposals in the CP.

Two social benefits that are in substance the same, both providing social benefits for medical reasons to citizens, will be treated differently for recognition of liabilities. The health care rebate could collectively represent significant transfers from government as social assistance but the liabilities will be excluded under the current proposal, however, the sickness payment will have its liabilities recognised. The two scenarios could cause confusion for constituents and users of financial statements.

If the purpose of this paper is to provide information about government's future obligations for social assistance, then all forms of social assistance should be comprehensively considered. Partial information about some social benefit liabilities in financial statements could present an unjustifiably favourable financial position and mislead users into making incorrect policy and resource allocation decisions.

Question
Chapter 2 – Scope and Definitions Preliminary View 1 Specific Matter for Comment 1 (following paragraph 2.50)
(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.

HoTARAC considers the definitions in Preliminary View 1 do not provide appropriate basis for an IPSAS on recognising liabilities for social benefits.

The definitions included in this CP are largely aligned with definitions in the Government Financial Statistics (GFS), are logical and achieve greater consistency, and thus are a reasonable basis of analysis. GFS uses these definitions to classify schemes.

Question
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.

HoTARAC is of the view that the application of the approaches would depend on the type of social benefit scheme. There is no one single type of social benefit scheme that would imply that one of the approaches adopted is universally better than another. (The obligating event approach sub option "Eligibility Criteria Met to Receive Next Benefit" is most appropriate for most social benefit schemes provided in Australia).

HoTARAC broadly agrees with the high-level conceptual analysis of the three methods in the discussion paper. (HoTARAC disagrees with some of the detail, particularly on the obligating event approach). HoTARAC agrees that while the social contract approach is a suitable analogy in many cases, application of it is difficult to reconcile with accounting concepts.

In the general comments to its response, HoTARAC noted that recognition of liabilities under any approach does not achieve the two specific objectives set in the paper. The high-level objectives of financial reporting set in the conceptual framework (information for decision making and accountability) are too general to determine precise recognition and measurement rules.

The last question HoTARAC finds too imprecise. Any of the methods would be expected to provide some degree of "useful information about the different types of social benefit", as long as disclosure is sufficiently disaggregated. However, whether they do this in a way that enables "assessment of financial performance or financial position" is unlikely (and HoTARAC's view is that in most cases it does not).

HoTARAC is also concerned about whether the benefits provided from this project are outweighed by the costs.

Background information
Obligating Event
In the Australian context there very limited circumstances that allow for social benefits recipients to be assessed only once with benefit payments guaranteed for all future periods i.e. "set and forget". In other words, revalidation of eligibility is periodically done with onus placed on benefit recipients to advise social-benefit-

paying-departments of any changes to their circumstances. The age pension, which has historically been paid to those who reach pension age, is subject to periodic income and assets tests even after the initial assessment for payment eligibility.

Under these conditions liabilities should only be recognised up to the next assessment period i.e. eligibility criteria is met to receive next approved payment. Perhaps the only exemptions would be in limited cases of manifest disabilities where the condition is irreversible and where once eligible the social welfare payment may not be reassessed however, reassessments of the social welfare recipient's circumstances for any changes in care arrangements and care providers would continue to be done.

The obligating event "Eligibility Criteria Met to Receive Next Benefit" would achieve reliable measurement of liabilities for a reporting period. Given the requirement for reassessments of eligibility for payment or of the circumstances of social assistance recipients in the Australian social welfare payment system, it is logical that liabilities should only be recognised up to the next assessment period i.e. eligibility criteria is met to receive next approved payment.

Furthermore, governments can change policies at any time with the changes requiring reassessment of future liabilities at potentially high costs including for audit and assurance of the estimated future liabilities and the underlying assumptions.

This approach is analogous with booking mining royalty payments by a mining company for what is due and payable in relation to the reporting period. Arguably mining corporations are not required to show all possible future royalty obligations that may be payable in future years.

Social Contract

In Australian context, a social contract principle is not applied but instead a safety net support is provided for all citizens. The Australian government funds from taxation revenues a broad range of welfare payments for children, families, working age citizens, people with disabilities and the aged. These welfare payments are universally provided to all qualifying citizens including those who may not or are unable to contribute to government revenues through payment of taxes or levies such as Medicare levy. HoTARAC considers this option to be unsuitable for the Australian context.

Insurance Approach

The principles underpinning the insurance approach are (a) social security is contributory based and (b) the legal obligation arises when some participates in the scheme by making contributions and has a valid expectation of payments in the future if an event or a risk arises that causes their circumstance to change. Insurance accounting is justified for such arrangements as is done for example in New Zealand through the Accident Compensation Corporation where levies are paid by businesses, motor vehicle owners and employees for injury cover that is funded by the ACC Scheme.

The application of insurance accounting will require complex accounting calculations including Net Present Value of future (NPV) cash flows for benefits payments as well as for contributions received, determination of discount rates for calculation of NPV and accounting treatment of potential deficits over coverage periods. The CP outlines some of the complexities associated with subsidised and unsubsidised schemes.

The CP in paragraph 6.10 notes that it is not appropriate to apply insurance accounting to unfunded social assistance schemes where there are no contributions. In such schemes, the only cash flows would be for benefit payments as there would be no receipts. As such, some variant of the obligating event approach could be applied instead. HoTARAC is of the view that the insurance approach would be best suited to social benefits that are provided on unsubsidised and purely contributory-based arrangements.

In the Australian context, most social benefits are not contributory based but are fully funded by government through taxation revenue. Universal tax funded schemes that are non-contributory based and are on non-exchange arrangements cannot be accounted for using insurance approach.

Question
Chapter 3 – Identification of Approaches Specific Matter for Comment 2 (following paragraph 3.4)
(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/(s) and explain the strengths and weaknesses of each.

HoTARAC is not aware of any other approaches to accounting for social benefits. IPSASB has identified approaches to accounting for benefits that are out of scope of the CP (e.g. employee benefits, financial instruments).

Some countries are looking into investment approaches for managing social welfare obligations, such in New Zealand and to a limited extent in Australia as announced in May 2015 Budget. The investment approach seeks to target support services and appropriate interventions as a means to reduce the relative costs of social welfare programs. However, this approach is not consistent with accounting concepts for application in financial statements.

Question
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.

HoTARAC is not aware of any other social benefits not discussed in this CP noting that that some benefits not considered were identified as being out of scope for this project.

Question
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.

HoTARAC does not support the introduction of a combination of the obligating event option and insurance option if this means a hybrid form of accounting. Instead we suggest that IPSASB recommends one or the other option depending on the nature of social benefit scheme being provided in the country.
Other than this comment, HoTARAC agrees with the IPSASB analysis.

Question
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.

HoTARAC is of the view that an obligating event giving rise to a liability can arise at different points depending on the nature of the social benefit and the legal and societal frameworks under which the benefit arises. However, HoTARAC notes that the definition of a liability needs to be met, and that definition does not include all possible future obligations.

HoTARAC would prefer if IPSASB could provide illustrative examples in the new standard to demonstrate situations when an obligating event can occur at each of the proposed points. Judgement should be executed by the reporting entity to determine such point that gives rise to an obligating event with the help of such examples. HoTARAC has provided some examples in the Australian Context where the obligating event arises at point (c).

Background information
In Australia, despite the existence of a broad safety net policy, social welfare benefits are only provided when individuals meet specific eligibility criteria. The obligating event most appropriate to the Australian context is "Eligibility Criteria Met to Receive Next Benefit". This sub option provides greater certainty about recipients and the amounts that are due to be paid.

In the Australian context, the unemployment benefit, Newstart Allowance, is paid to those who are unemployed and are searching for work. This benefit is paid from general taxation revenues and is not an unemployment insurance type of scheme. Income support payments are periodically reassessed and eligibility for income support payment is revalidated and approved based on the individual's financial circumstances and participation in mandatory job search activities. Under these circumstances it would be inappropriate to recognise liabilities:

- For the current period of unemployment, beyond the period of current entitlement (normally the next payment period); or
- For any subsequent future period of unemployment.

The Age Pension in Australia has income and assets tests applied. The asset test limits are updated in January, March, July and September each year and could result in changing the pension amount that a person could be entitled to. Essentially these ongoing tests imply that even the Age Pension is not a "set and forget" payment and revalidation of eligibility is inherently structured in the administration of the pension payment.

In Australia, in very limited circumstances where someone is a blind pensioner or if there are manifest disabilities the eligibility conditions may not be required to be revalidated. However, the individual's respective care provider arrangements would be periodically reviewed and potentially result in changes to social assistance payments. With financial information requiring audit assurance, the "Eligibility Criteria Met to Receive Next Benefit " would be traceable and verifiable.

Question
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.

HoTARAC considers 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. HoTARAC agrees that in most circumstances the obligating event will occur earlier where the scheme is contributory, but only because in such circumstances it would be usual for a legal or constructive obligation to arise as a result of the contribution. Therefore, it could be argued that for contributory benefits the obligating event arises earlier, that being, participation in the scheme.

Background information
For contributory benefits, based on participation information and the benefit policy, it would be easier to determine who benefit recipients are, when payments may be due for particular social risks during the coverage period and potential payment amounts as is done for insurance schemes. The contributions itself give rise to an obligating event because there is genuine eligibility that results from participation and an expectation of payments when events that result in social risks occur. As such under contributory benefits, the obligating event arises earlier, that being, participation in the scheme.

In non-contributory schemes, it is far more complex to determine who the recipients would be particularly for social benefits such as unemployment benefits where individuals may have periods of full employment followed by periods of unemployment. Policies can be amended by governments at any time including decisions to cease certain payments even though in practice this may not often happen due to political pressures. Any long-term liability calculations for non-contributory benefits would have to be supported by numerous assumptions and raise concerns about quality and reliability of the estimated liabilities. The costs associated with validating assumptions alone may outweigh any perceived benefits. As well as this, the long-term liability information is unlikely to provide users information about efficiency or effectiveness of the social assistance systems.

Question
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.

A social benefit provided through an exchange transaction should be accounted for as an exchange transaction. Some schemes that are of an insurance nature might be considered exchange schemes, where the individual makes a contribution and in exchange receives a right of similar value to make a claim on the scheme. Accident insurance might be an example of this.

HoTARAC notes that IPSAS does not presently have a standard dealing with insurance contracts, and this might suggest it is expeditious to include such requirements in a standard dealing with social benefits.

Question
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 fulfilment. The cost of fulfilment 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.

Any liabilities resulting from social benefits should be measured at the cost of fulfilment in all cases except:

- Those in exchange transactions; or
- Those where there is a definite plan in place to settle the liability by transferring it to another party.

HoTARAC agrees with the rationale of this view, as set out in the CP – that a "fair value" exit price for most social benefits would not be representative of the amount the government is obligated to.

Scheme assets should be included in the presentation of a social benefit scheme where they are explicitly available to the scheme administrator to apply to obligations under the scheme. This should apply in all circumstances, although further consideration might need to be given where the link between holding the assets and payment of benefits is more tenuous.

Question
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 fulfilment?
Please explain the reasons for your views.

HoTARAC does not support a social contract approach in the form outlined in the CP. However, from a general principles approach, it would seem that liability should only be recognised when a claim is approved. The approval of a claim legitimately gives rise to an obligation to make a payment to an individual or a household and it can be reliably measured.
Liability should be measured at cost of fulfilment.

Question
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.

HoTARAC broadly agrees with IPSASB's conclusions.
The insurance approach may be more appropriate for unsubsidised schemes and may not provide useful information in respect of:

- Schemes involving contributions in kind;
- Schemes where there is 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.

Given that the insurance approach is based on determination of net present value of cash flows, application of the insurance option to any schemes where there are contributions in kind could be costly and difficult to implement in practice for use in financial statements. If contributions were to be imputed, there may not be any cash contributions to recognise. Where contributions from taxation relate to a single scheme, application of the insurance approach will inform users as to whether:
(a) the scheme is subsidised by general taxation,
(b) the scheme is fully funded by contributions or,
(c) the scheme is generating a surplus that is being used to finance other government expenditure.

However if the taxation revenue funds several social assistance schemes, the insurance approach would be useful only if there is an appropriate basis for allocation of contributions to respective schemes.

Question
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.

HoTARAC is of the preliminary view that recognition of surplus over coverage period would correctly reflect surpluses over the period when it is likely to be realised. Recognising the surplus upfront can be misleading and incorrectly indicate to information users that funds are available for other activities. Expected deficits should generally be recognised as they arise, similar to onerous contracts.

However, HoTARAC believes that these concepts need to be considered more fully, as there may be legitimate exceptions to these principles in some circumstances.

Question
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.

Refer to the answer in the previous question - Specific Matter for Comment 10 (following paragraph 6.35)

Question
Specific Matter for Comment 12 (following paragraph 6.43)
In your view, under the insurance approach, should an entity use the cost of fulfilment measurement basis or the assumption price measurement basis for measuring liabilities?
Please explain the reasons for your views.

HoTARAC considers that the cost of fulfilment measurement basis is most appropriate for all approaches to social benefits, except as set out in the answer to Specific Matter for Comment 7.

Assumption price is the amount that an entity would rationally be willing to accept in exchange for assuming an existing liability. There are usually no third parties who would be interested in assuming the social benefit liabilities in public sector. Therefore, cost of fulfilment would be appropriate.

However in exchange based insurance schemes, assumption price could be used if there are ready and willing parties to purchase or assume the liabilities.

> **Question**
> **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.

HoTARAC agrees but notes that in some circumstances it might be difficult to determine whether the substance of a scheme is insurance or some other form of social risk management.

> **Question**
> **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.

HoTARAC agrees a discount rate to reflect time value of money is necessary. However, HOTARAC notes that government bonds can be negative at times and volatile over the long term. Therefore, it would prudent to take into account a range of factors in determining discount rates used to reflect time value of money.

> **Question**
> **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.

HOTARAC agrees in principle, as it is consistent with IASB's proposals for insurance contracts. However, in practice this could be complex to implement and administer for the public sector.