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The Technical Director

IPSASB

New York

26th January, 2016

Dear Sir.

Comments on Consultative Paper: Recognition and Measurement of Social Benefits

Thank you for giving us the opportunity to comment on your Consultative Paper: **Recognition and Measurement of Social Benefits**. We submit herewith our comments and proposals for your perusal.

Comment 1

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?

Response: The scope of this CP is appropriate to the extent that it covers all other benefits that are not covered by another IPSAS, and also all kinds of social benefit that may arise in different jurisdiction. For example, this CP does not cover concessionary student loans which is deemed as a benefit as it is covered under financial instruments.

(b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

Response: Yes. The definition in Preliminary View 1 provides an appropriate basis for IPSAS on social benefits as it highlights the key elements that constitute social benefits. However, in addition to the key word 'protect', the definition can incorporate 'improve' as benefits go to improve the standard of living of individuals and the populace as a whole. Thus, the definition of social benefits should include both 'protection' and 'improving' standard of living.

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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; 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.

Response: We support both the obligating event approach (Approach 1) and the Insurance approach (Approach 3) for the following reasons:

- a. Approach 1 gives specific timelines and suffices for general social benefits. Social benefits can be seen as obligations/liabilities. Thus once an obligating event arises, the entity is liable to pay social benefits. The Consultative Paper expounds on “present obligation” which is key in the definition of liabilities to include non-legally binding obligations. To avoid contention, events which may give rise under non-legally binding obligations have been characterized. With both, there should be little or no realistic alternative to avoid an outflow of resources. Recognizing an obligation in the financial statements is further characterized by five distinct points the IPSASB put forth, thus social benefit obligation is recognized if any of the five points are met.
- b. Approach 3 comes handy for other complex situations and takes into consideration future occurrences and liabilities. The insurance approach would be best suited for contributory schemes where the provision of social benefits are received conditional on participation in a scheme, that is, whereby the recipients contribute or contributions are made on their behalf. Accounting for this will be similar to insurance accounting where individuals/households make contributions and receive benefits when risk occurs. The social benefit approach will fall short where as is the case, some recipients of social benefits do not pay taxes.
- c. Approach 1 supports the timely recognition of social benefits whiles approach 3 focuses on the accuracy of measurement of these social benefits.

(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.

Response: We are unaware of any additional approaches for accounting for social benefits

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.

Response: We are unaware of any social benefits transactions that have not been discussed.

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 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.

Response: An obligating event under the obligating event approach can arise at any point because when any one of these points are met expectation is created that a benefit will be paid. Also, as there are different kinds of benefits with varying eligibility basis, this presupposes varying eligibility points. However, when the key participatory events have occurred, a future IPSAS should specify that an obligating event has arisen under the obligating event approach.

Depending on the facts and circumstances it can also be either option (a) or (b). (a) is sufficient for recognition not measurement. However the other options occur much later down the line for recognition.

Comment 5

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.

Response: We do not believe that one can conclusively say so one way or another. There is no clear answer as the obligating event depends on the terms of contributory or non-contributory scheme. While it is easy to have the opinion that obligating events occur earlier for contributory benefits than non-contributory benefits, in our opinion terms of the social policy will further set the tone on whether or not there is an obligation.

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.

Response: A social benefit provided through an exchange transaction be accounted for in accordance with other IPSASs. A social benefit can be accounted for under social benefits for as long as there is no other IPSAS that specifically covers its accounting treatment. So for example, concessionary loans given to University students, in exchange, they would have to work once a week at the university offices. These loans would be accounted for under financial instruments, IPSAS 29.

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.

Response: In all cases whether contributory or non-contributory scheme assets should be set aside. We believe this is the proper presentation which matches the liabilities with the assets set aside to satisfy them. Scheme assets should be included in the presentation of a social benefit for contribution schemes as it informs on the financial standing/viability of the scheme.

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.

Response:

- A) Under the social contract approach, a public sector entity should recognize an obligation in respect of social benefits once a claim becomes enforceable.
- B) Liability should be measured at the cost of fulfilment which will be the cost of providing the benefit.

Comment 9

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?
Please explain the reasons for your views.

Response: Yes we agree with the IPSASB's conclusions about the applicability of the insurance approach. The insurance approach is applicable to contributory schemes, where the individual contributes an amount for coverage in case he/she becomes a social risk, in which case he would be eligible for social benefits.

Comment 10

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.

Response: We 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.

We agree with this concept because it follows the typical principles of conservatism, and also it provides useful information about the performance of the scheme for which major decisions can be made.

Comment 11

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.

Response: We believe that under the insurance approach the appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions is recognized as an expense on initial recognition.

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.

Response: Under the insurance approach, an entity should use the assumption price measurement basis for measuring liabilities. This approach more closely follows IPSAS recognition related to discounted cash flows and so would be more in line with conventional reporting frameworks.

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.

Response: We agree with this proposition stated above.

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.

Response: Yes we 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. We agree because this is consistent with typical accounting reporting procedures and therefore not only easier to implement but more easily understandable by society since that is what is occurring for IPSAS implementing entities.

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.


Response: Under the insurance approach, we support the proposals for subsequent measurement set out in paragraphs 6.73–6.76.

Conclusion

We hope the IPSASB find this letter helpful in further developing the Consultative Paper. We are committed to helping the Board in whatever way we can to build upon the results of this Consultative Paper. Please do not hesitate to contact us should you wish to discuss any matters raised in this submission.

Thank you.

Yours faithfully,



Fred N. K. Moore
(Chief Executive Officer)