

29 March 2018

Mr. John Stanford
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Standards Board
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submitted electronically through the IPSASB website

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**Re.: Exposure Draft 63: Proposed International Public Sector Accounting
Standard: Social Benefits**

Dear Mr. Stanford,

We would like to thank you for the opportunity to provide the IPSASB with our comments on Exposure Draft 63: Proposed IPSAS: Social Benefits; hereinafter referred to as "ED 63". The IDW also contributed to previous work including halted initiatives by predecessors of the current IPSASB, and more recently responded to the 2015 Consultation Paper: Recognition and Measurement of Social Benefits in a letter dated 20 January 2016.

The provision of social benefits is likely one of the most significant policy (and accounting) issues for most, if not all, governments, and accounting for social benefits could potentially impact the future design of many social benefit schemes worldwide. This project is therefore highly sensitive from a political and a practical point of view, besides being of reputational importance for the IPSASB itself.

The IPSASB's Conceptual Framework underlines the objectives of financial reporting. If financial statements are not to lose significance, it is essential that they and any further supplementary financial reports are perceived as useful for accountability and decision-making purposes, especially in the context of social benefits, by the wide range of intended users.

We continue to support this highly important project and outline the IDW's significant concerns as to specific key issues within general comments in this letter.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB;
Dr. Daniela Kelm, RA LL.M.

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We have included our responses to the various Specific Matters for Comment in the appendix to this letter.

General Comments

Key concerns in regard to ED 63's approach to liability recognition and disclosure

As explained in our responses to Specific Matters for Comment 4 and 5 in the appendix to this letter, we have several significant concerns as to the approach proposed in ED 63 to liability recognition for social benefits. The proposed accounting outcome fails to recognize the fundamental difference in economic substance between social benefits schemes that are designed to transfer wealth within a reporting period (i.e., where tax revenue is used to provide social benefits to the needy – e.g., benefits are provided to newly arrived refugees etc.) and those social benefit schemes designed to transfer wealth between generations. The latter type of scheme generally suggests that future beneficiaries will have a well-founded expectation or often even a legal right to receive benefit subsequent to the end of reporting period; thus under the Conceptual Framework, the reporting entity would recognize a liability. Of course some social benefit schemes may have components of both, where, for example, individuals' contributions made in one period finance current beneficiaries in that period and also "earn" the contributor an entitlement to receive benefit at a later point in time. We also reject the proposal to treat being alive as a recognition criterion, as we explain in more detail below. In addition, we view the proposed disclosures as inadequate. In our opinion, the proposed approach is not in line with either the Conceptual Framework's approach to liability recognition for all social benefit schemes and cannot fulfil the objective set forth in either the Conceptual Framework or ED 63.2. For these reasons, we support the Alternative View.

Specifically, proposing a one-size-fits-all accounting treatment that is, in essence, a scheme administration approach whereby no liability beyond the next instalment of a benefit will be recognized, is counterintuitive in respect of certain social benefit schemes in our jurisdiction. Accounting under ED 63 cannot result in a fair presentation of the economic substance of different social benefits and their respective impact on an entity's financial position. Specifying "being alive" at the level of an individual beneficiary as a recognition criteria constitutes flawed logic, since such criterion is incapable of being either proven or disproven into the future. In our view this must constitute a measurement criterion, as is the case elsewhere in accounting standards and other literature. This aspect of the proposal introduces an entirely artificial construct, which lacks real justification. Indeed, the IPSASB's

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extant conceptual approach in regard to long-term liabilities elsewhere e.g., IPSAS 25/39 treats “being alive” as a measurement criterion.

Social benefit schemes are not all comparable; thus striving for comparability (the primary argument cited in the Basis for Conclusions) at the expense of other qualitative characteristics set forth in the Conceptual Framework is misplaced.

In our view, irrespective of whether the IPSASB were to revise the approach for liability recognition, the proposed disclosures cannot meet the objective of disclosure as described in paragraph 29, as they will generally be insufficient for both accountability and decision-making purposes. Firstly, for some schemes it may be inappropriate to limit disclosure to future cash outflows to current beneficiaries and beneficiaries becoming newly eligible to receive benefit. For some schemes, additional disclosures may be needed as to the current entitlement to receive benefits at a future point in time which current contributors accrue as their contributions grow. Secondly, disclosure of future cash outflows is one-sided, as it does not indicate the magnitude of any corresponding anticipated contributions or other earmarked funding and shortfall/ excess, which may be appropriate for certain schemes. Finally, disclosure for a period of just five years may be inappropriate for social benefit schemes not designed to operate on a shorter term basis.

In this context, we also note that coordination with other current IPSASB projects (specifically revenue and non-exchange expenditure and the strategy and work plan) will also be essential.

Impact on the perceived usefulness and relevance of financial statements

In view of the high significance of social benefits for governments and those public sector entities tasked with administering social benefit schemes, including the impact on the financial position, financial performance and cash flows of the entity, we are extremely concerned that financial statements that include the very limited information that would result from application of ED 63, will themselves lose significance. In this context we also refer to our more detailed comments below on the need for financial statements to reflect the economic substance of social benefit schemes.

Financial information derived from robust accounting systems is highly important to governments in their capacity as users, because of its potential to inform policy making. Whilst information provided by general purpose financial statements and related reports will not drive policy decisions as such, a lack of transparent financial information is at best unhelpful and at worst may be a preventative factor in

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ensuring optimum and timely policy adjustments are made. For example, for various reasons an unsustainable scheme may not be addressed in good time if reliable and relevant information is not publically available to reflect the full financial extent of any given problem. Similarly, without transparent financial information the full financial impact of any policy changes addressing identified problems may not be made sufficiently transparent.

Individual citizens (who are potentially both contributors to, and recipients of, social benefit schemes) have a keen interest in the financial impact of social benefits. The individual interest of older generations may grow in proportion to certain factors including the amount of their own contributions toward state pensions, the size and nature of the benefit and their personal likelihood of becoming eligible to receive that benefit. Similarly, younger generations may have more interest in future developments of the pension system and sustainability of the scheme.

Major policy changes affecting social benefits, e.g., raising the entitlement age for state pensions, will generally be understood as being of major significance in any evaluation of public sector financial capacity. Financial statements that appropriately track such changes will gain in relevance for many users, who would otherwise have to turn to other sources of information to make their own assessments. Our concern is that ED 63's proposed approach to liability recognition for social benefits may serve to undermine the role of financial statements in providing information relevant for decision-making.

Increased interest in IPSAS adoption adds pressure to finalize the social benefits project

In recent years interest in the IPSASB's work has increased, with new jurisdictions applying IPSASs or using them as a firm reference point for their national financial reporting frameworks. This is a very positive development, and we congratulate the IPSASB on the increase in buy-in to IPSASs as a major ongoing achievement.

However, as governments are always in a position to be selective in deciding whether or not to adopt, and, where applicable, also how to transpose IPSASs to their particular circumstances, this development increases the pressure on the IPSASB to deliver accounting solutions that are acceptable to potential adopters within as short a period of time as possible.

There are demands from some quarters for the IPSASB to focus on ensuring that the accounting solution is politically palatable and straightforward in application rather than on achieving technical perfection, which some perceive could only be achieved at the expense of the former.

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The outcome under ED 63 – no significant liability for social benefits beyond prepayments and underpayments to current beneficiaries – may be politically palatable to some; however the message that an entity has no liability beyond the next payment may not be palatable to individual citizens, especially in respect of schemes which require them to contribute over their working life and for which they will have a valid expectation of entitlement or legal right to receive benefits in the future – an entitlement that often increases over the time (or in relation to the total amount) of contribution.

Consequently, in finalizing ED 63 the IPSASB is tasked with balancing calls for political acceptability with the Board's own reputational need for conceptual and technical soundness.

In our opinion, it is essential for the credibility of the Board that the latter be driven primarily by reference to, and appropriate alignment with, the Conceptual Framework. We agree with the Alternative View that closer alignment with the Conceptual Framework should be achieved in finalizing the standard.

In view of the significance and long-standing contentious nature of the issues involved, including concerns such as those discussed in this letter, we view the current plan whereby the IPSASB will commence its review of constituents' comments in June 2018 and approve a final IPSAS in December 2018 as overly optimistic and unrealistic.

Reflection of the economic substance of social benefit schemes

Previous initiatives relating to accounting for social benefits, and, in particular, determining whether or not public sector entities should present a liability in their statement of financial position in relation to social benefits, have proven highly contentious. Perspectives have differed widely as social benefit schemes themselves vary widely.

There continues to be discomfort surrounding the so-called accounting mismatch arising from the inclusion of a liability to reflect a commitment to provide benefits on an ongoing basis that are to be settled from future income, which according to the asset definition of the Conceptual Framework cannot be recognized as a balancing receivable in governments' balance sheets. Many state pension schemes operate, by design, on the basis of one generation's contributions (earmarked or otherwise) being used to pay state pensions to an older generation. Other social benefit schemes such as unemployment benefit or child allowance are also financed by current income, but follow wealth redistribution aims. For this reasons many governments have used a cash accounting basis in accounting for social benefits

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arguing that their aim is to match outgoings with income over the period. According to the Conceptual Framework, because an entity lacks control over future funding it cannot recognize an asset to match against a liability recognizable under a social benefit scheme (when based on valid expectations or legally enforceable). Many argue that recognition of a liability without “matching” recognition of its funding inappropriately distorts an entity’s financial position and does not result in fair presentation of the entity’s financial position.

There are various reasons for the discomfort and the desire to avoid so-called accounting mismatch when specific schemes are financed from future revenue. For example, in the private sector, the presentation of negative equity within an entity’s statement of financial position is generally highly problematic in the context of insolvency decisions, whereas, due to the nature of the public sector, a similar statement of financial position would have a different relevance in the public sector. Also, an initial recognition of an existing liability that had previously not been recognized would impact the statement of financial position rather than the statement of financial performance. From an accruals budgeting perspective there are concerns about the possible accounting impact of a significant change to a particular social benefit policy. Were a change resulting in a significant increase (or decrease) in liability to be accounted for as a one-off expense (or revenue item) in the period of change, not only would such accounting treatment not reflect the fact that the change is designed to be financed (or absorbed) over a future period, it would result in a significant – and thus not palatable – current budget imbalance. Given the potential for accounting to shape political decisions, an acceptable accounting solution would need to be developed to account for the impact of social benefit policy change so that they are acceptable for budgeting purposes.

In our opinion, where the intention is to fund a particular scheme from future income any liability for the ongoing provision of benefits is intentionally not matched with an existing asset. It is important that this scheme design feature is appropriately reflected in the entity’s financial position. Consequently the IDW believes that the ED 63’s denial of liability beyond the next payment in respect of all social benefits results in an unrealistic portrayal of the entity’s financial position and its interaction with citizens.

Indeed, where in a jurisdiction it is common knowledge that future generations will be called upon to finance specific ongoing benefits, citizens have a general awareness of the existence of a liability placed on the future generations. Most citizens will also be aware that anticipated demographical developments pose challenges which they expect their governments to address constructively. Taking corrective action cannot be equally palatable to all citizens. The message given by

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the approach proposed in ED 63 “no liability because you cannot prove you will be alive to collect in future” could at best be viewed as lacking transparency and, in the extreme, could lead to uncertainty and a public lack of trust in social benefit schemes.

All previous IPSASB projects were discontinued pending the completion of the Conceptual Framework, which, although non-authoritative, is intended to guide standard setting in the public sector. As the Conceptual Framework has now been completed, the IPSASB has committed to addressing the accounting for key public specific sector issues not fully dealt with in the current suite of IPSASs. We firmly believe that the IPSASB needs to refer back more closely to its Conceptual Framework in finalizing an IPSAS for social benefits.

In our response to the Consultation Paper, we expressed our support for the IPSASB to focus on the objectives of financial reporting identified in the Conceptual Framework, rather than follow constituents’ political preferences that may diverge therefrom. All stakeholders (i.e., fiscal managers, the voting public, providers of finance, etc.) need relevant, reliable, faithfully representative and transparent information as to the impact on an entity’s financial position and its financial performance of social benefit provision decisions. We continue to believe that this remains the most appropriate course of action.

Specific concerns as to technical soundness

The IDW supports the Alternative View expressed by three IPSASB members.

As explained above and detailed in the appendix to this letter, we have serious concerns as to the technical soundness of ED 63’s approach.

The IDW believes that the proposed approach to liability recognition is misplaced given the diversity of social benefit schemes. We note that both the Consultative Advisory Group (CAG) as well as a large majority of respondents to the Consultation Paper (25 of 36) – including the IDW – were of the opinion that an obligating event can arise at different points, depending on the nature of the social benefit.

We further note that the notion of using “being alive” as a recognition criterion was discussed in an earlier project that was discontinued pending development of the Conceptual Framework. The notion of using “being alive” as a recognition criterion was not put forward in the 2015 Consultation Paper and thus constituents’ views were not sought on this aspect. In addition, the treatment proposed in ED 63 is inconsistent with that in other standards, such as IPSAS 25/39. We therefore believe these aspects in particular need to be subject to more thorough Board

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deliberation now that the Conceptual Framework has been completed and once constituents' comments are analyzed.

As we discuss in more detail in the appendix, we are concerned that by focusing on comparability (which is unwarranted to the extent that schemes are not necessarily comparable) – which from our reading of the Basis for Conclusions (BCs) seems to be the IPSASB's primary argument for the approach taken in ED 63 – other qualitative characteristics identified in the Conceptual Framework, specifically relevance and faithful representation cannot be met.

In our view, a more balanced approach to achievement of the qualitative characteristics (e.g., faithful representation and relevance) is needed. The final standard should allow for the fact that different social benefit schemes may need to be accounted for differently, particularly in regard to liability recognition.

Furthermore, as we explain in more detail in responding to the Specific Matters for Comment 4 and 5 in addition to developing a final standard to address issues raised in the Alternative View a more thorough consideration of specific measurement is warranted.

We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,

Klaus-Peter Naumann
CEO

Gillian G. Waldbauer
Head of International Affairs

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Appendix

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)?

If not, what changes to the scope would you make?

We agree with the proposed scope.

We agree with the exclusion of universally accessible services for the reasons explained in BC21(b).

We also specifically agree that, where appropriate, the IPSASB should reduce differences with the statistical basis of reporting (BC15 and BC18).

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?

If not, what changes to the definitions would you make?

The definitions of social benefits and of universally accessible services specifically include and exclude references to social risks, respectively. Thus both these definitions need to be understood in the context of the definition of social risks. Each of these definitions must be sufficiently clear and self-contained to allow an unequivocal delineation between benefits within the scope of the standard and potentially (similarly motivated) benefit provision that is not. Application guidance cannot be used to change or limit the application of these definitions.

The proposed definition of social risks specifically relates the condition(s), event(s) or circumstance(s) to the characteristics of individuals and/or households that may (adversely) affect their welfare. For instance, an individual is, or has become, unemployed; and individual or household is, or has become, homeless, an individual exceeds, or has reached, retirement age etc. However, these definitions specify no limitations depending on the event or circumstance causing a change in the particular characteristic of the individual/household i.e. an event or circumstance triggering unemployment, homelessness etc.

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Whilst we agree with these definitions, we believe that two specific aspects of related application guidance need to be clarified.

Firstly, paragraphs AG 8-10 may lead to confusion, as they could be understood as implying that *total aid* provided in the aftermath of an earthquake would always be outside the scope of ED 63, whereas it seems to us that a component of the total aid typically provided could fall within the definition of social benefits.

AG 8-10 ought to specifically clarify that reporting entities may provide disaster aid relief comprising different components. Some components may fall within the scope of ED 63 (an individual may become unemployed or homeless in the aftermath of an earthquake, and – as noted above – the underlying cause is of no relevance for the definition of social benefits). Individuals or households may be provided with additional aid outside the scope of ED 63, e.g., a one-off payment to rebuild or refurbish homes provided in response to the risk that an earthquake causes structural damage, i.e., similar to expenditure for infrastructure needing to be replaced. Such aid would constitute discretionary non-exchange expenditure outside the scope of ED 63. A government may well use discretion in providing such aid – for example to discourage rebuilding in an area susceptible to further geological disruption etc.

Secondly, the provision of health care is also an area that we believe might be confusing in practice. According to the definitions in paragraph 6, social benefits are provided to mitigate social risks, the definition of which specifically includes health as a related characteristic of an individual. Thus under the proposed definitions, healthcare benefits and benefits for incapacity resulting from ill-health fall within ED 63. AG 6 distinguishes social benefits organized to ensure that the needs of society as a whole are addressed from insurance contracts organized for the benefit of individuals or groups of individuals; thus the insurance approach might be appropriate in accounting for some social benefits for healthcare (where criteria in paragraph 9 are satisfied).

However, AG 7 contradicts the definition of universally accessible services (it stipulates that there is no relation to social risks – social risks include the characteristic of health), by contrasting the provision of healthcare insurance to individuals who are unable to afford private healthcare (social benefit under ED 63) with a universally accessible healthcare service open to all, which according to AG 7 does not meet the definition of a social benefit for the purposes of ED 63. Healthcare arrangements may vary widely between jurisdictions. We believe AG 7 needs revising to be consistent with the definitions and that additional guidance will be needed in determining whether a particular healthcare service or scheme will, or will not, be within the scope of ED 63.

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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?

We suspect that currently relatively few social benefits are actually managed as true insurance schemes. However, we would encourage the IPSASB to monitor the prevalence of insurance-based social benefits going forward, in order to determine whether it may become appropriate for the IPSASB to develop an IPSAS counterpart to IFRS 17 in future for the public sector. In the shorter term we agree with the proposed approach, and respond to the subsections of this Specific Matter for Comment in turn:

- (a) The existence of options within IPSASs is one aspect of IPSASB's output that continues to draw criticism from various parties. In the longer term – if social benefit schemes eligible for insurance accounting become more prevalent – consistency in accounting treatment would be preferable to the proposed introduction of an option. We would urge the IPSASB to review whether this option remains relevant in future. Furthermore, as drafted, the option is available on a scheme-by-scheme basis. Were the final standard to retain this option, it would be appropriate to clarify that an entity shall be consistent in applying the insurance approach where it operates more than one “insurance” social benefit scheme.
- (b) For a new social benefit scheme the criterion in paragraph 9 (a): “The social benefit scheme is intended to be fully funded from contributions” “intention” is appropriate, but for an established scheme intent alone is insufficient. We agree that the proposed criteria would be appropriate provided they are strengthened by specifying that “intent” (see paragraph 9(a)) also needs to be backed up by a suitable track record of full funding over time. Specifically, wording such as “look and feel of an insurance contract”

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(AG 14) should be avoided. This paragraph seems to require a consideration of substance over form – if this is the case, the wording should be clearer, such that schemes that are e.g., subsidized in part or include a hidden social assistance component or are designed to be financed on an inter-generational basis etc. (see page 10 of 20 of our response letter to the Consultation Paper) cannot be accounted for as insurance schemes.

- (c) Subject to our opening remarks above, we agree that in the absence of a public sector specific standard, IFRS 17 or a national equivalent that must be substantially the same is appropriate. We also refer to our response to (a) above on the need for consistent accounting treatment.
- (d) ED 63 allows social benefit schemes that are eligible to be accounted for under the insurance approach to be neither identified nor accounted for as such. If the insurance approach remains optional in the final IPSAS entities should be required to disclose which, if any, benefit schemes meet the criteria for applying the insurance approach and to which schemes the available option has been applied as well as name the relevant accounting standard applied.

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?

This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.

We disagree with this aspect of ED 63 and support the Alternative View. Whilst we accept that satisfaction of eligibility criteria (not including being alive) may be the appropriate past event for recognition of a liability in respect of certain schemes, we believe it is not appropriate for **all** schemes.

As clearly outlined in the Alternative View, the establishment of a single obligating event as proposed in ED 63 does not reflect the economic substance of different social benefits and does not result in information that meets the needs of financial

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statement users. Specifically, the proposed accounting outcome fails to recognize the fundamental difference in economic substance between social benefits schemes designed to transfer wealth within a reporting period and those social benefit schemes designed to transfer wealth between generations – whereby some schemes may be designed to include components of both. It does not meet the objective set forth in paragraph 2 of ED 63 and is inconsistent with the Conceptual Framework. We firmly disagree that where all (other) eligibility criteria are satisfied the state of “being alive” should be explicitly included therein, and thus viewed as a recognition criterion.

Identification of a past event in liability recognition: Whilst in many countries the provision of social benefits forms a very significant part of public sector activities, even within a single jurisdiction, the way in which the various social benefits are designed, including in terms of their funding (e.g., from general income or from specific earmarked contributions) and administration (e.g., existence of eligibility criteria) varies considerably. For some schemes, and especially certain contributory social benefit schemes, an earlier past event than the satisfaction of criteria for the next payment may be appropriate in recognition of a liability.

As we had explained in more detail in our response to the Consultation Paper, we believe that the differences in substance between different social benefits schemes mean that determining the obligating event will need careful assessment on a case by case basis and thus 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. We continue to hold this view.

The Conceptual Framework deals with a range of factors, against which individual schemes (or types of schemes where these are the same in substance) should be compared in determining the specific stage at which they give rise to a liability. Reference to the IPSASB’s Conceptual Framework is essential in establishing factors to be included in an IPSAS for determining whether a particular social benefit scheme gives rise to a liability. According to the Conceptual Framework, there would be no doubt that a liability exists for obligations enforceable in law (CF 5.20).

For schemes not funded by earmarked contributions (here we refer to our comment letter responding to the Consultation Paper: Accounting for Revenue and Non-Exchange Expenses as to the need to look at substance over form in determining whether nomenclature constitutes earmarking or not), satisfaction of all eligibility criteria (but not including being alive) may be the point in time a liability should be recognized.

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The past event should therefore be determined with reference to the specific scheme (CF 5.17). Some schemes may convey a legal right to benefits (based on contribution or fulfilling eligibility for the next payment), others may be so designed whereby expectations are such that an entity would have little or no realistic alternative to avoid an outflow of resources, others still may only be payable when eligibility criteria (not including being alive) are fulfilled. For example, under the Conceptual Framework a non-legally binding obligation might exist (CF 5.15) in relation to a long-running, established social benefits scheme, because citizens' valid expectations mean the entity has little or no realistic alternative to avoid providing a benefit on an ongoing basis. Although the level of benefit or eligibility criteria for such a scheme might be adjusted over time, it is unlikely that such a benefit could be ceased outright (e.g., in the unlikely event that this were possible, the cessation of state pension would likely simply be replaced with hardship allowances to ensure subsistence and housing etc., which does not equate to the entity being able to avoid an outflow of resources).

Differentiation needs to be made between long running established schemes and new or short-term schemes. In determining whether there is little or no realistic alternative to avoid an outflow of resources (CF 5.15) and identifying the past event (CF 5.25) the IPSASB would need to establish factors such as, but not limited to, whether earmarked contributions are made by citizens, whether final entitlement is linked to a period of participation or to a contribution level, or both, etc. Whether individuals receive official notification of their future entitlement might also need to be taken into account. In contrast, a newly established social benefit, a social benefit designed as a temporary measure, or a social benefit that fails to have the desired impact may not fulfil the criteria of "little or no realistic alternative to avoid". Close examination would then be needed for each individual scheme or type of scheme.

Being alive as a recognition criteria: The single approach proposed under ED 63 uses the criterion "being alive" to preclude recognition of liability for the provision of future benefits across all social benefit schemes (even including those where scheme participants have a legal right to future benefits). On the basis that neither an individual nor the reporting entity can prove or disprove whether he/she is alive in future, the result will be that no future liability can be presented in the statement of financial position for any social benefit (AG 17), as only prepayments and underpayments at the reporting date will appear in an entity's statement of financial position.

We do not agree that being alive is a recognition criterion for financial reporting purposes. As social benefits are generally not provided to any deceased individual,

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being alive is a valid eligibility criterion for scheme administration purposes. In the context of financial reporting we note that being alive is consistently used as a measurement criterion elsewhere in accounting standards and other literature e.g., in calculating the liability for pensions payable to former employees (IPSAS 39). Mortality rates are generally used to estimate life expectancies within such a population for measurement purposes and we do not see justification for a different approach in the case of social benefits.

Indeed, the proposal to use being alive as a recognition criterion in ED 63 is entirely lacking in logic, as it would be equivalent to the entity acknowledging that it has a liability to today's recipients to provide the social benefit (assuming eligibility) and then arguing that because it is impossible for anyone to prove they will be alive in the future, no mortal being can ever be entitled to or be owed anything! For a population of beneficiaries it is realistic to expect that the time of individuals' death will be staggered according to various factors. It is counterintuitive to deny any liability on the grounds that a population of beneficiaries cannot prove longevity on an individual basis.

Further issues relevant to liability recognition: In our opinion measurement issues need due consideration, since a liability could not be recognized in the statement of financial position if it could not be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting (CF 6.9). The IPSASB may consider this relevant in certain more extreme constellations.

Schemes funded on an intergenerational basis mean that younger generations will fund benefits provided to older generations, whilst accruing their own expectations (or legal entitlement) to future benefit entitlement over time. In our comment letter dated January 15th 2018 on the Consultation Paper: Accounting for Revenue and Non-Exchange Expenses we pointed out the need to determine whether such contributions have more than one component. For example in some schemes, contributions may need to be recognised as revenue on the basis that in substance they fund benefits to current scheme beneficiaries; in others they may need to be accrued as liabilities to be paid out for future benefits to current and future scheme beneficiaries.

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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?

As stated elsewhere, we do not support ED 63's proposed approach to liability recognition. We urge the IPSASB to revise this approach to reflect the fact that an obligating event may arise at different points in time for different schemes. Such a change would have a significant impact on both the sections of ED 63 dealing with measurement and disclosure, and we would urge the IPSASB to revise these sections also, as appropriate.

We do not believe that the proposed disclosures can provide sufficient information for decision making purposes on the intergenerational impact of social benefit schemes. Should the proposed approach to liability recognition be retained in a final standard, we believe that for some schemes explicit disclosures will be needed as the entitlement to receive future benefit that current contributors have accrued at the balance sheet date.

We respond to the three subsections in the Specific Matter for Comment:

- (a) A narrative statement as to the funding of each individual social benefit scheme certainly constitutes helpful information. However, paragraph 31(a) (iii) or paragraph 34 should be expanded to include an estimate of the expected monetary value of any corresponding anticipated contributions or other earmarked funding and the estimated shortfall or excess (to be covered by the entity or otherwise available to the entity) as well as, where relevant, intended remedial action on the part of the reporting entity. Such information is likely to be of essential interest to users in assessing the entity's financial position going forward. Without such quantification, we do

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not believe that the proposed disclosures can meet the objective of disclosure as described in paragraph 29.

- (b) As we do not support the proposed approach in regard to the identification of the obligating event for recognition of a liability, we do not believe that the proposed disclosures can meet the objective of disclosure as described in paragraph 29. We urge the IPSASB to revise its proposals in this regard, which would also entail revision of the accompanying disclosures. Should the IPSASB retain its proposed approach to liability recognition we believe that more detailed projections of expenditure and income related to individual social benefit schemes will be essential.
- (c)
 - i. In line with the Conceptual Framework disclosure of projected cash flows cannot be considered as a substitute for recognition of a liability, where such recognition would be appropriate. As explained in this letter, we do not support ED 63's proposed approach to liability recognition. This notwithstanding, where no liability is recognized disclosure of an estimate of future cash outflows may provide helpful information (see also our response to point (a) of this Specific Matter for Comment above). We agree that any estimate of cash outflows should not be limited to those relating to current beneficiaries, but to expected beneficiaries of the scheme itself.
 - ii. We do not agree that a five-year period is appropriate for all social benefit schemes, but believe that a longer period should be applicable for schemes not designed to operate on a shorter term basis. Key changes to longer-term social benefit schemes may be implemented in a phased approach (e.g., in Germany the age for eligibility to receive state pension was increased from 65 to 67 over a period from 2012 to 2029) and so a five-year disclosure would be inadequate to fully reflect the financial impact of policy change.

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

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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.

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

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.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

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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 agree that general purpose financial statements that are based on historical information generally cannot provide, nor are they intended to provide, sufficiently detailed information to allow users to fully evaluate the long-term fiscal sustainability of all social benefit schemes. Nevertheless, information on the face of the financial statements and accompanying notes should provide a basis for users of those financial statements to make their own assessments of the possible effect that social benefit may have on the financial position, financial performance and cash flows of the entity.

We note that information presented in compliance with RPG 1 projects financial developments on an assumption that policies remain unchanged going forward. This is a useful tool for decision-making as it can demonstrate the necessity to refine certain policies, and show the point in time a policy change may be needed. However, information on the long-term fiscal sustainability of social benefits (e.g., RPG 1) fulfils a very different purpose to the information presented in general purpose financial statements, because the former seeks to make future projections, whereas the latter is by nature intended to depict historical information. Information on the long-term fiscal sustainability of social benefit schemes cannot be viewed as a substitute for adequate presentation in the financial statements, which, as we content, ED 63 as proposed cannot generate.

In our opinion, before undertaking further work in this area, the IPSASB should revise specific aspects ED 63, as discussed elsewhere in this letter, to ensure the information usefulness of general purpose financial statements in relation to social benefits is optimized.

Should the IPSASB not address the matters raised in our letter, and, given the financial significance of social benefit schemes in many jurisdictions, we would support the IPSASB developing material as to the content of general purpose financial reporting on social benefit schemes. In our opinion, in order for this to be decision-useful such financial information would need to be accompanied by text explaining key issues, such as anticipated demographical developments and approaches taken and possibly proposed future approaches, etc. – some of which may be beyond the remit of the IPSASB.