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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2
CANADA

Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to Exposure Draft 63 “Social Benefits” issued October 2017.

2. We appreciate the opportunity to comment on this Exposure Draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at Michael.parry@michaelparry.com or on +44 7525 763381.

Yours faithfully,

Michael Parry
Chair, ICGFM Accounting Standards Committee

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Cc: Jim Wright, President, ICGFM

International Consortium on Government Financial Management (ICGFM)

Response to Exposure Draft 63 "Social Benefits"

Issued October 2017

Overview

ED on Social Benefits raises two fundamental issues:

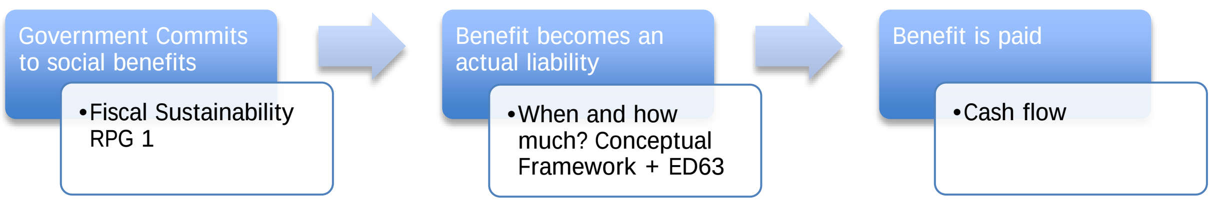
1. The recognition as liabilities commitments made by a government to specific groups of citizens – even though there is no contractual obligation (other than a social contract) requiring future governments to honour such commitments
2. The inter-generational impact of such commitments, e.g. the cost of a state pension payable to all citizens.

Governments across the world commit to certain social benefits, e.g.:

1. Health care benefits
2. Unemployment benefits
3. State pension benefits.

There is a flow from the commitment through liability to the actual payment of social benefits as illustrated in Figure 1 below.

Figure 1: The flow of social benefit obligations



In most countries social benefit commitments made by a current government are honoured by subsequent governments, but such commitments do not amount to legally binding contractual obligations. There are numerous examples where the terms of the social benefit obligation have been retrospectively changed, e.g. raising the age for state pension, reducing the amounts to be paid.

These issues are addressed in the IPSAS Conceptual Framework. This identifies when non-legally binding obligations become liabilities in Para 5.24 as follows:

1. *The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;*
2. *As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and*
3. *The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.*

The first two conditions are normally part of governments making social benefit commitments. The issue of recognition as a liability is when condition (c) above is met. At some stage social benefits do meet condition (c) and hence become liabilities.

The ICGFM supports the principle of recognising social benefits as liabilities when the three conditions specified in the Conceptual Framework are met

Specific matters for comment

Matter for comment	Response
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 scope

<table>
<tr><th>Matter for comment</th><th>Response</th></tr>
<tr><td> 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? </td><td> There is no definition of social benefits in the ED. Para 6 says to whom social benefits are provided but not what they are and Para 5 and AG1 – 3 what they are not, but nowhere does the ED actually define social benefits As indicated in our comments on the Discussion Paper, we consider the GFS definition should be used: “6.96 Social benefits are current transfers receivable by households intended to provide for the needs that arise from social risks—for example, sickness, unemployment, retirement, housing, education, or family circumstances. “ We also consider that the two categories of social benefit in GFS should be recognised in the proposed Standard: Pensions and other retirement benefits
Non-pension social benefits Social risks are defined in GFS as “Social risks are events or circumstances that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or by reducing their income”. We can see no good reason for using a different definition. </td></tr>
</table>

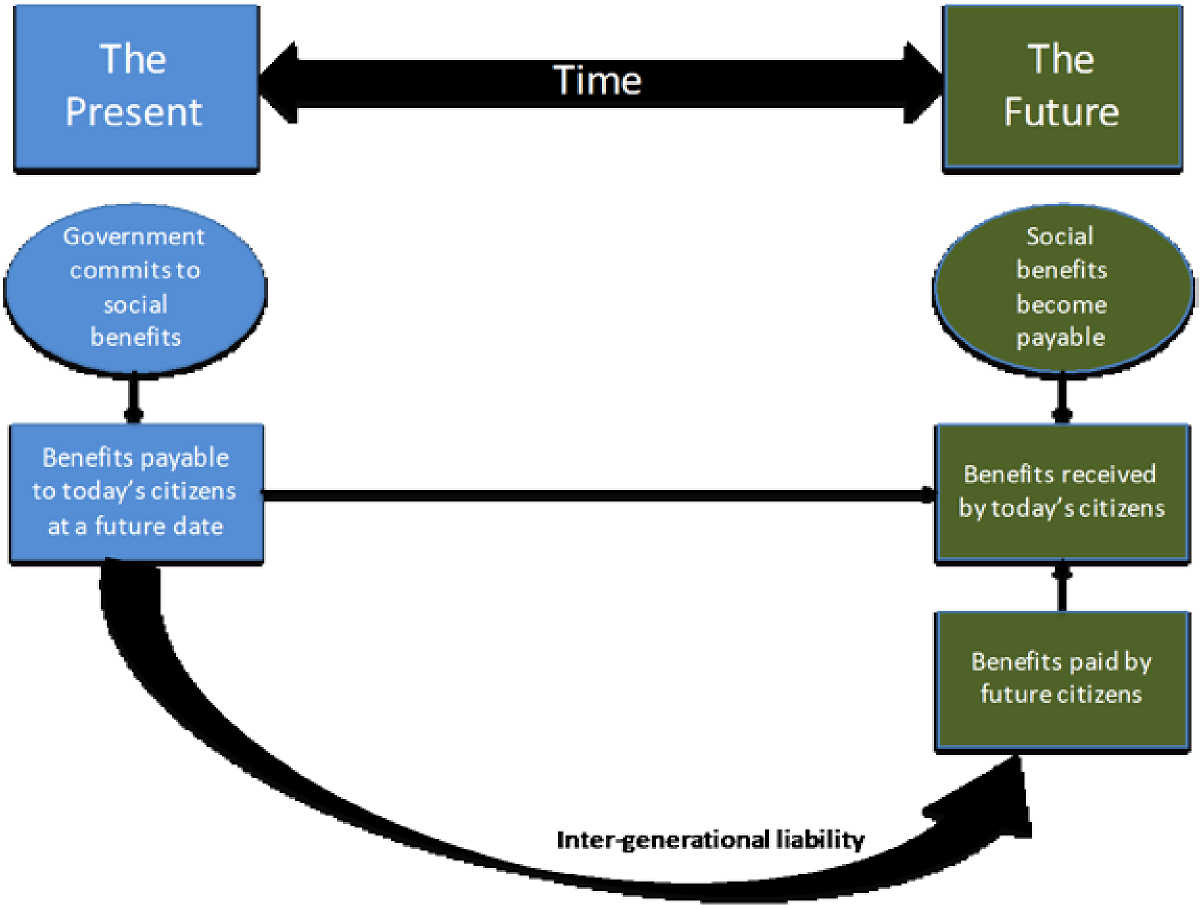
Matter for comment	Response
Specific Matter for Comment 3: Do you agree that, with respect to the insurance approach: (a) It should be optional; (b) The criteria for determining whether the insurance approach may be applied are appropriate; (c) Directing preparers to follow the relevant international 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?	(a) and (b) Our comments on the Discussion Paper identified four possible combinations and recommended recognition and measurement approaches as follows: 1. Pensions and other retirement benefits a. Funded – in accordance with IPSAS 25 b. Unfunded – Obligating event approach as described in the ED 2. Non-pension social benefits a. Funded – Insurance approach as described in the ED b. Unfunded – obligating event approach (c) Agreed (d) Agreed
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?	Agreed

Matter for comment	**Response**
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?	(a) Agreed (b) Agreed (c) (i) Agreed (ii) We can see no reason to limit this to 5 years
Specific Matter for Comment 6: Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how? If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?	Yes – see below

Statement on Fiscal Sustainability

Certain types of social benefits transfers rights between groups of citizens. In many cases this is an intergenerational transfer, e.g. a commitment to a state pension imposes an obligation on future generations of citizens, as illustrated in Figure 2 below.

Figure 2: Intergenerational impact of social benefits



The model could be used to identify and measure the long term fiscal sustainability of social benefits. A supplementary statement long term financial sustainability could be used to summarise and report a range of decisions taken today which impact on future generations where these are not reported as actual liabilities in the statement of financial position. Such a supplementary statement could also include other potential intergenerational commitments, e.g. long-term subsidies of specific industries.

A future consultative paper may be required on including in the financial reports such a statement of fiscal sustainability. Issues to be considered would include what would be included in the paper, the extent to which revenue flows should be taken into account (or perhaps the required revenue flows be defined), the use of actuarial data, discount rates, handling of uncertainty, the number of years into the future, and so on.