

## Exposure Draft 63, Social Benefits

Exposure Draft issued for comment by the International Public Sector Accounting Standards Board in October 2017

Comments from ACCA

March 2018

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## GENERAL COMMENTS

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ACCA welcomes the opportunity to provide views in response to the IPSASB's Exposure Draft 63, Social Benefits. Social benefits represent an important part of government expenditure and we appreciate that consultation on this issue been challenging and involves many complex issues.

### ACCA



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The ED's obligating event approach represents a more straightforward solution that may help to increase adoption of the standard, but we are concerned that it would not result in relevant information. For this reason, we would favour the alternative view.

We agree with the definitions of social benefit and social risk set out in the draft and we agree that universally accessible services should be excluded for the definition of social benefit. It is our opinion that the criteria that set out the definition of universally accessible service does not effectively exclude universal healthcare services and should be refined.

We also have concerns that making the insurance approach an option, rather than a requirement, will limit the comparability of reporting.

This response reflects the views and experience of the members of ACCA's Public Sector Global Forum. If further information is needed on any aspects of our response, please get back to us.

## AREAS FOR SPECIFIC COMMENT

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### **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 that social benefits and non-exchange expenses operate on a continuum and that a principle-based approach is best placed for defining social benefits. It is also sensible to exclude universally accessible services (UAS) from the Exposure Draft (ED), but we feel that the definition of UAS does not achieve its intended purpose.

### **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?**

We agree with the ED's definitions for social benefit and social risk, but not the definition of UAS.

The ED sets out two criteria in defining UAS:

- It must be made available by a government entity for all individuals and/or households to access, and
- Any eligibility criteria are not related to social risk.

From our reading of the ED, a universal healthcare service – which is cited as an example of a UAS under paragraph BC22 – would not be included under the current definition of UAS.

We think it is preferable to exclude healthcare services from the definition of social benefits, but feel the current definition of UAS does not effectively make this exclusion. This is because universal healthcare services are meant to limit the social risk of sickness and ill health. We believe sickness and ill health would meet the definition for social risk set out in paragraph 6a, and it would also impose additional demands on the individual's resources (i.e., paragraph 6b). This case can be further made by asking the question: 'would healthcare services be required if sickness and ill health did not exist?'. Furthermore, a universal healthcare service typically provides both proactive (e.g. preventative) and reactive (e.g. treatment) care – sitting uncomfortably with the distinction made in para BC21(b).

As such, we feel that a universal healthcare service would meet the first UAS criterion of being made available by a government entity for all, but would fail on the test of not having an eligibility criteria related to social risk. The second criterion from the UAS definition should be removed, as this does not in our view have a clear purpose.

**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 approach the issue of optionality with two factors in mind. First, the insurance approach is a much better approach for social benefits that meet the eligibility criteria in paragraph 9. Second, in principle optional treatments in accounting standards are undesirable.

We agree that there would be difficulties with making the IFRS17 approach mandatory for schemes given that IFRS17 has not yet been applied and national standards using the IFRS17 principles are not yet in place. At the same time, we do not agree that existing national accounting standards should be allowed, as that would create little comparability of reporting.

We consider that treatments broadly in line with the new insurance accounting model should be mandatory for eligible schemes, rather than allow the obligating event approach. Given IFRS17's current status, we suggest that the wording might be

modified and 'softened' so that the principles of IFRS17 in terms of recognition and measurement of the assets and liabilities should be applied by analogy. Likewise entities might consider the disclosure objectives of IFRS17 in deciding what to disclose.

The IPSASB should also review this position in future with a view to making IFRS17 directly and completely applicable for schemes described in paragraph 9, as its global take-up and acceptance develops.

We are concerned that permitting schemes that meet the criteria in paragraph 9 to be accounted for under the obligating event approach in this ED would fail to reflect the economic substance of such schemes. A very limited liability would be recognised, but any scheme assets built up by funding contributions would be recognised in full even though they might be ring-fenced to meet scheme obligations. We note there would be disclosures under paragraph 31(a)(iii)b, but these would not entirely rectify the position.

We agree with the eligibility criteria in Paragraph 9.

**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?**

We have concerns with the ED's approach and we agree almost entirely with the alternative view. It is difficult to see how the information resulting will be very relevant.

In contrast to AV2, however, we do not believe it is sufficient to allow preparers to determine which obligating event is most appropriate for their social benefit schemes. This would give rise to inconsistency in practice. Specific requirements would help to ensure consistent criteria are applied in determining when the obligating event is deemed to occur. Further guidance in the form of illustrative examples could then clarify the distinction in economic substance and, as a consequence, accounting treatment, between state pensions funded on an inter-generational basis and shorter-term social benefits.

The requirements of the recognition of the expense of social benefits could be made clearer. Currently Paragraph 17 says the recognition of the liability and the expense would occur together. Paragraph 24 on the other hand implies that the cost of social benefits would be recognised as they are provided. Given that the liability for social benefits will generally be short-term, the practical impact of any difference may, however, be immaterial.

**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?**

We agree with the disclosures required by paragraphs 31, 32 and 33.

Providing estimates of the undiscounted cash flows in future periods in relation to the different social benefit schemes will provide useful information and will be especially important information given the limited obligations that will be recognised under the proposed model of ED63.

In terms of whether five years forward is an appropriate period, it very much depends on the type of social benefit. This might be suitable, for example, for unemployment benefits given the typical length of the economic cycle in many countries. For state pensions, however, this seems an inadequately short period and there should be longer-term projections or indicators of how these obligations are expected to change over time.

We very much support providing information along the lines of RPG 1 as encouraged in paragraph 35.