

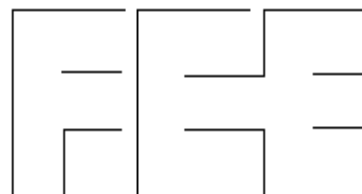
Date
30 June 2004

Le Président

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Dear Sir or Madam,

Re: IFAC Public Sector Committee invitation to comment – Accounting for Social Policies of Governments

1. Introduction

FEE (Federation of European Accountants, Fédération des Experts Comptables Européens) is pleased to respond to the Invitation to Comment (ITC) issued by the IFAC Public Sector Committee (IFAC PSC) on Accounting for Social Policies of Governments. FEE supports the progress made by the IFAC PSC in addressing difficult public sector specific issues. The ITC has been reviewed by members of the FEE Public Sector Committee. The response provides general comments and then considers the specific matters for comment on pages 5 and 6 of the ITC

2. General Comments

FEE agrees that it would be beneficial to develop authoritative guidance on accounting for the social policies of governments, supported by conceptual arguments.

FEE supports the general approach taken in the ITC to determining whether a liability exists. The use of the flow chart from IPSAS 19 ensures that each individual social policy to be considered is treated consistently and that the treatment remains rooted in the conceptual framework of the IASB. However, FEE thinks it is important to stress that the information on social policy obligations given by governments' financial statements needs to be complemented by detailed budgetary information.

3. Particular issues on which comments were invited by IFAC PSC

Specific matter for comment (a)

3.1. *Do you consider that separate Exposure Drafts and IPSASs should be prepared for:*

- (i) *old age and similar pensions; and*
- (ii) *other social policy obligations?*

In FEE's view it should not be necessary to issue separate IPSASs or Exposure Drafts for old age and similar pensions and other social policy obligations. The approach taken in assessing whether a liability exists for old age and similar pensions should not be different from that with other social policy

obligations addressed in this ITC. As schemes differ between jurisdictions, in respects such as linkage with income, it may not be straightforward to produce a standard which addresses the particular circumstances of pension schemes across the world.

Specific matter for comment (b)

- 3.2. *Do you consider that unfunded pension plans to provide government employees with benefits as a consequence of their employment, where pensions are to be paid from government revenues, should be included or excluded from the scope of any forthcoming IPSAS on social policy obligations?*

FEE does not believe that the pension plans of government employees, even where these are unfunded and to be paid from general government revenues, should be within the scope of the ITC. Such benefits are benefits of employment and, under the PSC's hierarchy, should therefore be accounted for in accordance with IAS 19. The obligations of government towards its employees are distinct from its social policy obligations towards the general population.

Specific matter for comment (c)

- 3.3. *Do you agree that notions of social benefits are well understood and need not be defined in an IPSAS? If you are of the view that it is necessary to define social benefits for inclusion in an International Public Sector Accounting Standard (IPSAS), please outline the reasons for this view and your proposed definition.*

In FEE's opinion it would be helpful to define social benefits for inclusion in a future IPSAS on accounting for social policy obligations. The inclusion of a definition will help users of the IPSAS to decide what is within the scope of the standard and what is outside. FEE is broadly happy with the definition given in Figure 2.2 of the ITC, which is taken from IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Specific matter for comment (d)

- 3.4. *Do you agree that the definition of a liability and the related concepts of a legal and constructive obligation in IPSAS 19 should be applied to non-exchange transactions in the public sector (see Chapter 3)? If you disagree, please outline the concept of a liability that you believe is appropriate for non-exchange transactions in the public sector.*

FEE agrees with the approach taken in the ITC in defining a liability and the related concepts of a legal and constructive obligation.

Specific matter for comment (e)

- 3.5. *Do you agree with the Steering Committee's conclusions about the alternative approaches to determining when a constructive obligation arises in Chapter 4? Are you of the view that there are other circumstances in which a constructive obligation may arise? If so, please describe those circumstances.*

FEE agrees with the Steering Committee's conclusions about the alternative approaches to determining when a constructive obligation arises outlined in Chapter 4. FEE supports Option 1 and considers that a constructive obligation can only arise once an individual satisfies all eligibility criteria and that the maximum amount of the obligation is the benefit entitlement from the current point in time to the next point in time at which eligibility criteria must be satisfied. In FEE's view any obligation prior to the satisfaction of eligibility criteria, would be a future obligation and not a present obligation.

Specific matter for comment (f)

- 3.6. *Do you agree with the Steering Committee View in Chapter 5 that a present obligation for the provision of goods and services to constituents does not arise prior to the provision of those goods and services? Do you agree that any costs incurred in acquiring goods and services for delivery in the future should be recognised in accordance with IPSASs or, in the absence of such, other generally accepted accounting practices for dealing with such exchange transactions?*

FEE agrees with the Steering Committee view that there is no present obligation in respect of collective goods and services prior to the provision of those goods or services. Providing collective goods and services is part of the ongoing activity of government and therefore no provision for the future costs of these activities should be made. Although a government announcement may give rise to an expectation that these goods and services will be provided in future periods, governments can and do change the type and level of services they provide, and therefore realistic alternatives to settling the 'obligation' do exist. In FEE's view a present obligation does not exist for collective goods and services prior to the delivery of the good or service.

FEE also agrees with Steering Committee View 2 in Chapter 5 that there is no present obligation for individual goods and services prior to the delivery of the service.

Specific matter for comment (g)

- 3.7. *Do you agree that the financial reporting consequences of cash advances provided by a government to allow individuals to purchase specified goods and services as discussed in Chapter 5 differ from cash advances discussed in Chapter 6 which are provided for use at the discretion of the recipient? If you disagree with this view, please outline your views on how an entity should account for cash advances discussed in Chapter 5 and Chapter 6.*

FEE agrees that the financial reporting consequences of cash advances provided by a government to allow individuals to purchase specified goods and services, should differ from cash advances which can be used wholly at the discretion of the recipient.

Specific matter for comment (h)

- 3.8. *Do you agree with the Steering Committee View in Chapter 7, that the principles developed in Chapters 5 and 6 also apply to specific events, such as disaster relief, which give rise to obligations which government will satisfy in the future. If you disagree with this view please identify the factor(s) that make disaster relief and similar specific events, different from other benefit as considered in Chapters 5 and 6.*

FEE agrees with the view put forward in Chapter 7 that there is not a present obligation until the point at which the goods and / or services are provided. A government may agree to provide disaster relief but it is possible for a government to withdraw from such an agreement.

Specific matter for comment (i)

- 3.9. *Do you agree with the majority view of the Steering Committee regarding old age pension obligations, the minority view of do you have another view (see Chapter 8)?*

A majority of FEE supports the majority Steering Committee view that there is only a present obligation for old age pension benefits when all eligibility criteria have been met and therefore no liability is recognised until an individual reaches retirement age.

The minority view of FEE supported Option 3: Pensionable Age. They consider that, under existing legislation, a present obligation exists when an individual reaches pensionable age and that this can be measured using actuarial assumptions. The minority view accepts that Governments can change

pension entitlements from time to time. However, such changes can be accommodated by adjusting the assumptions used in calculating the contribution to the pension provision in each relevant financial reporting period. This is therefore a measurement issue. The minority view is that Option 1 understates the liability associated with the state pension.

- (i) *If you agree with the majority view of the Steering Committee, are you of the view that additional disclosures about future obligations to provide pensions should be provided?*

FEE considers that additional disclosures in relation to future old age pension obligations are not justified. Old age pensions are a significant social benefit in some jurisdictions but are less significant than other individual and collective benefits in others. Therefore it is not appropriate to require additional disclosures just for pensions.

- (ii) *If you agree with the minority view of the Steering Committee, please confirm or outline the conditions you believe need to be present to support the existence of an obligating event.*

The members of the FEE supporting the minority view of the Steering Committee believe that reaching retirement age is the condition which supports the existence of an obligating event.

- (iii) *If you have a different view of the circumstances under which a provision for old age pension should be recognised as a liability, please outline that view.*

Not applicable.

Specific matter for comment (j)

- 3.10. *Do you agree with the Steering Committee View in Chapter 9 that the disclosure requirements in IPSAS 1 Presentation of Financial Statements and IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets should apply in respect of social benefits and that additional detailed disclosures of individual social benefits should not generally be required?*

FEE considers that the disclosures required by IPSAS 1, *Presentation of Financial Statements* and IPSAS 19 should be sufficient in respect of individual social benefits. However FEE also agrees that further information is required to allow users to consider the sustainability of governments' social policies.

Specific matter for comment (k)

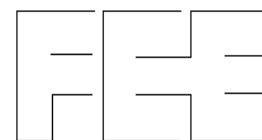
- 3.11. *Do you agree with the Steering Committee View in Chapter 9 that the PSC should explore the possibility of requiring disclosures about the overall sustainability of a government's social benefits including the assumption that higher level disclosures are more likely to meet users' needs?*

FEE agrees that the PSC should explore the possibility of requiring disclosure about the overall sustainability of a government's social benefits. This is consistent with standards such as IAS 19, *Employee Benefits* which require entities to disclose the principal actuarial assumptions in relation to employee pension plans used at the balance sheet date.

FEE also agrees that it would be preferable for the disclosures to address all government's social policies as a group as disclosures for each individual social policy would quickly become excessive. The level of assurance that auditors will be able to give on such disclosures will need to be addressed.

Specific matter for comment (l)

- 3.12. *Do you foresee any audit issues that might arise if "sustainability disclosures" were included in the financial statements? If so, please describe those issues.*



While FEE agrees in principle that “sustainability disclosures” would be useful for users of the financial statements, the inclusion of such disclosures could lead to difficulties for auditors. However auditors already audit cash flow projections in relation to impairment of assets and therefore should be able to provide adequate assurance in relation to cash flows from taxation.

4. Further comments on Steering Committee Views

4.1. *Steering Committee View 1 – Collective Goods and Services*

See paragraph 3.7.1.

4.2. *Steering Committee View 2 – Individual Goods and Services*

See paragraph 3.7.2.

4.3. *Steering Committee View 3 – Individual Goods and Services*

FEE agrees that the existence of a present obligation is not conditional on the means by which a service is provided to individuals.

4.4. *Steering Committee View 4 – Cash Transfers*

FEE agrees with the Steering Committee View that the present obligation for the payment of future cash transfers does not arise until an individual has satisfied all eligibility criteria and that the maximum amount of the obligation is the amount that the individual is entitled to from one validation point to the next.

4.5. *Steering Committee View 5 – Old Age Pension Benefits*

A majority of FEE agrees with the majority Steering Committee View (Option 1) that the present obligation only arises when all eligibility criteria have been satisfied. A minority view of the FEE supports Option 3. See comments in paragraphs 3.9.1. and 3.9.2.

4.6. *Steering Committee View 6 - Disclosure*

FEE agrees that the disclosure requirements of IPSAS 1 and IPSAS 19 are applicable to liabilities and contingent liabilities arising from social policy obligations.

4.7. *Steering Committee View 7 – Additional Disclosures*

FEE agrees with the Steering Committee view that the disclosure requirements included in general purpose financial statements are not sufficient for users to assess the sustainability of social policies and therefore further consideration should be given to this by the PSC.

We would be pleased to discuss with you any aspect of this letter which you may wish to raise with us.

Yours sincerely,

David Devlin
President