

## Swiss Comment to

## Exposure Draft 63 Social Benefits

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## 1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPCP has discussed the ED 63 Social Benefits and comments as follows.

## 2. General Remarks

The SRS-CSPCP takes the view that this ED is overall positive and is pleased that the ED turns out to be less complicated than the preceding CP. For reasons of practicability it is welcome that the time of recognition of social benefits liabilities has been set relatively late. This has the positive effect that the liabilities to be recognized can be reliably estimated. The SRS-CSPCP notes also that the proposed solution approximates current accounting practice in Switzerland (Confederation and cantons).

The SRS-CSPCP's position on the disclosures required is, however, very critical. In its opinion the notes to the financial statements are already very comprehensive and should not be extended even further. An expansion of the disclosure of the details of the various social benefit schemes and the future cash flows may be very sensible (particularly for the Confederation), but this should not be in the notes to the financial statements, but rather in a separate so-called sustainability report. It is not the purpose of the notes to the financial statements to reveal future perspectives. It is also not desirable that the notes contain a detailed description of the various social benefit schemes. A reference to existing documents (law, regulations or other) should be sufficient. Supplementing the notes with a detailed description of the social benefit schemes is desirable only in cases, for which none of the above-mentioned documents exist.

In this ED also only the outflows are mentioned, but not the inflows. In a social benefit system with contributory payments by the members, these inflows represent a considerable part of the financing. As the inflows are treated in the coming standard on Revenue and Non-Exchange Expenses, it would be important that the standard on Social Benefits becomes effective simultaneously. Otherwise it is possible that the treatment of such social benefit systems is asymmetrical both in timing and content. But the expense and revenue pertaining such a social benefit system must be treated consistently. The SRS-CSPCP therefore wonders whether the planned standard on Social Benefits could not be integrated into the new standard on Revenue and Non-Exchange Expenses.

## 3. 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?*

The SRS-CSPCP agrees with the scope of this Exposure Draft.

#### 4. 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 SRS-CSPCP finds that the definition of *social benefits* is not a definition at all. In Paragraph 6 is stated only to whom *social benefits* are paid. The SRS-CSPCP therefore proposes adding before the beginning of Paragraph 6 the following: “Social benefits are **transfers in cash or kind** provided to...”.

As universally accessible services (UAS) are not included in this ED, but social risks are, the question arises as to the distinction between these two expressions. How are cases to be treated under whose criteria both social risk and also non-social risks are covered? Which predominates? For this distinction the expressions “risk” and “social” are fundamental. The SRS-CSPCP, however, finds that the definition of social risks is unclear.

In particular, the definition does not explain why it is important to talk of “social risk”. It does not explain why the expression “risk” is employed.

Furthermore, the definition actually relates only to individual aspects. Therefore, the definition would also have to explain why the expression “social” is employed. As the SRS-CSPCP understands these definitions, it proposes that they be supplemented. It should be mentioned that a social risk exists, as soon the probability that an individual is affected by unfavorable circumstances is more than zero (thus the rationale to use the expression “risk”). If this risk becomes concrete, in retrospect important social, i.e. collective measures must be taken to mitigate its consequences, assuming that the eligibility criteria are fulfilled (thus the rationale to use the expression “social”).

The definition of Universally Accessible Services (UAS) is also imprecise. It should better explain what UAS and social risk have-or more accurately have not-in common.

1. Firstly, the provision of UAS is not associated with a risk.
2. Further, UAS are not provided retrospectively, in order to take collective (i.e. social) corrective measures after a risk has become concrete.
3. Finally, there are no restrictions on the use of a UAS (no eligibility criteria). In the case of a UAS, the state waives a restriction on access, even if it is possible technically or financially (physical possibility of exclusion). Therefore, any individual can benefit from a UAS. It is sufficient that it is alive and wants to benefit from a UAS. In certain cases, the state provides the individual with an incentive to use a UAS, even if this service is not wanted.

E.g. schools clearly belong to the UAS: it is not associated with a risk and there is no access restriction (although technically it would be perfectly possible to restrict the access) and the UAS is not a response to a risk. Universal health services are also a UAS: even if subsequently the consequences of a risk being realized are mitigated, no access restriction is decreed in advance so that these consequences are borne collectively (i.e. socially).

The SRS-CSPCP points out that the above-mentioned points 1 and 2 are necessary in connection with ED 63 in order to make the distinction between UAS and social risk. Point 3 corresponds with the general definition of UAS (in Switzerland for example in the telecommunications law or the postal law).

## 5. 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) In principle the SRS-CSPCP does not support choice among accounting options, because comparability among public sector entities is not ensured. Furthermore, comparability between two social benefit schemes of a single public sector entity would also not be ensured, if for one scheme the Insurance approach and for the other the Obligating event approach were chosen. Permitting a choice of options contradicts the qualitative characteristics defined in the Conceptual Framework: Relevance, Understandability and Comparability. However, the SRS-CSPCP is perfectly aware of the fact that some social insurance schemes function in the same way as 'standard' insurances. In Switzerland it is particularly the case of the military insurance (i.e. army-related illness and accident insurance) and statutory accident insurance (Suva). As far as this kind of schemes are concerned, IFRS 17 is applicable. Since IFRS 17 is applicable only if the plan is fully funded by premiums paid to the scheme, the Insurance approach is feasible. However, this kind of schemes should not have the choice between both options. They should be required to apply the Insurance approach. In all other cases, the Obligating event approach should be applied.
- (b) Because, as mentioned under (a), the SRS-CSPCP is of the opinion that the Insurance approach should not be included in a standard on social benefits, an answer to this point is superfluous.
- (c) This answer is superfluous in view of the SRS-CSPCP's response to question (a).
- (d) This answer is also superfluous in view of the SRS-CSPCP's response to question (a).

## 6. 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?*

The SRS-CSPCP agrees with this statement. The approach of recognizing the liability at the above-mentioned point in time represents the solution that can be best realized in practice and that can be most reliably estimated.

It is, however, pointed out that from a technical accounting aspect it is disturbing that the criterion "being alive" is ranked as Recognition Criteria; this in contrast to IPSAS 30 Employee Benefits, where the death probability is considered among the Measurement Criteria. This results in a conceptually different treatment of the liabilities under IPSAS 39 and ED 63 – while for Social Benefits a very short period is set for a liability (in the Swiss social insurance system in principle 1 month), for Employee Benefits it is a period of 15 to 20 years. Accordingly, the balance sheet amounts for liabilities under IPSAS 39 and ED 63 are not comparable with one another. It should be examined whether this conceptual difference should have to be explicitly disclosed.

## **7. 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) The SRS-CSPCP is of the opinion that the requirements for disclosure of the characteristics of social benefits systems are much too detailed. They exceed the bounds for the details which are necessary and useful in the notes to the financial statements. In the notes, also, the materiality principle should be observed; accordingly, they should not be exaggerated unnecessarily. In the view of the SRS-CSPCP the notes should not contain detailed, but summarizing information about the accounting. The SRS-CSPCP fears that excessive requirements that are difficult to implement in the IPSASs will have the result that they will no longer be applied by public sector entities in Switzerland for cost-benefit reasons.
- (b) The SRS-CSPCP agrees with the requirements for disclosing the costs of social benefits in the financial statements.
- (c) The SRS-CSPCP is not quite clear why the future *cash flows* for social benefits should be disclosed. This is not required in other areas (e.g. taxes), although these may also be large amounts. Furthermore, the disclosure should not be a substitute for financial planning. Comprehensive disclosure is certainly necessary for countries that do not draw up a budget or a financial plan. In the public sector entities in Switzerland, however, both detailed budgets and financial plans based on accrual accounting are drawn up covering several years. For this reason the SRS-CSPCP is of the opinion that such disclosure is possible, but should not be obligatory.

**8. 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?*

The SRS-CSPCP is of the opinion that the IPSASB should not undertake further work on reporting on long-term fiscal sustainability, because this is not part of accounting. The SRS-CSPCP believes also that, apart from the Confederation, a binding reporting on long term fiscal sustainability is not an adequate means of control.

Lausanne, February 19, 2018