

**The Japanese Institute of
Certified Public Accountants**

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Mr. John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario, Canada M5V 3H2

Comments on Exposure Draft 63 “Social Benefits”

Dear Mr. Stanford,

The Japanese Institute of Certified Public Accountants (hereafter “JICPA”) highly respects the International Public Sector Accounting Standards Board (hereafter “IPSASB”) for its continuous effort to serve the public interest. We are also pleased to comment on the Exposure Draft 63 “Social Benefits” (hereafter “ED”). On the very last page of our comment is the “Other” section, where we have additionally shared our comments other than those already discussed in Preliminary Views and Specific Matters for Comments.

It is our view that “Social Benefits in Kind” should be included within the definition of social benefits, the same as in the Consultation Paper (CP) “Recognition and Measurement of Social Benefits.” This is because in Japan there are cases where funding or services are provided to intermediary institutions, rather than to specified individuals and/or households, from the public entities that operate the social benefits system.

We agree with the IPSASB view under the obligating event approach, that liability be recognized upon 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). However, we suggest the IPSASB should clarify why the other four recognition points proposed in the CP were denied.

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?

Comment:

JICPA agrees with the IPSASB's view.

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?

Comment:

JICPA agrees with IPSASB's view regarding the definition of social risks and universally accessible services. We seek better clarification on the following two points regarding the definition of social benefits.

(1) Regarding the relationship with IPSAS 39 "Employee Benefits"

IPSAS 39 paragraph 8 defines employee benefits as follows: "Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment."

IPSAS 39 paragraph 45 states: "This Standard deals only with employee benefits of the entity, and does not address accounting for any obligations under state plans related to employees and past employees of entities that are not controlled by the reporting entity."

Pursuant to the above provisions, benefits to private sector employees who join social benefit systems (i.e. state plans under IPSAS 39) managed by public sector entities, are not considered employee benefits but rather social benefits.

(2) Social benefits in kind

In our view, "social benefits in kind" should be included within the definition of social benefits.

Under Japan's healthcare insurance system, when the insured people receive medical services, they bear a portion of the total cost of medical services and make payment to the healthcare service provider, and after completion of a review, the healthcare insurance association remits the insurance payment to the healthcare service provider.

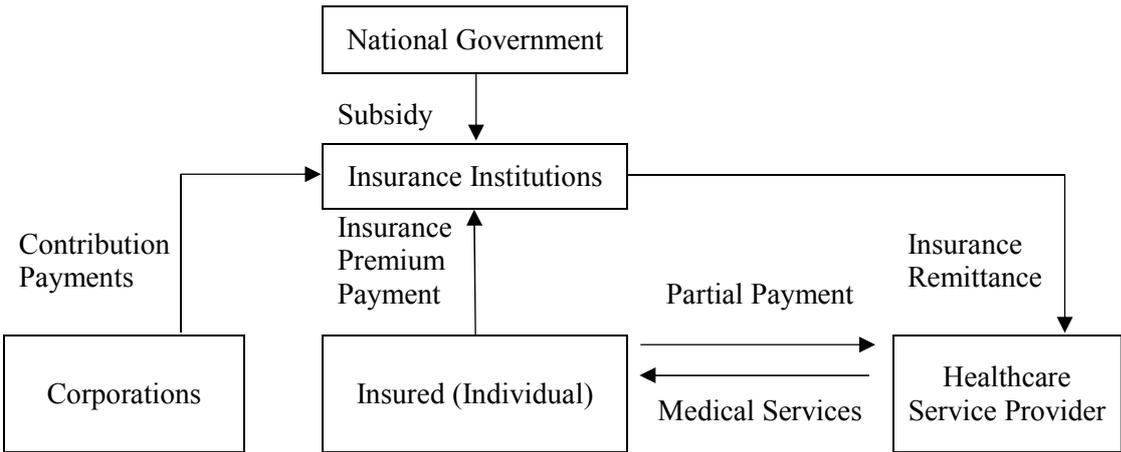
According to the proposed definition of social benefits in the ED, it is only a social benefit when "a specified individual and/or household" is directly paid from social benefit system.

Therefore, we are afraid that, in our case, insurance institutions remit insurance payments to healthcare service providers, could not satisfy the definition of social benefit under the ED.

We are of the view that this kind of insurance payment should be classified within the category in the CP of “Social Benefits in Kind (indemnification of costs incurred by individuals and households).” We would like the definition of social benefits to be expanded in order to clarify that social benefits in kind (services that are not universally accessible) are included as well.

AG 7 states “some social benefits may be provided in kind; for example where a government program provides healthcare insurance for those who are unable to afford private healthcare insurance. Where benefits in kind are universally accessible, for example a universal healthcare service, these do not meet the definition of a social benefit for the purposes of this [draft] Standard.” Japan’s healthcare insurance system provides in kind benefits (medical services) but they are provided where eligibility criteria are met, and so they are not universally accessible services, and we therefore consider it to be a social benefit.

(For reference: A Brief Illustration of Japan’s Healthcare Insurance System)



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.

Comment:

JICPA agrees with the IPSASB's view.

We think the statement of the basis for conclusions (BC) should be strengthened regarding the reasons that eligibility criteria for the next benefit have been satisfied by the past event, giving rise to a liability for a social benefit scheme. In particular, regarding cases (a) and (b) of BC 83, it should be clarified since it is unclear what kind of cases are specifically being explained.*

The reasons would be added to the BC statement as follows:

- There could exist measurement uncertainty, with respect to BC 59 (a) the point at which the key participatory events have occurred and (b) the point at which threshold eligibility criteria have been satisfied.
- In some jurisdictions, entities could not prepare enough information to estimate social benefits those are needed for employee benefits.
- While the estimation method for the liability amount for social benefits has not yet been established, if preparers of financial statements are able to choose a range of obligating events, there is a risk that the comparability would not be ensured.
- If the reporting entity can estimate amount for social benefit liabilities at the earlier point of obligating event than the point proposed in the ED, the IPSASB can recommend note disclosure for the fact, in order to achieve the purpose of the financial reporting well.

We assume that measurement uncertainty in social benefit liabilities can be resolved in the future, together with the enhancement of estimation methods and practical experience. For the demonstration of accountability of public sector entities, the alternative approach asserted by BC 59 "(b) recognizing an obligation where threshold eligibility criteria have been satisfied" should be reconsidered, after a period of time has passed following the enforcement of the standard.

*Regarding the case described in BC83 (a) and (b), we can exemplify following cases:

- (a) Where social benefit system benefits cannot be paid, due to insufficient funds.
- (b) Where a valid expectation results in the primary entity having little or no realistic alternative to settling the obligation, based on record of past disbursements under the social benefit system.

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?

Comment:

JICPA agrees with the IPSASB’s view regarding disclosure requirements for the obligating event approach. As we mentioned on Specific Matter for Comment 4, if entities can estimate at the earlier point in the ED, we think the IPSASB should recommend entities to disclose such estimation result in the notes disclosure. This recommendation can encourage entities to accumulate and enhance accounting practices for social benefits liabilities.

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 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:

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?

Comment:

Currently, we do not anticipate the need for further work specifically on the reporting on long-term

sustainability.

As for the reporting of long-term financial sustainability including social benefits, since only a few years have passed since RPG 1 was issued, it has not yet established broadly prevailed accounting practice. After several years have elapsed since the final standard based on the ED takes effect, we should consider feedback from stakeholders and whether or not to require mandatory requirements.

Other

- We would like the IPSASB to clarify the definitions and differences between “ongoing eligibility criteria (BC 66, etc.)” and “further eligibility criteria (BC 83 etc.)”
- BC 83 states that “an entity having little or no realistic alternative to settling (settle) the obligation—.” In “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities” paragraph 5.15, obligations are said to be “avoided.” We think the term in the ED should be consistent with the conceptual framework.

Yours sincerely,

Shuichiro Akiyama

Executive Board Member - Public Sector Accounting and Audit Practice

The Japanese Institute of Certified Public Accountants