

## IPSASB ED 63 Social Benefits

Thank you for the opportunity of commenting on this ED. It is a topic that raises some fundamental issues. This ED, if implemented, will have a significant effect on Whole of Government balance sheets, and it may well face considerable stakeholder resistance, local adaptation, or prescribed exclusion from the group of “applied IPSAS standards” in any particular jurisdiction. That in itself may be a poor outcome for the IPSASB. But as I can also see the attraction in tackling this aspect of liability recognition, my detailed comments are as follows:

1. In terms of Scope and definitions, my view would favour the obligating event approach, even with a softening of the prescription in the proposals, in para 13, which under the obligating event approach, that the present obligation “can be measured”....etc.
2. I attended a discussion of this ED offered by Ken Warren, which was extremely informative. However, it was also clear that the audience included those who were wedded to the political rhetoric that the current universal superannuation in NZ is unsustainable or unaffordable, or both. Those persons are prioritising a theorised ‘affordability’ over fairness and logic based on current factual data. I disagree with those views of prioritising a theorised affordability, but it certainly driving some of the measurement debate.

Measurement is at the very heart of this ED.

It does concern me that measurement issues for pension liabilities will enter political debates, with governments able to manipulate liability measurement with the change of even just a few of the underlying assumptions, such a longevity, net migration, and equalising or distinguishing gender-based distinctions in entitlements or longevity. In addition, of course, subjectivity is most apparent in the choice of interest rates and future returns on assets.

3. One theme in the discussion papers is decision-usefulness. However, how Whole of Government financial reports are used, and who uses them, is as yet an open question when considering an inter-jurisdictional perspective. I wish to cite from a comparative international study I undertook on “Consolidated Government Accounts: How are they used?” published July 2015, co-authored with Danny Chow (UK), Raili Pollanen (Canada), Ronald Day (Sydney), and Caroline Aggestam Pontoppidan (Denmark)

- [http://www.accaglobal.com/content/dam/ACCA\\_Global/Technical/pubsect/ea-consolidated-government-accounts-v4.pdf](http://www.accaglobal.com/content/dam/ACCA_Global/Technical/pubsect/ea-consolidated-government-accounts-v4.pdf)

The objective of this study was to research how consolidated government accounts are actually used and developing a more nuanced understanding of the notion of ‘use’ and ‘users’ of such accounts.

This study adopted an empirical approach: staff at key public sector and government institutions in all five countries were interviewed. Interviewees included those significantly involved in the development of the consolidated financial reporting system, as well as staff in the ministry of finance/ treasury, auditors, those responsible for parliamentary scrutiny, policymakers, and external users such as credit rating agencies.

“One [NZ] interviewee thought that there was a particular use of the report by the credit rating agencies, to the extent that the International Public Sector Accounting Standards Board (IPSASB) may view the credit rating agencies

as higher-profile users. ‘The view that’s expressed in the IPSAS conceptual framework [is] that financial statements are primarily for the benefit of resource providers and their agents and service recipients and their agents. “And their agents” is quite an important part of this. So we see probably the people that pore through [the NZ Whole of Government report] the most, and ask us the most detailed questions on the financial statements, are the rating agencies; because they’re providing – well we’re paying for it – they’re providing a service to lenders’. From the perspective of the credit rating agency representative, it is seen as important in order to achieve comparability between countries, as such agencies are required to work not only with WGA-NZ but also the IMF-based Government Finance Statistics (GFS). New Zealand has begun to produce a GFS series by the Department of Statistics, supported by the New Zealand Treasury. It may be observed that the use of the WGA-NZ by any credit rating agency worldwide needs to be complemented by data organised along the lines of the ‘Government Finance Statistics’ (IMF-based). Complexity is not so much an issue, but comparability is”. (page 16 of the report)

When interviewing Kevin Simpkins for this project, he reminded me that one group of users are the external users:

- media and political commentators
- economists have a slightly different focus. “So if you were working in the NZIER or something of that nature you may have a much broader or slightly different interest in terms of the commentary, you might be generating with analysis you’re doing”.
- financial institutions and the banks - they are clearly using that government data and making judgements and decisions
- The markets are ‘another bundle’ and they are driven by economic considerations.

Internally: there are

- politicians as individuals, but political parties probably are stronger users than individual politicians; and
- Treasury is using information about other parts of government to inform its job, other parts of individual parts of government using the information about themselves and others to formulate their own judgements on their strategy and approach and their work with their minister.

Thus given such diverse users even within NZ, in his opinion, how user needs are conceptualised remains a thorny issue. To cite “users and decision making” is not as clear-cut a guide to consistency in decisions about the measurement processes in this ED as one might hope.

This study for ACCA “highlighted the challenges that accountants face in attempting to build a global and/or unifying architecture for accounting, with parliamentarians generally more comfortable with cash-based budgets and economists showing a preference for statistical accounts, given the latter’s widespread international use and acceptability. The development of consolidated-accounting-based systems is too inconsistent between countries for it to be competitive from a macroeconomic

perspective against a UN/EU mandated system of statistical accounts, despite significant overlaps in the ways in which both GAAP and statistical systems source their data from government bodies. As a consequence, the way in which consolidated government accounts are used is dependent on the country context”.

I have quoted at length from this study as it highlights the challenge of the IPSASB task: a diverse set of perspectives around the IPSAS Board table as to the nature and needs of user groups. The extent to which stakeholder uptake of this ED may be contentious remains to be seen, but my very best wishes for its success,

Thank you,

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