



Exposure Draft 59 - Amendments to IPSAS 25, *Employee Benefits*

ICAEW welcomes the opportunity to comment on the *Amendments to IPSAS 25, Employee Benefits* exposure draft published by the International Public Sector Accounting Standards Board (IPSASB) in January 2016, a copy of which is available from this [link](#).

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MAJOR POINTS

Support for the exposure draft

1. We welcome the opportunity to comment on IPSASB's exposure draft (ED) on *Amendments to IPSAS 25, Employee Benefits*. We broadly support the proposals, which further align IPSASs with IFRSs. However, as explained below, this ED highlights the need for further alignment with IFRS more generally, in particular the need to introduce to IPSAS the concept of Other Comprehensive Income (OCI).

Further alignment with IFRSs required

2. We acknowledge the work carried out by IPSASB in keeping the existing suite of IPSASs up to date and creating new, public sector-specific standards. However, IPSAS 1 – *Presentation of Financial Statements* is based on a 2003 version of the IFRS equivalent, which predates the use of OCI. The omission of OCI not only prevents the proper segregation of gains and losses from other elements of equity, it also raises broader questions about IPSASB's ability to keep up with IFRS developments as well as create new, public sector-only standards.
3. IAS 1 *Presentation of Financial Statements* was revised in 2007 to make information provided in financial statements more useful. As part of this revision, IAS 1 made the reporting of OCI compulsory for accounting periods starting on or after 1 January 2009. Since the revision of IAS 1 in 2007, the IASB has decided in various projects whether entities should present items of income or expense in profit or loss or in OCI, and the result has been an increased use of OCI.
4. The fact that IPSASs do not feature OCI means that some gains and losses remain within equity and are presented less clearly than they would be if they were part of total comprehensive income. We feel that IPSASB should address this lack of alignment with IFRS with some urgency, to increase the transparency of public sector primary financial statements.

RESPONSES TO SPECIFIC MATTERS FOR COMMENT

Question 1:

Do you agree with the proposals in the Exposure Draft for revision of IPSAS 25? If not, please indicate what proposed amendments you do not agree with and provide reasons.

5. In its response to the IASB's proposed amendments to IAS 19 in 2010, ICAEW strongly supported the removal of the corridor approach on the grounds that there was no good conceptual justification for a method under which recognition of a portion of an asset or liability may be deferred. Actuarial gains and losses should be recognised in full in the period in which they arise.
6. We also welcomed the IASB's proposals to bring clarity to the presentation of items in total comprehensive income by streamlining the components of defined benefit costs. We supported the proposed distinction between service cost, net interest expense and remeasurement components, but noted that there was no clear conceptual basis for where the components of defined benefit costs should be presented within the performance statement.
7. In response to the 2010 consultation, we questioned the presentation of some of the detailed components of remeasurements in OCI rather than profit or loss, arguing that items subject to immediate management decisions should be presented in profit or loss rather than OCI. We did agree however that all other items of remeasurement should be presented in OCI and, as such, have reservations about showing these items in net assets/equity under IPSAS 25.

8. We believe that the presentation by governments of comprehensive surplus or deficit would provide users with a more holistic view of performance and improve transparency of public sector financial reporting. IFRSs and hence IPSASs are based on a balance sheet approach which looks at the change in taxpayers (owners) equity to determine the surplus or deficit during the period between balance sheets. It is therefore vitally important that changes in equity are presented as transparently as possible. We do not feel that this is achievable without the use of an OCI section in the performance statement.
9. We do not agree with the flexibility allowed in determining the discount rate for actuarial assumptions in paragraphs 91 to 94. We see no benefit in simply stating in the initial, bold paragraph (91) that the discount rate shall reflect the time value of money. The bold section of paragraph 91 should require the determination of the discount rate by reference to government bonds, and if there is no market in such bonds, then by reference to corporate bonds. We feel that paragraph 94 contains all the right elements, but that these should be spelt out more prominently in the bold section of paragraph 91.
10. Discount rates are a large driver of annual changes in pension scheme values. Basing the discount rate on an observable input such as government or corporate bond rates would lead to less volatility and increase comparability and transparency. The risk of manipulation would also be diminished.

Question 2:

IPSAS 25 currently includes a section on Composite Social Security Programs (paragraphs 47-49). The IPSASB is considering deleting this section because the IPSASB is not aware that it has been applied in any jurisdiction. If you do not agree that this section should be deleted, please provide a reason for your response along with any proposed revisions.

11. BC4 of IPSAS 25 states that composite social security programs are used in many jurisdictions to pay for post-employment benefits. Therefore, the standard should, in our view, retain the relevant paragraphs. Including these requirements are important because they help readers understand the nature of composite social security programs and that they can provide both benefits that are not consideration in exchange for service rendered by employees or past employees and also benefits that are to pay for post-employment benefits. It also seems odd to suggest that this section should be deleted because, at this point in time, you are not aware that any jurisdiction has applied this section. This may not always be the situation.
12. It may be a good reason to delete this section if such arrangements are now rare or non-existent; but otherwise the section should remain in place for jurisdictions that do have such arrangements and are likely to or may apply IPSASB standards in future.