

Paris, July 23, 2008

**Observations on the IPSAS Board Consultation Paper issued in March 2008  
addressing “Social benefits: Issues in recognition and measurement”**

These observations are presented in two parts:

- general comments;
- responses to the questions raised in the CP.

**1 - General comment**

*Points have to be emphasized*

Before discussing the proposed answers to questions of the consultation paper, it should be asked, in advance, the question of the impact of this debate in the balance sheet of the central government and the public entities as well. These issues need to clarify the question of perimeter of the "social benefits" and allow measure the scope of the various options accounting, such as the delicate distinction between "exchange" and "non-exchange transactions."

a) The scope of the balance sheet and income statement

It is a fundamental debate, closely linked to that related to the conceptual framework, whose consequences in the balance sheet change masses that appear in considerable proportions and hence the very meaning of this document.

Indeed, since the financial volumes involved are very high, they lead to recognise liabilities higher than those already accounted for and therefore, in the absence of corresponding assets, very important negative net assets. It is therefore legitimate to raise the question of the meaning and usefulness of information issued by the financial statements and wonder about the objective of the accounting of public entities. A debate on options accounting that lead to totally different presentations depending on the choices made can not be reduced to a discussion of theory or technical accounting, even if these dimensions must of course be taken into account.

Work on the conceptual framework of the IPSAS Board should play an important role in this debate as it should set the objectives of accounting and define the specific features of the public sphere in relation to the activities of enterprises. Options accounting also fraught with consequences can not be discussed without measuring at the same time the implications on the conceptual framework.

The document provides a good introduction to these debates listing the items for which the choice to be made will determine the structure and sense of financial statements Most significant among them should be presented in terms of impact on the balance sheet and the

income statement. This is the issue of perimeter and the distinction between "exchange" and "no exchange" transaction applied to the required contributions.

#### b) The perimeter

The consultation paper proposes three categories of items a priori candidates to be included in the perimeter. The debate on the inclusion of each of them in the perimeter raises problems of a different nature. If one wants to avoid, for reasons of efficiency, a theoretical discussion on the mission of public entities and the economic justifications of their existence, one can pose the problem in a very concrete way from the finding that the perimeter must include at least the cash transfers without return, for which specific standards are indispensable (definition of the event). For others in effect and insofar as we consider that it is essentially production services (free), "classic" accounting standards can treat them in that light. One should, however, consider what would be the consequences of this "pragmatic" attitude.

A priori, there seems to be no obvious relationship between the provision of utilities (within the meaning of the document, i.e. whose consumption is not individually) and that of cash transfers. Therefore, the inclusion of these services in the perimeter can be treated in itself. It opens a theoretical debate that transcends undoubtedly the accounting framework. The accounts can and must account for the production of such services and make it possible to measure the cost. The "pragmatic" approach mentioned above can do it. There is certainly an obligation to produce such services, particularly for Governments and the document notes, rightly, that this is probably the very condition for their survival. But consider that this obligation is a liability would mean little useful information and not justified by considerations of consistency and comparability with other "obligations" of Governments.

Regarding other distinctions, they are very directly related to issues to be addressed in the conceptual framework and in particular those relating to the use of accounts, the needs of users and the respective roles of accounting data and data on fiscal sustainability.

These issues should be studied in light of general principles of accounting and also retain some basic principles including a principle of neutrality: the accounts must trace the reality of rights and obligations and standards should not lead to obligations of the same scope being treated differently because the way of providing benefits is different.

#### c) The scope of the distinction between "exchange" and "non-exchange transactions"

The IPSASs are based largely on a fundamental distinction between these two categories of transactions. The scope of "social benefits" is necessarily included in the "non-exchange transactions." It is therefore very important to clarify the analysis of mandatory contributory schemes, funded by distribution under this distinction.

From this point of view the document is not sufficiently explicit. It seems that it considers the contributory schemes (or partially contributory) as falling within the scope of "exchange transactions". If so, it seems to us that this was the result of insufficient analysis of the characteristics of distribution schemes. The contributory feature may lead to assimilate these schemes to insurance companies, but the document indicates that it is also transferable to partly contributing schemes. This is hardly acceptable except by clarifying the meaning of the term "partial or partly".

In our response to the exposure draft on "non-exchange transactions" we had already noted the difficulty of applying the definition of these transactions to situations in which the counterparties were difficult to assess at the time of recognition. The concept of "approximately equal consideration" is problematic in the case of time lag between contributions and benefits. We find identify the same difficulty about partially contributory schemes.

We also need to take into account the mandatory nature of these regimes and the mode of funding allocation so that contributions are closely linked to taxes, to such an extent that national accountants have created the concept of compulsory levies to designate all taxes and compulsory contributions. Even if the benchmarks are different, we believe it is difficult to accept that a compulsory social security system funded by mandatory distribution is considered on the one hand as a government because contributions are mandatory and on the other hand as an insurance company because it is partly contributory. In our opinion, the analysis in terms of tax burden should prevail with all its consequences in accounting standards.

## 2 - Responses to questions

The IPSASB has identified the following Specific Matters for Comment:

1. Do you agree that, within the constraints of the current implied conceptual framework for general purpose financial reporting, current financial statements such as the statement of financial position and the statement of financial performance cannot convey sufficient information by themselves to users about the financial condition of governmental programs providing social benefits? Please state your reasons.

Within the limits of the current conceptual framework of general purpose financial reporting, the current financial statements provide financial information that is not completely satisfactory.

Indeed, either the triggering event is a combination of all eligibility criteria and the information is interesting but very limited, or it coincides with the birth of rights and financial information is richer and more comprehensive but not totally relevant, because in public finances the notion of inevitable future expenditures (which cannot all be included as such in the accounts) are hugely more important than the future expenditures resulting from past commitments.

2. Do you think that a present obligation to individuals or households arises at any time for:
  - a) Collective goods and services; and/or
  - b) Individual goods and services?
 If you think a present obligation does arise for either (a) or (b) or both (a) and (b) please indicate when and indicate your reasons.

The precise answer to this question anticipates a debate on the conceptual framework that has not yet taken place.

3. Do you think that a present obligation to individuals or households in respect of cash transfers arises when all eligibility criteria have been satisfied for:
  - a) Non-contributory programs; and/or
  - b) Contributory programs?If you think that a present obligation arises at an earlier point for (a) or (b) or both (a) and (b), please indicate that point and give your reasons.

A distinction should be made between compulsory contributory programs and non compulsory contributory programs and compulsory contributory programs should be treated as non-contributory programs.

4. Where a cash transfer program requires individuals or households to revalidate their entitlement to benefits, do you think that revalidation is an attribute that should be taken into account in the measurement of the liability or a recognition criterion?

Since the event of an obligation is determined with precision, revalidations that could intervene after the conclusion of this event can be treated only as elements of evaluation.

5. Do you think that in developing requirements for recognition and measurement of social benefits the IPSASB should further explore the executory contract accounting model briefly outlined in Key Issue 6. Please state your reasons.

Yes, we must further explore the accounting model of the executory contract. This includes the question of the status of elements provided under the long-term analysis of the sustainability of public finances (Management discussion and analysis - MD).

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