

Cour des comptes



À Paris, le 29 janvier 2016

**Comité consultatif  
sur la normalisation des comptes publics**

*Le Président*

IPSASB  
International Public  
Sector Accounting Standards Board  
529 Fifth Avenue  
New York NY 10017

**Objet: IPSAS Board Consultation Paper (CP) on « Recognition and Measurement of Social Benefits »**

In the Consultation Paper (CP) on « Recognition and Measurement of Social Benefits », the IPSAS Board rightly considers that “*social benefits accounts for a sizeable proportion of most governments’ expenditures*”.

The Consultative Committee of the French Financial Jurisdictions on Public Sector Accounting Standards expresses following views on the above mentioned Consultation Paper. Two subjects are specifically mentioned in the present answer:

- the proposed definition of social benefits;
- the accounting approach.

**1 – The Definition of Social Benefits**

The proposed definition for social benefits is: “*benefits payable to individuals*”

*and households, in cash or in kind, to mitigate the effect of social risks.”*

Two concerns should be taken into account:

- “*social risks*” is a very imprecise concept; in the CP, those risks are defined as “*events or circumstances that may adversely affect the welfare of individuals or households either by imposing additional demands on their resources or by reducing their income.*” That definition can cover a number of situations, that should more precisely be described in the CP;
- the issues addressed in the CP could concern other entities than individuals or households, for example transfers to business enterprises or other public entities; in France, notions like “transfers” and “intervention expenses” are currently used, with similar accounting approaches to social benefits; those issues should be addressed in the CP.

## 2 – The Proposed Accounting Approaches

The IPSAS Board proposes three different accounting approaches for social benefits:

- The obligating event approach;
- The social contract approach;
- The insurance approach.

The social contract approach is of theoretical interest but seems to be difficult to apply, given the fact that social benefits are generally paid after the verification of eligibility criteria. The insurance approach might be applied to social benefits whose entitlement is subject to prior contribution by their beneficiaries, but many benefits are not contributory and when they are, they are seldom proportional to those contributions.

As a consequence, the obligating event approach is the one that seems to be suitable; the « *eligibility criteria met to receive next benefit* » event (“c”), is the most appropriate obligating event; in some rare cases, when the evaluation of received claims cannot be conducted with sufficient reliability, the “*approved claim*” (“d”) can be chosen as the obligating event.

Lastly, the Consultation Paper does not mention the major issue of contingent liabilities linked to social benefits. To this respect, the “obligating event” approach should be completed with an analysis of the relevant elements that should be mentioned in the notes to the financial statements, in order to be consistent with IPSAS 19 requirements.

Our detailed comments follow this letter.

A handwritten signature in black ink, appearing to read 'Raoul BRIET', with a stylized flourish extending to the right.

Raoul BRIET

## Annex: detailed comments

### Question 1 (paragraph 2.50)

*In your view:*

*(a) Is the scope of this CP (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) appropriate?*

*(b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?*

*Please explain the reasons for your views.*

(a) No, a broader reflection should be engaged about the notions of « Transfers » and « Intervention expenditure », in order to be consistent with IPSAS 23 requirements.

(b) Cf. our above mentioned remarks in the cover letter.

### Question 2 (paragraph 3.4)

*(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?*

*(i) The obligating event approach;*

*(ii) The social contract approach; and*

*(iii) The insurance approach.*

*Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.*

*(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such*

*approach(es) and explain the strengths and weaknesses of each.*

(a) The social contract approach is of theoretical interest but seems to be difficult to implement, given the fact that social benefits are generally paid after the verification of eligibility criteria. The insurance approach might be relevant for some specific social benefits, in particular those financed by dedicated contributions, but it is not the general case.

As a consequence, the obligating event approach is the one that seems to be suitable.

(b) No.

**Question 3 (paragraph 3.4)**

*Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?*

*If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.*

Cf. our above mentioned remarks on the necessity of covering broader notions (“transfers” and “intervention expenditures”).

**Question 4 (paragraph 4.69)**

*In your view, at what point should a future IPSAS specify that an obligating event arises under the obligating event approach? Is this when:*

- (a) Key participatory events have occurred;*
- (b) Threshold eligibility criteria have been satisfied;*
- (c) The eligibility criteria to receive the next benefit have been satisfied;*

The existence of contributory benefits has no consequence on the accounting approach, because the payment of the contribution by the individual or household is then taken into account within the “eligibility criteria” analysis for granting the social benefit.

**Question 6 (paragraph 4.80)**

*In your view, should a social benefit provided through an exchange transaction be accounted for:*

- (a) In accordance with a future IPSAS on social benefits; or*
- (b) In accordance with other IPSASs?*

*Please provide any examples you may have of social benefits arising from exchange transactions.*

*Please explain the reasons for your views.*

The relevant issue is the consistency between the future IPSAS on social benefits and IPSAS 23.

**Question 7 (paragraph 4.91)**

*In your view, under the obligating event approach, when should scheme assets be included in the presentation of a social benefit scheme:*

- (a) In all cases;*
- (b) For contributory schemes;*
- (c) Never; or*
- (d) Another approach (please specify)?*

*Please explain the reasons for your views.*

*(d) A claim has been approved;*

*(e) A claim is enforceable; or*

*(f) At some other point.*

*In coming to this conclusion, please explain what you consider to be the relative strengths and weaknesses of each view discussed in this chapter.*

*If, in your view, a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises, please provide details.*

*Please explain the reasons for your views.*

The « *eligibility criteria met to receive next benefit* » event (“c”) is the most appropriate obligating event; in some rare cases, when the evaluation of received claims cannot be conducted with sufficient reliability, the “*approved claim*” (“d”) can be chosen as the obligating event.

Nevertheless, the Consultation Paper does not mention the major issue of contingent liabilities linked to social benefits. To this respect, the “obligating event” approach should be complemented by an analysis of the relevant elements that should be mentioned in the notes to the financial statements, in order to be consistent with IPSAS 19 requirements.

#### **Question 5 (paragraph 4.76)**

*In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach?*

*Please explain the reasons for your views.*

In France, the general principle is the non-assignment of receipts to expenditures for social benefits paid by the central Government. Social security funds are financed by social contributions and taxes which are allocated to them by the central Government, but do not either assign receipts to expenditures within themselves.

If some specifically identified and accurately assessed assets are dedicated to the coverage of social benefits liabilities, it seems suitable to include them in the scheme's presentation disclosed in the notes to the financial statements.

**Question 8 (paragraph 5.38)**

*In your view, under the social contract approach, should a public sector entity:*

*(a) Recognize an obligation in respect of social benefits at the point at which:*

*(i) A claim becomes enforceable; or*

*(ii) A claim is approved?*

*(b) Measure this liability at the cost of fulfillment?*

*Please explain the reasons for your views.*

Not relevant.

**Question 9 (paragraph 6.24)**

*Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?*

*Please explain the reasons for your views.*

The insurance approach induces that the level of each individual contribution is linked with the individual's risks. That system is not relevant for social benefits in France.



**Question 10 (paragraph 6.35)**

*Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:*

*(a) Any expected surplus should be recognized over the coverage period of the benefit; and*

*(b) Any expected deficit should be recognized as an expense on initial recognition?*

*Please explain the reasons for your views.*

Not relevant.

**Question 11 (paragraph 6.37)**

*In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions:*

*(a) Recognize an expense on initial recognition;*

*(b) Recognize the deficit as an expense over the coverage period of the benefit;*

*(c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;*

*(d) Offset the planned subsidy and the liability irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation; or*

*(e) Another approach?*

*Please explain the reasons for your views.*

Not relevant.

**Question 12 (paragraph 6.43)**

*In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities?*

*Please explain the reasons for your views.*

Not relevant.

**Question 13 (paragraph 6.63)**

*Do you agree that, in those cases where the link between contributions and benefits is not straightforward, the criteria for determining whether the insurance approach is appropriate are:*

- The substance of the scheme is that of a social insurance scheme; and*
- There is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.*

*If you disagree, please specify the criteria that you consider should be used.*

*Please explain the reasons for your views.*

Not relevant.

**Question 14 (paragraph 6.72)**

*Do you support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25?*

*Please explain the reasons for your views.*

Not relevant.

**Question 15 (paragraph 6.76)**

*Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?*

*Please explain the reasons for your views.*

Not relevant.