Recognition and Measurement of Social Benefits

Comments

In my opinion, another approach is possible. And we discuss his position about three themes:

- The scope of the standards dedicated to the question of social obligations;

- The recognition and measurement of liabilities and of provisions; or the recognition of a contingent liabilities, and

- Disclosures annexed to financial statements.

1. Scope

The scope of the future standards results from the combination (overall) of the IPSAS 19 entitled "Provisions, contingent liabilities and contingent assets" and the IPSAS 25 “Employee benefits”.

This ITC focuses on accounting for those social benefits specifically excluded from the scope of IPSAS 19 by paragraph 1(a). That is, those social benefits where the entity does not receive approximately equal value in return, including the circumstances where a charge is levied with respect to the benefit but there is no direct relationship between the charge and the benefit received. The scope of IPSAS 19 is set out in Figure 2.1 below.

Figure 2.1 IPSAS 19 Scope

> 1. An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for provisions, contingent liabilities and contingent assets, except:
>
> (a) those provisions and contingent liabilities arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits;
>
> (g) those arising from employee benefits except employee termination benefits that arise as a result of a restructuring as dealt with in this Standard.
>
> IPSAS 19 paragraph 1

IPSAS 19 paragraphs 7 to 11 describe the types of social benefits that are excluded from the Scope of the Standard. Paragraphs 7 and 8 of IPSAS 19 are shown in Figure 2.2.

Figure 2.2 Social Benefits

7. For the purposes of this Standard "social benefits" refer to goods, services and other benefits provided in the pursuit of the social policy objectives of a government. These benefits may include:

   (a) the delivery of health, education, housing, transport and other social services to the community. In many cases, there is no requirement for the beneficiaries of these services to pay an amount equivalent to the value of these services; and

   (b) payment of benefits to families, the aged, the disabled, the unemployed, veterans and others. That is, governments at all levels may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.

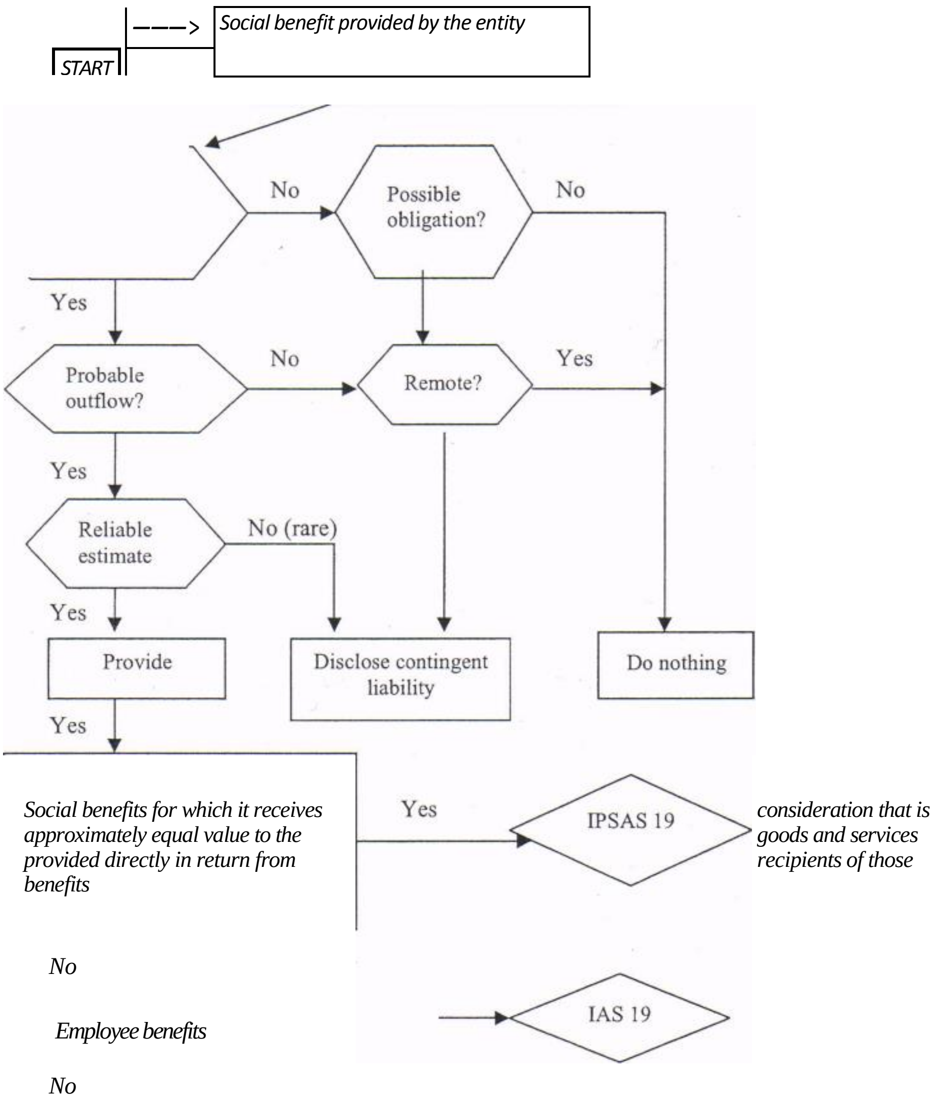
8. In many cases, obligations to provide social benefits arise as a consequence of a government's commitment to undertake particular activities on an on-going basis over the long-term in order to provide particular goods and services to the community. The need for, and nature and supply of, goods and services to meet social policy obligations will often depend on a range of demographic and social conditions and are difficult to predict. These benefits generally fall within the "social protection", "education" and "health" classifications under the International Monetary Fund's Government Finance Statistics framework and often require an actuarial assessment to determine the amount of any liability arising in respect of them.

IPSAS 19 paragraphs 7 and 8

And IPSAS 19 applies to all public sector entities other than Government Business Enterprises[1].

The tree of decision pulled (fired) by the previous works of the IFAC summarizes the scope of this invitation to comment.

[1] Business Enterprise3 An entity that has all the following characteristics:
(a) is an entity with the power to contract in its own name;
(b) has been assigned the financial and operational authority to carry on a business;
(c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
(d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and (e) is controlled by a public sector entity. (from Glossary of Defined Terms : see website of IFAC http://www.ifac.org/Members/DownLoads/2005_PSC_Glossary_of_Terms.pdf .



IAS 19 becomes IPSAS 25 “Employee benefits”.

2. **Liabilities or not ?**

Before describing exactly the posting of the pensions in the financial statements, the IPSAS 19 and the invitation comment on the social obligations of 2002 are engaged (surrender) in an effort of definition.

- Preliminary definitions. The notions of liabilities, liability are defined, of contingent, contingent liability liabilities, present, legal or constructive obligations, present, legal golden constructive obligations (bonds), as well as their accounting (countable) consequences towards the funding of the social obligations (bonds). While sending back (dismissing) to the definitions of the IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, the invitation with comment also asks the question to know if the other definitions cannot be proposed.

- Pensions been of use to the old persons because of their age (see minimum old age). The scope of the invitation to comment reserves these benefits to the persons because of their only age.

- The invitation to comment presented a triple option with the aim of the posting of these obligations :

- Or the beneficiary fills (performs) all the criteria of eligibility in the service of the service and in that case, no liability is established but charges her(it) or asks her(it) to pay is noticed according to payments. The majority of the steering committee with the posting of the social obligations of countries held (retained) this option. In this hypothesis, the others consider that a contingent liabilities should be recognized when future benefits must be granted; others dispute this last opinion by considering that these future obligations are not possible;

- Or the beneficiary satisfies certain criteria of eligibility. In the case of a present obligation, no liability is established but expenses her (it) or asks her (it) to pay is noticed according to payments. In the hypothesis of a future obligation, some people consider that a liability should be established because payments are likely and can be connected with the obligation; others consider the future obligation as a contingent liability because of the uncertainties which press on these obligations. The committee specially loaded with the posting of the social obligations of countries did not hold (retain) this option;

- Or the benefit depends on the age of entrance (entry) to the active life of the future pensioner or on the arrival of its anniversary to benefit from the pension (retreat). In this hypothesis for some, a liability could be constituted in the presence of a future obligation. The minority of the committee specially loaded with the posting of the social obligations of countries held (retained) this option. For others, a contingent liability could be recognized because the future obligation (bond) would be uncertain.

§ 8.45 of the invitation to comment of 2002 clarified moreover that the International Monetary Fund (IMF) considers these benefits old age as expenses of transfer which give place neither to constitution of provisions nor to a piece of information about a contingent liabilities, a French equivalent of the commitment except balance sheet (assessment).

In my opinion, it seems preferable to be held in the option 1 proposed by the particular committee of the IFAC, the solution corresponding to that of the IMF, it is - - to tell to consider the commitments of the " minimum old age " as spending (expenses) of transfer, by avoiding noticing provisions.

- **Other pensions and particularly pension benefits provided to government employees in exchange for their services as employees**

For me, it is necessary to refer to the capacities §19 to 72 of the IPSAS 19 to know notably, if these obligations those social benefits where the entity does not receive approximately equal value in return, the payment of the contributions of pension (retreat), establish (constitute) effectively liabilities which can give place to constitution of liability.

§19 of the IPSAS 19 defines the liabilities as the present obligations of an entity which arise from a past event which will have for consequence a decrease of the resources of the entity expressed in the form of economic advantages or of potential services.

Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

(a) Payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and

(b) Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

According with § 22 of IPSAS 19, a provision should be recognized when:

(a) An entity has a present obligation (legal or constructive) as a result of a past event;

(b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

(c) A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

In my opinion, about of the "French-style" contributory pension schemes, two obstacles appear to prevent the constitution of a liability under the influence of the definition resulting from §22 of the IPSAS 19. Indeed, the simulations concerning retirements:

- Either do not establish (constitute) present obligations but possible obligations such as defines them §18 of the IPSAS 19 by defining contingent liabilities, or an obligation which arises from past events and the existence of which must be only confirmed by the arrival or not of one or several uncertain events which escape completely the control of the entity,

- Or establish (constitute) present obligations which cannot be recognized because he (it) improbable that they will pull (entail) a decrease of the resources of the entity expressed in the form of economic benefits or of potential services or because the amount of this obligation cannot be measured in a reliable enough way. It is rather this last impossibility which should forbid the constitution of a liability and to allow on the other hand a financial piece of information about the contingent liabilities, the French equivalent of the commitment except balance sheet (assessment),

And, according with International Accounting Standard Board (IASB), there is a new definition of contingent liability[2] :" a conditional obligation that arises from past events that may require an outflow of resources embodying economic benefits based on the occurrence or non – occurrence of one or more uncertain future events not wholly within the control of the entity". Demographic events are "future events not wholly within the control of the governments.

"~~(a)~~ a ~~possible~~ conditional obligation that arises from past events ~~and whose existence will be confirmed only by~~ that may require an outflow of resources embodying economic benefits based on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.~~; or~~

~~(b) a present obligation that arises from past events but is not recognised because:~~

~~(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or~~

~~(ii) the amount of the obligation cannot be measured with sufficient reliability.~~"

In these conditions, it will be necessary to carry a financial piece of information about a contingent liabilities, a piece of information which will be annexed to the financial statements of the State or the Social Security.

3. Disclosure

According with 8.51 of ITC of 2002, the relevant disclosure requirements in IPSAS's are discussed in Chapter 9. Chapter 9 also considers broader issues related to the disclosure of information to support assessment of the sustainability of government's social policies. Many of these disclosures will be relevant whether Option 1, 2 or 3 is adopted, and will encompass amounts that do not qualify for recognition as a liability.

[2] Amendments to IAS 37 *Provisions, Contingent Liabilities andContingent Assets, definitions § 7. See Website :* http://www.iasb.org/

According with 8.52, where assets have been specifically set aside to fund future old age pension benefits or where a government maintains separate funding for such benefits (at least in part), disclosure of such assets or funds would be appropriate.

Disclosures annexed to financial statements depend on the recognition of a liability or of contingent liabilities.

In the first case, § 97 and 98 of the IPSAS 19 say:

” 97. For each class of provision, an entity should disclose:

(a) The carrying amount at the beginning and end of the period;

(b) Additional provisions made in the period, including increases to existing provisions;

(c) Amounts used (that is, incurred and charged against the provision) during the period;

(d) Unused amounts reversed during the period; and

(e) The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

98. An entity should disclose the following for each class of provision:

(a) A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;

(b) An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity should disclose the major assumptions made concerning future events, as addressed in paragraph 58; and

(c) The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.”

IPSAS 19, § 97 and 98

In the second case, § 100 of the IPSAS 19 foresee :

Unless the possibility of any outflow in settlement is remote, an entity should disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

(a) An estimate of its financial effect, measured under paragraphs 44 to 62;

(b) An indication of the uncertainties relating to the amount or timing of any outflow; and

(c) The possibility of any reimbursement.

The invitation to comment suggested the other remarks to annex to financial statements. According with § 9.16 to 9.20 of ITC. It would be a question of appreciating the budgetary "sustainability" of the social obligations of countries. And the IFAC to quote the experience(experiment) of States - United who informs about the long-term forecasts associated to the collections and to the payments concerning the big categories of social benefits, the value presents of these future advantages and the main demographic changes bound (connected) to these forecasts (see RPG1 “Reporting on the long term sustainability of the entitys’finances”)

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