



Paris, April 12, 2018

LE PRÉSIDENT

139, rue de Bercy
Bat. VAUBAN – 4ème EST 2
75572 PARIS CEDEX 12
FRANCE
Phone: + 33 1 53 18 29 23
E-mail: michel.prada@finances.gouv.fr

Mr John Stanford
Technical director
International Public Sector
Accounting Standards Board
International Federation of
Accountants
277 Wellington Street, 4th floor
Toronto
Ontario M5V 3H2 CANADA

Re: Response to Exposure Draft 63 *Social Benefits*

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Exposure Draft 63 *Social Benefits* published in October 2017 (ED63).

We commend the IPSASB for the work performed on the complex issue of social benefits, yet critical for the public sector. While we agree that the obligating event is the approach to retain to account for social benefits that are not provided through fully contributory schemes, we would like to underline that the notion of eligibility criteria could benefit from further guidance, especially to distinguish those that are related to social risks from those that are not. That would greatly help draw the line between social benefits and universally accessible services.

To the best of our knowledge, the insurance approach does not apply to most social benefits schemes. We understand that it would be seldom applied. For that matter, we would then question why it should be discussed before the obligating event which is the approach likely to apply in most cases. We are concerned that presenting the insurance approach first in the standard might convey the idea that the obligating event is a “by default” approach.

Eventually, contingent liabilities are disclosed in the notes to the accounts and their measurement factors in prospective information in accordance with the principles set out in IPSASs. As far as disclosure is concerned, we would disagree with providing limited forward-looking information, due to its similarity to sustainability information, on items that are neither elements of the primary financial statements nor contingent liabilities. We firmly believe that information solely on projected long term future cash flows pertains to a sustainability report that is not part of the notes to the financial statements. In that sense, we would rather RPG 1 remained recommended practice guidance outside the financial statements.

Responses to the detailed questions set out in ED63 are presented in the appendix.

Yours sincerely,

Michel Prada

APPENDIX

Specific Matter for Comment 1 (SMC 1)

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

As part of its process to respond to the IPSASB public consultation on ED63, the CNoCP presented the project to a panel of constituents in France comprising preparers and auditors. We observed then that constituents fail to fully grasp universally accessible services as defined in ED63. When facing practical examples, our constituents found that drawing a line between universally accessible services and social benefits proved challenging, hence raising implementation issues.

Social security in France provides financing for healthcare to beneficiaries that are either economically active or legal residents in France. The employers of those beneficiaries that are economically active contribute mandatorily to the healthcare scheme, though the scheme is now mostly funded by taxes. For each consultation with a doctor, those beneficiaries would pay for the fee for the consultation, then be reimbursed partially by a social security entity. Those beneficiaries that do not contribute to the scheme are still entitled to benefits on an individual basis. Based on this specific example and on the definitions proposed, the CNoCP understands that benefits to beneficiaries meet the definition of social benefits set out in ED63 be they provided in kind or in cash. This is because those benefits address the needs of society as a whole and are provided to specific individuals who meet eligibility criteria to mitigate the effect of social risks. Moreover, where benefits are provided to beneficiaries that do not contribute to the healthcare scheme (called “medical assistance” for the purpose of this letter), our additional rationale to assess that those benefits are social benefits, based on our interpretation of AG4, is that they are attributed only to those beneficiaries that consume healthcare assistance.

However, we are concerned that some could reach a different conclusion for our “medical assistance” based on paragraphs IE9 to IE11. Because one eligibility criterion is “residency”, our “medical assistance” could also match the case described in paragraphs IE9 to IE11. Because “residency” eligibility criterion is considered in IE11 to not relate to social risks, the conclusion would then be that our “medical assistance” should be considered universally accessible services, hence scoped out from ED63.

In our opinion, the perceived tensions mentioned above would call for further application guidance to be provided, especially where eligibility criteria related or not to social risks are concerned. We would suggest that the standard should put the emphasis on whether benefits are primarily provided specifically to individuals or households.

In addition, we struggle to see the difference between “universally accessible services” and “collective goods and services”; the latter were previously addressed –and scoped out- in the Consultation Paper. We would appreciate that some further explanation be provided in the Basis for Conclusions on what triggered the move from one terminology to the other.

In addition to our comment above on the exclusion of universally accessible services, while referring to the guidance in ED63.AG1 to AG3, we noted that AG1 states that similar transactions that are in the scope of other standards are excluded from the scope of ED63. To be thorough, there would be a need to ensure that if the economic substance is the same, even though those transactions are addressed in different standards, their accounting treatments should remain consistent. Because IPSAS standards are principles-based, it is somewhat difficult to reason that the standard, hence its principles, may not apply to all types of social benefits that meet the definition. This would only weaken those principles. One way forward could be to rewrite the paragraph along the lines of the suggested changes below:

AG1. [...] This [draft] Standard does not address ~~transactions that are similar to social benefits, but which are addressed in other IPSASs. Examples of such~~ transactions ~~in some jurisdictions might include~~ such as employee pensions (which are accounted for in accordance with IPSAS 39, *Employee Benefits*) and concessionary loans such as student loans (which are accounted for in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*). ~~Those transactions result either from formal agreements between an entity and individual employees, or groups of employees, or from contractual rights –still between an entity and an individual- to receive cash. However, though those transactions mitigate the effect of social risks and are provided to individuals, they do not meet the definition of social benefits in this [draft] Standard because they do not address the needs of society as a whole.~~

Specific Matter for Comment 2

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

We appreciate the effort that was put into streamlining the definitions and we note the improvement since the Consultation Paper.

However, as explained in our response to the question above, the scope of ED63 might be difficult to clearly grasp in some specific instances.

As concerns the perceived inconsistency mentioned in our response to SMC 1 above, we find that the word “poverty” included in the list of examples in subparagraph (a) of the definition of social risks is confusing. Poverty is a status that could as well be triggered by an earthquake, which is not a social risk as explained in AG9. We think that it should rather be considered a possible outcome of an event or circumstance that relates to the characteristics of individuals or households, such as illness, accident, unemployment, age limit, composition of the household, etc. It is merely the effect of the event or circumstance as described in subparagraph (b) of the definition of social risks.

Further still, reading together the definition of universally accessible services and the first sentence of IE11, one could question when an eligibility criterion might or not be related to a social risk. Therefore, we would strongly recommend that constituents should be given further guidance and examples as to what eligibility criteria related to a social risk might be as well as to how they could be identified. We believe that such guidance would help determine what universally accessible services are in contrast to social benefits.

Additionally, to comment on the form of the definition of social benefits, including subparagraph (d) “*Are not universally accessible services*”:

- reads poorly given the beginning of the sentence “*Social benefits are provided to:*”;
- defines social benefits by what they are not, which may weaken the three first positive characteristics and be of little help upon implementation.

Specific Matter for Comment 3

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;*
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;*
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and*

(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

The insurance approach would not address appropriately the way our social security system operates. Further, where contributions are mandatory, they would only remotely fit the conditions stated in paragraph AG12: beyond the contributions, transfers from the government to the social security entities are frequent to allow for the system to remain balanced year on year.

We therefore welcome the proposal that application of this approach should only be optional.

However, we would like to draw the Board's attention to the fact that the way the requirements to apply the insurance approach are expressed seems somewhat loose. For instance, we note that AG14 refers to "the **look** and **feel** of an insurance contract" and that AG15 (e) mentions that an entity may "**act like** an insurer". Our concern is mainly about the way judgement may apply and how application of the requirements in the standard may ensure comparability.

Eventually, we note that the insurance approach is mentioned in first position in the standard, though our understanding is that it is rarely applicable and though it is only optional. This could convey the idea that the insurance approach should be examined first. That feeling that the insurance approach should be a critical step in the analysis to determine the accounting treatment of social benefits is emphasised by the first sentence in paragraph 8: "Where an entity elects not to apply by analogy the requirements of [...] insurance contracts [...]". We would therefore recommend that the paragraphs on the insurance approach should be moved after those on the main approach, namely the obligating event approach.

Specific Matter for Comment 4

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

In line with our response to the Consultation Paper, we agree that the obligating event approach is the approach that best applies to our social benefit schemes.

In the context of our social security system, eligibility criteria as described in the ED are non-contractual, emanate from the sovereign power and are enforced by law or regulation. Therefore they play a key role in contrast to a system based on contractual relationships. This is why we fully agree with the satisfaction of all eligibility criteria for the next benefit being the past event that gives rise to a liability.

Additionally, in relation to our response to SMC 1, constituents would appreciate further guidance on what eligibility criteria are in relation to social risks.

Specific Matter for Comment 5 (SMC 5)

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;*
- (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and*
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):*
 - i. It is appropriate to disclose the projected future cash flows; and*
 - ii. Five years is the appropriate period over which to disclose those future cash flows.*

If not, what disclosure requirements should be included?

We would agree with narrative disclosures that describe the characteristics of social benefit schemes.

However, when it comes to information that should be disclosed in the financial statements, we retain a strict understanding of the concept of information to be disclosed. In that sense, information in the notes should relate to either elements that are on the face of the primary financial statements or elements that do not meet the requirements for recognition (contingent assets or liabilities¹). We believe that projected future cash flows related to any other items should be included in a sustainability report, rather than in the notes to the financial statements.

¹ See IPSAS 19 paragraph 18: definitions of contingent assets and liabilities.

From a practical standpoint, we find that -for our constituents- a difficulty lies in the proper identification of the rights and obligations attached to the various reporting entities involved in social security schemes. As a matter of fact, some entities may have actual obligations for long term benefits that some other entities would operate within a restricted timeframe. In such instances, where disclosures are required, identifying the reporting entity that should provide such disclosures remains the critical issue.

We are currently in France in the process of examining further what information in the notes would be relevant to a public sector entity and especially at what level of aggregation of individual entities such information would make sense and prove useful information to users where an obligation exists. Discussions on this issue take time because they mainly relate to the way the social security system is organised. For instance, the French Central government financial statements provide forward-looking information on the benefits that the government finances.

Specific Matter for Comment 6

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

Based on our response to SMC 5 above, we would recommend that RPG 1 on reporting on long term fiscal sustainability should remain a recommendation.

We do not think that the IPSAS *Board* should undertake further work on this issue in the medium term.