ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD BOARD’S CONSULTATION PAPER ON THE RECOGNITION AND MEASUREMENT OF SOCIAL BENEFITS (ED 132)

ED 132
Responses due by 20 January 2016

Issued by the Accounting Standard Board
August 2015
Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the International Public Sector Accounting Standards Board’s (IPSASB) Consultation Paper on Recognition and Measurement of Social Benefits (ED 132). Comment received on this Exposure Draft will be used in formulating a response to the IPSASB.

Comment should be submitted in writing so as to be received by 20 January 2016. E-mail responses are preferred. Unless respondents to the Exposure Draft specifically request confidentiality, the comment is a matter of public record once the pronouncement has been issued. Comment should be addressed to:

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Background to this Exposure Draft

Background and purpose of Consultation Paper

The International Public Sector Accounting Standards Board (IPSASB) recently issued a Consultation Paper on Recognition and Measurement of Social Benefits. No specific guidance exists within the current suite of IPSASs for social benefits. Social benefits often represent a significant portion of government’s expenditure, and they have the potential to result in large liabilities being recognised on government’s and public sector entities’ statements of financial position. It is therefore important for appropriate accounting and reporting requirements to be established.

As no accounting and reporting requirements exist at present for social benefits, these requirements need to be developed. The objective of the Consultation Paper is to solicit views from preparers, users and other interested parties on certain proposals relating to the accounting for social benefits. In particular, the IPSASB requires feedback on the proposed definition of social benefits (and other related definitions), as well as possible approaches that can be used to recognise and measure social benefits. Feedback received on the Consultation Paper will be used to further refine and develop specific accounting and reporting requirements for social benefits.

Importance of the Consultation Paper to the South African environment

As IPSASs are used as a basis to develop Standards of GRAP, it is important to understand what the implications of the proposals in the Consultation Paper are for the South African environment.

The proposals in the Consultation Paper affect public sector entities that provide cash, goods, or services to individuals or households to protect them against social risks. Social risks are any events or circumstances that may adversely affect the welfare of households, either by imposing additional demands on their resources, or by reducing their income, e.g. unemployment, disability, the need for healthcare, education and other services. A key feature of social benefits is that individuals and households need to meet certain eligibility criteria to receive social benefits. Individuals and households may, or may not, be required to make specific contributions to access these benefits, i.e. the social benefit programmes can either be contributory or non-contributory.

Some transactions undertaken by entities may not be within the scope of this Consultation Paper, for example, benefits paid to other entities. Similarly, benefits that are provided to all individuals and households are also not within the scope of the Consultation Paper. Where specific benefits are available to everyone, this means there is no social risk. These benefits may be addressed by another project of the IPSASB on non-exchange expenses.
Given the broad notion of social benefits, a number of entities across the public sector may be affected by the proposals in the Consultation Paper. It is therefore important to understand which entities are affected, and whether the proposals are appropriate.

**Key accounting considerations**

The first key issue in accounting for social benefits is identifying the obligating event that gives rise to the recognition of a liability on the statement of financial position. The second key issue is establishing the extent and value of the liability.

The IPSASB has identified three possible approaches to recognise and measure social benefits. These approaches have been identified through past work undertaken by the IPSASB on this topic, as well as new ideas being developed as a result of issuing the Conceptual Framework and other developments in accounting (e.g. insurance accounting). The three approaches are as follows:

(a) **Approach 1 – Obligating event approach** - Identifies and discusses the various points at which an obligation may arise for social benefits, whether contributory or not.

(b) **Approach 2 – Social contract approach** - Discusses the notion that the payment of social benefits is similar to an executory contract in that citizens have an obligation to pay taxes to the government, which it in turn uses to fulfil its obligations to provide goods and services.

(c) **Approach 3 – Insurance contract approach** - Discusses the use of insurance contract accounting and how it could be applied to contributory social benefit schemes.

The IPSASB’s preliminary view is that a combination of approach 1 (obligating event approach) and approach 3 (insurance contract approach) is likely to achieve the most appropriate accounting treatment for social benefits.

It is important to understand in the South African context whether the proposed approaches are suitable for the transactions and benefit schemes in place locally.

In considering what accounting is appropriate, it is important to understand the link between this project and the IPSASB’s Recommended Practice Guideline (RPG) on *The Long Term Sustainability of Public Finances*. The IPSASB acknowledged that the financial statements on their own cannot provide all the relevant information to users about government’s programmes and their affordability and sustainability. The objective of the RPG is to project government’s expenditure using a long term time horizon, along with available revenue or debt, and assess the affordability and sustainability of government’s programmes. This information and assessment is reported outside the financial statements in a General Purpose Financial Report.
Due process and timetable

The due process followed by the Board is to receive comment on the views proposed in the Exposure Draft. These comments will be used to formulate a response to the IPSASB outlining the South African view on these issues. Inputs received as part of this process will also assist the South African member on the IPSASB during the deliberations on this topic. Comment is therefore invited from preparers, users, auditors, standard setters and other parties with an interest in public sector financial reporting.

Invitation to comment

Comment is invited by 20 January 2016 on this Exposure Draft. The comment period is earlier than the comment date of the international Exposure Draft in order to enable the Board to review and collate the comment received prior to submission to the IPSASB.

Specific matters for comment

The IPSASB has identified a number of specific issues on which it would like feedback. These include responses to specific questions, as well as feedback on preliminary views that the IPSASB has expressed.

The ASB and IPSASB welcome comments on all of the matters discussed in the Consultation Paper. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The Preliminary Views and Specific Matters for Comment from the Consultation Paper are reproduced below. Paragraph numbers identify the location of the Preliminary View or Specific Matter for Comment in the Consultation Paper.

Chapter 2 – Scope and Definitions

Preliminary View 1 (following paragraph 2.50)

Social Benefits are benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks.

The other key definitions are as follows:

Social risks are events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income. Social benefits are provided to mitigate social risks in the following circumstances:

- Households could receive benefits when they meet certain eligibility criteria that originate from a social risk without making any contributions;
Households could make contributions and receive benefits in the event of the occurrence of the specified social risks; and

Households could make contributions to a scheme to accumulate entitlements to future benefits, with the benefits being provided following the occurrence of the specified social risk.

**Social Benefits in Cash** are social benefits paid in cash, by or on behalf of a public sector entity, that allow individuals and households to use this cash indistinguishably from income from other sources. Social benefits in cash do not include reimbursements.

**Social Benefits in Kind** are goods and services provided as social benefits to individuals and households by or on behalf of a public sector entity, and all reimbursements for the costs incurred by individuals and households in obtaining such goods and services.

**Reimbursements** are cash payments made as a social benefit by or on behalf of a public sector entity to compensate a service provider or an individual or household for all or part of the expense incurred or to be incurred by that individual or household in accessing specific services.

**Social Insurance** is the provision of social benefits where the benefits received are conditional on participation in a scheme, evidenced by way of actual or imputed contributions made by or on behalf of the recipient. Social insurance may form part of an employer-employee relationship (employment-related social insurance) or may arise outside an employer-employee relationship (social security).

**Social Security** is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity.

**Social Assistance** is the provision of social benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.

**Specific Matter for Comment 1** (following 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.
Chapter 3 – Identification of Approaches

Specific Matter for Comment 2 (following 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.

Specific Matter for Comment 3 (following 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.

Preliminary View 2 (following paragraph 3.4)

The IPSASB considers that a combination of option 1 (obligating event approach) and (for some or all contributory schemes) option 3 (insurance approach) may be required to reflect the different economic circumstances arising in respect of social benefits. The IPSASB does not consider that option 2 (social contract approach) is consistent with the Conceptual Framework. For this reason, the IPSASB has taken the preliminary view that the social contract approach is unlikely to meet the objectives of financial reporting.

Chapter 4 – Option 1: Obligating Event Approach

Specific Matter for Comment 4 (following 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;
(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.

**Specific Matter for Comment 5** (following 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.

**Specific Matter for Comment 6** (following 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.

**Preliminary View 3** (following paragraph 4.91)

Under the obligating event approach, liabilities in respect of social benefits should be measured using the cost of fulfilment. The cost of fulfilment should reflect the estimated value of the required benefits.

**Specific Matter for Comment 7** (following 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.

**Chapter 5 – Option 2: Social Contract Approach**

**Specific Matter for Comment 8** (following paragraph 5.38)

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

(a) Recognise 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 fulfilment?

Please explain the reasons for your views.

**Chapter 6 – Option 3: Insurance Approach**

**Specific Matter for Comment 9** (following 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.

**Specific Matter for Comment 10** (following 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 recognised over the coverage period of the benefit; and

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

Please explain the reasons for your views.

**Specific Matter for Comment 11** (following 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) Recognise an expense on initial recognition;

(b) Recognise 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.

Specific Matter for Comment 12 (following paragraph 6.43)

In your view, under the insurance approach, should an entity use the cost of fulfilment measurement basis or the assumption price measurement basis for measuring liabilities? Please explain the reasons for your views.

Specific Matter for Comment 13 (following 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.

Specific Matter for Comment 14 (following 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.

Specific Matter for Comment 15 (following 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.

General matters for comment

As with any other Exposure Draft, comment on any other matter would be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs in your response.