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TO: MEMBERS OF THE BOARD
FROM: ELIZNA VAN DER WESTHUIZEN
SUBJECT: SOCIAL BENEFITS
DATE: 14 JULY 2023
FILE REF: ATTACHMENT 5(a)

BACKGROUND AND OBJECTIVE


1. The Board is progressing its project to develop a Standard of GRAP on *Social Benefits* to fill a gap in the Standards.
2. Based on key areas where project groups raised concerns in August 2022, members of the Technical Committee and Board considered proposals to move the project forward at a workshop in November 2022. The two primary areas considered were (a) the need to distinguish types of social benefits for recognition purposes, and (b) the appropriate recognition points for the types of social benefits.
3. Based on the outcomes of the workshop the Secretariat developed revised guidance for the proposed Exposure Draft (ED) on a Standard of GRAP on *Social Benefits*. Project groups considered the revised proposals in 2023 and supported the ED.
4. The objective of this Memorandum is for the Board to consider, for approval:
 - Proposed ED on the Standard of GRAP on *Social Benefits* – see attachment 5(b). A mark-up version of the ED from IPSAS 42 will be published with the ED for information purposes.
 - Proposed Invitation to Comment – see attachment 5(c).
5. This memorandum provides further information on how the ED was developed to address the two primary areas of concerns noted in paragraph 2.

Board Members: Ms P Moalusi (Chair), Mr C Braxton, Ms W de Jager, Mr D Dlamini,
Mr S Khan, Ms A Muller, Ms N Themba, Mr A van der Burgh
Chief Executive Officer: Ms J Poggiolini Technical Director: Ms E van der Westhuizen

DISTINGUISHING SOCIAL BENEFITS BY TYPE

Background to the issue

6. The Board initially decided that the ED should distinguish social benefits based on their nature, which was deemed to be represented by how the benefits are funded – either from contributions, or from other means such as government appropriations. The basis for the decision was:

<p>? Why</p> <p>Recommended because:</p> <ul style="list-style-type: none"> • Users need different information about different types of social benefits • There are different levels of information currently available, and the Standard should ideally not result in less information being provided in the AFS • IPSAS 42 distinguishes benefits for accounting purposes 	<p>★ How</p> <p>Distinguish <i>based on how benefits are funded</i> because:</p> <ul style="list-style-type: none"> • Representative of nature of benefits • Representative of types of benefits that currently provide different information • Aligns with distinction in GFS <p> <i>Test users' information needs in SMC</i></p>
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7. Based on concerns raised by the project groups in August 2022, the workshop reconsidered the need to distinguish types of social benefits and agreed the need remains for the same reasons as noted in paragraph 6 above. In addition, it was noted that there is a difference in what entities should be held accountable for, based on entities' different responsibilities for the different types of benefits. Lastly, the liability is not equally measurable for all types of benefits, based on the information that is available and degree of estimation that would be required.
8. The workshop agreed with a concern of the project groups that the ED should not distinguish benefits solely based on how they are funded as it would be inappropriate for the funding mechanism of a benefit to determine the liability. The workshop noted that the ED should explain that there are different types of benefits with reference to those entities that have a history of reporting on insurance-like policies which resulted in larger liabilities. The economic characteristics and management model are different for "insurance-like" benefits than other benefits that government assesses on an on-going basis. The economic characteristics and management model determine the information that users need about each of the types of benefits in the financial statements.

Proposals in the ED

9. The Secretariat developed a new approach to distinguish social benefits by considering the guidance from the workshop as explained in paragraphs 7 and 8 above. The ED proposes to distinguish and define types of social benefits as:
- Social security insurance benefits - social benefits that are managed in a manner similar to insurance contracts. Social benefits are managed in a manner similar to insurance contracts when a social risk is transferred to the provider of the social benefits in return for contributions by, or on behalf of, the individuals and/or households who participate in activities that give rise to the social risk. The ED

includes characteristics and guidance for entities to assess whether social benefits are managed in a manner similar to insurance contracts.

- Social assistance benefits - social benefits other than social security insurance benefits. The ED includes characteristics of social benefits that are likely to be social assistance benefits.
10. See paragraphs .07 and .09 to .13; and Application Guidance paragraphs AG15. to AG23. in the ED. The basis for conclusions paragraphs BC20. to BC28. explain the options considered and reasons for this approach.
 11. The Technical Committee recommended this approach to the Board for approval.

ACTIONS REQUESTED #1

The Board is requested to CONSIDER the proposed distinction in social benefits, and if deemed appropriate, APPROVE the distinction.

RECOGNITION OF SOCIAL BENEFITS

Background to the issue

12. The workshop in November 2022 debated various positions and proposals to recognise social benefit liabilities. Concerns from the project groups in August included that it was difficult to understand a conceptual reason for recognising liabilities for types of social benefits at different points.
13. The workshop concluded the recognition requirements in the ED should be developed based on the following conceptual principles:
 - The past event that gives rise to a present obligation for all social benefits is the occurrence of the event related to the social risk for which the social benefit is provided. As per the definition of social benefits, the benefits are provided to compensate an individual and/or household for a social risk. When the event related to the social risk occurs, the entity has no realistic alternative but to incur an outflow of resources.
 - Probability is not considered in the recognition of a liability. A liability can be recognised even when the probability of an outflow is low.
 - To meet the objective of financial reporting (providing information in financial statements that meets users' needs), the ED should apply the qualitative characteristics and consider constraints on information so that the information provided is useful. This means that liabilities with the same past event are not necessarily recognised at the same point in time.

Proposals in the ED

14. The Secretariat analysed information that would be provided in financial statements at different recognition points for each type of social benefits against the qualitative characteristics in the Conceptual Framework.
15. Based on the assessment and following the guidance provided by the workshop in paragraph 13 above, the ED proposes the following recognition points:

- Social security insurance benefits: recognised when the event related to the social risk for which the social benefit is provided occurs (i.e. the past event occurs).
 - Social assistance benefits: recognised when an entity providing the social benefit receives an application from a potential beneficiary.
16. See paragraphs .15 to .20; and Application Guidance paragraphs AG24. to AG33. in the ED. The basis for conclusions paragraphs BC29. to BC44. explain why these recognition points are considered appropriate.
 17. The Technical Committee recommended the recognition requirements to the Board for approval.

ACTIONS REQUESTED #2

The Board is requested to CONSIDER the proposed recognition requirements for social security insurance benefits and social assistance benefits respectively and, if considered appropriate, APPROVE them.

REVIEW OF PROPOSED ED

18. Other amendments to the ED primarily align the text throughout to the changes discussed in the sections above. The Technical Committee recommended the ED to the Board for approval.

ACTIONS REQUESTED #3

The Board is requested to CONSIDER, and if deemed appropriate, APPROVE the ED for publication.

INVITATION TO COMMENT

19. The Invitation to Comment (ITC) includes the specific matters for comment stakeholders will be invited to respond to as part of the public consultation process. The ITC will be published with the ED. The ED will be published for comment for a period of three months. The Technical Committee recommended the ITC to the Board for approval.

ACTIONS REQUESTED #4

The Board is requested to:

- (a) CONSIDER the ITC;**
- (b) IDENTIFY any further specific matters for comment to include; and**
- (c) if deemed appropriate, APPROVE the ITC.**

NEXT STEPS

20. The Secretariat will commence the public consultation process on the ED and present final proposals to the Board in March 2024.