ACCOUNTING STANDARDS BOARD

EXPOSURE DRAFT OF THE PROPOSED STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

SOCIAL BENEFITS

(ED XXX)

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Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Social Benefits* is based on the International Public Sector Accounting Standard (IPSAS) 42 on *Social Benefit* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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Introduction

This pronouncement is set out in paragraphs .01 to .40. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Contents

Proposed Standard of Generally Recognised Accounting Practice

Social Benefits

Objective

.01 The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of social benefits.

Scope *(see Appendix A paragraphs AG1. to AG7.)*

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for social benefits.

.03 This Standard applies to a transaction that meets the definition of a social benefit and is provided in cash.

.04 This Standard does not apply to a transaction that meets the definition of a social benefit and is provided in-kind. An entity applies the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19) to account for in-kind social benefits.

.05 This Standard does not apply to cash transfers that are accounted for in accordance with other Standards:

(a) financial instruments that are within the scope of the Standard of GRAP on Financial Instruments (GRAP 104[2]);

(b) waiver of rights arising from statutory receivables in the scope of the Standard of GRAP on Statutory Receivables (GRAP 108);

(c) provisions, contingent liabilities and contingent assets that are within the scope of GRAP 19;

(d) employee benefits that are within the scope of the Standard of GRAP on Employee Benefits (GRAP 25); and

(e) insurance contracts that are within the scope of the IFRS Accounting Standard(s) on insurance.

.06 Other Standards of GRAP may prescribe requirements for a social benefit transaction that are applied together with the requirements of this Standard. For example:

(a) GRAP 104 requires an entity to identify and separate the concessionary component of a concessionary loan and a concessionary investment. GRAP 104 prescribes how the concessionary component is measured and requires specific disclosures about concessionary loan and concessionary investment transactions. When the concessionary component meets the definition of a social benefit in this Standard and is provided in cash, an entity applies the presentation and disclosure requirements in this Standard to the concessionary component together with the requirements of GRAP 104.

[2] All references in this Standard to the Standard of GRAP on *Financial Instruments* are to the version issued 2019, effective 1 April 2025.

(b) GRAP 104 and GRAP 108 prescribe the requirements to derecognise debts waived, and require an entity to evaluate whether the debts waived in accordance with those Standards meet the definition of a social benefit in this Standard. When the debts waived meet the definition of a social benefit in this Standard and is provided in cash, an entity applies the presentation and disclosure requirements in this Standard together with the requirements of GRAP 104 and GRAP 108.

Definitions *(see Appendix A paragraphs AG8. to AG23.)*

.07 The following terms are used in this Standard with the meanings specified:

***Social benefits** are cash transfers and in-kind benefits provided to:*

(a) specific individuals and/or households who meet eligibility criteria;

(b) mitigate the effect of social risks; and

(c) address the needs of society as a whole.

(see Appendix A paragraphs AG8. to AG12.)

***Social risks** are events or circumstances that:*

(a) relate directly to the characteristics of individuals and/or households, for example, age, health, poverty and employment status; and

(b) may adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

(see Appendix A paragraphs AG13. to AG14.)

Social assistance benefits are social benefits other than social security insurance benefits.

Social security insurance benefits are 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.

Identifying benefits that meet the definition of social benefits

.08 An entity shall assess whether each of the benefits it provides meet the definition of social benefits. The level of assessment is for each benefit.

Social security insurance benefits *(see Appendix A paragraphs AG15. to AG21.)*

.09 This Standard distinguishes social security insurance benefits from social assistance benefits for recognition purposes.

.10 An entity recognises all social benefits that are managed in a manner similar to insurance contracts as social security insurance benefits.

.11 The following characteristics indicate that social benefits are managed in a manner similar to insurance contracts, i.e. 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 characteristics are not exhaustive. Management applies judgement in its assessment of whether the social benefits are managed in a manner similar to insurance contracts by considering all relevant facts and circumstances and substance over form.

(a) Contributions by, or on behalf of, the individuals and/or households who participate in activities that give rise to the social risk may fully or partially compensate the entity for the social risk it accepts.

(b) Contributions by, or on behalf of, the individuals and/or households who participate in activities that give rise to the social risk are used to fully or partially fund the social benefits paid.

(c) The financial performance and funding of social benefits are reviewed and assessed on a regular basis. The assessment may involve the use of actuarial reviews, mathematical modelling or similar techniques to provide information for decision-making purposes.

(d) The entity providing the social benefits participates in actions to respond to the outcome of the assessment in paragraph .11(c), for example, actions to address underfunding of the social benefits. The actions may include, for example:

- developing proposals and entering discussions with the relevant authority to amend contribution rates or levies, and/or benefit levels; and
- temporarily funding social benefits from sources other than contributions.

(e) The entity providing the social benefits is responsible for compensating beneficiaries for events related to social risks that have occurred, including those that have not yet been reported to the entity.

Social assistance benefits *(see Appendix A paragraphs AG22. to AG23.)*

.12 An entity recognises all social benefits other than social security insurance benefits as social assistance benefits.

.13 Characteristics of social assistance benefits may include the following. The characteristics are not exhaustive.

(a) The social benefits may be assessed, managed and funded by government on an ongoing basis. Government policy determines the benefits and the affordability of the policy is reviewed and balanced with the societal need for social benefits.

(b) There are no contributions by, or on behalf of, the individuals and/or households who participate in activities that give rise to the social risk and those who may become beneficiaries of the social benefits.

(c) There may be no direct relationship between the funding of the social benefits and the social benefits paid.

(d) The entity providing the social benefits is responsible to compensate beneficiaries for applications for social benefits it has received, but not necessarily for the events related to social risks that have occurred but have not yet been reported to the entity. The entity is responsible for managing the benefits with the resources allocated to them from government on an on-going, often annual, basis.

Reassessment of classification of social benefits

.14 An entity only reassesses the classification of social benefits as social security insurance benefits or social assistance benefits if a significant change occurs that leads an entity to conclude that social benefits meet, or no longer meet, the definition of social security insurance benefits in paragraph .07. For example, an entity may need to re-assess whether a social benefit still meets the definition of social security insurance benefits when there is a significant change in legislation so that the social benefit is no longer managed in a manner similar to insurance contracts.

Recognition of a liability for a social benefit *(see Appendix A paragraphs AG24. to AG40.)*

.15 An entity shall recognise a liability for a social benefit when:

(a) the entity has a present obligation for an outflow of resources that results from a past event; and

(b) the present obligation can be measured reliably.

.16 A liability for a social security insurance benefit is recognised when the event related to the social risk for which the social benefit is provided occurs.

(See Appendix A paragraphs AG29. to AG30.)

.17 A liability for a social assistance benefit is recognised when an entity providing the social benefit receives an application from a potential beneficiary.

(See Appendix A paragraphs AG31. to AG33.)

.18 A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.

.19 The past event that gives rise to a present obligation for an outflow of resources for a social benefit is the occurrence of the event related to the social risk for which the social benefit is provided.

.20 There may be uncertainty associated with the measurement of the liability. The use of estimates is an essential part of the accrual basis of accounting. Uncertainty regarding the outflow of resources does not prevent the recognition of a liability unless the level of uncertainty is so large that the qualitative characteristics cannot be met. Where the level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

Boundaries of social benefit liabilities *(see Appendix A paragraphs AG34. to AG40.)*

.21 When a social benefit is provided on a recurring basis, existing beneficiaries may be required by a benefit's rules to satisfy eligibility criteria at specified times to qualify to continue receiving a social benefit. The satisfaction by each beneficiary of the eligibility criteria required to continue receiving a social benefit gives rise to a new liability when the eligibility criteria are substantive.

Measurement of a liability for a social benefit

Initial measurement of the liability *(see Appendix A paragraphs AG41. to AG52.)*

.22 An entity shall measure the liability for a social benefit at the best estimate of the costs (i.e. the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.

Subsequent measurement of the liability

.23 Where a liability has yet to be settled, the liability shall be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs (i.e. the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.

.24 Where a liability is discounted, the liability is increased and finance expense recognised in each reporting period until the liability is settled, to reflect the unwinding of the discount.

.25 The liability for a social benefit shall be reduced as social benefit payments are made. Any difference between the actual social benefit payments and estimated payments for the related social benefit is recognised in surplus or deficit (see paragraph .26) in the period in which the liability is settled.

Recognition and measurement of an expense for a social benefit

.26 An entity shall recognise an expense for a social benefit at the same point that it recognises a liability, and shall measure the expense for a social benefit at an amount equivalent to the amount of the liability measured in accordance with paragraph .22. An entity also recognises in surplus or deficit as a social benefit expense the amounts of changes in estimates of the liability (see paragraphs .23 and .25) and as a finance expense the unwinding of discount measured at an amount equivalent to the amount of the increase in the liability (see paragraph .24).

.27 Where a social benefit payment is made prior to the recognition of a liability for the social benefit, an entity recognises a payment in advance by applying the Conceptual Framework.

Presentation

Statement of financial position

.28 An entity shall present separately in the statement of financial position the carrying amount of social benefit liabilities for:

(a) social security insurance benefits; and

(b) social assistance benefits.

Statement of financial performance

.29 An entity shall present separately, either on the face of the statement of financial performance or in the notes, the amounts recognised in surplus or deficit for:

(a) social security insurance benefits expense, comprising:

(i) social security insurance benefit cost (the increase in the present value of the social security insurance benefit liability from additional liabilities recognised in the current period);

(ii) finance cost; and

(iii) remeasurements of the social security insurance benefit liability.

(b) social assistance benefits expense, comprising:

(i) social assistance benefit cost (the increase in the present value of the social assistance benefit liability from additional liabilities recognised in the current period);

(ii) finance cost;

(iii) remeasurements of the social assistance benefit liability;

(iv) the concessionary component of concessionary loans granted or committed and concessionary investments made that meet the definition of social benefits and is provided in cash; and

(v) contractual and statutory debts waived that meet the definition of social benefits and is provided in cash.

Disclosure *(see Appendix A paragraphs AG53. to AG55.)*

.30 The objective of the disclosures, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets and statement of cash flows, is for entities to give users of the financial statements a basis to assess the effect that social benefits may

have on the financial position, financial performance and cash flows of the entity. To achieve this objective, an entity shall disclose information that:

(a) explains the characteristics of its social benefits;

(b) identifies and explains the amounts in the financial statements arising from its social benefits; and

(c) describes how its social benefits may affect the amount, timing and uncertainty of the entity's future cash flows.

.31 ***To meet the objectives in paragraph .30, an entity shall consider all the following:***

(a) the level of detail necessary to satisfy the disclosure requirements;

(b) how much emphasis to place on each of the requirements;

(c) the level of aggregation or disaggregation to apply; and

(d) whether users of financial statements need additional information to meet the objectives in paragraph .30.

.32 If the disclosures provided in accordance with the requirements of this Standard and other Standards of GRAP are insufficient to meet the objectives in paragraph .30, an entity should disclose additional information necessary to meet those objectives.

.33 An entity should assess whether all or some disclosures should be disaggregated to distinguish social benefits with materially different risks.

Characteristics of social benefits

.34 To meet the requirements of paragraph .30(a), an entity discloses:

(a) Information about the characteristics of its social benefits, including:

(i) The nature of the social benefits provided (for example, compensation for injury on duty, unemployment benefits and child dependency benefits).

(ii) Key features of the social benefits, such as a description of the legislative framework governing the social benefits, a summary of the main eligibility criteria that must be satisfied to receive the social benefits, and the frequency with which beneficiaries are required to meet substantive ongoing eligibility criteria.

(iii) A description of how the social benefits are funded, including whether the funding for the social benefits is provided by means of a budget appropriation, a transfer from another entity, contributions, or by other means. If a social benefit is funded (whether in full or in part) by contributions, the entity shall provide a cross reference to the location of information about those contributions and any dedicated assets.

(iv) A description of the key demographic, economic and other external factors that influence the level of expenditure on social benefits.

(b) A description of any significant amendments to the social benefits made during the reporting period, the effective date of the amendments, the legislation or similar arrangement that gave effect to the amendments, and the financial implications of the amendments on the statement of financial performance, the statement of financial position and the statement of cash flows. Amendments to a social benefit include, but are not limited to:

(i) changes to the level of social benefits provided; and

(ii) changes to the eligibility criteria, including the individuals and/or households covered by the social benefit.

(c) For social benefits terminated during the reporting period, the effective date of the termination, the legislation or similar arrangement that gave effect to the termination, and the financial implications of the termination on the statement of financial performance, the statement of financial position and the statement of cash flows.

.35 An entity discloses the judgements management has made in assessing whether social benefits meet the definition of social security insurance benefits or social assistance benefits in paragraph .07.

Explanation of amounts in the financial statements

.36 To meet the requirements of paragraph .30(b), an entity discloses for social benefit liabilities:

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

(b) additional liabilities recognised in the period;

(c) reductions in the carrying amounts of liabilities that result from payments made during the reporting period;

(d) increases or reductions in the carrying amounts of liabilities that result from the remeasurement of estimated future payments;

(e) unused amounts of liabilities reversed during the period; and

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

Comparative information is not required.

Social assistance benefits: contractual and statutory debts waived

.37 For contractual and statutory debts waived that meet the definition of social benefits, an entity discloses:

(a) the nature of and the reasons for debts waived; and

(b) the amount of debts waived (see paragraph .29(b)(v)).

Expected effect of social benefits on the amount, timing and uncertainty of the entity's future cash flows *(see Appendix A paragraph AG55.)*

.38 To meet the requirements of paragraph .30(c), an entity discloses:

(a) The expected timing of social benefit payments.

(b) An indication of the uncertainties about the amount and/or timing of the payments in paragraph .38(a). This entails information on the significant judgements and changes in judgements made to determine the amount and/or timing of the payments in paragraph .38(a). An entity should disclose the inputs, assumptions and estimation techniques used, including:

(i) the methods used to measure social benefit liabilities and the processes for estimating the inputs to those methods, including the approach used to determine discount rates; and

(ii) any changes in the methods and processes for estimating inputs used to measure social benefit liabilities, the reason for each change, and the social benefit liabilities affected.

(c) The nature and extent of risks that arise from social benefit liabilities. For each type of risk, an entity discloses:

(i) the exposures to risks and how they arise, and information about concentrations of risks, including a description of how the entity determines the concentrations and the shared characteristics that identifies each concentration;

(ii) the entity's objectives, policies and processes for managing the risks and the methods used to measure the risks; and

(iii) changes in (i) or (ii) from the previous period.

Transitional provisions

Initial adoption of the Standards of GRAP

.39 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard shall be read in conjunction with each applicable directive.

Effective date

Initial adoption of the Standards of GRAP

.40 An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

Appendix A – Application guidance

This appendix is an integral part of this Standard.

Scope *(see paragraphs .02 to .06)*

AG1. This Standard is applied in accounting for transactions and obligations that meet the definition of social benefits in paragraph .07, and are provided in cash.

AG2. This Standard does not apply to social benefits that are provided in-kind. In-kind social benefits are goods or services provided to individuals and/or households that meet the definition of social benefits. For example, entity A procures food items from a wholesaler and distributes the items to specified individuals and/or households as part of a school feeding programme. An entity applies GRAP 19 to account for in-kind social benefits.

AG3. This Standard does not address transactions that are addressed in other Standards, such as:

- Employee pensions (which are accounted for in accordance with GRAP 25).
- Cash transfers that are financial instruments in the scope of GRAP 104 or the waiver of rights arising from statutory receivables in the scope of GRAP 108.
- Cash transfers to individuals and/or households that do not address social risks, for example emergency relief, are accounted for in accordance with GRAP 19.
- Insurance contracts, even if the risk covered by the insurance contract is a social risk as defined in paragraph .07. Insurance contracts are accounted for in accordance with the IFRS Accounting Standard(s) on insurance.

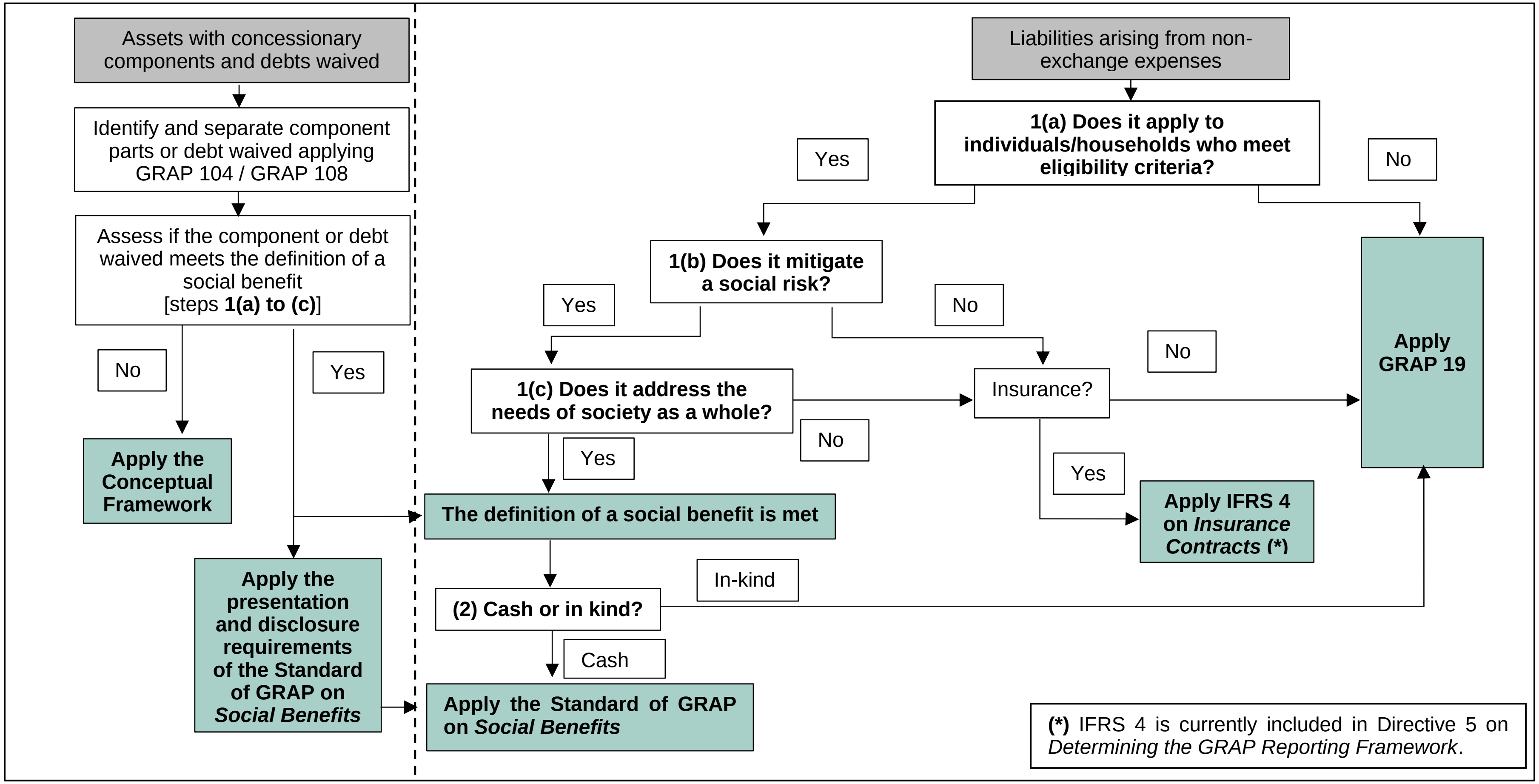
AG4. This Standard does not provide guidance on accounting for the revenue and/or related receivable to fund social benefits. An entity applies the Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23) to account for the revenue and/or related receivable to fund social benefits.

Distinguishing social benefits in cash from social benefits in-kind

AG5. This Standard applies to social benefits provided in cash. These social benefits are cash transfers (including transfers in the form of cash equivalents, for example pre-paid debit cards) provided to individuals and/or households. Services provided by an entity are not cash social benefits. An entity may provide vouchers that allow individuals and/or households to access services, or may reimburse individuals and/or households for costs incurred in accessing services, such as health care. The economic substance of these transactions is that the entity is paying for the provision of the services; such transactions are therefore not in the scope of this Standard. Where an entity provides vouchers or reimbursements, the individual and/or household has no discretion over the use of the benefit. By contrast, cash social benefits may be used indistinguishably from income from other sources.

AG6. Some cash transfers may be provided in the form of cash equivalents that have limited restrictions on the use of the cash transfer. For example, a pre-paid debit card that can be used to purchase any item except alcohol and tobacco products. Such limited restrictions do not contravene the principle that cash social benefits may be used indistinguishably from income from other sources. Pre-paid debit cards with limited restrictions are cash transfers, not the provision of services.

AG7. The following flowchart illustrates the scope of this Standard.



Definitions *(see paragraphs .07 to .14)*

Guidance on the definition of social benefits *(see paragraph .07)*

Individuals and/or households

AG8. Social benefits are provided to individuals and/or households. Transfers to entities are not social benefits. An entity that uses a third party to provide social benefits to individuals and/or households first assesses the nature of the arrangement, and applies the applicable Standard(s) of GRAP. For example, an entity may use an agent (in accordance with the Standard of GRAP on *Accounting by Principals and Agents* (GRAP 109)) that is an entity to provide benefits to third party beneficiaries who are individuals. The entity assesses the transaction with the third party beneficiaries to determine whether it provides benefits to individuals and/or households. In this instance, the entity concludes that it provides benefits to individuals. The entity applies GRAP 109 together with this Standard to account for the social benefits.

Eligibility criteria

AG9. Social benefits are only provided when eligibility criteria are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the unemployment benefit potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria. In some cases, eligibility criteria may relate to citizenship or residency, for example where a department pays an older persons grant to all residents over the age of 60.

Address the needs of society as a whole

AG10. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to the needs of society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays an unemployment benefit to all those who become unemployed, regardless of income or wealth, to ensure that the needs of those whose income would otherwise be insufficient during unemployment are met. Such benefits satisfy the criteria that they are provided to address the needs of society as a whole.

AG11. Social benefits are organised to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance contracts or similar arrangements, and other benefits which are organised for the benefit of individuals, or groups of individuals. This means that social benefits do not consider an individual's or household's specific circumstances. Contributions (where applicable) and benefits are set at levels that relieve a societal need. For example, contribution and benefit parameters are determined in legislation in a way that is affordable and sustainable for society as a whole, while somewhat relieving the impact of social risk for those affected. These levels may be the same for all participants in all circumstances, or may distinguish categories of individuals and/or households based on predetermined factors. In contrast, benefits that reflect the risks and characteristics associated with individuals and/or households do not address the needs of society as a whole. For example, a loss of earnings benefit that is calculated through an individualised process that considers employment, level of education, pain and suffering, and similar elements based on an individual's or household's specific circumstances does not address the needs of society as a whole.

AG12. Addressing the needs of society as a whole does not require that each social benefit covers all members of society; social benefits are provided through a range of similar benefits that cover different segments of society. A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole.

Guidance on the definition of social risks *(see paragraph .07)*

AG13. Social risks relate to the characteristics of individuals and/or households, for example, age, health, poverty and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households directly. This means the cause of the risk is directly related to the characteristics of the individual and/or household rather than the impact or effect of the risk. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household. These events that arise from something other than the characteristics of an individual or household may still indirectly relate to these characteristics, or the impact or effect of the risk may relate to these characteristics.

AG14. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the unemployment benefit arises from characteristics of the individuals and/or households directly – in this case a change in an individual's employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. A consequence of the earthquake may be temporary unemployment as economic activity within the affected area is disrupted. Because the risk relates to geography rather than relating directly to the characteristics of individuals and/or households, this risk is not a social risk.

Social security insurance benefits *(see paragraphs .09 to .11)*

AG15. This Standard requires a distinction between social security insurance benefits and social assistance benefits, as different recognition requirements are prescribed for them.

AG16. An entity assesses each social benefit separately to determine whether that benefit is a social security insurance benefit as defined in paragraph .07.

The social benefit is managed in a manner similar to insurance contracts

AG17. Paragraph .07 requires that social benefits are managed in a manner similar to insurance contracts for them to be recognised as social security insurance benefits. Insurance contracts are defined in the IFRS Accounting Standard on *Insurance Contracts* (IFRS 17) as a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance contracts are provided in exchange for insurance premiums paid by the policyholder. Social benefits that are managed in a manner similar to insurance contracts have these same characteristics, however:

- As explained in paragraph AG25. social benefits arise from legislation and not from contracts.
- Contributions are paid by, or on behalf of, the individual and/or household, instead of insurance premiums.
- For social benefits, the contribution amounts and the social benefits payable are determined in a manner that addresses the needs of society as a whole, while insurance premiums and payments are determined based on the needs of an individual.

AG18. The characteristics in paragraph .11 are used to assess whether social benefits are managed in a manner similar to insurance contracts. The characteristics are not exhaustive and management applies judgement in its assessment by considering all relevant facts and circumstances. Management's assessment considers the economic substance over the legal form of social benefits. A social benefit need not be legally described or registered as insurance for a social benefit to meet the definition of a social security insurance benefit in paragraph .07.

AG19. The key principle is that there is a transfer of social risk to the entity providing the social benefit (which may lead to social benefit payments) in return for contributions. The contributions are made by, or on behalf of, the individuals and/or households who participate in activities that give rise to the social risk (the beneficiaries) and are used to fully or partially fund the social benefits paid. It is not necessary for there to be a link between contributions and social benefits (where relevant) for each beneficiary.

AG20. In some circumstances, an entity may receive contributions for a social benefit on behalf of potential beneficiaries. For example, an employer may be required to make contributions to a workmen's compensation benefit for its employees. The contributions received are considered for the purposes of assessing the definition in paragraph .07 and the characteristics in paragraph .11 where they relate to specified potential beneficiaries, for example, all employees of an employer. The entity providing the social benefits need not know the identity of each potential beneficiary.

AG21. For the purpose of assessing the definition in paragraph .07 and the characteristics in paragraph .11, an entity only considers the funding it receives from, or on behalf of, individuals and/or households who participate in activities that give rise to the social risk. For example, an entity does not consider annual government appropriations to fund an entity's operations, or to fund social assistance benefits, because government appropriations are not received from, or on behalf of, individuals and/or households who participate in activities that give rise to the social risk. See paragraph AG23.

Social assistance benefits *(see paragraphs .12 and .13)*

AG22. Paragraph .12 requires an entity to recognise all social benefits that do not meet the definition of social security insurance benefits as social assistance benefits. The characteristics in paragraph .13 are indicative of a social benefit being a social assistance benefit. The characteristics are not exhaustive.

AG23. A key characteristic is that social assistance benefits may be considered, managed and funded by government on an ongoing basis. This means that the social benefits are funded for a specified period of time based on the benefits that the entity providing the social benefits is responsible to pay within that period of time. For example, annual government appropriations fund the social benefits the entity providing the social benefits expects to pay within that year.

Recognition of a liability for a social benefit *(see paragraphs .15 to .21)*

AG24. Paragraph .15 requires an entity to recognise a social benefit liability when the recognition criteria are met.

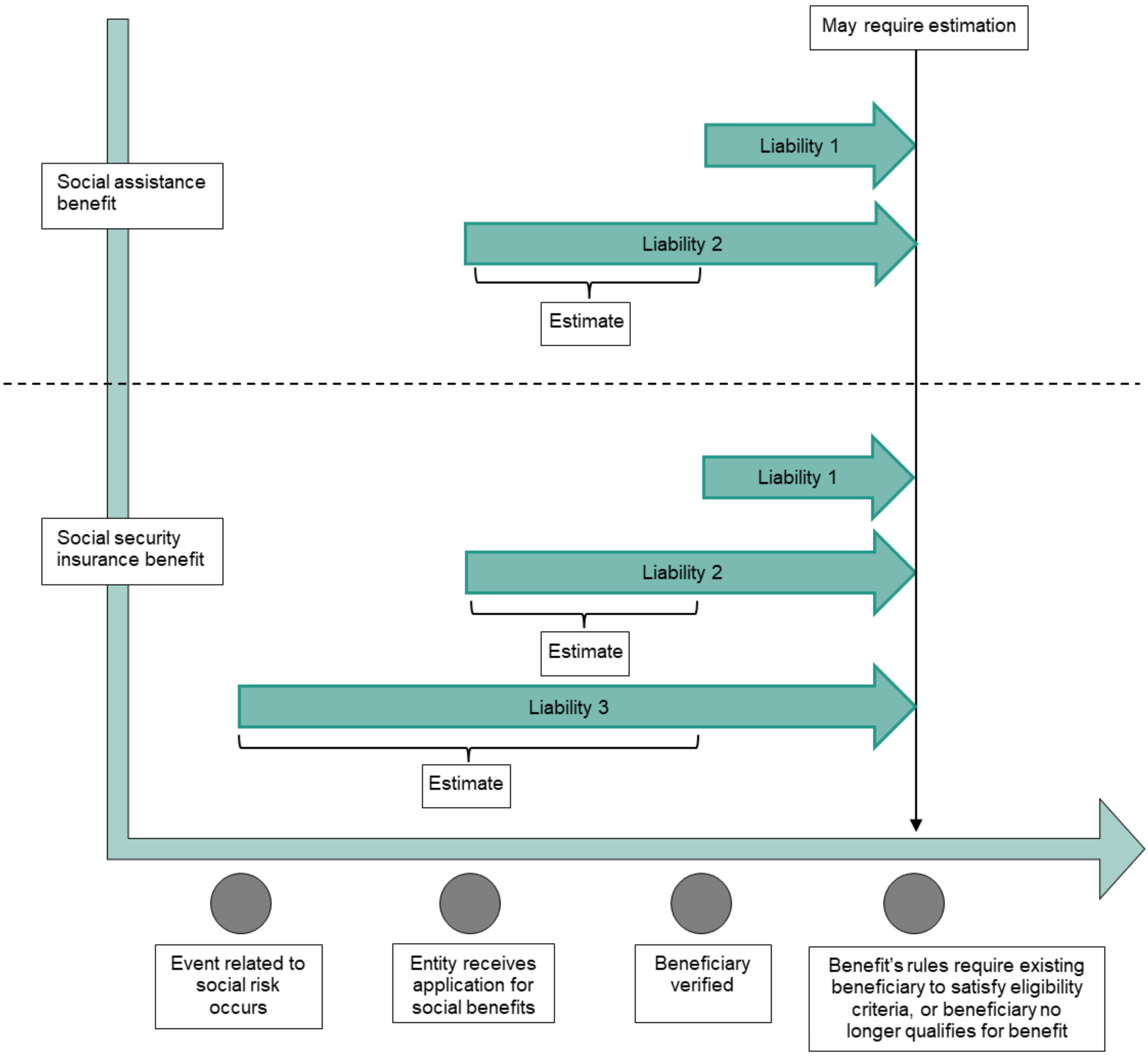
AG25. Social benefits are usually established, amended and terminated in legislation or similar arrangements. This includes aspects of the social benefit such as the event related to the social risk for which benefits are provided, funding mechanisms (including who will fund the benefit), eligibility criteria (who may become beneficiaries), and how the benefit is determined and calculated.

AG26. An entity's obligation to provide social benefits arises from the relevant legislation or similar arrangement. The social benefits are provided to compensate an individual and/or household for a social risk. The past event for all social benefits is the occurrence of the event related to the social risk for which the benefits are provided. When the past event occurs, the entity has a present obligation to provide social benefits.

AG27. Once an entity has a present obligation for an outflow of resources that results from a past event, the second recognition criterion – the present obligation can be measured reliably – needs to be met in order to recognise a liability. In applying the criterion, this Standard prescribes different recognition requirements for social security insurance benefits and social assistance benefits.

Illustration of the recognition principles

AG28. The diagram below illustrates the categories of liabilities that an entity recognises at the reporting date for social security insurance benefit liabilities and social assistance benefit liabilities respectively. Paragraph AG54. provides guidance on the presentation of these liabilities. The principles are discussed in paragraphs AG29. to AG40.



Social security insurance benefits *(see paragraph .16)*

AG29. In accordance with paragraph .16, a liability for a social security insurance benefit is recognised when the event related to the social risk for which the social benefit is provided occurs. This is the point when social security insurance benefits can be measured reliably.

AG30. An entity recognises a social security insurance benefit liability where an event related to a social risk occurs at, or prior to, the reporting date. Where an event related to a social risk occurs after the reporting date, no liability is recognised.

Social assistance benefits *(see paragraph .17)*

AG31. In accordance with paragraph .17, a liability for a social assistance benefit is recognised when an entity providing the social benefit receives an application from a potential beneficiary.

AG32. Social assistance benefits cannot be measured reliably when the event related to the social risk occurs. This second recognition criterion is met when an entity providing the social benefit receives an application from a potential beneficiary. This is the point when a social assistance benefit liability is recognised.

AG33. An entity recognises a social assistance benefit liability where an entity providing the social benefit receives an application from a potential beneficiary at, or prior to, the reporting date. Where an entity receives an application from a potential beneficiary after the reporting date, no liability is recognised.

Boundaries of social benefit liabilities *(see paragraph .21)*

AG34. Paragraphs .16 and .17 describe the starting point of the recognition of social benefit liabilities. Paragraphs .21 and AG35. to AG40. describe the boundary of social benefit liabilities where social benefits consist of multiple payments to beneficiaries. The diagram in paragraph AG28. illustrates these principles.

AG35. Where a social benefit consists of multiple payments to a beneficiary, certain eligibility criteria may continue to apply during the period the individual and/or household receives the benefit (ongoing eligibility criteria). For example, for an old age benefit, eligibility criteria at inception may be that (a) the individual is over the age of 65, (b) the individual's income is less than a certain threshold, and (c) the individual is a South African resident. Ongoing eligibility criteria for the old age benefit may be that (a) the beneficiary's income remains less than a certain threshold, (b) the beneficiary remains a South African resident, and (c) the beneficiary is alive.

AG36. Where ongoing eligibility criteria apply, a benefit's rules may require that existing beneficiaries satisfy these eligibility criteria at specified intervals to continue receiving a social benefit. In accordance with paragraph .21, the satisfaction by each beneficiary of the eligibility criteria required to continue receiving a social benefit gives rise to a new liability when the eligibility criteria are substantive. The satisfaction of substantive ongoing eligibility criteria represents the boundary of an entity's present obligation to provide social benefits to existing beneficiaries. An existing beneficiary meeting substantive eligibility criteria in future gives rise to a new liability in future.

AG37. The eligibility criteria are substantive when, in accordance with a benefit's rules, existing beneficiaries do not qualify to continue receiving social benefits until they have satisfied the required eligibility criteria, and the entity has a past history of enforcing the eligibility criteria. An entity enforces eligibility criteria by verifying that existing beneficiaries meet the required ongoing eligibility criteria to receive social benefits, and no social benefits are paid to beneficiaries who do not meet the criteria. Indicators that an entity enforces eligibility criteria may include:

(a) The entity communicates the verification process to beneficiaries and may ask beneficiaries to submit documentation.

(b) The entity communicates the outcome of the process to beneficiaries.

(c) The entity has dedicated resources to the verification process, such as staff resources and integrated IT systems.

(d) The entity has an established verification process with internal controls, such as external data confirmations and supervisory reviews.

AG38. Apart from estimating the liability as a result of beneficiaries meeting eligibility criteria from one interval to another, an entity estimates whether there are beneficiaries that would no longer qualify to receive benefits before the satisfaction of the eligibility criteria at the required interval as explained in paragraph AG36. In those instances, the entity recognises a liability for the period from the reporting date until the point when it is expected that the beneficiary would no longer satisfy the eligibility criteria.

AG39. For example, an old age benefit's rules require that existing beneficiaries should satisfy eligibility criteria on an annual basis with the entity's reporting date, before the beneficiaries qualify to remain eligible for the benefits. The ongoing eligibility criteria include that the household income must be below a certain threshold, and the beneficiary must be alive. Beneficiaries are required to submit proof of household income a month in advance of the new reporting period. The entity verifies the information submitted with the South African Revenue Service, and obtains mortality information from the Department of Home Affairs. The entity communicates the outcome of the review process to beneficiaries before the start of the new reporting period, which includes indicating to beneficiaries who do not meet the eligibility criteria that they are no longer eligible for the benefit. No further social benefits are paid to beneficiaries who no longer meet the eligibility criteria. The entity concludes that the eligibility criteria are substantive. The entity therefore recognises a liability at the reporting date for the extent of old age benefits that will be provided in the next year. No liability is recognised beyond the next reporting date, which is the date that beneficiaries are required to meet substantive ongoing eligibility criteria. The entity further estimates which beneficiaries would no longer qualify for benefits before the end of the next year due to death or other circumstances, and recognises a shorter-term liability for those beneficiaries.

AG40. The example in paragraph AG39. would lead an entity to conclude that the eligibility criteria are not substantive if, for example:

(a) the benefit's rules do not prevent beneficiaries from continuing to receive social benefit payments until they have satisfied the required eligibility criteria; or

(b) the entity does not have a past history of enforcing the eligibility criteria and continued to pay social benefits to beneficiaries who no longer met the eligibility criteria.

Measurement of a liability for a social benefit

Initial measurement of the liability *(see paragraph .22)*

AG41. In accordance with paragraph .22, an entity measures the liability for a social benefit at the best estimate of the costs (i.e. the social benefit payments) that the entity expects to incur in fulfilling the present obligation represented by the liability.

AG42. The best estimate of the costs that an entity will incur in fulfilling the present obligation is the amount that the entity would rationally pay to settle the obligation at the reporting date. It will often be impossible or prohibitively expensive to settle an obligation at the reporting date. However, the estimate of the amount that an entity would rationally pay to settle the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.

AG43. The social benefit liability is determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Prior to the financial statements being authorised for issue, an entity may receive information regarding its estimate of the social benefit liability. The Standard of GRAP on *Events After the Reporting Date* provides guidance on using this information.

Risks and uncertainties

AG44. The risks and uncertainties surrounding the social benefit liability should be taken into account in determining the best estimate of the liability.

AG45. Risk describes variability of outcome. For example, for a social security insurance benefit, more, or less events related to social risks may have occurred than an entity estimates. A risk adjustment may increase the amount at which a liability is measured. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a liability.

AG46. Uncertainties surrounding the amount to be recognised as a liability for a social benefit are dealt with by various means according to the circumstances. For social benefits, the liability being measured involves a large population of payments to individuals and/or households. The obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is "expected value". Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

AG47. The estimates required to measure a social benefit liability may include, among others:

- The amounts of social benefit payments that would be made for the events related to social risks that have occurred but have not yet been reported to the entity, and for applications for social benefits received by the entity that have not yet been verified, according to current social benefit rates.
- The future rates at which social benefits will be payable. The estimate may consider past history and an entity's forecast (see paragraph AG50.).
- Applying a risk adjustment to the social benefit liability (see paragraph AG45.).
- An appropriate discount rate to determine the present value of the social benefit liability (see paragraph AG49.).
- The duration that a beneficiary will qualify to receive social benefits and the timing of those payments. In making this estimate, the entity considers, among other factors, the benefit's rules on existing beneficiaries satisfying ongoing eligibility criteria at certain intervals and whether those criteria are substantive (see paragraph AG36.). Other factors to consider may include, for example, statistics on mortality and immigration in accordance with paragraph AG38.

Present value

AG48. Where the social benefit liability is not expected to be settled within twelve months of the reporting date and the effect of the time value of money is material, the amount of the social benefit liability is the present value of the costs (i.e. the social benefit payments) expected to be required to settle the obligation.

AG49. The rate used to discount a liability in respect of a social benefit should reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money should be consistent with the currency and estimated term of the social benefit liability.

- The discount rate reflects the estimated timing of social benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of social benefit payments, and the currency in which the benefits are to be paid.
- The discount rate reflects the time value of money. The discount rate that reflects the time value of money is best approximated by reference to market yields at the end of the reporting period on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the social benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the

yield curve. The total present value of a social benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available financial instrument.

Future events

AG50. Future events that may affect the costs that an entity will incur in fulfilling the present obligation should be reflected in the amount of a social benefit liability where there is sufficient objective evidence that they will occur.

AG51. Expected future events may be particularly important in measuring social benefit liabilities. For example, certain social benefits may be expected to increase to compensate beneficiaries for increased expenses. If there is sufficient evidence of likely expected increases in benefits, this should be reflected in the amount of the liability.

AG52. The effect of possible new legislation that may affect the amount of an existing social benefit liability is taken into consideration in measuring that liability when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

Disclosure ***(see paragraphs .30 to .35)***

AG53. An entity provides information in the financial statements to meet the disclosure objectives in paragraph .30. An entity applies the guidance in paragraphs .31 to .33 to provide the information at the appropriate level.

AG54. An entity provides the information for social security insurance benefits and social assistance benefits separately. This is because the characteristics, uncertainties and risks of these types of benefits differ. For this reason an entity is further likely to conclude it is necessary to disclose information for the social benefit liabilities illustrated in the diagram in paragraph AG28. separately.

Expected effect of social benefits on the amount, timing and uncertainty of the entity's future cash flows

AG55. Significant judgements that an entity discloses (see paragraph .38) may include, for example:

(a) for social security insurance benefits, the events related to social risks that have occurred but have not been reported to the entity that would meet the eligibility criteria;

(b) the applications for social benefits received by the entity but not yet verified that would meet the eligibility criteria;

(c) the estimates used to measure the social benefit liability (see paragraph AG47.); and

(d) the point at which no further benefits would be payable to existing beneficiaries and those estimated in paragraphs (a) and (b) because they either (i) no longer meet the eligibility criteria; or (ii) a benefit's rules require that existing beneficiaries satisfy substantive ongoing eligibility criteria at specified intervals to qualify for continued benefits.

Appendix B – Consequential amendments to Standards of GRAP

The purpose of this appendix is to identify the consequential amendments to other Standards of GRAP resulting from the issue of this Standard.

Amended text is shown with the new text underlined and deleted text struck through.

B1. GRAP 1 *Presentation of Financial Statements*

Paragraphs .79, .86 and .107 to .110 are amended and paragraph .150D is added.

…

Structure and Content

…

Statement of financial position

…

Information to be presented on the face of the statement of financial position

.79 In accordance with paragraph .38, the face of the statement of financial position shall include line items that present the following amounts:

(a) property, plant, and equipment;

…

(l) taxes and transfers payable;

<u>(la) social security insurance benefit liabilities;</u>

<u>(lb) social assistance benefit liabilities;</u>

(m) payables from exchange transactions;

…

Information to be presented either on the face of the statement of financial position or in the notes

…

.86 The detail provided in subclassifications depends on the requirements of Standards of GRAP and on the size, nature and function of the amounts involved. The factors set out in paragraph .83 also are used to decide the basis of sub-classification. The disclosures vary for each item, for example:

(a) items of property, plant and equipment are disaggregated into classes in accordance with GRAP 17;

…

(d) taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(da) social benefit liabilities are disaggregated into separate social benefits where these are material;

(e) provisions are disaggregated into provisions for employee benefit costs and any other items; and

(f) components of net assets are analysed and disaggregated into contributed capital, accumulated surpluses and deficits, and any reserves.

…

Statement of financial performance

…

Information to be presented either on the face of the statement of financial performance or in the notes

…

.107 The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature (for example depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses between functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue	X
Employee benefit costs	(X)
Social security insurance benefit expense	(X)
Social assistance benefit expense	(X)
Depreciation and amortisation expense	(X)
Other expenses	(X)
Surplus	X

.108 The second form of analysis is the function of expense method and classifies expenses according to the programme or purpose for which they were made. This presentation often provides more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgment. An example of a classification using the function of expense method is as follows:

Total revenue	X
Expenses:	
Social development	(X)
Health expenses	(X)
Education expenses	(X)
Other expenses	(X)
Surplus	X

.109 The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of social development, health and education services. The entity would present expense line items for each of these functions.

.110 Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense, social benefits expense and employee benefits expense.

...

Effective Date

…

Entities already applying Standards of GRAP

…

.150D Paragraphs .79, .86 and .107 to .110 were amended by the Standard of GRAP on Social Benefits, issued [Month Year]. [Transitional provisions will be determined with the transitional provisions of this ED.]

…

B2. Amendments to GRAP 2 *Cash Flow Statements*

Paragraph .15 is amended and paragraph .54C is added.

…

Presentation of a cash flow statement

…

Operating activities

…

.15 Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) cash receipts from taxes, levies, and fines;

…

(d) cash receipts from royalties, fees, commissions and other revenue;

<u>(da) cash payments to beneficiaries of social benefits;</u>

(e) cash payments to other entities to finance their operations (not including loans);

….

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets for rental to others and subsequently held for sale as described in paragraph .75 of the Standard of GRAP on *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

…

Effective date

…

Entities already applying Standards of GRAP

<u>.54C Paragraph .15 was amended by the Standard of GRAP on Social Benefits, issued [Month Year]. [Transitional provisions will be determined with the transitional provisions of this ED.]</u>

…

B3. Amendments to GRAP 19 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs .02, .12, .18 and .74 are amended, paragraphs .07 to .11, .100 and .105 are deleted, and paragraphs .11A, .115C and a basis for conclusions are added.

Scope

.02 ***An entity that prepares and presents financial statements under the accrual basis of accounting shall 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~~social benefits within the scope of the Standard of GRAP on Social Benefits;***

…

Social benefits

.07 [Deleted].~~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.~~

.08 [Deleted].~~In many cases, obligations to provide social benefits arise as a consequence of a government's commitment to undertake particular activities on an ongoing 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.~~

.09 [Deleted].~~For a provision or contingency arising from a social benefit to be excluded from the scope of this Standard, the public sector entity providing the benefit will not receive consideration that is approximately equal to the value of goods and services~~

~~provided, directly in return from the recipients of the benefit. This exclusion would encompass those circumstances where a charge is levied in respect of the benefit, but there is no direct relationship between the charge and the benefit received. The exclusion of these provisions and contingent liabilities from the scope of this Standard reflects the Committee's view that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability require further consideration before proposed Standards are exposed. For example, the Committee is aware that there are differing views about whether the obligating event occurs when the individual meets the eligibility criteria for the benefit or at some earlier stage. Similarly, there are differing views about whether the amount of any obligation reflects an estimate of the current period's entitlement, or the present value of all expected future benefits determined on an actuarial basis.~~

.10 [Deleted].~~Where an entity elects to recognize a provision for such obligations, the entity discloses the basis on which the provisions have been recognized and the measurement basis adopted. The entity also makes other disclosures required by this Standard in respect of those provisions. IPSAS 1 provides guidance on dealing with matters not specifically dealt with by another IPSAS. IPSAS 1 also includes requirements relating to the selection and disclosure of accounting policies.~~

.11 [Deleted].~~In some cases, social benefits may give rise to a liability for which there is:~~

~~(a) Little or no uncertainty as to amount; and~~

~~(b) The timing of the obligation is not uncertain.~~

~~Accordingly, these are not likely to meet the definition of a provision in this Standard. Where such liabilities for social benefits exist, they are recognized where they satisfy the criteria for recognition as liabilities (refer also to paragraph 19). An example would be a period-end accrual for an amount owing to the existing beneficiaries in respect of aged or disability pensions that have been approved for payment consistent with the provisions of a contract or legislation.~~

.11A The Standard of GRAP on *Social Benefits* provides guidance on accounting for social benefits (as defined in the Standard of GRAP on *Social Benefits*) that are provided in cash. This Standard may apply to social benefits (as defined in the Standard of GRAP on *Social Benefits*) that are provided in-kind.

Other exclusions from the scope of the Standard

.12 This Standard does not apply to executory contracts unless they are onerous. ~~Contracts to provide social benefits entered into with the expectation that the entity will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, are excluded from the scope of this Standard.~~

…

Definitions

…

Provisions and other liabilities

.18 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

…

Application of the recognition and measurement rules

…

Onerous contracts

.74 Paragraph .73 of this Standard applies only to contracts that are onerous. ~~Contracts to provide social benefits entered into with the expectation that the entity 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, are excluded from the scope of this Standard.~~

…

Disclosure

…

.100 ***[Deleted].~~Where an entity elects to recognise in its financial statements provisions for social benefits 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, it shall make the disclosures required in paragraphs .98 and .99 in respect of those provisions.~~***

…

.105 [Deleted].~~The disclosure requirements in paragraph .101 do not apply to contingent liabilities that arise from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods or services provided, directly in return from the recipients of those benefits (see paragraphs .02(a) and .07–to .11 for a discussion of the exclusion of social benefits from this Standard).~~

…

Effective Date

…

Entities already applying Standards of GRAP

…

.115C Paragraphs .02, .12, .18 and .74 were amended, paragraph .11A were added and paragraphs .07 to .11, .100 and .105 were deleted by the Standard of GRAP on Social Benefits, issued [Month Year]. [Transitional provisions will be determined with the transitional provisions of this ED.]

…

Basis for conclusions

The basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to accounting for provisions, contingent liabilities and contingent assets. This basis for conclusions accompanies, but is not part of, this Standard.

Interaction of this Standard with the Standard of GRAP on *Social Benefits*

BC1. Prior to developing the Standard of GRAP on *Social Benefits,* stakeholders were familiar with a broad description of social benefits included in this Standard - goods, services, and other benefits provided in the pursuit of the social policy objectives of a government. The definition in the Standard of GRAP on *Social Benefits* also includes cash and in-kind benefits, but is limited to benefits that mitigate the effect of social risks and address the needs of society as a whole.

BC2. The Board considered if the scope of the Standard of GRAP on *Social Benefits* should include both cash and in-kind social benefits, and concluded to only provide guidance on cash social benefits in that Standard.

BC3. During the development of the Standard of GRAP on *Social Benefits* the International Public Sector Accounting Standards Board (IPSASB) finalised the IPSAS on *Transfer Expenses,* thereby concluding the non-exchange expense landscape in IPSAS. The Board had not yet considered the impact of the IPSAS on Standards of GRAP and did therefore not develop guidance on in-kind transfers at the time.

BC4. The Board developed guidance to explain the scope of liabilities arising from non-exchange expenses as part of the Standard of GRAP on *Social Benefits* (see the Standard of GRAP on *Social Benefits* Appendix A paragraph AG7.). This Standard may be applied to liabilities arising from non-exchange expenses that are not in the scope of the Standard of GRAP on *Social Benefits* and are not insurance in the scope of the IFRS Accounting Standard on *Insurance Contracts* (IFRS 4)[3].

[3] IFRS 4 was included in the Directive on *Determining the GRAP Reporting Framework* at the time of developing the Standard of GRAP on *Social Benefits.*

B4. Amendments to GRAP 23 on *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Comparison with the International Public Sector Accounting Standard on *Revenue from Non-exchange Transactions (Taxes and Transfers)* (December 2006)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Revenue from Non-exchange Transactions (Taxes and Transfers)* (IPSAS 23). The main differences between this Standard and IPSAS 23 are as follows:

…

- IPSAS 23 concludes that social benefit contributions are non-exchange transactions, and should be accounted for in accordance with IPSAS 23. The one exception to this is where an entity elects to account for a social benefit scheme using the insurance approach in the IPSAS on *Social Benefits*. The insurance approach takes into account both cash inflows and cash outflows, and hence contributions to a social benefit scheme accounted for under the insurance approach are not accounted for as revenue under IPSAS 23. The Standard of GRAP on *Social Benefits* does not include the insurance approach. Hence, all social benefit contributions are non-exchange transactions in Standards of GRAP and are accounted for in accordance with this Standard.

B5. Amendments to GRAP 24 *Presentation of Budget Information in Financial Statements*

Paragraph .47 is amended and paragraph .54A is added.

…

Reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements

…

.47. Differences between the actual amounts identified consistent with the comparable basis, and the actual amounts recognised in the financial statements can usefully be classified into the following:

(a) basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the cash basis or modified cash basis and the financial statements are prepared on the accrual basis;

(b) timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and

(c) entity differences, which occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget. For example, social benefits in the scope of the Standard of GRAP on *Social Benefits* are limited to cash transfers. An entity's budget classification of social benefits may be broader, and include in-kind goods or services.

…

Effective Date

…

Entities already applying Standards of GRAP

…

.54A Paragraph .47 was amended by the Standard of GRAP on Social Benefits issued [Month Year]. [Transitional provisions will be determined with the transitional provisions of this ED.]

…

Comparison with the International Public Sector Accounting Standard on *Presentation of Budget Information in Financial Statements* (December 2006)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Presentation of Budget Information in Financial Statements* (IPSAS 24). The main differences between this Standard and IPSAS 24 are as follows:

…

- IPSAS 24 notes that the definition of social benefits in the IPSAS on *Social Benefits* does not include all the transactions classified as social benefits under Government Finance Statistics (GFS). As some entities may prepare budgets using the GFS basis, IPSAS 24 includes social benefits as an example of where there may be differences in the classification adopted for presentation of financial statements and the budget. This Standard is not specific about the difference arising from a budget basis using GFS.

B6. Amendments to GRAP 104 *Financial Instruments*[4]

Paragraphs 5.4 and 6.5 are amended and paragraph 9.2A is added.

…

Chapter 5 – Measurement

Initial measurement

…

Concessionary loans and investments (see Appendix A paragraphs AG5.12 to AG5.33)

5.4 An entity assesses whether the substance of a concessionary loan or investment is a loan or investment by applying the principles in paragraphs 3.3 to 3.14. On initial recognition, an entity analyses a concessionary loan or investment into its component parts and accounts for each component separately. An entity accounts for that part of a concessionary loan or investment that is:

(A) <u>concessionary and a social benefit as defined in the Standard of GRAP on Social Benefits, in accordance with that Standard, where it is the issuer of the loan or the investor;</u>

(a) <u>concessionary but not</u> a social benefit <u>as defined in the Standard of GRAP on Social Benefits,</u> in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan or the investor; or

(b) a contribution from owners and/or non-exchange revenue, in accordance with GRAP 23, where it is the recipient of the loan or the investment proceeds.

5.5 The part of the concessionary loan or investment that is a social benefit, a contribution from owners, or non-exchange revenue is determined as the difference between the fair value of the loan or investment and the transaction price (loan or investment proceeds), either paid or received.

…

Chapter 6 – Derecognition

Derecognition of financial assets (see Appendix A paragraphs AG6.1 to AG6.14)

…

Waiver of rights relating to financial assets (see Appendix A paragraph AG6.2 to AG6.3)

…

[4] The amendments are to the Standard of GRAP on *Financial Instruments* (issued 2019), effective 1 April 2025.

6.5 An entity may waive the right to receive contractual receipts under the terms of an existing arrangement. The following outline scenarios of when a waiver of rights may arise:

(a) A municipality may waive its right to contractual receipts due on consumer accounts where those consumers become eligible to have their debts waived in accordance with the municipality's indigent policy. Where the waiver of rights results in the provision of a social benefit as defined in the Standard of GRAP on *Social Benefits*, it is accounted for in accordance with paragraph 5.4A~~(a)~~. Where the waiver of rights does not result in the provision of a social benefit as defined in the Standard of GRAP on *Social Benefits,* it is accounted for in accordance with paragraph 5.4(a). A waiver of rights would be a social benefit when, for example, a municipality's indigent policy requires a municipality to waive its rights to collect contractual debt when an individual consumer meets eligibility criteria as a result of a social risk that has occurred, such as the individual becoming unemployed. The definition of a social benefit would not be met when, for example, a municipality waives debt that is owed by an entity rather than an individual and/or household, or when there are no specific eligibility criteria that are applied.

…

Chapter 9 – Transitional provisions and effective date

Effective date

…

Entities already applying Standards of GRAP

9.2A Paragraphs 5.4 and 6.5 were amended by the Standard of GRAP on Social Benefits issued [Month Year]. [Transitional provisions will be determined with the transitional provisions of this ED.]

…

Application Guidance

…

Chapter 5 – Measurement

Initial measurement

Initial measurement of financial assets and financial liabilities

…

Concessionary loans (Paragraphs 5.4 to 5.6)

…

Analysing the substance of concessionary loans

…

AG5.15 Where an entity grants concessionary loans it shall consider whether part of the consideration granted is a social benefit as defined in the Standard of GRAP on *Social Benefits*. ~~Social benefits are defined broadly as cash transfers paid to individuals and households in a non-exchange transaction to protect them against certain social risks.~~ An entity accounts for the components of a concessionary loan granted separately. The loan is recognised as a financial asset, while any social benefit is accounted for in accordance with the Standard of GRAP on *Social Benefits.* If the concessionary component does not meet the definition of a social benefit, it is accounted for in accordance with the *Framework for the Preparation and Presentation of Financial Statements*.

…

Determining the fair value of concessionary loans

…

AG5.18 In measuring the fair value of a concessionary loan, an entity considers if the loan is credit impaired on initial recognition (see paragraphs AG2.24, and 5.28 to 5.29). If the loan is credit impaired, an entity measures the instrument at the fair value using the contractual cash flows of the instrument, including the expected credit losses over the life of the instrument, and discounts the cash flows using the credit adjusted effective interest rate. An entity applies paragraph AG5.15 to account for the component parts and recognises the credit losses and ~~social benefit~~ concessionary component together using the principles in the Standard of GRAP on *Social Benefits* (if the concessionary component meets the definition of a social benefit) or the *Framework for the Preparation and Presentation of Financial Statements* (if the concessionary component does not meet the definition of a social benefit).

…

Commitments to provide concessionary loans

AG5.22 Where an entity commits to provide a loan on concessionary terms to another party, it initially measures the loan commitment at fair value in accordance with paragraph 5.1. Where there is no reliable measure of fair value on initial recognition (and subsequently), the entity measures the loan commitment at the value of the loss allowance plus the value of any concession~~social benefit~~ provided and is recognised as a concessionary component~~social benefit~~ in accordance with the Standard of GRAP on *Social Benefits* (if the concessionary component meets the definition of a social benefit) or the *Framework for the Preparation and Presentation of Financial Statements* (if the concessionary component does not meet the definition of a social benefit) (see paragraphs 5.4 and AG5.33). An entity recognises the loan once it is drawn down (in whole or in part) by the borrower.

…

Concessionary investments

…

AG5.26 At initial recognition of such transactions, an entity analyses the substance of the arrangement and assesses whether the cash provided in full or in part, is in substance a grant or other transfer of resources, with the intention at the outset being provision or receipt of resources by way of a non-exchange transaction. Where the terms of the arrangement are unclear, the transaction is treated as an investment in the residual interest of another entity. However, to the extent that the transaction is a non-exchange transaction, any assets, revenue and/or contribution from owners arising from the transaction is accounted for in accordance with GRAP 23. The entity providing the grant or other transfer of resources recognises any concessionary component that meets the definition of a social benefit in accordance with the Standard of GRAP on *Social Benefits.* The entity recognises any concessionary component that does not meet the definition of a social benefit in accordance with the *Framework for the Preparation and Presentation of Financial Statements*.

…

Valuing loan commitments

AG5.33 In terms of paragraph 5.1, an entity measures loan commitments initially at their fair value. This is most likely to equal any commitment fee charged. As with financial guarantee contracts, if an entity is unable to determine a reliable measure of fair value of the loan commitment on initial recognition, an entity recognises the loan commitment at the loss allowance (see paragraphs AG5.89 and AG5.91). However, if an entity commits to provide a concessionary loan to another party and the fair value of the loan commitment cannot be measured reliably, an entity measures the loan commitment initially at the loss allowance plus the value of the concessionary component~~social benefit~~ provided and recognises this amount in accordance with paragraph 5.4.

…

Chapter 6 – Derecognition

Derecognition of financial assets (Paragraphs 6.1 to 6.15)

…

Waiver of rights

AG6.2 An entity may waive its contractual rights to receive cash or other financial assets under existing agreements. Where an entity waives its rights, it shall assess whether or not the waiver is the provision of a social benefit as defined in the Standard of GRAP on *Social Benefits*~~, e.g. to reduce poverty among a certain group of people~~. Where this waiver results in the provision of a social benefit, an entity classifies and recognises any resulting loss on derecognition of the asset in accordance with paragraph 5.4A~~(a)~~.

…

Appendix C – Implementation guidance

…

Recognition and measurement of financial assets and financial liabilities

Example 22: Payment of a concessionary loan

…

Scenario 1: Amortised cost

…

The journal entries to account for the concessionary loan when classified at amortised cost are as follows:

1. On initial recognition, the entity recognises the following:

Dr		Loan	236 989 595	
Dr		Expense (~~social benefit~~ concessionary component recognised i.a.w the Standard of GRAP on *Social Benefits* or the Framework)	13 010 405	
	Cr	Bank		250 000 000

…

Scenario 2~~3~~: Fair value through surplus/deficit

…

The journal entries to account for the concessionary loan when classified at fair value through surplus or deficit are as follows:

1. On initial recognition, the entity recognises the following:

Dr	Loan	236 989 595	
Dr	Expense (~~social benefit~~ concessionary component recognised i.a.w the Standard of GRAP on *Social Benefits* or the Framework)	13 010 405	
Cr	Bank		250 000 000

…

Example 23: Payment of a concessionary loan that is credit impaired on initial recognition

…

On initial recognition, the entity recognises the following:

Loan	42 652	
Expense (~~social benefit~~ concessionary component recognised i.a.w. the Standard of GRAP on *Social Benefits* or the Framework and expected credit losses on credit impaired loan)	32 348	
Bank		75 000

…

Present value of loan on initial recognition	**42 652**
Loan proceeds	75 000
Present value	42 652
~~Social benefit~~ Concessionary component (concession and impairment on initial recognition)	**32 348**

…

Basis for conclusions

…

Loan commitments

…

Measurement of a loan commitment to provide a concessionary loan

…

BC15. In determining how commitments to provide concessionary loans should be measured, the Board considered what information would be relevant to users. When an entity commits to provide a loan on concessionary terms, it is effectively committing to an outflow of resources on terms that are unfavourable to an entity. Having information about the value to be given away when, as well as the expected credit losses, it commits to the loan, provides relevant information to users of the financial statements about (a) the level of resources needed to fund the loan and the concessionary ~~(social benefit)~~ component, and (b) the credit risk exposure when entering into the arrangement.

BC16. The Board agreed that the initial measurement of the loan commitment should include both the expected loss allowance and the concessionary ~~(social benefit)~~ component of the loan, and that both these aspects should be recognised using the *Framework for the Preparation and Presentation of Financial Statements*. In developing the Standard of GRAP on *Social Benefits* in 2023, the Board agreed that when the concessionary component meets the definition of a social benefit, the Standard of GRAP on *Social Benefits* should be applied.

…

Initial measurement

Concessionary loans

…

BC62. The Board concluded that in the case of concessionary loans, the difference between the present value of the contractual payments using a market related rate of interest for a similar debt instrument, with similar terms, maturity, currency and risk profile and the proceeds granted or received, may, in substance, result in non-exchange revenue (for the recipient of a concessionary loan), or a social benefit or similar concession (for the grantor of a concessionary loan).

BC63. With the alignment of GRAP 104 with the impairment requirements of IFRS 9, a number of principles related to the measurement of concessionary loans issued by an entity needed to be revisited. In particular, the Board considered the implications for the measurement of concessionary loans that are credit impaired on purchase or origination and those that become credit impaired after initial recognition.

BC64. The existing guidance in GRAP 104 requires an entity to separate a concessionary loan into two components: (a) the loan (financial asset) and (b) the concessionary ~~(social benefit~~ element of the loan~~)~~. Any impairment losses were considered separately as part of the subsequent measurement of the loan. IFRS 9 introduces a requirement to assess whether a financial asset is credit impaired on purchase or origination. An entity is required to include any expected credit losses in the fair value of the loan on initial recognition. The inclusion of expected credit losses in the initial measurement not only affects the cash flows used to determine fair value, it also affects the interest rate used to discount the cash flows (this rate is the credit adjusted effective interest rate). For concessionary loans that become credit impaired, the treatment under IFRS 9 and GRAP 104 on initial recognition is unchanged.

BC65. The Board believes that having separate information on the concessionary ~~(social benefit)~~ component of the loan and the credit loss is important, as it helps users to identify what resources were given away by the entity to achieve particular government policies, and what resources are being lost as a result of poor credit management practices or exposure to credit risk. While this can be achieved for concessionary loans that become credit impaired after initial recognition, it is not possible to separately distinguish the concessionary ~~(social benefit)~~ component of the loan from the expected credit losses for loans that are credit impaired on purchase or origination without modifying the principles in IFRS 9. As a result, the Board agreed that the concessionary element recognised should include the credit losses and any ~~social benefits~~ concession provided. The Board however introduced a requirement to disclose the nominal values of the loans along with the nominal values of the ~~social~~

~~benefit~~ concessionary and credit loss components in the notes to the financial statements.

…

BC68. Respondents to ED 167 supported the proposed accounting treatment of credit impaired concessionary loans, but they did not support the disclosure of the nominal values of the cash flows of the loans along with the ~~social benefit~~ concessionary and credit loss components. Respondents indicated that this would be onerous, and that the availability of the information would depend on the valuation technique applied. The Board agreed to delete this disclosure requirement.

…

Accounting treatment by the issuer

BC71. The Board agreed that the issuer of a concessionary loan should also assess whether the nature of the difference between the loan proceeds and the fair value of the loan represents a loan or a transfer of resources. The Board concluded that the issuer of a concessionary loan should apply this Standard as well as the *Framework for the Preparation and Presentation of Financial Statements* in making this assessment.

BC72. A transfer might be provided in the form of a social benefit. Social benefits ~~are~~were defined for purposes of this Standard, as a cash transfer paid to individuals and households in a non-exchange transaction to protect them against certain social risks. Where an entity grants concessionary loans to individuals or households, a component of the concessionary loan may be deemed to be a social benefit and accounted for in accordance with the *Framework for the Preparation and Presentation of Financial Statements.* In developing the Standard of GRAP on *Social Benefits* in 2023, the Board agreed that the issuer of a concessionary loan should consider whether the concessionary component meets the definition of a social benefit in the Standard of GRAP on *Social Benefits*. If so, the issuer applies this Standard as well as the Standard of GRAP on *Social Benefits.* If not, the issuer applies this Standard and the *Framework for the Preparation and Presentation of Financial Statements.*

BC73. Where an entity grants a concessionary loan to another entity (which for purposes of this Standard would include, but not be limited to, an unincorporated entity, partnership or trust) the difference between the loan proceeds and the fair value of the loan is treated in accordance with the *Framework for the Preparation and Presentation of Financial Statements*.

Concessionary investments

BC74. In revising IPSAS 29, the IPSASB discussed the notion of a "concessionary investment". This is when an entity invests in the residual interests of another entity, usually to achieve specific public policy objectives, and all or part of the investment is a non-exchange transaction. The Board agreed that guidance on how to account for these transactions may be useful and would ensure that transactions are accounted for based on their underlying economic characteristics. The principles underlying the accounting treatment of these instruments are the same as concessionary loans. As the entity would need to assess whether the transaction is an investment in another entity or a concession~~social benefit~~, the Board noted that the terms and conditions of the arrangement between the parties would need to be examined to identify the component parts. If it is unclear from the arrangement whether there is one or more part to the transaction, the default treatment is that the investment is treated as the acquisition of an interest in the residual interests of the entity.

…

B7. Amendments to GRAP 108 *Statutory Receivables*

Paragraphs .08A and .44 are added.

…

Derecognition

…

.08 Most often, statutory receivables are derecognised when the amounts owing are paid by the debtor. An entity may have the ability to waive its rights to receive cash flows from a statutory receivable in accordance with legislation, regulation or a specific policy. For example, an entity might agree to waive the collection of certain amounts owing due to the introduction of a new policy. The expiration of rights related to statutory receivables would typically be governed by legislation, regulation or an equivalent.

.08A Where the waiver of rights results in the provision of a social benefit, as defined in the Standard of GRAP on *Social Benefits,* it is accounted for in accordance with that Standard. Where the waiver of rights does not result in the provision of a social benefit, as defined in the Standard of GRAP on *Social Benefits,* it is accounted for in accordance with the *Framework for the Preparation and Presentation of Financial Statements*. A waiver of rights would be a social benefit when, for example, a municipality's indigent policy requires a municipality to waive its rights to collect statutory debt when an individual consumer meets eligibility criteria as a result of a social risk that has occurred, such as the individual becoming unemployed. The definition of a social benefit would not be met when, for example, a municipality waives debt that is owed by an entity rather than an individual and/or household, or when there are no specific eligibility criteria that are applied.

…

Effective date

Entities already applying Standards of GRAP

.44 Paragraph .08A was added by the Standard of GRAP on Social Benefits issued [Month Year]. [Transitional provisions will be determined with the transitional provisions of this ED.]

Appendix C – Implementation guidance

This guidance accompanies, but is not part of, this Standard.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of this Standard.

Scope

IG2. The following diagram illustrates the scope of this Standard and the boundaries between social benefits and other transactions.

	Non-exchange expenses				Social benefits	Other Standards of GRAP/IFRS		
Category	**Appropriations, contributions and other transfers**	**Emergency relief**	**Collective services**	**Individual services**	**Social benefits**	**Employee benefits**	**Contracts for insurance**	**Contracts for goods and services**
Examples	Appropriations to other public sector entities or to charities	Emergency relief, planning and preparation activities	Defense services and street lighting	Education and healthcare services	Unemployment benefits, income support, injury on duty benefits	Employee pensions and healthcare, salaries and wages	Vehicle insurance, private medical insurance, income protection	Purchase of goods and payment for services
Exchange or non-exchange transaction?	Both	Non-exchange	Non-exchange	Non-exchange	Non-exchange	Exchange	Exchange	Exchange
Provided as cash transfers to specific individuals/households	Sometimes	Sometimes	No	No	Yes	Sometimes	Sometimes	No
Provided to specific individuals/households who meet eligibility criteria?	Sometimes	Sometimes	No	Sometimes	Yes	Sometimes	Sometimes	No
Mitigates effect of social risks?	No	No	No	Sometimes	Yes	Sometimes	Sometimes	No
Addresses needs of society as a whole?	Sometimes	Sometimes	Yes	Yes	Yes	No	No	No

Recognition and measurement of liabilities and expenses

IG3. How do breaks in a beneficiary meeting the eligibility criteria for a social benefit affect the recognition and measurement of the liability?

Background

IG4. For a social benefit that has ongoing eligibility criteria (such as a threshold household income) an individual may alternate between periods when they meet the eligibility criteria, and periods when they do not meet those eligibility criteria. In these circumstances, each instance of an individual satisfying the eligibility criteria is recognised and measured separately, in accordance with paragraph .21, and Application guidance paragraphs AG36. and AG38. Where an entity assesses ongoing eligibility criteria to be substantive, the entity only recognises a liability up until the next point when the eligibility criteria are required to be satisfied, even if the entity expects an individual to continue to satisfy the eligibility criteria upon that next verification.

Scenario 1 – the eligibility criteria are substantive

IG5. For example, an entity prepares its financial statements as at 31 March. The benefit's rules require that existing beneficiaries must satisfy the eligibility criteria required to continue receiving social benefits every three months. The entity assesses that the ongoing eligibility criteria are substantive. As at 31 March, an individual was unemployed, and eligible to receive unemployment benefits. Consequently, the entity has a present obligation to the individual at the reporting date. Applying judgement and management's experience, the entity's best estimate is that the individual will be eligible to receive an unemployment benefit until the next point when the benefit's rules require the beneficiary to satisfy eligibility criteria (30 June), i.e. for three months. The entity recognises a liability for unemployment benefits for the period 1 April to 30 June. Even when the entity expects the beneficiary to meet the ongoing eligibility criteria at 30 June, in accordance with paragraph .21, and Application guidance paragraphs AG36. and AG38., the entity only recognises a liability until 30 June. The individual finds temporary employment on 20 June and ceases to be eligible for the unemployment benefits. The entity identifies that the individual is no longer eligible for benefits during its verification process in June, ceases payment and recognises no further liabilities for this individual. The temporary employment ends on 31 July, when the individual once more becomes eligible for unemployment benefits. Only the first period of unemployment might be included in the liability at the reporting date, as the eligibility criteria for the subsequent period were not satisfied until after that reporting date. The satisfaction of eligibility criteria for the second period gives rise to a new liability.

Scenario 2 – the eligibility criteria are not substantive

IG6. Assume the same background information as scenario 1 applies, except that the eligibility criteria are not substance. This means that as at 31 March, the entity determines its best estimate of the period that the individual would be eligible to receive unemployment benefits without limiting the liability to the next date when eligibility criteria will be verified. Assume the entity's best estimate is that the individual will remain eligible for unemployment benefits for a period of four months from reporting date, from 1 April to 31 July, the entity recognises a liability until 31 July. As in scenario 1, the entity identifies that the individual is no longer eligible for benefits during its verification process in June, ceases payment and recognises no further liabilities for this individual. The temporary employment ends on 31 July, when the individual once more becomes eligible for unemployment benefits. Only the first period of unemployment might be included in the liability at the reporting date, as the eligibility criteria for the subsequent period were not satisfied until after that reporting date. The satisfaction of eligibility criteria for the second period gives rise to a new liability.

IG7. How are social benefits presented in the financial statements?

IG8. The presentation of social benefits in the financial statements can be illustrated as follows.

Public Sector Entity — Statement of Financial Position

As at 31 March 20X2

	20X2	**20x1**
ASSETS		
…		
LIABILITIES		
Current liabilities	**X**	**X**
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
Social security insurance benefit liability	*X*	*X*
Social assistance benefit liability	*X*	*X*
Employee benefits	X	X
Non-current liabilities	**X**	**X**
Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
Social security insurance benefit liability	*X*	*X*

Social assistance benefit liability	*X*	*X*
Employee benefits	X	X
Total liabilities	**X**	**X**
Net assets	**X**	**X**
…		
Non-controlling interest	X	X
Total net assets	**X**	**X**

Public Sector Entity — Statement of Financial Performance for the year ended 31 March 20X2

	20X2	**20x1**
Revenue		
…		
Expenses		
Wages, salaries, and employee benefits	X	X
Social security insurance benefit expense (1)	*X*	*X*
Social assistance benefit expense (2)	*X*	*X*
Grants and other transfer payments	X	X
Supplies and consumables used	X	X
Depreciation and amortisation expense	X	X
Impairment of property, plant, and equipment	X	X
Other expenses	X	X
Finance expense	X	X
Total Expenses	**X**	**X**

Notes to the Statement of Financial Performance

(1) Social security insurance benefit expense

Social security insurance benefit cost	X	X
Finance cost	X	X
Remeasurements of the social security insurance benefit liability	X	X
	X	X

(2) Social assistance benefit expense

Social assistance benefit cost	X	X
Finance cost	X	X
Remeasurements of the social assistance benefit liability	X	X
Concessionary component – concessionary loans	X	X
Concessionary component – concessionary investments	X	X
Contractual debts waived	X	X
Statutory debts waived	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>

Public Sector Entity — Cash Flow Statement for year ended 31 March 20X2

	20X2	**20x1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
…		
Payments		
Employee costs	(X)	(X)
Suppliers	(X)	(X)
<u>*Social security insurance benefits*</u>	<u>*(X)*</u>	<u>*(X)*</u>
<u>*Social assistance benefits*</u>	<u>*(X)*</u>	<u>*(X)*</u>
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	**X**	**X**

…

Notes to the Cash Flow Statement

…

(x) Reconciliation of net cash flows from operating activities to surplus/(deficit)

	20X2	**20x1**
Surplus/(deficit)	**X**	**X**
Non-cash movements		
Depreciation	X	X

…		
Increase in borrowings	X	X
<u>Increase in social security insurance benefit liabilities</u>	*<u>X</u>*	*<u>X</u>*
<u>Increase in social assistance benefit liabilities</u>	*<u>X</u>*	*<u>X</u>*
Increase in provisions relating to employee costs	X	X
…		
Increase in receivables	(X)	(X)
Net cash flows from operating activities	**X**	**X**

Public Sector Entity — Statement of Comparison of Budget and Actual Amounts

Budget on cash basis (Classification of Payments by Functions)

Note: The budget and the accounting basis is different. The Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

	Budgeted amounts				**Actual amounts on comparable basis**	**Difference: final budget and actual**	**Explanation of variances**
	Original	**Final**	**Variance**	**Explanation**			
RECEIPTS							
…							
PAYMENTS							
Health	(X)	(X)	(X)	N1	(X)	(X)	N2
Education	(X)	(X)	(X)	N1	(X)	(X)	N2
Public order/safety	(X)	(X)	(X)	N1	(X)	(X)	N2
Social development	*(X)*	*(X)*	*(X)*	*N1*	*(X)*	*(X)*	*N2*
Defence	(X)	(X)	(X)	N1	(X)	(X)	N2
Housing and community amenities	(X)	(X)	(X)	N1	(X)	(X)	N2
Recreational, cultural and religion	(X)	(X)	(X)	N1	(X)	(X)	N2
Economic affairs	(X)	(X)	(X)	N1	(X)	(X)	N2
Other	(X)	(X)	(X)	N1	(X)	(X)	N2
Total payments	**(X)**	**(X)**	**(X)**		**(X)**	**(X)**	

…

Notes to the Statement of Comparison of Budget and Actual Amounts

…

(x) Reconciliation of actual amounts on comparable basis to actual amounts in financial statements

	20X2
Actual amount on comparable basis: Total payments	**X**
Adjustment for basis differences	
- Deduct *Social development*	*(X)*
- Add back *Social security insurance benefits*	*X*
- Add back *Social assistance benefits*	*X*
Actual amount in financial statements: Total expenses	**X**

N1. Explanation of changes from original to final budget

Reason 1: Health, Safety and Education

Xxx…

Reason 2: Social benefits, Housing and community amenities

Xxx…

…

N2. Explanation of variances between final budget and actual amounts

Health – xxx

Safety – xxx

…

Social benefits – xxx

…

IG9. What does an entity consider when deciding what information should be disclosed about social benefits?

IG10. Paragraph .32 requires an entity to disclose information in addition to what is provided in this Standard if the information is insufficient to meet the objectives in paragraph .30.

IG11. For example, an entity may present an analysis of the present value of the social benefit liability that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish between:

(a) Social benefits to citizens, residents, and foreigners.

(b) Liabilities for events related to social risks that have been estimated to occur (for social security insurance benefits), applications for benefits that the entity has received but must still verify, and beneficiaries that have been verified to meet all eligibility criteria.

IG12. Paragraph .33 requires an entity to consider whether all or some disclosures should be disaggregated to distinguish social benefits with materially different risks.

IG13. For example, an entity may disaggregate disclosure about social benefits showing one or more of the following features:

(a) Different geographical locations.

(b) Different characteristics, such as fixed rate benefits, or benefits that increase over time.

(c) Different regulatory environments.

(d) Different reporting segments.

Appendix D – Illustrative examples

This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.

Scope and definitions of social benefits and social risks

Illustrating the consequences of applying paragraphs .02 to .14 and Appendix A paragraphs AG1. to AG23.

IE1. The following scenarios illustrate the process for determining whether a social benefit is within the scope of this Standard. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying this Standard.

Example 1 – Provision of retirement benefits to government employees

IE2. Employees of Province A are entitled, under the terms of their employment contracts, to retirement benefits once they reach the age of 65. The employees are required to contribute a percentage of their salary while they are employed.

IE3. The retirement benefits are benefits to employees in terms of employment contracts for services rendered. The retirement benefits are employee benefits, and are accounted for in accordance with GRAP 25. These benefits are outside the scope of this Standard.

Example 2 – Provision of old age benefit

Background

IE4. Government pays a minimum old age benefit to all citizens and residents who have reached the retirement age of 65 and who have a household income of less than an amount set in government policy. The old age benefit is governed by legislation. It is funded by government from taxes; there are no contributions from individuals and/or households. The benefit pays the same amount to each retiree.

Definition

IE5.

Definition	**Comment**
Cash and in-kind benefits to specific individuals and/or households	Yes. The benefits are cash transfers provided to specific individuals who meet eligibility criteria.
Eligibility criteria need to be met	
The benefit mitigates the effect of social risks	Yes.

Social risk: events/circumstances that relate directly to the characteristics of individuals and/or households (e.g. age, health, poverty and employment status) and may adversely affect the welfare of the individuals and/or households.	The retirement benefits are intended to ensure that the beneficiaries have sufficient income once they reach retirement age.
The benefit addresses the needs to society as a whole	Yes. Appendix A paragraphs AG12. to AG14. note that the assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. Benefits address the needs of society as a whole when they do not consider individual circumstances.

IE6. Consequently, the old age benefit meets the definition of a social benefit.

Scope

IE7. The social benefit is provided in cash and is therefore within the scope of this Standard.

Example 3 – Provision of universal healthcare services

Background

IE8. Government provides basic healthcare services to all its citizens, and to other individuals who meet residency requirements. The healthcare services are provided free at the point of delivery.

Definition

IE9.

Definition	**Comment**
Cash and in-kind benefits to specific individuals and/or households	Yes. The healthcare services are provided to specific individuals who meet eligibility criteria.
Eligibility criteria need to be met	
The benefit mitigates the effect of social risks *Social risk: events/circumstances that relate directly to the characteristics of*	Yes. The healthcare services are intended to ensure that the welfare of individuals and

individuals and/or households (e.g. age, health, poverty and employment status) and may adversely affect the welfare of the individuals and/or households.	households is not adversely affected by ill health.
The benefit addresses the needs to society as a whole	Yes. The same healthcare service is provided to any individual who meets the eligibility criteria.

IE10. The benefit therefore meets the definition of a social benefit.

Scope

IE11. Government is providing services rather than cash transfers. Consequently, although the healthcare services meet the definition of a social benefit, they are outside the scope of this Standard as they are provided in-kind. The flowchart in Appendix A paragraph AG7. provides further guidance on the scope of this Standard.

Example 4 – Provision of disability benefits

Background

IE12. Government pays disability benefits to South African residents who have a permanent disability that prevents them from working, regardless of their age. A disability benefit is only payable after a medical examiner certifies that the disability is permanent, and that the disability will prevent the individual affected from undertaking paid employment. Although the amount of the disability benefit is dependent on the individual's level of disability, it is determined based on a standardised, legislated benefit matrix based on the level of disability. The benefit is intended to cover basic needs and to allow the individual to pay for an appropriate level of care. The benefit is provided without any restrictions on use and does not refund an individual directly for medical expenses incurred.

Definition

IE13.

Definition	**Comment**
Cash and in-kind benefits to specific individuals and/or households Eligibility criteria need to be met	Yes. The disability benefits are provided as cash transfers to specific individuals who meet eligibility criteria.
The benefit mitigates the effect of social risks *Social risk: events/circumstances that relate directly to the characteristics of*	Yes. The disability benefits mitigate the social risk of ill health, in that they are intended to ensure that the welfare of individuals

individuals and/or households (e.g. age, health, poverty and employment status) and may adversely affect the welfare of the individuals and/or households.	and households is not adversely affected by disability.
The benefit addresses the needs to society as a whole	Yes. The benefits are provided to any individual who meets the eligibility criteria and the benefits are paid at standardised benefit levels. In accordance with Appendix A paragraph AG11., the benefits address the needs of society as a whole.

IE14. Consequently, the disability benefits meet the definition of a social benefit.

Scope

IE15. The social benefits are cash transfers and are therefore within the scope of this Standard.

Example 5 – Provision of unemployment benefits

Background

IE16. Province E pays unemployment benefits to individuals who are resident in the province and who become unemployed. Individual employees and their employers contribute a certain percentage of the employee's monthly salary towards the benefits. The unemployment benefits are payable for a maximum of one year, and there is a two week "waiting period" before the unemployment benefits are payable.

Definition

IE17.

Definition	**Comment**
Cash and in-kind benefits to specific individuals and/or households	Yes. The unemployment benefits are provided as cash transfers to specific individuals who meet eligibility criteria.
Eligibility criteria need to be met	
The benefit mitigates the effect of social risks *Social risk: events/circumstances that relate directly to the characteristics of individuals and/or households (e.g. age, health, poverty and employment status)*	Yes. The unemployment benefits are intended to ensure that individuals and households have sufficient income during periods of unemployment.

and may adversely affect the welfare of the individuals and/or households.	
The benefit addresses the needs to society as a whole	Yes. The benefits are provided to any individual who meets the eligibility criteria and are paid at standardised benefit levels.

IE18. Consequently, the unemployment benefits meet the definition of a social benefit.

Scope

IE19. The social benefits are provided in cash and are within the scope of this Standard.

Example 6 – Provision of emergency relief

Background

IE20. Following a flood that has caused significant damage in a region, Government provides emergency relief to assist with reconstruction and with providing services such as temporary housing to those affected by the floor.

IE21. Some costs will relate to providing benefits as cash transfers to specific individuals who meet eligibility criteria. Other costs will relate to the provision of assets and services, for example the reconstruction of roads damaged by the flood. These are assessed separately.

Definition

IE22.

Definition	**Comment**	
	Cash transfers	**Provision of assets and services**
Cash and in-kind benefits to specific individuals and/or households Eligibility criteria need to be met	Yes. The emergency relief is provided as cash transfers to specific individuals who meet eligibility criteria.	No. The provision of assets and services are to a community at large and not specific individuals and/or households who meet eligibility criteria.
The benefit mitigates the effect of social risks *Social risk: events/circumstances that relate directly to the*	No. The emergency relief provided as cash transfers mitigates the effects of a geographical	N/A.

characteristics of individuals and/or households (e.g. age, health, poverty and employment status) and may adversely affect the welfare of the individuals and/or households.	risk – the risk of flood. Appendix A paragraph AG14. explains that risks that do not relate directly to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks.	
The benefit addresses the needs to society as a whole	N/A.	N/A.

IE23. Following a natural disaster, individuals and/or households may subsequently become eligible for other benefits, for example unemployment benefits. These benefits may be social benefits if they satisfy the definition of a social benefit (including the requirements that they are cash transfers and they mitigate social risks).

Scope

IE24. The emergency relief does not meet the definition of a social benefit and is consequently outside the scope of this Standard. The flowchart in Appendix A paragraph AG7. provides further guidance on the scope of this Standard.

Example 7 – Provision of defense services

Background

IE25. Government maintains an army, navy and air force to provide defense for the country.

Definition

IE26.

Definition	**Comment**
Cash and in-kind benefits to specific individuals and/or households	No. Defense services are provided to the country at large and not provided as a service to specific individuals and/or households who meet eligibility criteria.
Eligibility criteria need to be met	

The benefit mitigates the effect of social risks *Social risk: events/circumstances that relate directly to the characteristics of individuals and/or households (e.g. age, health, poverty and employment status) and may adversely affect the welfare of the individuals and/or households.*	N/A.
The benefit addresses the needs to society as a whole	N/A.

Scope

IE27. The provision of defense services does not meet the definition of social benefits and is consequently outside the scope of this Standard. The flowchart in Appendix A paragraph AG7. provides further guidance on the scope of this Standard.

Example 8 – Provision of free higher education

Background

IE28. Government provides free higher education to individuals who meet eligibility criteria, such as a means test. The service is provided in the form of two benefits:

(a) payments for tuition to higher education institutions on behalf of qualifying individuals; and

(b) allowances paid to those qualifying individuals, such as a living allowance and book allowance.

In accordance with paragraph .08, these benefits are assessed separately.

Definition

IE29.

Definition	**Comment**	
	Tuition paid to higher education institutions	**Allowances**
Cash and in-kind benefits to specific individuals and/or households	Yes. The benefit is provided to individuals and/or households who meet eligibility criteria.	Yes. The benefit is provided to individuals and/or households who meet eligibility criteria.
Eligibility criteria need to be met		
The benefit mitigates the effect of social risks	No.	No.

Social risk: events/circumstances that relate directly to the characteristics of individuals and/or households (e.g. age, health, poverty and employment status) and may adversely affect the welfare of the individuals and/or households.	The benefit aims to increase an individual's level of education. The benefit does not relate *directly* to the characteristics of an individual and/or household that may adversely affect their welfare. The benefit may *indirectly* relate to the characteristics of individuals and/or households (poverty) by aiming to change their level of education (for those who pass), which could lead to a change in employment status, and thereby alleviating poverty.	Allowances are provided alongside the tuition benefit and does not meet the definition of a social risk for the same reasons as the tuition benefit.
The benefit addresses the needs to society as a whole	N/A.	N/A.

Scope

IE30. The provision of free higher education does not meet the definition of a social benefit and is therefore outside the scope of this Standard. The flowchart in Appendix A paragraph AG7. provides further guidance on the scope of this Standard.

Example 9 – Provision of funeral benefits

IE31. Government provides various benefits to individuals who are injured on duty. Should the injury result in death, a funeral benefit is provided.

Scenario 1: The funeral benefit covers the minimum burial costs.

Background

IE32. A funeral benefit is provided that covers the minimum burial costs to meet legislative requirements on the means of disposing of a deceased body. The benefit is paid to the next of kin of an individual who died as a result of injury on duty. The amount of the benefit is set by government based on prevailing burial rates.

Definition

IE33.

Definition	Comment
Cash and in-kind benefits to specific individuals and/or households	Yes. The benefit is provided to individuals and/or households who meet eligibility criteria.
Eligibility criteria need to be met	
The benefit mitigates the effect of social risks *Social risk: events/circumstances that relate directly to the characteristics of individuals and/or households (e.g. age, health, poverty and employment status) and may adversely affect the welfare of the individuals and/or households.*	Yes. The benefit addresses a social risk by assisting the household of a deceased person with the burial costs resulting from the person's death.
The benefit addresses the needs to society as a whole	Yes. The benefit addresses the needs of society as a whole as the amount is standardised for all beneficiaries, based on the minimum legislative requirements.

IE34. The benefit therefore meets the definition of a social benefit.

Scope

IE35. Even though government transfers cash to an individual and/or household, it is to reimburse the individual and/or household for the burial costs incurred in accordance with legislative requirements. The benefit is therefore provided in-kind. Consequently, the benefit is outside the scope of this Standard. The flowchart in Appendix A paragraph AG7. provides further guidance on the scope of this Standard.

Scenario 2: The benefit covers the costs of burial and a funeral ceremony.

Background

IE36. A funeral benefit is provided that covers the minimum burial cost, as in scenario 1, and an additional benefit is provided for the costs of a funeral ceremony. In accordance with paragraph .08, these benefits are assessed separately. The assessment of the minimum burial costs is explained in scenario 1. This scenario explains the assessment of the costs of a funeral ceremony.

Definition

IE37.

Definition	Comment
Cash and in-kind benefits to specific individuals and/or households	Yes. The benefit is provided to individuals and/or households who meet eligibility criteria.
Eligibility criteria need to be met	
The benefit mitigates the effect of social risks *Social risk: events/circumstances that relate directly to the characteristics of individuals and/or households (e.g. age, health, poverty and employment status) and may adversely affect the welfare of the individuals and/or households.*	No. The benefit allows households to have funeral ceremonies which are mostly linked to their religions. Funeral ceremonies do not relate directly to the characteristics of individuals and/or households and as they are avoidable, thereby they do not adversely affect the welfare of the individuals and/or households.
The benefit addresses the needs to society as a whole	N/A.

Scope

IE38. The funeral benefit that covers the cost of a funeral ceremony does not meet the definition of a social benefit and is therefore outside the scope of this Standard. The flowchart in Appendix A paragraph AG7. provides further guidance on the scope of this Standard.

Definitions of social security insurance benefits and social assistance benefits

Illustrating the consequences of applying paragraphs .07 to .14 and Appendix A paragraphs AG15. to AG23.

Example 10 - Assessing whether a benefit meets the definition of a social security insurance benefit

Scenario 1: Entity X provides disability benefits funded by levies

Background

IE39. Entity X provides a disability benefit to individuals who are injured on duty and found to be temporarily or permanently unfit for work by a qualified medical practitioner. Employers pay monthly levies to Entity X based on the number of employees that they employ and the risk profile of the industry and work done by employees. These levies compensate Entity X for the events related to the social risk that Entity X is responsible to compensate beneficiaries for. The levies are earmarked to fund the social benefits of qualifying individuals. Entity X evaluates the financial performance and funding of the benefits on an annual basis and reports any concerns regarding the sustainability of the social benefit, based on current levy and social benefit levels, to the relevant authority, together with its recommendations.

Definition

IE40. Entity X assesses whether the social benefit is managed in a manner similar to insurance contracts and considers the definition in paragraph .07 and the characteristics in paragraph .11. Entity X concludes that the social benefit meets the definition of a social security insurance benefit for the following reasons:

- The social risk is transferred to Entity X in return for contributions (levies) paid by employers on behalf of their employees. Entity X is responsible for compensating beneficiaries for events related to social risks that have occurred.
- The levies are earmarked to fund the social benefit.
- Entity X reviews and assesses the financial performance and funding of the social benefit on an annual basis and participates in actions to respond to the outcome of the assessment by reporting on the outcome to the relevant authority.

Scenario 2: Entity Y provides an old age grant funded by government appropriations

Background

IE41. Entity Y provides an old age grant to all residents of Country A who reach the age of 65 and earn below an income threshold. Entity Y receives annual government appropriations to fund the benefits it expects to pay within a year. Government considers the sustainability of the social benefit as part of its larger social policy objectives and may amend the benefits based on affordability for Country A in light of macro economic factors.

Definition

IE42. Entity Y considers whether the social benefit is managed in a manner similar to insurance contracts and considers the definition in paragraph .07 and the characteristics in paragraph .11. Entity Y concludes that the social benefit does not meet the definition of a social security insurance benefit because Entity Y is not compensated through contributions for the social risk it is responsible to compensate beneficiaries for. Although Entity Y is consulted by government on decisions for the social benefit, Entity Y is not responsible for the sustainability of the social benefit.

IE43. Entity Y concludes that the social benefit meets the definition of a social assistance benefit. To confirm the conclusion, Entity Y considers the characteristics of social assistance benefits in paragraph .13. Entity Y confirms the social benefit is a social assistance benefit because the social benefit is considered, managed and funded by government on an ongoing basis and Entity Y is responsible to compensate beneficiaries each year with the appropriated funds from government for that year. There are no contributions from individuals and/or households.

Scenario 3: Entity Z provides a social benefit funded from accumulated surpluses

Background

IE44. Entity Z provides social benefits. The entity has accumulated surpluses which are set aside to fund future social benefit payments. The reserves are cash-backed.

IE45. Legislation introduces a new social benefit that will be provided by Entity Z. The legislation does not include any provisions for the social benefit to be funded by contributions. Entity Z is instructed to fund the benefit from its cash-backed reserves.

Definition

IE46. Entity Z assesses whether the new social benefit meets the definition in paragraph .07 and the characteristics in paragraph .11 to be managed in a manner similar to insurance contracts.

IE47. Entity Z concludes that the social benefit does not meet the definition of a social security insurance benefit, because the entity is not compensated through contributions for the social risk that gives rise to the social benefits that the entity is responsible to pay. The benefit is funded from Entity Z's accumulated surpluses. The social benefit is accounted for as a social assistance benefit.

Applying other Standards of GRAP with this Standard

Illustrating the consequences of applying paragraph .06 and Appendix A paragraph AG7.

Example 11 – Concessionary loans to small businesses

Background

IE48. Entity X provides concessionary loans to small businesses who meet eligibility criteria as part of government's economic development objectives. Entity X applies GRAP 104 to identify, separate and measure the components of each loan. Entity X applies GRAP 104 to account for the loan component. Entity X assesses the concessionary component against the definition of a social benefit in this Standard.

Definition

IE49.

<table>
<tr><th>Definition</th><th>Comment</th></tr>
<tr><td>Cash and in-kind benefits to specific individuals and/or households</td><td rowspan="2">No.

The concessionary component is provided to small businesses, not to individuals and/or households.</td></tr>
<tr><td>Eligibility criteria need to be met</td></tr>
</table>

The benefit mitigates the effect of social risks *Social risk: events/circumstances that relate directly to the characteristics of individuals and/or households (e.g. age, health, poverty and employment status) and may adversely affect the welfare of the individuals and/or households.*	N/A.
The benefit addresses the needs to society as a whole	N/A.

IE50. The concessionary component does not meet the definition of a social benefit in this Standard.

Scope

IE51. Entity X applies GRAP 104 and the Conceptual Framework to account for the concessionary component.

Example 12 – Concessionary home loans to individuals

Background

IE52. Entity Y provides concessionary home loans to individuals who meet eligibility criteria as part of government's housing policy objectives. Each qualifying individual receives an interest-free home loan to a maximum loan value of R500 000. Entity Y applies GRAP 104 to identify, separate and measure the components of each loan. Entity Y applies GRAP 104 to account for the loan component. Entity Y assesses the concessionary component against the definition of a social benefit in this Standard.

Definition

IE53.

Definition	**Comment**
Cash and in-kind benefits to specific individuals and/or households	Yes. The concessionary component is provided to individuals who meet eligibility criteria.
Eligibility criteria need to be met	
The benefit mitigates the effect of social risks *Social risk: events/circumstances that relate directly to the characteristics of individuals and/or households (e.g. age, health, poverty and employment status)*	Yes. The benefit addresses the social risk of homelessness, which relates directly to the characteristics of the individual and/or household and adversely affect their welfare.

and may adversely affect the welfare of the individuals and/or households.	
The benefit addresses the needs to society as a whole	Yes. The benefit is provided to any individual who meet the eligibility criteria and the benefit is standardised with a maximum threshold.

IE54. The concessionary component meets the definition of a social benefit in this Standard.

Scope

IE55. Although the social benefit component relates to a cash loan, in accordance with the guidance in Appendix A paragraphs AG5. and AG6., the social benefit component is not provided in cash as the individual and/or household has no discretion over the use of the benefit; the benefit can only be used for the construction of houses. The social benefit component of the loan is therefore provided in-kind. Entity X applies GRAP 104 and the flowchart in Appendix A paragraph AG7. to account for the concessionary component.

Recognition and measurement of a social benefit liability

Illustrating the consequences of applying paragraphs .15 to .25 and Appendix A paragraphs AG24. to AG52.

Example 13 – Social assistance benefits

IE56. Government provides a child support benefit of R400 per month to primary caregivers of children under the age of 18. The amount of the benefit is legislated and there are no indications of changes to the legislation at the reporting date. Eligibility criteria include that the child and caregiver must be South African residents, and a means test is applied.

IE57. There are no contributions made by individuals and/or households towards the benefit. The benefit is funded by government appropriations to Department B. The benefit is classified as a social assistance benefit. The liability for social assistance benefits is recognised when Department B has received an application for social benefits from the potential beneficiary.

IE58. The benefit's rules require the satisfaction of ongoing eligibility criteria of beneficiaries every three years after the beneficiary first met the eligibility criteria. In accordance with paragraph .21, Department B assesses that the ongoing eligibility criteria are substantive.

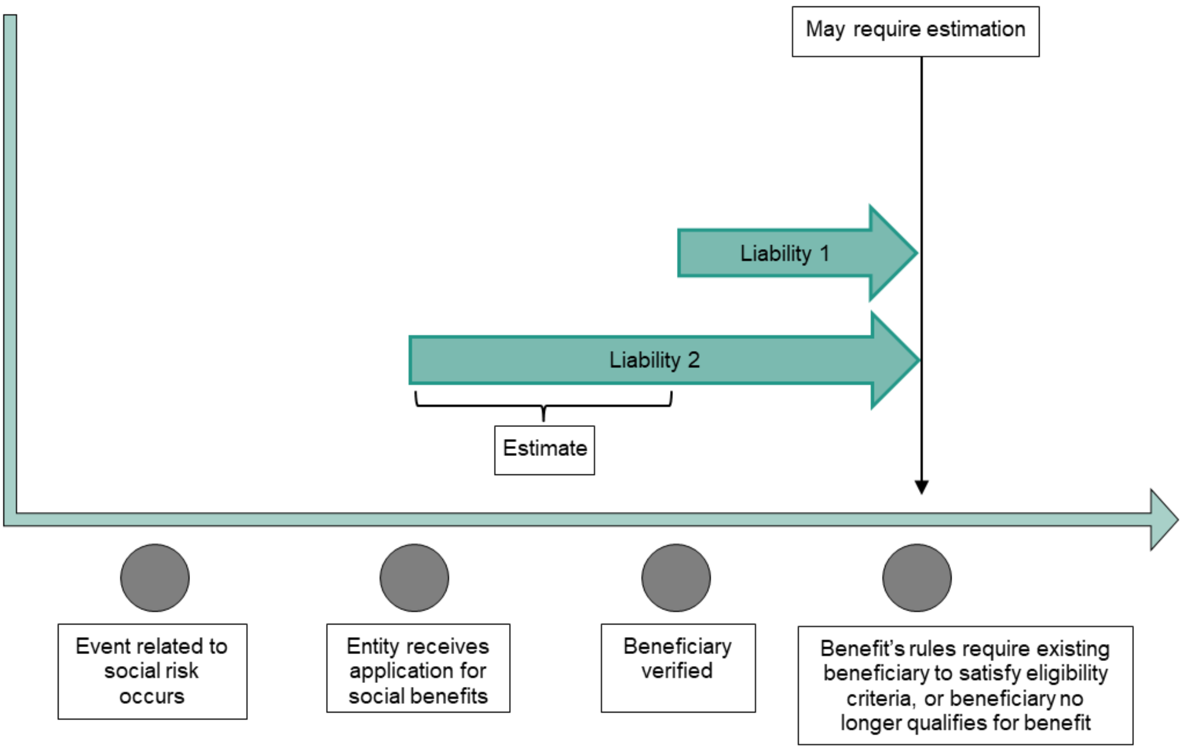
IE59. Department B's reporting date is 31 March. As at 31 March 20x1, Department B has received applications for social benefits from 100 000 beneficiaries that must still be verified to meet eligibility criteria, and has verified that 3 million beneficiaries meet the eligibility criteria. In measuring the social benefit liability, the entity estimates the following:

(a) The number of applications for social benefits that have been received by Department B that must still be verified, that would meet the eligibility criteria to qualify for benefits. The entity estimates this with reference to past history and the entity's experience.

(b) For each of the next 36 months, the number of beneficiaries that would receive the benefit is calculated by deducting the estimated number of beneficiaries that would no longer qualify for benefits in each of these months from the 3 million who qualify at the reporting date, and the number of beneficiaries estimated in (a) who must still be verified. The entity estimates this with reference to past history, current economic date and the entity's experience. Beneficiaries may no longer qualify due to no longer meeting the eligibility criteria (such as the child turns 18, or the household income increases to above the threshold), or reaching the date where the beneficiary is required to meet ongoing eligibility criteria.

(c) The discount rate used to determine the present value of the estimated future cash flows is estimated with reference to the rate of a government bond with a maturity date of three years.

With reference to the diagram in paragraph AG28. this can be illustrated as follows:



IE60. For illustrative purposes, the amortisation table below summarises the results of the entity's estimates by year in total. The entity's calculations are done per month.

Year	31 March 20x2			31 March 20x3			31 March 20x4		
Areas of estimation	**Average number verified[5]**	**Monthly rate x 12**	**Total payable**	**Average number verified[5]**	**Monthly rate x 12**	**Total payable**	**Average number verified[5]**	**Monthly rate x 12**	**Total payable**
1. Entity verified that eligibility criteria are met									
Estimates	2.5 million	R400 x 12 = R4 800	**R12 billion**	1.5 million	R400 x 12 = R4 800	**R7.2 billion**	0.5 million	R400 x 12 = R4 800	**R2.4 billion**
Present value[6]			**R11.1 billion**			**R6.2 billion**			**R1.9 billion**
2. Applications received but not yet verified									
Estimates	50 000	R400 x 12 = R4 800	**R240 million**	**30 000**	R400 x 12 = R4 800	**R144 million**	**10 000**	R400 x 12 = R4 800	**R48 million**
Present value[6]			**R222 million**			**R123 million**			**R38 million**
Total present value			**R19.6 billion**						

IE61. Accordingly, the entity recognises a social benefit liability of R19.6 billion at the reporting date (31 March 20x1):

Dr. Social assistance benefit expense	R19.6 billion
Cr. Social assistance benefit liability	R19.6 billion

Example 14 – Social security insurance benefits

IE62. Government provides a monthly unemployment benefit to those who become unemployed, for a maximum period of 9 months in every four years. The benefit is calculated as a percentage of an unemployed individual's last salary, with a maximum benefit level determined in legislation.

IE63. The benefit is funded by contributions in equal proportions from employed individuals and their employers. The contributions are calculated as a percentage of the individual's monthly salary with a maximum contribution level determined in legislation. The entity assesses that the benefit meets the definition of a social security insurance benefit. Social security insurance benefits are recognised when the event related to

[5] The entity estimates the monthly number of beneficiaries that would continue to meet the eligibility criteria, the average yearly number is illustrated in the summarised table.

[6] The entity uses a risk free rate of 8% to determine the present value of future cash flows, which was derived from a yield curve of government bonds with a maturity of 3 years. The rate applied should be according to a monthly yield curve, although for illustration purposes the rate at the last cash flow point was applied.

the social risk occurs. The entity determines the past event to be when an individual becomes unemployed. An unemployed individual must submit an application for social benefits to the entity within 6 months of becoming unemployed to qualify for benefits.

IE64. The eligibility criteria include that the individual is unemployed, previously contributed towards the benefit, has not received the benefit for more than nine months in the last four years, became unemployed no more than six months prior to submitting an application for benefits to the entity, and is actively looking for new employment.

IE65. The benefit's rules require beneficiaries to meet ongoing eligibility criteria, however the entity does not enforce the eligibility criteria due to the short-term nature of the benefit. Instead, the entity relies on information from external parties. The entity concludes that the ongoing eligibility criteria are not substantive.

IE66. The entity's reporting date is 31 March. In measuring the social benefit liability, the entity estimates the following:

(a) The number of beneficiaries that became unemployed in the last 6 months and would qualify for benefits, but have not yet submitted an application to the entity. This information is estimated with reference to (i) monthly tax information submitted by employers to the South African Revenue Service, and compared to the entity's information on applications that have been submitted, (ii) past history, (iii) unemployment statistics from Statistics South African, and (iv) current macro economic conditions.

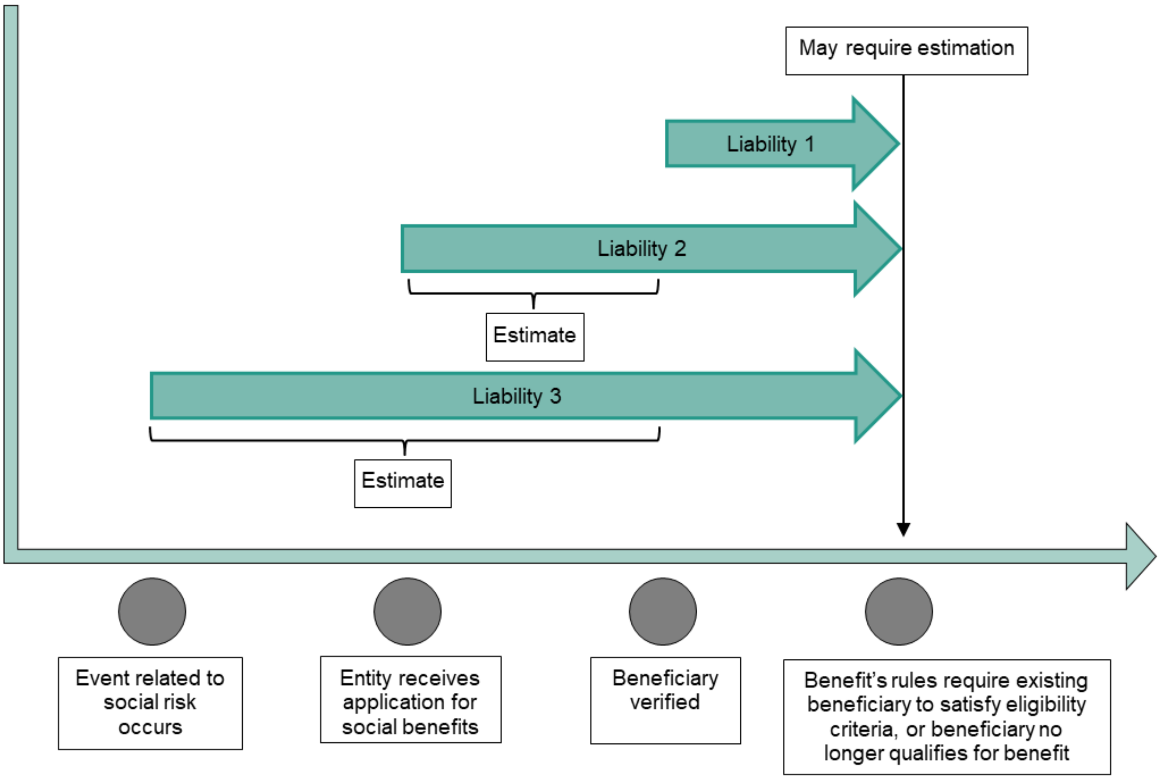
(b) The number of applications for social benefits that have been received by the entity that must still be verified, that would meet the eligibility criteria to qualify for benefits. The entity estimates this with reference to past history and the entity's experience.

(c) For (a) and (b) above, the rates at which the qualifying beneficiaries would receive benefits.

(d) For (a) and (b) above, as well as for existing beneficiaries that have already been verified to qualify for benefits, the period over which the beneficiaries will remain eligible to receive benefits. The entity estimates this with reference to past history, current economic data and the entity's experience. Beneficiaries may no longer qualify due to no longer meeting the eligibility criteria, such as finding new employment, or reaching the maximum benefit period of nine months in a four year period.

(e) Even though the maximum period that the entity forecasts future benefit payments is 15 months (six months to apply for social benefits + nine months of benefits), the entity determines the effect of discounting to be material. The discount rate used to determine the present value of the estimated future cash flows is with reference to the rate of a government bond with a maturity date of one year.

With reference to the diagram in paragraph AG28. this can be illustrated as follows:



IE67. For illustrative purposes, the amortisation table below summarises the results of the entity's estimates by year in total. The entity's calculations are done per month.

Year	31 March 20x2			31 March 20x3		
Areas of estimation	**Average number[7]**	**Average monthly rate**	**Total payable**	**Average number[7]**	**Average monthly rate**	**Total payable**
1. Entity verified that eligibility criteria are met						
Estimates	5 million per month for 9 months	R4 000/ month[8]	**R180 billion**	N/A	N/A	-
Present value[9]			**R171 billion**			
2. Applications received but not yet verified						

[7] The entity estimates the monthly number of beneficiaries that would meet, and continue to meet the eligibility criteria; the average number is illustrated in the summarised table.

[8] The entity has the actual monthly benefit information available; the table includes an average amount per beneficiary for illustrative purposes.

[9] The entity uses a risk free rate of 7% to determine the present value of future cash flows. For purposes of the illustration the rate was derived from a yield curve of government bonds with a maturity of 1 year. The rate applied should be according to a monthly yield curve, although for illustration purposes the rate at the last cash flow point was applied.

Year	31 March 20x2			31 March 20x3		
Areas of estimation	**Average number[7]**	**Average monthly rate**	**Total payable**	**Average number[7]**	**Average monthly rate**	**Total payable**
Estimates	500 000 per month for 9 months	R4 000/ month[10]	**R18 billion**	N/A	N/A	**-**
Present value[9]			**R17 billion**			
3. Applications that must still be submitted						
Estimates	1 million per month for 12 months	R4 000/ month[10]	**R48 billion**	200 000 per month for 3 months	R4 000/ month[10]	**R2.4 billion**
Present value[9]			**R45 billion**			**R2.2 billion**
Total present value			**R235 billion**			

IE68. Accordingly, the entity recognises a social benefit liability of R235 billion at the reporting date (31 March 20x1):

Dr. Social security insurance benefit expense	R235 billion
Cr. Social security insurance benefit liability	R235 billion

[10] The entity estimates the monthly benefit for beneficiaries that must still be verified; the table includes an average amount per beneficiary for illustrative purposes.

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (Board's) reasons for accepting or rejecting certain proposals related to the accounting for social benefits. This basis for conclusions accompanies, but is not part of, this Standard.

Developing a Standard of GRAP on *Social Benefits*

BC1. The International Public Sector Accounting Standards Board (IPSASB) filled a gap in the International Public Sector Accounting Standards (IPSAS) when they issued the IPSAS on *Social Benefits* (IPSAS 42) in 2019. In anticipation of IPSAS 42, local stakeholders requested the Accounting Standards Board (the Board) to develop a Standard of GRAP on *Social Benefits*. The Board added the project to its work programme for 2021-2023.

BC2. The Board agreed that IPSAS 42 will be used as the starting point to develop this Standard. Given local stakeholder reservations about certain requirements of IPSAS 42 when it was exposed for comment, key areas were identified where different guidance would be needed to meet stakeholder needs. The areas included, among others, the definition of social benefits, the distinction in social benefits and the recognition requirements for a social benefit liability.

Scope

BC3. The Board considered if this Standard should provide guidance on both cash and in-kind social benefits. The Board concluded to align with IPSAS 42 and only provide guidance on cash social benefits based on the following:

- The definition and scope of this Standard need not be aligned.
- The IPSASB could not reach consensus about accounting for a wide range of social benefits, particularly what the obligating event is.
- At the time of developing this Standard, the IPSASB was in the process of developing an IPSAS on transfer expenses, to conclude the non-exchange expense landscape in IPSAS. The Board had not yet considered the guidance in the IPSAS when this Standard was developed.
- Guidance on in-kind social benefits will likely focus on classification. This is because an entity procures in-kind goods or services in an exchange transaction, and then provides those goods or services in a non-exchange transaction to beneficiaries. There are likely no longer-term liabilities.

BC4. The Board noted that only providing guidance on cash social benefits in this Standard means that the scope encompasses social benefits settled in cash, and does not infer cash accounting for social benefits.

BC5. Prior to developing this Standard, GRAP 104 required entities to identify and separate the social benefit component of concessionary loans (including commitments for such loans), and concessionary investments on initial recognition. Thereafter the component is accounted for in accordance with the Conceptual Framework. GRAP 104 also required entities to assess whether debts waived meet the definition of a social benefit, and account for it in accordance with the Conceptual Framework. The Board agreed entities should consider the presentation and disclosure requirements of this Standard for any transaction, or component of a transaction, that meets the definition of a social benefit in this Standard, together with the requirements of other applicable Standards of GRAP.

BC6. The Board agreed that statutory debts waived should be treated the same as contractual debts waived. Consequential amendments to GRAP 108 when this Standard becomes effective give effect to this decision.

BC7. The Board considered whether this Standard should include guidance on the revenue and/or related receivable to fund social benefits. At the time of developing this Standard, the IPSASB was in the process of developing new requirements for revenue. The Board resolved that revenue to fund social benefits will be considered in a future project of the Board and entities should apply GRAP 23 to account for the revenue and/or related receivable to fund social benefits.

Definitions

Social benefits

BC8. The Board agreed to broaden the IPSAS 42 definition of social benefits to include in-kind benefits. Prior to developing this Standard local stakeholders were familiar with a broad description of social benefits included in GRAP 19, which included cash and in-kind benefits. The definition of social benefits in statistical reporting also includes in-kind benefits. As noted in paragraph BC3., the scope of this Standard only includes cash benefits.

BC9. In applying the definition in the local environment, the Board identified aspects of the definition that may be difficult to understand where more guidance should be provided. In particular – when benefits would mitigate the effect of social risks and address the needs of society as a whole.

Social risks

BC10. The Application Guidance of IPSAS 42 explains that a social risk relates directly to the characteristics of an individual and/or household, i.e. the condition, event, or circumstance that leads to, or contributes to, an unplanned or undesired event arises from the characteristics of the individuals and/or households directly. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual and/or household.

BC11. The Board noted that the direct link between the risk and characteristics of an individual and/or household is helpful in identifying social risks. The Board decided to elevate this concept to the definition of social risks in this Standard.

Address the needs of society as a whole

BC12. The Application Guidance of IPSAS 42 explains that ensuring the needs of society as a whole are addressed distinguishes social benefits from insurance. Insurance is organised for the benefit of individuals, or groups of individuals. The Board noted there are benefits in the environment that have characteristics similar to insurance contracts although they do not meet the strict definition of insurance contracts. This distinction is necessary in the local environment not only for insurance liabilities, but also to distinguish social benefits from other liabilities.

BC13. The Board noted that in Government Finance Statistics (GFS), social benefits are provided in collective arrangements. This was helpful to explain the concept of society as a whole in this Standard, but without using the term "collective arrangement" as it may have connotations to labour arrangements in the local environment. Benefits address the needs of society as a whole when amounts of contributions and benefits are determined at levels that relieve a societal need. These levels may be the same for all participants in all circumstances, or may distinguish categories of individuals and/or households based on predetermined factors. The benefits do not consider the risks and circumstances of individuals and/or households.

Level of assessment

BC14. Local stakeholders expressed uncertainty about whether they should assess if a benefit meets the definition of social benefits at an entity-, scheme-, or benefit-level. The Board tested the various levels that could be assessed and agreed that performing the assessment at an entity- or scheme-level could lead to an incorrect conclusion in certain instances, and it would be difficult to apply the accounting requirements at those levels. The Board agreed that an entity should assess whether each benefit it provides meets the definition of social benefits, without considering the characteristics or legal nature of a social benefit scheme or the entity.

Accounting for social benefits

The requirements of IPSAS 42 and the Board's decisions to depart

BC15. Based on the different nature of social benefit schemes and different information needs from users about these schemes, IPSAS 42 has two approaches to account for social benefits:

(a) The insurance approach: This approach may be used when a social benefit scheme meets certain criteria in IPSAS 42. The criteria are aimed at identifying schemes that closely resemble insurance and entities would be able to apply the requirements of IFRS 17.

(b) The general approach: This approach is used for all social benefit schemes that (i) do not meet the criteria to apply the insurance approach, or (ii) meet the criteria to apply the insurance approach, but the entity elects to apply the general approach. The general approach describes the past event that gives rise to a liability as the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. This results in the recognition of a liability limited to the next social benefit payment.

BC16. In analysing the local social benefit environment the Board determined that the number of social benefits that could potentially qualify for the insurance approach, by applying the criteria in IPSAS 42, is limited. Furthermore, those entities with benefits that may qualify to apply the approach would have difficulty applying the requirements of IFRS 17, because information on the income and payment streams is generally not available at the level required by IFRS 17. This includes entities that applied accounting policies based on insurance principles at the time of developing this Standard. The Board therefore agreed to eliminate the insurance approach from this Standard.

BC17. Local stakeholders raised the following concerns with the requirements of the general approach, particularly the recognition requirements and how the past event is described (see paragraph BC15(b). for how IPSAS 42 describes the past event):

(a) Entities do not assess the economic substance of their benefits in determining a past event or the extent of the liability. IPSAS 42 prescribes these as the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment, limiting the liability to the next social benefit payment. The requirements are therefore not aligned to the principle of substance over form in the IPSASB's Conceptual Framework.

(b) Meeting ongoing eligibility criteria (such as being alive) should not impact the recognition of the liability so that the liability is limited to only the next payment. This is rather a measurement consideration. The requirement that the satisfaction by each beneficiary of all eligibility criteria for the next payment further seemingly forces the verification of ongoing eligibility criteria for every payment, irrespective of a scheme's rules.

(c) The approach does not provide relevant and useful information to users of financial statements as it results in a limited liability being recognised – for the next social benefit payment. The limited liability is not a true reflection of government's social benefit liabilities.

BC18. Considering the concerns in paragraph BC17., the Board agreed to depart from the general approach in this Standard.

BC19. The consequence of the Board's decisions to depart from both approaches in IPSAS 42 was that new requirements had to be developed for this Standard that would meet local stakeholder needs.

Distinguishing types of social benefits

BC20. Engagements with stakeholders locally have indicated that a distinction between different types of social benefits may be required for accounting purposes, based on the different characteristics and nature of benefits. IPSAS 42 was used as the starting point for this Standard and also distinguishes benefits for accounting purposes (see paragraph BC15.). In considering these characteristics and the nature of benefits in the local environment, the Board agreed with these stakeholders. The Board further noted a need to distinguish social benefits in this Standard for the following reasons:

(a) Users need different information about different types of social benefits in order to hold entities accountable for the responsibilities they have been assigned.

(b) There was different information reported in the financial statements about different types of social benefits at the time this Standard was developed. There are benefits in the environment that have characteristics similar to insurance contracts (see paragraph BC12.) and entities providing these benefits applied accounting policies based on the IFRS Accounting Standard on *Insurance Contracts* (IFRS 4). These policies resulted in large liabilities recognised in the financial statements, from when the "incident" occurred (comparable to the event related to the social risk occurred in this Standard). The Board agreed the ED should not result in less information being provided in the financial statements compared to policies used at the time of developing this Standard.

Options to distinguish benefits

BC21. The Board considered ways in which benefits could be distinguished in this Standard. In light of the reasons why the distinction was necessary (see paragraph BC20.) the Board agreed the following were important considerations:

(a) The information needs of users.

(b) The characteristics and nature of benefits.

(c) The distinction should result in benefits being grouped in a way that is comparable to the benefits for which similar information was provided in the financial statements at the time of developing this Standard.

(d) If appropriate, the classification of benefits in GFS.

BC22. The Board considered the options explained below to distinguish benefits in this Standard.

Option 1: "Contributory" and "non-contributory" social benefits

BC23. The Board considered distinguishing social benefits based on how they are funded, because such a distinction represents the nature of benefits.

- Social benefits that are funded by contributions by, or on behalf of, those individuals and/or households who may become beneficiaries of the benefit would be seen as "contributory". Entities providing these social benefits are responsible for managing and spending contributions in a way that ensures social benefits are provided to current and future beneficiaries.

- All benefits that do not meet the definition of a contributory social benefit would be classified as non-contributory. Non-contributory social benefits are typically funded on an on-going basis by government appropriations. Entities providing these social benefits are not responsible for providing social benefits in future to the same extent as contributory benefits.

BC24. The Board noted that a further benefit of distinguishing benefits as "contributory" and "non-contributory" is that the concepts align with GFS, which distinguishes social protection[11] in a similar manner. The concepts may therefore be easy for stakeholders to understand.

BC25. Some stakeholders raised concerns with this approach. Primarily, they were concerned that it may seem as if the way in which a benefit is funded determines the recognition of the liability, which they considered to be inappropriate. The Board agreed that the funding mechanism of a benefit should not solely determine the extent of the liability recognised and therefore did not proceed with this option in this Standard.

Option 2: "Social security insurance benefits" and "social assistance benefits"

BC26. Considering the different accounting policies that were applied for different types of benefits at the time of developing this Standard, the Board noted that describing certain benefits as "managed similar to insurance contracts" may be easy to understand in the environment because of the past accounting practices. A distinguishing factor is that the economic characteristics and management model are different for social benefits that are managed in a manner similar to insurance contracts than for other benefits that government assesses on an on-going basis. Both the economic characteristics and management model drive the information that should be provided to users in the financial statements.

BC27. To benefit from existing concepts and terminology used in GFS, the Board noted social benefits can be distinguished in this Standard as "social security insurance benefits" and "social assistance benefits".

- Social security insurance benefits are distinguished from social assistance benefits by the way in which they are managed. The Board agreed that there are characteristics of a social benefit that is managed in a manner similar to insurance contracts which should be included as guidance in this Standard. The Board considered the definition of insurance contracts in IFRS 17, and identified the differences between insurance contracts and social benefits. The Board agreed that for social benefits that are managed in a manner similar to insurance contracts, there must be a transfer of the social risk to the entity providing the social benefit

[11] GFS uses the term "social protection" with a description similar to the definition of social benefits in this Standard, however social protection in GFS is broader than social benefits in this Standard because it includes certain employee 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. Entities providing these social benefits are responsible for compensating beneficiaries for events related to the social risk that have occurred.

- Social assistance benefits would be all social benefits other than social security insurance benefits. Characteristics of these benefits include that they may be funded on an ongoing basis by government appropriations. Entities providing these social benefits are responsible for compensating beneficiaries based on applications received by the entity.

BC28. The Board agreed to use option 2 in this Standard – social security insurance benefits and social assistance benefits – as this approach benefits from existing concepts in GFS, has a clear link with accounting policies that existed at the time this Standard was developed, and best describes the characteristics and nature of different benefits in the environment.

Recognition of a social benefit liability

BC29. In developing this Standard the Board considered the appropriate recognition requirements for liabilities related to social security insurance benefits and social assistance benefits respectively, with reference to when:

(1) the past event that gives rise to a present obligation occurs; and

(2) the present obligation can be measured reliably.

(1) Present obligation as a result of a past event

BC30. The Board agreed that an entity's obligation to provide social benefits arises from legislation which requires that benefits are provided to specific individuals and/or households when an event related to a social risk occurs. Therefore, 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. At this point the entity has a binding obligation for which it has little or no realistic alternative to avoid an outflow of resources. This is the earliest point that a social benefit liability can be recognised.

(2) Present obligation can be measured reliably

BC31. With the past event established, the Board considered the impact of the second recognition criterion – the present obligation can be measured reliably – on when social benefit liabilities should be recognised in this Standard. The Board also noted that in accordance with the Conceptual Framework, probability is not considered in the recognition of a liability. A liability may be recognised even when the probability of an outflow of resources is low.

BC32. The Board assessed the information that will be provided in the financial statements - for both types of social benefits and for the following points in time when a liability could be recognised in this Standard:

(a) The event related to the social risk occurs. This is the past event (see paragraph BC30.) and therefore represents the earliest possible recognition point.

(b) The entity receives an application from a potential beneficiary. This represents the next event that occurs after (a) above and was considered the potential next recognition point.

BC33. In accordance with the Conceptual Framework, the Board's assessment considered the point when a social benefit liability can be measured reliably by considering the qualitative characteristics and taking account of constraints on information in general purpose financial reports. For recognition and measurement purposes, the Board primarily considered the qualitative characteristics of relevance and faithful representation. The other qualitative characteristics were primarily considered for presentation and disclosure purposes. The assessment is explained in paragraphs BC34. to BC44.

Social security insurance benefit liabilities

BC34. The Board agreed the appropriate recognition point for social security insurance benefit liabilities is "the event related to the social risk occurs" (i.e. the past event occurs), for the reasons explained below.

BC35. Accounting policies applied for social security insurance benefit liabilities at the time this Standard was drafted were developed with reference to IFRS 4. The policies resulted in liabilities recognised when the "incident" occurs, which is comparable to when the event related to the social risk occurs in this Standard. Information about the applications for social benefits received was provided separately in the financial statements from the information on liabilities for "incidents" that have occurred. In the Board's experience, users are sensitive to changes in the financial statements, specifically those that result from changes in accounting policies that significantly reduce an entity's liabilities. If the earliest recognition point was to be an entity receiving an application for social benefits, it would have resulted in a significant reduction in liabilities recognised in the financial statements for at least some social security insurance benefits.

Relevance

BC36. The preferred recognition point was considered to provide information that achieves the objective of financial reporting for social security insurance benefits because:

- It aligns with the information needs expressed by users – entities providing these benefits are responsible for compensating beneficiaries for events related to social risks that have occurred. Users are also accustomed to receiving this information in the financial statements.
- It is needed by entities providing these benefits for budget purposes.

A later recognition point would fall short of information needed by users.

Faithful representation

BC37. The preferred recognition point was deemed to result in information that is complete about the economic phenomena that the entity providing these benefits is held responsible for, which is compensating beneficiaries for events related to social risks that have occurred. Determining the liability involves the use of estimates. Based on policies and practices at the time this Standard was developed, these estimates can be made in a way that is neutral, without bias and free from material error. A later recognition point would not result in information that is complete as it would not provide information about all the economic phenomena that the entity providing these benefits are responsible for.

Social assistance benefit liabilities

BC38. The Board agreed the appropriate recognition point for social assistance benefit liabilities is "the entity receives an application for social benefits", for the reasons explained below.

BC39. At the time of developing this Standard, entities providing social assistance benefit recognised liabilities for social benefits that have been verified to meet all eligibility criteria and were approved for payment. Based on discussions with stakeholders the Board did not support such a recognition point in the Standard because it:

- results in limited information on the liability provided in the financial statements; and
- depends on the effectiveness of the entity's own internal processes to verify and approve applications received.

Relevance

BC40. The nature of social assistance benefits – being that they are assessed, managed and funded by government on an on-going basis – establishes the information that is relevant to provide in the financial statements. Users did not express a need for information in the financial statements on events related to the social risk that have occurred but have not yet been reported to the entity, because these entities are held accountable for managing the benefits with the resources allocated to them from government on an on-going, often annual, basis. Government policy determines the benefits and the affordability of the policy is reviewed and balanced with the societal need for social benefits.

BC41. The Board considered that information at the preferred recognition point achieves the objective of financial reporting because entities providing these benefits are responsible for compensating beneficiaries based on applications received for social benefits.

Faithful representation

BC42. Some stakeholders expressed a view that for information in the financial statements to be complete, a liability should be recognised when the event related to the social risk occurs.

BC43. The Board agreed with a different group of stakeholders who noted that the recognition point in paragraph BC42. would not result in information that is a faithful representation of the economic phenomena that the entity providing these benefits are responsible for, because the benefits are considered, managed and funded on an on-going basis. The preferred recognition point results in information that is complete about the economic phenomena that the entity providing these benefits are held responsible for, which is compensating beneficiaries for social benefits for which applications have been received. It reflects the economic substance of the social benefit liability from the perspective of the entity providing the social benefit.

BC44. The Board noted that although some estimates are used to determine a liability at the preferred recognition point, it could be done in a way that achieves faithful representation because the entity providing the social benefits would have access to all the information necessary to estimate the liability. Contrarily, the information needed to recognise a liability earlier than the preferred recognition point was unavailable when this Standard was developed. With reference to the information needs expressed by users about social assistance benefit liabilities, the Board concluded it is unlikely that the benefit would outweigh the cost to develop information that was not available when this Standard was developed. Information beyond the preferred recognition point may be suitable for reporting outside the financial statements, and may form part of an entity's broader reporting of sustainability information.

Boundaries of social benefit liabilities

BC45. IPSAS 42 prescribes that the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment, including implicit eligibility criteria, is a separate past event. As noted in paragraph BC17. stakeholders did not support the limited liability that arises from this approach. The Board considered whether there could be circumstances when existing beneficiaries are required to satisfy eligibility criteria at specified intervals, which gives rise to new liabilities. The Board agreed that this Standard should reflect that the satisfaction by each beneficiary of the eligibility criteria to continue receiving a social benefit will only give rise to a new liability when the eligibility criteria are substantive. The eligibility criteria are substantive when, in accordance with a benefit's rules, existing beneficiaries do not qualify to continue receiving social benefits until they have satisfied the required eligibility criteria, and the entity has a past history of enforcing the eligibility criteria. Even though an entity may expect some existing beneficiaries will continue to meet the eligibility criteria and continue to receive social benefits, the reassessment represents the boundary of an entity's present obligation to provide social benefits when the eligibility criteria are substantive. An existing beneficiary meeting substantive eligibility criteria at a future date gives rise to a new liability in the future.

Measurement

BC46. The Board did not identify any issues with the measurement requirements of IPSAS 42, which applies the cost of fulfilment measurement basis, which is similar to the present value in IPSAS 19 and GRAP 19. IPSAS 42 includes limited guidance on the application of the measurement requirements and the Board agreed this Standard should include additional guidance similar to the guidance in GRAP 19.

Present value

BC47. The Board noted the limited liability recognised in IPSAS 42 would seldom require a present value calculation. In this Standard, measuring the liability would likely require a present value calculation because the liability is not limited to the next social benefit payment and could include multiple payments into the future. Therefore more guidance on determining the present value of a social benefit liability was included in this Standard.

BC48. The discount rate used in IPSAS 42 is comparable to the rate used in the IPSAS on *Employee Benefits* (IPSAS 39). Guidance on the rate is not included in IPSAS 42 but a cross reference to IPSAS 39 is included. The guidance in GRAP 25 is narrower than in IPSAS 39; IPSAS 39 allows entities to use the government bond rate, a corporate bond rate, or the rate of another instrument to determine the discount rate. GRAP 25 only refers to the government bond rate as this is the most liquid bond market in South Africa. This departure was confirmed in the Board's project to amend GRAP 25 in 2020. The Board agreed to amend the guidance in IPSAS 42 for this Standard as follows:

(a) Include guidance on the discount rate in this Standard, instead of including a cross reference to GRAP 25.

(b) Reflect the guidance in GRAP 25 instead of IPSAS 39, as this best suits the local environment.

Disclosure

BC49. Although IPSAS 42 was used as a starting point to develop the disclosure requirements in this Standard, significant amendments were required to provide relevant and useful information to users, based on the departure in this Standard from the recognition requirements in IPSAS 42. Disclosure requirements of existing Standards of GRAP used to develop the recognition and measurement requirements in this Standard (for example GRAP 19 and GRAP 25) were considered. The Board also considered the disclosure requirements in IFRS 17, particularly for social security insurance benefits.

BC50. The disclosure requirements in this Standard were developed to apply to both types of social benefits. The Board noted that, in applying the disclosure objectives, entities should provide the information for social security insurance benefits and social assistance benefits separately, because their characteristics and risks differ. The

Board further concluded that an entity may need to provide the information separately for the liabilities illustrated in the diagram in Appendix A paragraph AG28., because their risks and uncertainties differ.

Disclosure objectives

BC51. The disclosure objectives included in IPSAS 42 are generic and high-level. More guidance was added on the objectives, with reference to the objectives in GRAP 25 and IFRS 17. This includes guidance on the level of information that would be appropriate to meet the objectives. The Board considered whether this Standard should refer to the application of materiality, but agreed it is unnecessary as materiality is an implicit concept that applies to all the Standards of GRAP.

Characteristics of social benefits

BC52. The disclosure requirements in IPSAS 42 were changed in this Standard to reflect the local environment, add requirements to meet users needs, and remove information deemed unnecessary. Most notably the following changes were deemed necessary:

- Where information on contributions for social benefits is included in another entity's financial statements, the requirement to include a reference to that entity's financial statements was removed. The Board noted users may find it difficult to understand or identify this information in another entity's financial statements, and other entities apply their own materiality when deciding what information to present.
- Requirements were added for information on changes to social benefits during the reporting period, social benefits terminated during the reporting period, and an entity's assessment of whether a social benefit meets the definition of a social security insurance benefit.

Explanation of amounts in the financial statements

BC53. IPSAS 42 only requires the disclosure of information on the social benefit expense. The Board noted this would be insufficient to meet users' information needs on social benefit liabilities in this Standard. Requirements were included from GRAP 19 for a reconciliation of the opening and closing balance of a social benefit liability. The Board noted that the reconciliation will provide useful information, and it is currently required by GRAP 19 for social benefit liabilities recognised by applying GRAP 19.

BC54. The Board considered whether a sensitivity analysis may be useful, particularly for social security insurance benefits, and concluded such an analysis should not be included in this Standard. This is because of the high degree of estimation required for the social security insurance benefit liability. Such an analysis would need to test the sensitivity of the liability to changes in various different areas of estimation. This information was not considered useful to users of general purpose financial statements.

BC55. This Standard requires additional information on contractual and statutory debts waived. The Board concluded that the information required by GRAP 104 on concessionary loans and concessionary investments granted was sufficient and this Standard need not require further information on these loans and investments.

Expected effect of social benefits on the amount, timing and uncertainty of the entity's future cash flows

BC56. Given the likely short-term nature of the social benefit liabilities that would be recognised in IPSAS 42, the information on the effect of social benefits on the amount, timing and uncertainty of the entity's future cash flows is limited. IPSAS 42 refers entities to Recommended Practice Guideline on *Reporting on the Long-term Sustainability of an Entity's Finances* for guidance on information that may be useful, but entities are not required to consider it.

BC57. The Board noted that given the earlier recognition point of social benefit liabilities proposed in this Standard and the extended boundary of the liabilities compared to IPSAS 42, users would need more information on:

- the timing of future social benefit payments;
- the uncertainties and judgements to determine the amount and/or timing of future social benefits; and
- the nature and extent of risks arising from social benefits.

These requirements were developed from GRAP 19 and IFRS 17. The Board considered whether the requirements may be onerous in certain circumstances. The Board concluded that an entity would apply only the requirements that are applicable to the entity's circumstances, and would consider the information needed to meet the disclosure objectives.

Comparison with the International Public Sector Accounting Standard on *Social Benefits* (January 2019)

This Standard is drawn primarily from IPSAS 42. The main differences between this Standard and IPSAS 42 are as follows:

- This Standard defines social benefits as cash and in-kind benefits, while IPSAS 42 defines social benefits as cash benefits only.
- This Standard provides guidance at a social benefit level. The guidance in IPSAS 42 is provided at a social benefit scheme level.
- This Standard distinguishes social benefits as social security insurance benefits and social assistance benefits and prescribes different recognition requirements for them.
  - For all social benefits, the past event is the event related to the social risk occurs.
  - For social security insurance benefits, the liability is recognised when the past event occurs.
  - For social assistance benefits, the liability is recognised when an entity receives an application for social benefits from a potential beneficiary.
  - For all social benefits, an entity estimates how long a beneficiary will qualify to receive benefits to determine the boundary of the social benefit liability.
- This Standard includes additional guidance on determining "the best estimate" of the costs that the entity will incur in fulfilling the present obligation represented by the liability.
- This Standard requires separate presentation of social security insurance benefits and social assistance benefits. IPSAS 42 does not include any presentation requirements.
- This Standard includes comprehensive disclosure objectives. To meet these objectives, this Standard requires more information to be disclosed on:
  - the characteristics of social benefits;
  - an explanation of amounts in the financial statements; and
  - the expected effect of social benefits on the amount, timing and uncertainty of the entity's future cash flows.
- IPSAS 42 encourages entities to apply Recommended Practice Guideline on *Reporting on the Long-term Sustainability of an Entity's Finances*, which is not included in this Standard.
- This Standard includes additional Application guidance to assist with the application of the requirements in the South African environment.