



Responses due by **31 October 2023**

ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON PROPOSED STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE ON SOCIAL BENEFITS (ED **XXX)**



Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the proposed Standard of GRAP on *Social Benefits*. The Board agreed to develop this Standard to fill a gap in the literature.

The proposals in this Exposure Draft may be modified in the final document in the light of comment received. Comment should be submitted in writing so as to be received by **31 October 2023**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the Standard of GRAP has been issued. Comment should be addressed to:

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Background to this Exposure Draft

The Board agreed to add a project to its work programme for 2021 to 2023 to develop a Standard of GRAP on *Social Benefits*. The Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19) includes a description of social benefits, but excludes from its scope provisions and contingent liabilities for social benefits that are non-exchange. This Standard will fill a gap in the existing literature as there is no Standard of GRAP that provides guidance on accounting for social benefits.

Developing this Exposure Draft

The Board has a policy on *Convergency with International Standards* which is applied when developing Standards of GRAP. The policy implies a hierarchy of pronouncements that the Board converges its pronouncements with, if appropriate, starting with the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB issued the IPSAS on *Social Benefits* (IPSAS 42) in 2019, which became effective 1 January 2023. As part of applying the Board's policy, an assessment was undertaken to determine if convergence is appropriate by considering, among other factors, the ASB's legislative mandate and strategic objectives. When the IPSASB consulted on the proposals for IPSAS 42, local stakeholders did not support the requirements related to the recognition of a social benefit liability under the general approach (among other requirements). The 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.

Although IPSAS 42 was used as a starting point to develop this Exposure Draft (the ED), the requirements are modified in the areas stakeholders raised concerns. The Board's considerations and decisions to depart are explained in the basis for conclusions of the ED.

Key areas where the ED departs from IPSAS 42

The proposed departures from IPSAS 42 mostly affect the distinction in types of social benefits and the recognition requirements of a social benefit liability. The following documents are available on the ASB's website for information purposes:

- A full mark-up of IPSAS 42.
- A table outlining the proposed key requirements per type of social benefit, compared with the requirements of IPSAS 42.

Definitions and scope

The ED proposes to define social benefits as cash and in-kind benefits, while IPSAS 42 defines social benefits as cash benefits only. The definition does not change the scope of the Standard, which remains limited to cash benefits. The Board will consider guidance on in-kind benefits as a separate project in future. A diagram to explain the scope is included in Appendix A paragraph [AG7](#).

The ED further proposes to distinguish social benefits by type, based on the nature of the social benefits, as follows:

- *Social security insurance benefits* are social benefits that are managed in a manner similar to insurance contracts. The benefits are management 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.
- *Social assistance benefits* are social benefits other than social security insurance benefits.

Recognition

To meet the information needs of local users, the ED prescribes different recognition requirements for each of the types of social benefits. The ED proposes to replace the two recognition approaches in IPSAS 42 – the insurance approach and the general approach – with new recognition requirements for social security insurance benefits and social assistance benefits respectively:

Social security insurance benefits

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.

Social assistance benefits

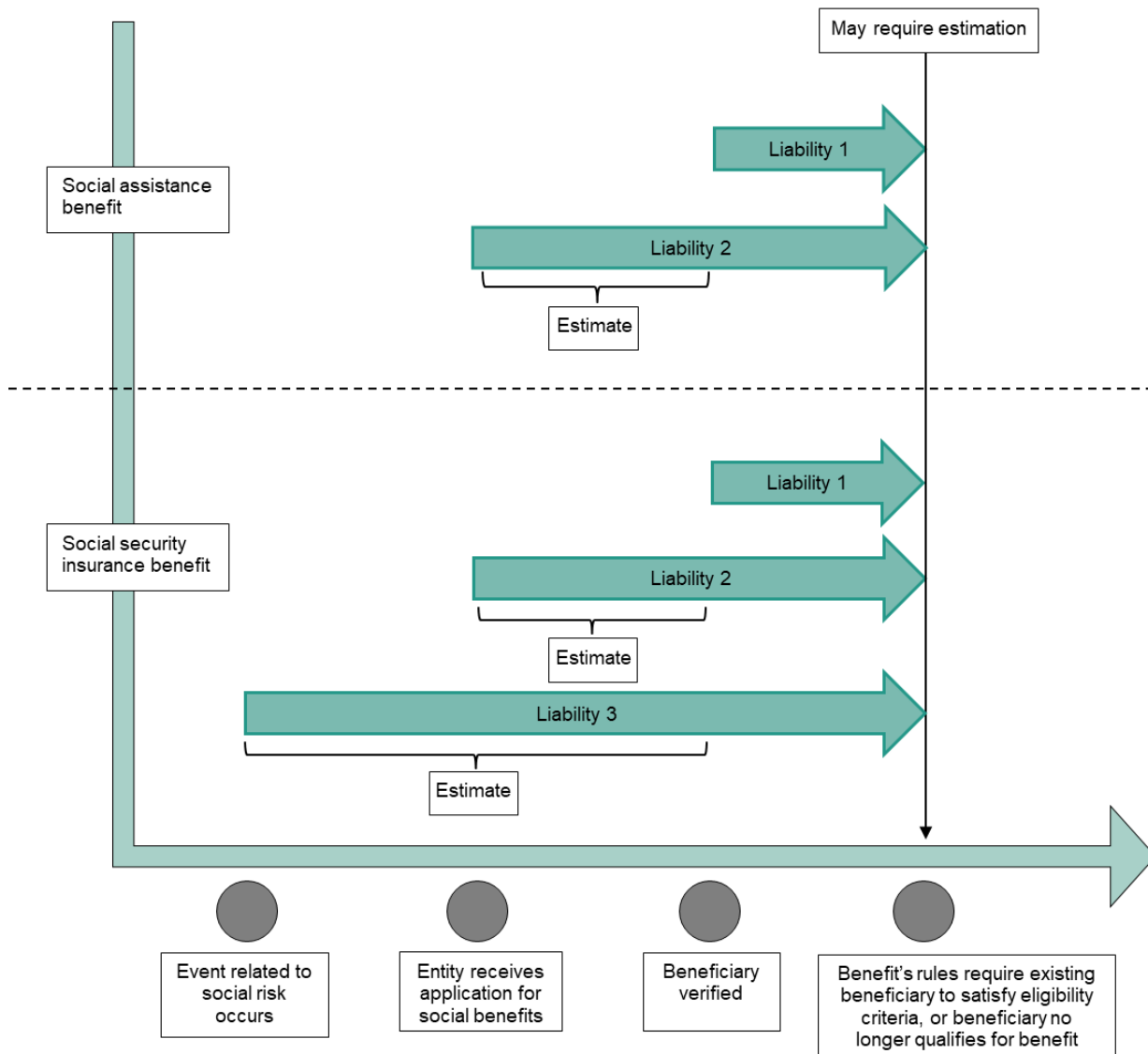
A liability for a social assistance benefit is recognised when an entity providing the social benefit receives an application from a potential beneficiary.

Boundaries of social benefit liabilities

IPSAS 42 limits the social benefit liability to the next social benefit payment. The ED proposes that an entity estimates the duration that a beneficiary will qualify to receive benefits. When a social benefit consists of multiple payments to beneficiaries, existing beneficiaries may be required by a benefit's rules to satisfy eligibility criteria at specified intervals to qualify to continue receiving the 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 required to be met are substantive.

Diagram 1 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. The diagram is further useful to illustrate the categories of liabilities than an entity may present in the financial statements (see *Presentation and disclosure* below).

Diagram 1: Illustration of the categories of liabilities than an entity recognises at the reporting date



Measurement

The Board had not identified concerns with the measurement requirements in IPSAS 42, being that the social benefit liability is measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability. The proposed measurement requirements apply to social security insurance benefits and social assistance benefits.

Presentation and disclosure

The ED proposes that information on social security insurance benefits and social assistance benefits should be presented and disclosed separately. This is because the characteristics, uncertainties and risks of these types of benefits differ. For this reason an



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entity is further likely to conclude that it is necessary to disclose information for the categories of social benefit liabilities illustrated in diagram 1 separately.

The ED proposes comprehensive disclosure objectives. To meet these objectives, the ED proposes that information should 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.

Next steps

It is anticipated that the Board will finalise the development of a Standard of GRAP on *Social Benefits* in March 2024. Thereafter, the Board will proceed with the development of, and public consultation on transitional provisions and a proposed effective date for the implementation of the Standard.

Due process and timetable

The Board invites comment on the proposals set out in this ED from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting.

Upon the closure of the comment period, the Board will consider the comment received on the ED.

Request for comment

Comment on this ED is invited by **31 October 2023**. The Board requests that respondents express an overall opinion on whether the ED, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate. The basis for the Board accepting or rejecting significant comment will be published on the ASB website.

The Board would particularly appreciate answers from respondents to the questions posed below.

Specific matters for comment

Scope

Question 1

The ED proposes to define social benefits as cash and in-kind benefits in paragraph .07. The scope of the Standard is limited to cash benefits. The basis for conclusions paragraph **BC3** explains the Board's considerations and reasons.

Do you agree that the ED clearly explains the scope of the Standard? Please provide the reasons and details for your answer.

Types of social benefits

Question 2

The ED proposes to distinguish social benefits as “social security insurance benefits” and “social assistance benefits” for recognition purposes. The ED defines these social benefits in paragraphs .07, and .09 to .13. The basis for conclusions paragraphs BC20. to BC28. explain the Board’s considerations and reasons for the distinction.

- (a) Do you agree with the Board’s reasons to distinguish types of social benefits in the ED?
- (b) If your answer to (a) is yes, do you agree with the way in which the ED distinguishes types of social benefits?
- (c) Do you foresee any practical challenges with distinguishing types of social benefits?

Please provide the reasons and details for your answer.

Recognition: social security insurance benefits

Question 3

The ED proposes in paragraph .16 that social security insurance benefits are recognised when the event related to the social risk for which the social benefit is provided occurs. The Board’s considerations and reasons are included in the basis for conclusions paragraphs BC34. to BC37.

Do you agree with the approach to recognise social security insurance benefits as proposed in the ED? Please provide the reasons and details for your answer.

Recognition: social assistance benefits

Question 4

The ED proposes in paragraph .17 that social assistance benefits are recognised when an entity providing the social benefit receives an application from a potential beneficiary. The Board’s considerations and reasons are included in the basis for conclusions paragraphs BC38. to BC44.

Do you agree with the approach to recognise social assistance benefits as proposed in the ED? Please provide the reasons and details for your answer.

Boundaries of social benefit liabilities

Question 5

The ED proposes that the satisfaction by beneficiaries of ongoing eligibility criteria, as required by a benefit’s rules, to continue receiving a social benefit gives rise to a new liability when the eligibility criteria required to be met are substantive (see paragraph .21). The Board’s considerations and reasons are included in the basis for conclusions paragraph BC45.

Do you agree with the boundaries of social benefit liabilities as proposed in the ED? Please provide the reasons and details for your answer.

Disclosures

Question 6

The ED does not require an entity to provide a sensitivity analysis of the social benefit liability. The Board considered whether this information may be useful, particularly for social security insurance benefits, and concluded such a requirement would be unnecessary. The Board's considerations and reasons are included in the basis for conclusions paragraph BC54.

Do you agree that a sensitivity analysis of social benefit liabilities should not be required? Please provide the reasons and details for your answer.

Question 7

The ED requires information on risks and uncertainties related to the measurement of a social benefit liability to be disclosed (see paragraph .38). 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. This information is not required by IPSAS 42.

Do you agree that information on risks and uncertainties is important for users to understand the measurement of the social benefit liability? Please provide the reasons and details for your answer.

Question 8

The ED notes that an entity may conclude it is necessary to present and disclose information for social security insurance benefits and social assistance benefits separately because the characteristics, uncertainties and risks of these benefits differ. The ED also proposes that an entity is further likely to conclude it is necessary to disclose information for the categories of social benefit liabilities illustrated in diagram 1 (and in Appendix A paragraph AG28.) separately.

Do you agree that information on these social benefit liabilities should be presented and disclosed separately? Please provide the reasons and details for your answer.

Impact on the local environment

Question 9

- (a) Are there any specific implementation issues that the Board should be aware of? If yes, please indicate what these issues are.
- (b) Are there any regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed Standard of GRAP? If yes, please provide details of these regulatory or other issues that should be considered in finalising the proposed Standard of GRAP.

Question 10

- (a) In your view, overall, does the application of the proposed Standard of GRAP result in financial statements that would be useful to users? Please explain your response.
- (b) In your view, what are the costs and benefits of the proposals relative to the current accounting for social benefits? In relation to quantitative financial and other resource costs, including the time involved to implement the proposals, the ASB is interested to understand the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to existing accounting treatments.
- (c) Should the estimated cost of a proposed requirement exceed the benefit in your view, please provide information on whether the needs of users addressed by the proposed requirement could be satisfied by requiring the disclosure of alternative items of information that would be less costly to prepare.

General matters for comment

As with any other ED, comment on any other matter contained in this ED would also be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.